SIMON PROPERTY GROUP INC /DE/
Form 10-Q
November 02, 2007

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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2007

**SIMON PROPERTY GROUP, INC.**
(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation or organization)

001-14469
(Commission File No.)

046-268599
(I.R.S. Employer Identification No.)

225 West Washington Street
Indianapolis, Indiana 46204
(Address of principal executive offices)

(317) 636-1600
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** ý **No** o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer:

Large accelerated filer ý Accelerated filer o Non-accelerated filer o
Indicate by check mark whether Registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). **Yes** o **No** ý

As of September 30, 2007, 222,994,289 shares of common stock, par value $0.0001 per share, 8,000 shares of Class B common stock, par value $0.0001 per share, and 4,000 shares of Class C common stock, par value $0.0001 per share of Simon Property Group, Inc. were outstanding.

**Simon Property Group, Inc. and Subsidiaries**

**Form 10-Q**

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**Simon Property Group, Inc. and Subsidiaries**

*Consolidated Balance Sheets (Dollars in thousands, except share amounts)*

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| | *Unaudited* | |
| **ASSETS:** | | |
| Investment properties, at cost | **$ 24,138,267** | $ 22,863,963 |
| Less accumulated depreciation | **5,139,607** | 4,606,130 |
| | **18,998,660** | 18,257,833 |
| Cash and cash equivalents | **389,968** | 929,360 |
| Tenant receivables and accrued revenue, net | **370,443** | 380,128 |
| Investment in unconsolidated entities, at equity | **1,996,540** | 1,526,235 |
| Deferred costs and other assets | **1,133,175** | 990,899 |
| Notes receivable from related parties | **769,580** | |
| **Total assets** | **$ 23,658,366** | $ 22,084,455 |
| **LIABILITIES:** | | |
| Mortgages and other indebtedness | **$ 17,266,451** | $ 15,394,489 |
| Accounts payable, accrued expenses, intangibles, and deferred revenues | **1,131,257** | 1,109,190 |
| Cash distributions and losses in partnerships and joint ventures, at equity | **231,972** | 227,588 |
| Other liabilities, minority interest and accrued dividends | **182,019** | 178,250 |
| **Total liabilities** | **18,811,699** | 16,909,517 |
| COMMITMENTS AND CONTINGENCIES | | |
| LIMITED PARTNERS' INTEREST IN THE OPERATING PARTNERSHIP | **761,238** | 837,836 |
| LIMITED PARTNERS' PREFERRED INTEREST IN THE OPERATING PARTNERSHIP | **308,393** | 357,460 |
| **STOCKHOLDERS' EQUITY:** | | |
| CAPITAL STOCK (750,000,000 total shares authorized, $.0001 par value, 237,996,000 shares of excess common stock): | | |
| All series of preferred stock, 100,000,000 shares authorized, 17,812,029 and 17,578,701 issued and outstanding, respectively, and with liquidation values of $890,601 and $878,935, respectively | **897,197** | 884,620 |
| Common stock, $.0001 par value, 400,000,000 shares authorized, 227,691,621 and 225,797,566 issued and outstanding, respectively | **23** | 23 |
| Class B common stock, $.0001 par value, 12,000,000 shares authorized, 8,000 issued and outstanding | | |
| Class C common stock, $.0001 par value, 4,000 shares authorized, issued and outstanding | | |
| Capital in excess of par value | **5,051,664** | 5,010,256 |
| Accumulated deficit | **(1,979,517)** | (1,740,897) |
| Accumulated other comprehensive income | **21,275** | 19,239 |
| Unamortized restricted stock award | | |
| Common stock held in treasury at cost, 4,697,332 and 4,378,495 shares, respectively | **(213,606)** | (193,599) |
| **Total stockholders' equity** | **3,777,036** | 3,979,642 |

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| **Total liabilities and stockholders' equity** | **$ 23,658,366** | $ 22,084,455 |

