Simon’s Takeover of Taubman: What the Future Holds

In light of the current poor business climate and for shopping centers in particular, Simon's 80 percent purchase of Taubman is viewed as a win-win for both sides.

By David Moin on November 16, 2020

The Beverly Center.
Courtesy of The Beverly Center

Suddenly, the outlook on The Simon Property Group has brightened.

For the nation’s largest real estate investment trust, which owns and operates many of the highest-profile, mega-sized shopping centers in the U.S., it’s been a rough year of declining revenues, net operating income, stock price and consumer traffic due to the pandemic, ensuing retail bankruptcies and rent abatements, and accelerating online purchasing.

But the owner and operator of such mega malls as Roosevelt Field Shopping Center, King of Prussia, and Woodbury Common Premium Outlets has been capitalizing on the current buyers’ market. Over the past two weeks Simon concluded a new deal to buy Taubman Centers at a sharply reduced price from the original offer and purchased the retail operations of J.C. Penney, one of its biggest tenants. There’s also been news that vaccines for COVID-19 are within sight, providing some hope that the world, and consumer behavior, might one day within the next nine months or so return to some semblance of normalcy.

Woodbury Common Premium Outlets. AP Photo/Mike Groll

It's all had the combined effect of lifting Simon's stock price to over $80 as of Monday midday. The company's shares closed at $78.96, up 5.7 percent, or $4.23. That's still a far cry from the $145 share price at the beginning of this year, but better than the $40 to $60 range through the spring. Taubman's stock price rose 8.3 percent on Monday, or $3.26 to $42.80.

On Sunday evening, the shopping center operators revealed they reached a definitive agreement modifying certain terms of their original merger deal, including a new purchase price of $43 a share in cash, just under $3 billion, and other provisions to reduce closing conditions. That's a significant drop from the original proposal in February by Simon to pay $52.50 a share, or $3.6 billion.

The merger is expected to close in late 2020 or early 2021. Simon and Taubman also settled their pending litigation in the Circuit Court for the 6th Judicial District, Oakland County, Mich., stemming from Simon's decision in June to back away from the February proposal. In June, Simon indicated it had "exercised its contractual rights to terminate" the agreement. Simon's suit also contended that COVID-19 had a disproportionate impact on Taubman and that Taubman did not take steps to mitigate its effects, including making cuts in operating expenses and capital expenditures.

Simon cited "Taubman's significant proportion of enclosed retail properties located in densely populated major metropolitan areas, dependence on both domestic and international tourism at many of its properties, and its focus on high-end shopping."

Nearly two decades ago, Simon attempted a hostile takeover of Taubman, which Taubman thwarted. However, declining shopper traffic in malls, the ongoing shift to consumers buying more online versus in stores, and the pandemic altered the outlook for a deal between the two mall competitors. Simon also has a track record of gobbling up other shopping center properties and outlet centers.

The modified merger agreement continues to provide that Simon will acquire an 80 percent ownership interest in The Taubman Realty Group Limited Partnership. The Taubman family will sell about one-third of its ownership interest at the transaction price and remain a 20 percent partner in TRG.

The boards of both developers, including the special committee of independent directors of Taubman, approved the terms of the transaction.

"This is a win-win for both sides," said Michael Gould, former chairman and chief executive officer of Bloomingdale's, which has many locations housed in Simon and Taubman properties. "It was smart to strike a deal rather than having a long legal battle and some judge deciding what happens and spending tens of millions on legal fees."

While noting that Simon picks up some highly productive upscale retail properties including Cherry Creek in Denver and The Mall at Short Hills in New Jersey, Gould said, "This is an opportunity for the Taubmans to be part of a much larger business, and keep an equity stake. Both sides should be happy."

"I thought it was going to be a huge battle in the courts," said one retail executive, who requested anonymity.

Allan Ellinger, founder and senior managing partner of MMG Advisors, an investment bank focused on middle-market retail and fashion companies, also described the deal as beneficial to both parties, noting that the Taubmans protect their net worth, and were smart to get the deal done now, rather than later when taxes on capital gains could climb. They are currently at 20 percent on the federal level, though there is talk of it rising to 28 percent or higher. "If someone is contemplating a transaction, they're better off doing it sooner, rather than later," said Ellinger.

He and Gould agreed that the ultimate price tag to buy Taubman, despite dropping sharply from its original amount, was still fair given the current COVID-19-impacted business climate.

"Taubman took a big haircut, but I would call it a realistic price," said Craig Johnson, president of Customer Growth Partners. "Nowadays people are afraid of going into a mall. Even by the time everything goes back to being more normal, people won't shop the malls like the old days. They will be cautious about it.

What's ahead for Simon? According to retail pundits, it's about taking aggressive actions to elevate the appeal, relevance and profitability of its assets by recasting certain properties to greater mixed use; disposing weaker mall properties within both the Taubman portfolio and its own, and diving into the expense structures of Penney's and other assets to cut costs.

"Taubman was basically going sideways," added Johnson. "Taubman has very good properties, some of the most productive in the industry," though some could use some real work, he noted. "My guess is they will unload several units out of Taubman and SPG. The combined Taubman-SPG fleet will be smaller.

