

# Macerich (MAC)

April 30, 2024

DJIA: 37,816 | RMZ: 1,144 | 10-Year T-Note: 4.61%

Price: \$13.76 | Recommendation: **BUY**



Green Street

## A Unique Buying Opportunity

Macerich ([MAC](#)) released its 1Q24 operating results ahead of Tuesday's market open and held its earnings conference call during market hours. New CEO Jack Hsieh unveiled key strategic goals for the company over the next three to four years, highlighted by: 1) deleveraging and reducing net debt-to-EBITDA to the low-6x range, down from ~8.5x as of 4Q23; 2) handing back the keys to lenders on four to six centers; 3) selectively consolidating joint venture interests; 4) selling approximately five properties in addition to those going back to the lenders; and 5) opportunistically issuing equity. These strategic initiatives are sound and almost identical to the ones laid out in an [April 25th Green Street research note](#).

Shares of Macerich fell by 14% in today's trading session, underperforming Simon ([SPG](#)) and the equity REIT index by ~1,100 and ~1,200 basis points, respectively. **Investors appear concerned with the weaker-than-expected 1Q24 operating results and the withdrawal of '24 FFO guidance. These concerns are misplaced, and today's stock performance is borderline perplexing.** This is a textbook example of a "kitchen sink" quarter. The earnings miss was driven by tenant receivables write offs, as management may be taking a conservative stance on the impact of the [recent Express bankruptcy](#), lower advertising revenue, and various one-time items. Occupancy, tenant sales, and average minimum base rent growth were all healthy and generally in line with our expectations. High-quality mall tenant demand and fundamentals remain on solid footing, despite the long-coming Express bankruptcy. This sets up an easy 1Q25 comp. Any reductions to our '24 same-property NOI growth estimates will be recovered in '25. The removal of '24 FFO guidance is logical given Mr. Hsieh has hit the ground running and already has numerous transactions in the works. The timing of those deals, which is hard to predict even for management, significantly impacts FFO in the short term.

From a longer-term FFO perspective, the scenario discussed in our April 25<sup>th</sup> note still seems reasonable following today's information. If Macerich: 1) sold five of its weaker centers for ~\$200 million at a weighted average 17% cap rate; 2) handed back the keys to five centers with a cumulative pro-rata debt balance of ~\$860 million at an estimated current debt yield in the low-9% range (akin to selling the properties); 3) sold non-income producing (re)development opportunities for ~\$100 million; and 4) issued ~\$400 million of common equity at the current share price (11% expansion to share count), our '26 FFO estimate would need to come down by ~10% to around \$1.67/sh. A few assumptions may be tweaked at the margin when our earnings estimates are formally revised in the upcoming Mall Sector Update **but the conclusion on run-rate FFO once deleveraging goals are met is unlikely to materially change, or could even come up modestly.** Mr. Hsieh stated on the call that "success" would be FFO in three to four years in the ballpark of \$1.80/sh, with a low-6x net-debt-to-EBITDA ratio.

Following today's underperformance, Macerich is trading at an ~8x multiple on our '26 run-rate FFO projection of \$1.67/sh versus current multiples on our '26 FFO estimates of ~11x for Simon and ~12x for Tanger ([SKT](#)). Further, Macerich is currently trading at an implied cap rate that is 200 basis points higher than Simon, the widest spread ever between these companies at a time when the relative outlook for Macerich is the brightest it has been in a decade. Macerich's balance sheet issues will finally be resolved. On an NAV basis, Macerich is now trading a 22% NAV discount compared to Simon's 10% NAV premium.

Since Mr. Hsieh's CEO appointment announcement on February 5<sup>th</sup>, 2024, Macerich has underperformed Simon by ~1,300 bps. This outcome suggest that the public market preferred for Macerich to be sick than seeing the doctor and taking its medicine. While the medicine may not always taste good, a return to health is clearly the best outcome. There is a high probability Mr. Hsieh can execute the strategic initiatives detailed on today's earnings conference call. The stock should re-rate appropriately once that becomes clearer to the broader market. If the valuation gap does not close organically, odds of a takeout seem high. Patient investors with an 18-to-24-month time horizon should be rewarded with significant alpha by purchasing shares, or increasing a position, at today's depressed share price. **We reiterate a BUY recommendation on Macerich and believe it is one of the most attractive investment options among all REITs.**

Other mall REIT investment recommendations are unchanged and presented below. [Malls are attractively priced for long-term investors in the public market](#) versus other REIT sectors.

**BUY: MAC**

**HOLD: SPG**

**SELL: SKT**

Vince Tibone, CFA  
Emily Arft

## Green Street's Disclosure Information

***This report does NOT constitute investment advice nor is it provided in the capacity of a fiduciary.***

The information contained in this report is based on data obtained from sources we deem to be reliable; it is not guaranteed as to accuracy and does not purport to be complete. This report is produced solely for informational purposes and is not intended to be used as the primary basis of investment decisions. Because of individual client requirements, it is not, and it should not be construed as, advice designed to meet the particular investment needs of any investor. This report is not an offer or the solicitation of an offer to sell or buy any security.

**Issuers of this Report US and EEA:** This report has been prepared by analysts working for Green Street (Green Street US) and/or Green Street (U.K.) Limited (Green Street UK). Green Street US is the parent company of Green Street UK.