*The accompanying notes are an integral part of these statements.*

**Simon Property Group, Inc. and Subsidiaries**

*Unaudited Consolidated Statements of Operations and Comprehensive Income*

*(Dollars in thousands, except per share amounts)*

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| **REVENUE:** | | | | |
| Minimum rent | **$ 536,377** | $ 500,589 | **$ 1,569,328** | $ 1,474,503 |
| Overage rent | **27,049** | 21,931 | **63,575** | 53,287 |
| Tenant reimbursements | **262,183** | 233,278 | **730,780** | 681,090 |
| Management fees and other revenues | **34,952** | 20,780 | **73,369** | 60,348 |
| Other income | **46,584** | 42,158 | **178,166** | 135,895 |
| **Total revenue** | **907,145** | 818,736 | **2,615,218** | 2,405,123 |
| **EXPENSES:** | | | | |
| Property operating | **121,698** | 118,185 | **343,047** | 331,389 |
| Depreciation and amortization | **224,662** | 211,390 | **670,544** | 632,200 |
| Real estate taxes | **77,939** | 73,427 | **236,184** | 225,636 |
| Repairs and maintenance | **26,322** | 23,910 | **84,073** | 74,704 |
| Advertising and promotion | **22,192** | 17,718 | **61,486** | 55,661 |
| Provision for credit losses | **3,134** | 393 | **5,100** | 4,853 |
| Home and regional office costs | **32,976** | 32,703 | **95,945** | 95,691 |
| General and administrative | **4,887** | 4,422 | **14,905** | 13,920 |
| Other | **14,636** | 15,264 | **42,718** | 40,492 |
| **Total operating expenses** | **528,446** | 497,412 | **1,554,002** | 1,474,546 |
| **OPERATING INCOME** | **378,699** | 321,324 | **1,061,216** | 930,577 |
| Interest expense | **(238,155)** | (206,195) | **(704,287)** | (611,010) |
| Minority interest in income of consolidated entities | **(3,052)** | (3,154) | **(9,098)** | (7,512) |
| Income tax expense of taxable REIT subsidiaries | **(648)** | (2,536) | **(1,405)** | (7,395) |
| Income from unconsolidated entities | **8,491** | 25,898 | **37,723** | 75,703 |
| Gain on sales of assets and interests in unconsolidated entities, net | **82,197** | 9,457 | **82,697** | 51,406 |
| Limited partners' interest in the Operating Partnership | **(42,897)** | (24,951) | **(84,223)** | (74,429) |
| Preferred distributions of the Operating Partnership | **(5,382)** | (6,893) | **(16,218)** | (20,647) |
| **Income from continuing operations** | **179,253** | 112,950 | **366,405** | 336,693 |
| Discontinued operations, net of Limited Partners' interest | **(26)** | 45 | **(171)** | 89 |
| Gain on sale of discontinued operations, net of Limited Partners' interest | | | | 66 |
| **NET INCOME** | **179,227** | 112,995 | **366,234** | 336,848 |
| Preferred dividends | **(14,290)** | (18,403) | **(42,999)** | (55,371) |
| **NET INCOME AVAILABLE TO COMMON STOCKHOLDERS** | **$ 164,937** | $ 94,592 | **$ 323,235** | $ 281,477 |

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| **BASIC EARNINGS PER COMMON SHARE:** | | | | |
| Income from continuing operations | **$ 0.74** | $ 0.43 | **$ 1.45** | $ 1.27 |
| Discontinued operations | | | | |
| **Net income** | **$ 0.74** | $ 0.43 | **$ 1.45** | $ 1.27 |
| **DILUTED EARNINGS PER COMMON SHARE:** | | | | |
| Income from continuing operations | **$ 0.74** | $ 0.43 | **$ 1.45** | $ 1.27 |
| Discontinued operations | | | | |
| **Net income** | **$ 0.74** | $ 0.43 | **$ 1.45** | $ 1.27 |
| **Net Income** | **$ 179,227** | $ 112,995 | **$ 366,234** | $ 336,848 |
| Unrealized (loss) gain on interest rate hedge agreements | **(4,556)** | (3,178) | **(2,312)** | 5,876 |
| Net income on derivative instruments reclassified from accumulated other comprehensive income into interest expense | **337** | 398 | **1,142** | 1,358 |
| Currency translation adjustments | **2,528** | 760 | **3,723** | (220) |
| Other income (loss) | **60** | 946 | **(517)** | 570 |
| Comprehensive Income | **$ 177,596** | $ 111,921 | **$ 368,270** | $ 344,432 |