"Many of the remaining properties will be reinvented to much more of a mixed-use environment or open air environments. The access to capital that Simon has is unparalleled," said Johnson. "Converting centers to more mixed use takes a hell of a lot of capital. Macerich [a major mall developer based in Los Angeles] did it in Santa Monica Place, converting into an open-air setting, with a new type of Bloomingdale's, and Nordstrom. It opens up to the Third Street Promenade. There are dozens of mall properties within both of these fleets that would be suitable for mixed-use redevelopment. With their own centers, I'm not sure Taubman would have been able to handle that."

"David Simon [chairman and ceo of the Simon Property Group] has made it clear that they took a close look at Penney's and decided they can make money from it as a viable merchandising business," said Gould, adding that he believes Simon will find a way to take a lot out of Penney's expense structure, particularly in the corporate headquarters, to raise profitability. "I think he bought it to make money, not just to prevent Penney's from going dark in their malls."

Penney's has been in bankruptcy but has had its restructuring plan approved and expects to exit later this month.

Simon recently disclosed "friendly foreclosures" of the Mall at Tuttle Crossing in Dublin, Ohio, and the Southridge Mall in Greendale, Wis., and that it would no longer inject capital into the Montgomery Mall in North Wales, Pa.

Simon has the wherewithal to bring entertainment features, groceries, residential and commercial space, lounges for coffee breaks or to watch a game, and health facilities to its traditional shopping venues. The much smaller Taubman Centers will benefit from that.

Pundits also said that Simon could redesign some enclosed centers with open-air components. In the age of COVID-19, there's been a consumer shift to open-air centers from enclosed ones, and even after the health crisis dissipates, many consumers will continue to prefer open-air settings, sensing they're safer there from diseases.

"The Taubman acquisition certainly strengthens Simon's position in the marketplace. It gives them more bulk to make more investments in technology that gets a better read on consumer shopping patterns, their food preferences, store preferences, and to service the consumer better," said Ellinger.

Buying Taubman gives Simon "deeper pockets to make investments to fine-tune a consumer's experience on their properties and diversify their malls to add things other than straight away retail and food courts," he added.

The combination of Simon and Taubman does give Simon additional clout with retail tenants but it's of little consequence. "From a retailer's perspective, I'm not sure it matters. Simon already has so much clout," said one retail executive who requested anonymity. "I always found common ground with Simon and always had a good relationship with Taubman."

"The deal does give Simon some more leverage but you can't get water from a stone," said Ellinger. "For the retail tenants right now, the business is soft. They do have more leverage but they've got to use that leverage very carefully. It has to be a balance."

"Simon and Taubman are both tough and fair," said Gould. "At Bloomingdale's I felt it was a two-way street. They were our partners."

Regarding the future for Robert Taubman, chairman, ceo and president of Taubman Centers, and William "Billy" Taubman, chief operating officer, the company issued the following statement: "Taubman and Simon will continue to operate as usual, and as separate companies, until the transaction closes. After the transaction is completed, Taubman will maintain its corporate office in Bloomfield Hills, Mich., and the Taubman Asia offices in Hong Kong, China and Korea, and we expect to operate much as we do today related to the ownership, management and leasing of our properties and how we serve our tenants, shoppers and communities."

"I heard that the Taubmans would continue to run their company for five-plus years to their retirement," said the anonymous retail source. "I'm not sure the Taubman brothers felt there was a next generation to step into the leadership anytime soon."

Taubman has a portfolio of 26 properties, most of which are merchandised with an emphasis on upscale and luxury stores. Among the sites the standouts are the Mall at Short Hills; Palm Beach Gardens in Florida; Cherry Creek; Beverly Center in Los Angeles; International Market Place in Honolulu; The Mall of San Juan in Puerto Rico, and CityOn.Zhengzhou in China.

Mall of San Juan, Location: San Juan, Puerto Rico, Developer: Taubman Jeff Goldberg/Courtesy of Mall of San Juan

The Aritzia store at Roosevelt Field Mall. Courtesy of Roosevelt Field Mall

The Mall at Short Hills. Rich Graessle/Icon Sportswire via AP Images

Simon has over 230 properties in its portfolio, including urban and suburban malls, lifestyle centers and outlet centers and is considered the nation's largest operator of shopping centers. Among its sites are the Roosevelt Field mall on Long Island; Woodbury Common Premium Outlets in Central Valley, N.Y.; The Westchester in White Plains, N.Y.; Copley Plaza in Boston, and the Houston Galleria.

The Simon-Taubman tieup comes as the entire mall sector is facing turmoil brought on by the pandemic. Two mall operators — CBL and Pennsylvania Real Estate Investment Trust — filed for bankruptcy earlier this month. Meanwhile, a major competitor to Simon and Taubman — Unibail-Rodamco-Westfield — is in the midst of a boardroom battle brought on by activist shareholders wanting the company to dispose of its U.S.-based malls to focus on its European shopping centers. The pressure over the weekend resulted in several board members resigning and new ones joining as speculation grows that the company's ceo and chief financial officer soon might be exiting.

Dave Simon Courtesy Photo