**This report is issued in the US by Green Street US. Green Street UK accepts no responsibility for this report to the extent that it is read by persons based in the US.**

**This report is issued in the European Economic Area (EEA) by Green Street UK. Green Street US accepts no responsibility for this report to the extent that it is read by persons based in the EEA.** Green Street Advisors (UK) Ltd is registered in England, (Company number. 6471304), and its registered office is 3rd & 4th Floors, 25 Maddox Street, London W1S 2QN. Green Street Advisors (UK) Ltd is authorized and regulated by the Financial Conduct Authority in the United Kingdom (FRN 482269).

**References to "Green Street" in Disclosures in this section and in the Other Important Information section apply to:**  
**Green Street US to the extent that this report/presentation has been disseminated in the US; or**  
**Green Street UK to the extent that this report/presentation has been disseminated in the EEA.**

Green Street US relies on the Limited Connection Relief for services provided to our clients located in Australia.

Green Street UK is exempt from the requirement to hold an Australian financial services license under the Act in respect of the financial services; and is regulated by the FCA under UK laws, which differ from Australian laws.

Green Street, along with its research professionals, are not registered as an advisor or dealer in any category with a securities regulator in Canada and any advice provided is not a solicitation to offer or sell or trade in specific securities or to provide tailored advice to any person in Canada.

Swiss recipients: the funds, the REITs, the investment companies and any collective investment schemes referred to in these reports may not have been registered with the Swiss Financial Market Supervisory Authority (FINMA) and no Swiss representative or paying agent has been appointed. This report is provided in Switzerland for the use of the addressees only and may not be distributed, copied, reproduced, or passed on to any third parties.

Green Street reserves the right to update the disclosures and policies set out in this document at any time.

### **Other Important Information**

**Automated Valuation Model:** The valuation estimates do not constitute an appraisal of the properties or portfolios and should not be relied upon in lieu of an appraisal or underwriting process. The estimated values are based upon data collected from public record sources, client inputs, and Green Street proprietary metrics and models. The accuracy of the methodology used to develop the valuation estimates are based on available data and are not guaranteed or warranted. The condition of the properties and current market conditions can affect the validity of the valuation estimates and custom reports generated. Any valuation estimate and custom report generated does not include a physical inspection of the properties or a visual inspection or analysis of current market conditions by a licensed or certified appraiser, which is typically included in an appraisal.

**Management of Conflicts of Interest:** Conflicts of interest can seriously impinge the ability of Green Street employees to do their job. In that spirit, Green Street adheres to the following policies regarding conflicts of interest:

- Green Street employees are prohibited from actively trading the shares of any company in our coverage universe.
- Green Street employees do not serve as officers or directors of any of our subject companies.
- Neither Green Street nor its employees/analysts receive any compensation from subject companies for inclusion in our research.
- On occasion, Green Street analysts may be contacted by companies within the firm's coverage universe regarding potential employment opportunities. Additional disclosure will be made when appropriate.
- Green Street's Advisory business services investors seeking to acquire interests in publicly traded companies. Green Street may provide valuation services to prospective acquirers of companies which are the subject(s) of Green Street's research reports.

Green Street publishes research reports covering issuers that may offer and sell securities in an initial or secondary offering.

Green Street US generally prohibits research analysts from sending draft research reports to subject companies. However, it should be presumed that the analyst(s) who authored this report has/(have) had discussions with the subject company to ensure factual accuracy prior to publication and has/(have) had assistance from the company in conducting due diligence, including visits to company sites and meetings with company management and other representatives.

### **Terms of Use**

**Protection of Proprietary Rights:** To the extent that this report is issued by Green Street US, this material is the proprietary and confidential information of Green Street and is protected by copyright. To the extent that this report is issued by Green Street UK, this material is the proprietary and confidential information of Green Street (U.K.) Limited and is protected by copyright.

This report may be used solely for reference for internal business purposes. This report may not be reproduced, re-distributed, sold, lent, licensed or otherwise transferred without the prior consent of Green Street. All other rights with respect to this report are reserved by Green Street.

**EEA Recipients: For use only by Professional Clients and Eligible Counterparties:** Green Street Advisors (UK) Ltd is authorized by the Financial Conduct Authority of the United Kingdom to issue this report to "Professional Clients" and "Eligible Counterparties" only and is not authorized to issue this report to "Retail Clients", as defined by the rules of the Financial Conduct Authority. This report is provided in the United Kingdom for the use of the addressees only and is intended for use only by a person or entity that qualifies as a "Professional Client" or an "Eligible Counterparty". **Consequently, this report is intended for use only by persons having professional experience in matters relating to investments. This report is not intended for use by any other person. In particular, this report is intended only for use by persons who have received written notice from Green Street (UK) that he/she/it has been classified, for the purpose of receiving services from Green Street (UK), as either a "Professional Client" or an "Eligible Counterparty". Any other person who receives this report should not act on the contents of this report.**

### **Review of Recommendations:**

Unless otherwise indicated, Green Street reviews all recommendations on at least a monthly basis.

If a research recommendation is contained in this report it was first released for distribution on the date identified on the cover of this report. Green Street will furnish upon request available information supporting the recommendation(s) contained in this report.

<https://my.greenstreet.com/disclosure/ResearchDisclosure>