*The accompanying notes are an integral part of these statements.*

**Simon Property Group, Inc. and Subsidiaries**

*Unaudited Consolidated Statements of Cash Flows*

*(Dollars in thousands)*

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | **2007** | **2006** |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| **Net income** | **$ 366,234** | $ 336,848 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | **647,021** | 599,985 |
| Gain on sales of assets and interests in unconsolidated entities | **(82,697)** | (51,406) |
| Gain on disposal or sale of discontinued operations, net of limited partners' interest | | (66) |
| Limited partners' interest in the Operating Partnership | **84,223** | 74,429 |
| Limited partners' interest in the results of operations from discontinued operations | **(44)** | 23 |
| Preferred distributions of the Operating Partnership | **16,218** | 20,647 |
| Straight-line rent | **(13,985)** | (12,334) |
| Minority interest | **9,098** | 7,512 |
| Minority interest distributions | **(75,428)** | (24,563) |
| Equity in income of unconsolidated entities | **(37,723)** | (75,703) |
| Distributions of income from unconsolidated entities | **56,905** | 60,724 |
| **Changes in assets and liabilities** | | |
| Tenant receivables and accrued revenue, net | **28,985** | 56,064 |
| Deferred costs and other assets | **(83,376)** | (119,943) |
| Accounts payable, accrued expenses, intangibles, deferred revenues and other liabilities | **13,908** | 23,882 |
| **Net cash provided by operating activities** | **929,339** | 896,099 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Acquisitions | **(256,762)** | |
| Notes receivable from related parties | **(769,580)** | |
| Capital expenditures, net | **(688,840)** | (533,696) |
| Cash impact from the consolidation and de-consolidation of properties | **6,117** | |
| Net proceeds from sale of partnership interests, other assets and discontinued operations | **38,709** | 103,158 |
| Investments in unconsolidated entities | **(662,313)** | (134,398) |
| Distributions of capital from unconsolidated entities and other | **248,499** | 245,796 |
| **Net cash used in investing activities** | **(2,084,170)** | (319,140) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Proceeds from sales of common and preferred stock and other | **6,915** | 13,172 |
| Purchase of treasury stock and limited partner units | **(81,367)** | (13,625) |
| Preferred stock redemptions | **(250)** | (494) |
| Preferred distributions of the Operating Partnership | **(16,218)** | (20,647) |
| Preferred dividends and distributions to stockholders | **(604,854)** | (558,991) |
| Distributions to limited partners | **(146,160)** | (133,288) |
| Mortgage and other indebtedness proceeds, net of transaction costs | **4,587,296** | 3,431,483 |
| Mortgage and other indebtedness principal payments | **(3,129,923)** | (3,308,665) |
| **Net cash provided by (used in) financing activities** | **615,439** | (591,055) |
| **DECREASE IN CASH AND CASH EQUIVALENTS** | **(539,392)** | (14,096) |
| **CASH AND CASH EQUIVALENTS, beginning of year** | **929,360** | 337,048 |

| | For the Nine Months Ended September 30, | |
|---|---|---|
| **CASH AND CASH EQUIVALENTS, end of period** | **$ 389,968** | $ 322,952 |

*The accompanying notes are an integral part of these statements.*

**Simon Property Group, Inc. and Subsidiaries**
**Condensed Notes to Consolidated Financial Statements**
**(Unaudited)**

(Dollars in thousands, except share and per share amounts and where indicated as in millions or billions)

## 1. Organization

Simon Property Group, Inc. ("Simon Property") is a Delaware corporation that operates as a self-administered and self-managed real estate investment trust ("REIT"). Simon Property Group, L.P. (the "Operating Partnership") is a majority-owned partnership subsidiary of Simon Property that owns all of our real estate properties. In these condensed notes to the unaudited consolidated financial statements, the terms "we", "us" and "our" refer to Simon Property, the Operating Partnership, and their subsidiaries.

We are engaged primarily in the ownership, development, and management of retail real estate, primarily regional malls, Premium Outlet® centers, The Mills®, and community/lifestyle centers. As of September 30, 2007, we owned or held an interest in 320 income-producing properties in the United States, which consisted of 169 regional malls, 37 Premium Outlet centers, 66 community/lifestyle centers, 38 properties acquired in the Mills acquisition, and 10 other shopping centers or outlet centers in 41 states and Puerto Rico (collectively, the "Properties", and individually, a "Property"). Of the 38 Mills properties acquired, 17 of these properties are The Mills, 18 are regional malls, and 3 are community centers. We also own interests in three parcels of land held in the United States for future development (together with the Properties, the "Portfolio"). Internationally as of September 30, 2007, we have ownership interests in 50 European shopping centers (France, Italy and Poland); six Premium Outlet centers in Japan; one Premium Outlet center in Mexico; and one Premium Outlet center in South Korea. Also, through a joint venture arrangement we hold a 32.5% ownership interest in five shopping centers under construction in China.

## 2. Basis of Presentation

The accompanying unaudited consolidated financial statements of Simon Property include the accounts of all majority-owned subsidiaries, and all significant inter-company amounts have been eliminated. Due to the seasonal nature of certain operational activities, the results for the interim period ended September 30, 2007 are not necessarily indicative of the results that may be obtained for the full fiscal year.

These consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and include all of the information and disclosures required by accounting principles generally accepted in the United States (GAAP) for interim reporting. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments necessary for fair presentation (including normal recurring accruals) have been included. The consolidated financial statements in this Form 10-Q should be read in conjunction with the audited consolidated financial statements and related notes contained in our 2006 Annual Report on Form 10-K.

As of September 30, 2007, of our 378 properties we consolidated 197 wholly-owned properties and 19 additional properties that are less than wholly-owned, but which we control or for which we are the primary beneficiary. We account for the remaining 162 properties using the equity method of accounting ("joint venture properties"). We manage the day-to-day operations of 94 of the 162 joint venture properties, but have determined that our partner or partners have substantive participating rights with respect to the assets and operations of these joint venture properties. Additionally, we account for our investment in SPG-FCM Ventures, LLC ("SPG-FCM"), which acquired The Mills Corporation and its majority-owned subsidiary, The Mills Limited Partnership (collectively "Mills") in April 2007, using the equity method of accounting. We have determined that SPG-FCM is not a variable interest entity (VIE) and that Farallon Capital Management, L.L.C. ("Farallon"), our joint venture partner, has substantive participating rights with respect to the assets and operations of SPG-FCM pursuant to the applicable partnership agreements.

We allocate net operating results of the Operating Partnership after preferred distributions to third parties and Simon Property based on the partners' respective weighted average ownership interests in the Operating Partnership. Our weighted average ownership interest in the Operating Partnership was 79.3% and 79.1% for the nine months ended September 30, 2007 and 2006, respectively. As of September 30, 2007 and December 31, 2006, our ownership

interest in the Operating Partnership was 79.4% and 78.9%, respectively. We adjust the limited partners' interest in the Operating Partnership at the end of each period to reflect their respective interests in the Operating Partnership.

Preferred distributions of the Operating Partnership in the accompanying statements of operations and cash flows represent distributions on outstanding preferred units of limited partnership interest.

**3. Significant Accounting Policies**

***Cash and Cash Equivalents***

We consider all highly liquid investments purchased with an original maturity of 90 days or less to be cash and cash equivalents. Cash equivalents are carried at cost, which approximates market value. Cash equivalents generally consist of commercial paper, bankers acceptances, Eurodollars, repurchase agreements, and money markets. Cash and cash equivalents, as of September 30, 2007, includes a balance of $26.5 million related to our co-branded gift card programs which we do not consider available for general working capital purposes.

***Reclassifications***

We made certain reclassifications of prior period amounts in the financial statements to conform to the 2007 presentation. These reclassifications have no impact on net income previously reported. The reclassifications principally related to the inclusion of the limited partners' interest in the Operating Partnership and preferred distributions of the Operating Partnership in the determination of net income from continuing operations.

**4. Per Share Data**

We determine basic earnings per share based on the weighted average number of shares of common stock outstanding during the period. We determine diluted earnings per share based on the weighted average number of shares of common stock outstanding combined with the incremental weighted average shares that would have been outstanding assuming all dilutive potential common shares were converted into shares at the earliest date possible. The following table sets forth the computation of our basic and diluted earnings per share. The amounts presented in the reconciliation below represent the common stockholders' pro rata share of the respective line items in the statements of operations and are after considering the effect of preferred dividends.

| | *For the Three Months Ended September 30,* | | *For the Nine Months Ended September 30,* | |
|---|---|---|---|---|
| | ***2007*** | ***2006*** | ***2007*** | ***2006*** |
| **Net Income available to Common Stockholders Basic** | **$ 164,937** | $ 94,592 | **$ 323,235** | $ 281,477 |
| **Effect of dilutive securities:** | | | | |
| Impact to General Partner's interest in Operating Partnership from all dilutive securities and options | **167** | 76 | **244** | 241 |
| **Net Income available to Common Stockholders Diluted** | **$ 165,104** | $ 94,668 | **$ 323,479** | $ 281,718 |
| **Weighted Average Shares Outstanding Basic** | **223,103,314** | 221,198,011 | **222,992,547** | 220,925,229 |
| Effect of stock options | **745,568** | 871,604 | **814,384** | 910,977 |
| **Weighted Average Shares Outstanding Diluted** | **223,848,882** | 222,069,615 | **223,806,931** | 221,836,206 |

For the three and nine months ended September 30, 2007, potentially dilutive securities include stock options, convertible preferred stock, and common units of limited partnership interest ("Units") in the Operating Partnership which are exchangeable for common stock and certain preferred units of limited partnership interest of the Operating Partnership. The only security that had a dilutive effect for the three and nine months ended September 30, 2007, and 2006, were stock options.

