Bloomberg Businessweek

Apr 18, 2012 3:15 AM ET

Westfield Sells 7 U.S. Malls to Starwood for $1 Billion

An artist's rendering shows the planned retail space of New York's World Trade Center in this undated handout image released to the media on Friday, July, 29, 2011. Source: The Port Authority of New York and New Jersey via Bloomberg

By Nichola Saminather

Westfield Group (WDC), the world's biggest shopping center operator by assets, will sell eight malls in the U.S. for $1.15 billion, using the funds to repay debt and invest in businesses offering higher returns.

The Sydney-based company will sell seven of the properties, which are among its "non-core" assets, to Barry Sternlicht's Starwood Capital Group LLC for $1 billion, and another property to an undisclosed buyer for $147 million, it said in a statement to the Australian stock exchange today. The shares rose to the highest in more than a year.

Westfield, which spun off ownership of half its Australian and New Zealand malls in November 2010, is taking advantage of a rebound in prices for U.S. properties as the economy is picking up, to focus on development, which gives higher returns. U.S. shopping centers had a net gain in occupancies in the first quarter as consumer spend more amid improving employment, according to property-research company Reis Inc.

"The transaction market for those second-tier malls is definitely better now than it was last year," said John White, who helps oversee $3 billion as Melbourne-based managing director for Asia-Pacific public real estate securities at investment firm Heitman. "When you think of what they're going to be doing with the proceeds, moving into higher total-return development projects, then that is positive to the execution of their strategy."

The company in February announced a joint venture with the Canada Pension Plan Investment Board, which will pay A$1.8 billion ($1.9 billion) for a 45 percent share of 10 U.S. malls and two redevelopment sites.

The shares rose 3.4 percent to A$9.17 at the close of trading in Sydney, the highest since March 2011.

Strategic Plan

"Today's announcement represents a further step in our strategic plan to increase return on equity and long term earnings growth," Peter Lowy, co-chief executive officer of the company, said in the statement. "This transaction is an important step in the repositioning of our portfolio."

The company created Westfield Retail Trust (WRT) in November 2010 to own interests in its Australian and New Zealand malls, freeing up capital for Westfield Group to explore opportunities at home and overseas for higher-return projects.

The group in July said it would invest $612.5 million to develop the retail part of New York's World Trade Center as part of a joint venture with the Port Authority of New York and New Jersey.

The U.S. economy has added 635,000 jobs since December as unemployment fell to 8.2 percent in March from 8.5 percent. U.S. retail sales in March rose 0.8 percent, three times more than projected, as an improving jobs market gave households confidence to sustain spending.

New Markets

In August, Westfield said it would spend 740 million reais ($398 million) to acquire half of Sao Paulo-based mall operator Almeida Junior Shopping Centers Sa.

Two days later, it announced plans to invest 115 million euros ($151 million) to buy a 50 percent stake in the development site of a Milan shopping center in partnership with Italian developer Gruppo Stilo, with the cost of the entire development totaling as much as 1.25 billion euros.

"There are parts of Europe that are going to be quite strong, and the north of Italy, where Milan is, is one of those areas," Heitman's White said. "With Europe, there will be ongoing structural reform, in places like Italy and Spain. It is a big shopping center, and it will take a while to develop and, with any luck, the Italian economy will be in much better shape by the time they finish."

U.S. Malls

The cost of insuring Westfield's bonds from nonpayment was little changed at 185 basis points as of 11:25 a.m. in Sydney, according to prices from Westpac Banking Corp. The company's credit default swaps rose 10 basis points this week to 192 basis points, the highest since Feb. 21, according to CMA. An increase of the value signals deteriorating perceptions of creditworthiness, while a drop suggests the opposite. A basis point is equal to 0.01 percent.

Starwood has formed a new retail platform to acquire majority interests in the centers in Chicago, San Francisco, Cleveland, Miami, as well as Lincoln, Nebraska and Fairfield, California, in which Westfield will retain a 10 percent interest in the assets, it said.

The company is also selling the Eastland mall in West Covina, California, in a separate transaction. It is getting close to book value on all the properties, it said.

Earnings Dilution

The disposal is expected to dilute funds from operations by about 2 Australian cents a share, before the capital is redeployed and prior to a share buyback, Westfield said.

"The sales announced today are for close to half of the non-core portfolio targeted for sale," Simon Wheatley, a property analyst at Goldman Sachs & Partners Australia, wrote in a report today. "The sale of non-core assets makes sense but the meaningful dilution to earnings per share is not being offset by a clear increase in earnings per share growth thereby challenging the valuation equation somewhat."

The Starwood sale is expected to be completed in the current quarter, and the Eastland mall disposal will settle within 45 days, Westfield said.

To contact the reporter on this story: Nichola Saminather in Sydney at nsaminather1@bloomberg.net

To contact the editor responsible for this story: Andreea Papuc at apapuc1@bloomberg.net