**5. Investment in Unconsolidated Entities**

**Real Estate Joint Ventures**

Joint ventures are common in the real estate industry. We use joint ventures to finance properties, develop new properties, and diversify our risk in a particular property or portfolio. We held joint venture ownership interests in 105 Properties in the United States as of September 30, 2007, and 68 as of December 31, 2006. We also held interests in

two joint ventures which owned 50 European shopping centers as of September 30, 2007 and 53 as of December 31, 2006. We also held an interest in six joint venture properties under operation in Japan, one joint venture property in Mexico, and one joint venture property in South Korea. We account for these joint venture properties using the equity method of accounting.

Substantially all of our joint venture properties are subject to rights of first refusal, buy-sell provisions, or other sale or marketing rights for partners which are customary in real estate joint venture agreements and the industry. Our partners in these joint ventures may initiate these provisions at any time (subject to any applicable lock up or similar restrictions), which could result in either the sale of our interest or the use of available cash or borrowings to acquire a joint venture interest from our partner.

**Acquisition of The Mills Corporation by SPG-FCM**

On February 16, 2007, SPG-FCM entered into a definitive merger agreement to acquire all of the outstanding common stock of Mills for $25.25 per common share in cash. The acquisition was completed through a cash tender offer and a subsequent merger transaction which concluded on April 3, 2007. As of September 30, 2007, we and Farallon had each funded $650.0 million into SPG-FCM to acquire all of the common stock of Mills. As part of the transaction, the Operating Partnership also made loans to SPG-FCM and Mills that bear interest primarily at rates of LIBOR plus 270-275 basis points. These funds were used by SPG-FCM and Mills to repay loans and other obligations of Mills, including the redemption of preferred stock, during the period. Aggregate activity of these loans to SPG-FCM and Mills during the current quarterly period increased the aggregate principal balance of those loans to approximately $769.6 million as of September 30, 2007. During the first nine months of 2007 we recorded approximately $32.7 million, respectively, in interest income (net of inter-entity eliminations). We also recorded fee income, including fee income amortization related to up-front fees on loans made to SPG-FCM and Mills, during the first nine months of 2007 of approximately $12.4 million, respectively (net of inter-entity eliminations), for providing refinancing services to Mills' properties and SPG-FCM.

As a result of the change in control of Mills, holders of Mills' Series F convertible cumulative redeemable preferred stock had the right to require the repurchase of their shares for cash equal to the liquidation preference per share plus accrued and unpaid dividends. During the second quarter of 2007, all of the holders of Mills' Series F preferred stock exercised this right, and Mills redeemed this series of preferred stock for approximately $333.2 million, including accrued dividends. Further, as of August 1, 2007, The Mills Corporation was liquidated and the holders of the remaining series' of Mills preferred stock were paid approximately $693.0 million, including accrued dividends.

During the third quarter of 2007, the holders of less than 5,000 common units in the Mills' operating partnership ("Mills Units") received $25.25 in cash, and those holding 5,000 or more Mills Units had the option to exchange for cash of $25.25, or Units of the Operating Partnership based on a fixed exchange ratio of 0.211 Operating Partnership Units for Mills Unit. That option expired on August 1, 2007. Holders electing to exchange received 66,036 Units in the Operating Partnership for their Mills Units. The remaining Mills Units were exchanged for cash.

Effective July 1, 2007, we or an affiliate of ours began serving as the manager for substantially all of the additional 38 properties in which SPG-FCM holds an interest. In conjunction with the Mills acquisition, we acquired a controlling interest in two properties in which we previously held a 50% ownership interest (Town Center at Cobb and Gwinnett Place) and as a result we have consolidated these two properties at the date of acquisition.

SPG-FCM has completed its preliminary purchase price allocations for the acquisition of Mills. The valuations were developed with the assistance of a third-party professional appraisal firm. The acquisition involved the assumption of $954.9 million of preferred stock, a proportionate share of property-level mortgage debt, SPG-FCM's share of which approximated $4.0 billion, and certain liabilities and contingencies and an ongoing investigation of The Mills Corporation by the Securites and Exchange Commission. The preliminary allocations will be finalized within one year of the acquisition date in accordance with applicable accounting standards.

**International Joint Venture Investments**

We conduct our international operations in Europe through our two European joint venture investment entities; Simon Ivanhoe S.à.r.l. ("Simon Ivanhoe"), and Gallerie Commerciali Italia ("GCI"). The carrying amount of our total combined investment in these two joint venture investments is $309.8 million and $338.1 million as of September 30, 2007 and December 31, 2006, respectively, net of the related cumulative translation adjustments. The Operating Partnership has a 50% ownership in Simon Ivanhoe and a 49% ownership in GCI as of September 30, 2007.

On July 5, 2007, Simon Ivanhoe sold its interest in five of assets located in Poland. We recorded our share of the gain upon the sale of these assets of $90.2 million and presented it in gain on sale of assets and interests in unconsolidated entities, net in the consolidated statements of operations.

We conduct our international Premium Outlet operations in Japan through joint venture partnerships with Mitsubishi Estate Co., Ltd. and Sojitz Corporation (formerly known as Nissho Iwai Corporation). The carrying amount of our investment in these Premium Outlet joint ventures in Japan is $275.1 million and $281.2 million as of September 30, 2007 and December 31, 2006, respectively, net of the related cumulative translation adjustments. We have a 40% ownership in these Japan Premium Outlet joint ventures. On June 1, 2007, our Chelsea division opened Yeoju Premium Outlets, the first Premium Outlet Center in South Korea. We hold a 50% ownership interest in this property for which our investment approximated $21.3 million as of September 30, 2007.

During 2006, we finalized the formation of joint venture arrangements to develop and operate shopping centers in China. We will own a 32.5% interest in a joint venture entity, Great Mall Investments, Ltd. ("GMI"). The shopping centers will be anchored by Wal-Mart stores. We are planning on initially developing five centers, all of which are currently under construction. Our share of the total equity commitment is approximately $58.1 million. We account for our investments in GMI under the equity method of accounting. As of September 30, 2007, our combined investment in these GMI shopping centers was approximately $30.8 million.

**Summary Financial Information**

Summary financial information (in thousands) of all of our joint venture properties and a summary of our investment in and share of income from such joint ventures follow. We condensed into separate line items major captions of the statements of operations for joint venture interests sold or consolidated. Consolidation occurs when we acquire an additional interest in the joint venture and, as a result, gain unilateral control of the Property or are determined to be the primary beneficiary. We reclassify these line items into "Discontinued Joint Venture Interests" and "Consolidated Joint Venture Interests" on the balance sheets and statements of operations, if material, so that we may present comparative results of operations for these joint venture properties held as of September 30, 2007.

| | *September 30, 2007* | *December 31, 2006* |
|---|---|---|
| **BALANCE SHEETS** | | |
| **Assets:** | | |
| Investment properties, at cost | **$ 20,913,688** | $ 10,669,967 |
| Less accumulated depreciation | **3,077,050** | 2,206,399 |
| | **17,836,638** | 8,463,568 |
| Cash and cash equivalents | **680,139** | 354,620 |
| Tenant receivables | **346,567** | 258,185 |
| Investment in unconsolidated entities | **228,871** | 176,400 |
| Deferred costs and other assets | **847,169** | 307,468 |
| Total assets | **$ 19,939,384** | $ 9,560,241 |
| **Liabilities and Partners' Equity:** | | |
| Mortgages and other indebtedness | **$ 16,049,363** | $ 8,055,855 |
| Accounts payable, accrued expenses, and deferred revenue | **987,600** | 513,472 |
| Other liabilities | **1,008,096** | 255,633 |
| Total liabilities | **18,045,059** | 8,824,960 |
| Preferred units | **67,450** | 67,450 |
| Partners' equity | **1,826,875** | 667,831 |
| Total liabilities and partners' equity | **$ 19,939,384** | $ 9,560,241 |
| **Our Share of:** | | |
| Total assets | **$ 8,150,966** | $ 4,113,051 |
| Partners' equity | **$ 994,310** | $ 380,150 |

| | *September 30, 2007* | *December 31, 2006* |
|---|---|---|
| Add: Excess Investment | **770,258** | 918,497 |
| Our net Investment in Joint Ventures | **$ 1,764,568** | $ 1,298,647 |
| Mortgages and other indebtedness | **$ 6,416,329** | $ 3,472,228 |

"Excess Investment" represents the unamortized difference of our investment over our share of the equity in the underlying net assets of the joint ventures acquired. We amortize excess investment over the life of the related Properties, typically no greater than 40 years, and the amortization is included in the reported amount of income from unconsolidated entities.

| | *For the Three Months Ended September 30,* | | *For the Nine Months Ended September 30,* | |
|---|---|---|---|---|
| | ***2007*** | ***2006*** | ***2007*** | ***2006*** |
| **STATEMENTS OF OPERATIONS** | | | | |
| **Revenue:** | | | | |
| Minimum rent | **$ 466,933** | $ 262,417 | **$ 1,184,208** | $ 771,054 |
| Overage rent | **26,448** | 19,094 | **64,090** | 51,518 |
| Tenant reimbursements | **220,621** | 136,080 | **572,820** | 386,064 |
| Other income | **47,841** | 40,138 | **136,707** | 107,979 |
| Total revenue | **761,843** | 457,729 | **1,957,825** | 1,316,615 |
| **Operating Expenses:** | | | | |
| Property operating | **165,419** | 98,716 | **407,021** | 267,767 |
| Depreciation and amortization | **160,403** | 79,035 | **400,234** | 230,018 |
| Real estate taxes | **60,073** | 34,073 | **160,989** | 99,194 |
| Repairs and maintenance | **24,672** | 20,065 | **77,691** | 60,549 |
| Advertising and promotion | **14,997** | 11,029 | **38,037** | 24,569 |
| Provision for credit losses | **7,416** | 2,389 | **14,139** | 3,821 |
| Other | **35,494** | 26,265 | **103,853** | 86,417 |
| Total operating expenses | **468,474** | 271,572 | **1,201,964** | 772,335 |
| **Operating Income** | **293,369** | 186,157 | **755,861** | 544,280 |
| Interest expense | **(248,588)** | (105,417) | **(594,093)** | (307,150) |
| Income from unconsolidated entities | **545** | 480 | **458** | 719 |
| Gain on sale of asset | **198,135** | | **193,376** | 94 |
| **Income from Continuing Operations** | **243,461** | 81,220 | **355,602** | 237,943 |
| Income (loss) from consolidated joint venture interests | **(28)** | 4,058 | **2,562** | 9,565 |
| Income from discontinued joint venture interests | | 129 | **176** | 631 |
| Gain (loss) on disposal or sale of discontinued operations, net | | (329) | **19** | 20,375 |
| **Net Income** | **$ 243,433** | $ 85,078 | **$ 358,359** | $ 268,514 |
| **Third-Party Investors' Share of Net Income** | **$ 133,705** | $ 51,049 | **$ 194,377** | $ 160,488 |
| **Our Share of Net Income** | **109,728** | 34,029 | **163,982** | 108,026 |
| **Amortization of Excess Investment** | **(11,014)** | (12,164) | **(36,036)** | (37,056) |
| **Income from Beneficial Interests and Other, Net** | | 4,033 | | 15,309 |
| **Write-off of Investment Related to Properties Sold** | | 135 | | (2,842) |
| **Our Share of Net Gain Related to Properties/Assets Sold** | **(90,223)** | (135) | **(90,223)** | (7,734) |
| **Income from Unconsolidated Entities and Beneficial Interests, Net** | **$ 8,491** | $ 25,898 | **$ 37,723** | $ 75,703 |

On July 5, 2007, Simon Ivanhoe completed the sale of five non-core assets in Poland and we presented our share of the gain upon this disposition in gain on sale of assets and interests in unconsolidated entities, net in the consolidated statement of income.

**6. Debt**

**Unsecured Debt**

***Credit Facility.*** Significant draws on the Credit Facility during the nine months ended September 30, 2007 were as follows (in thousands):

| *Draw Date* | *Draw Amount* | *Use of Credit Line Proceeds* |
|---|---|---|
| February 16, 2007 | $ 600,000 | Borrowing to partially fund a $1.187 billion loan to Mills. |
| March 29, 2007 | 550,000 | Borrowing to fund our equity commitment for the Mills acquisition and to fund a loan to SPG-FCM. |
| April 17, 2007 | 140,000 | Borrowing to fund a loan to SPG-FCM. |
| June 28, 2007 | 181,000 | Borrowing to fund a loan to SPG-FCM. |
| July 31, 2007 | 557,000 | Borrowing to fund a loan to SPG-FCM. |
| August 23, 2007 | 105,000 | Borrowing to fund Las Americas Premium Outlets acquisition. |
| September 20, 2007 | 180,000 | Borrowing to fund repayment of the SPG Medium Term Notes. |

Other amounts drawn on the Credit Facility were primarily for general working capital purposes. We repaid a total of $2.3 billion on the Credit Facility during the nine months ended September 30, 2007, with our share of proceeds we received from SPG-FCM due to the refinancing of selected Mills properties and the establishment of a Mills senior term loan facility. The total outstanding balance on the Credit Facility as of September 30, 2007, was $1.5 billion, and the maximum amount outstanding during the nine months ended September 30, 2007, was approximately $2.0 billion. During the first nine months of 2007, the weighted average outstanding balance on the Credit Facility was approximately $1.2 billion.

On October 4, 2007, we implemented the $500 million accordion feature in our Credit Facility, increasing the revolving borrowing capacity from $3.0 billion to $3.5 billion. The expanded capacity includes a larger $875 million multi-currency tranche for Euro, Yen and Sterling borrowings.

**Secured Debt**

Total secured indebtedness was $5.3 billion and $4.4 billion at September 30, 2007 and December 31, 2006, respectively. During the nine months ended September 30, 2007, we repaid $191.3 million in mortgage loans, unencumbering four properties.

As a result of the Mills acquisition, we now hold a controlling ownership interest in Gwinnett Place and Town Center at Cobb, and we consolidated those Properties as of the acquisition date. This included the consolidation of two mortgages secured by Gwinnett Place of $35.6 million and $79.2 million at fixed rates of 7.54% and 7.25%, respectively, and two mortgages secured by Town Center at Cobb of $45.4 million and $60.3 million at fixed rates of 7.54% and 7.25%, respectively. On May 23, 2007, we refinanced Gwinnett Place and Town Center at Cobb with $115.0 million and $280.0 million mortgages at fixed rates of 5.68% and 5.74%, respectively.

We placed a $200.0 million fixed-rate mortgage on Independence Center, a regional mall Property, on July 10, 2007, which matures on July 10, 2017, and bears a rate of 5.94%.

As a result of the acquisition of Las Americas Premium Outlets on August 23, 2007, we consolidated its $180.0 million fixed-rate mortgage that matures June 11, 2016 and bears a rate of 5.84%.

**7. Stockholders' Equity**

On February 26, 2007, the Compensation Committee of Simon Property's Board of Directors ("Board") awarded 246,271 shares of restricted stock under The Simon Property Group 1998 Stock Incentive Plan to employees at fair market value of $115.62 per share. On May 10, 2007, our non-employee Directors were awarded 6,892 shares of restricted stock under this plan at a fair market value of $114.30 per share. The fair market value of the restricted stock awarded on February 26, 2007, is being recognized as expense over the four-year vesting service period. The fair market value of the restricted stock awarded on May 10, 2007, has been deferred and is being amortized over a one-year vesting service period. We issued shares held in treasury to make the awards.

During the first nine months of 2007, we issued 1,692,474 shares of common stock to nine limited partners in exchange for an equal number of Units.

On July 26, 2007, the Board authorized us to repurchase up to $1.0 billion of our common stock over the next twenty-four months as market conditions warrant. We may repurchase the shares in the open market or in privately negotiated transactions. During the third quarter of 2007, we repurchased 572,000 shares at an average price of $86.11 per share as part of this program. The program has remaining availability of approximately $950.7 million.

As previously disclosed, for the quarter ending September 30, 2007, holders of Simon Property Group's Series I 6% Convertible Perpetual Preferred Stock ("Series I Preferred Stock") could elect to convert their shares during the quarter into shares of our common stock. The optional conversion is as a result of the closing sale price of our common stock exceeding the applicable trigger price per share for a period of 20 trading days in the last 30 trading days of the prior quarter. During the nine months ended September 30, 2007, 54,762 shares of Series I Preferred Stock were converted into 43,177 shares of common stock. As of September 30, 2007, the conversion trigger price of $78.88 had been met and the Series I Preferred Stock is convertible into 0.792319 of a share of common stock through December 31, 2007.

**8. Commitments and Contingencies**

**Litigation**

There have been no material developments with respect to the pending litigation disclosed in our 2006 Annual Report on Form 10-K.

We are involved in various other legal proceedings that arise in the ordinary course of our business. We believe that such routine litigation, claims and administrative proceedings will not have a material adverse impact on our financial position or our results of operations. We record a liability when a loss is considered probable and the amount can be reasonably estimated.

**Guarantees of Indebtedness**

Joint venture debt is the liability of the joint venture, and is typically secured by the joint venture Property, which is non-recourse to us. As of September 30, 2007, we have loan guarantees and other guarantee obligations of $128.4 million and $30.0 million, respectively, to support our total $6.4 billion share of joint venture mortgage and other indebtedness in the event that the joint venture partnership defaults under the terms of the underlying arrangement. Mortgages which are guaranteed by us are secured by the property of the joint venture and that property could be sold in order to satisfy the outstanding obligation.

**9. Real Estate Acquisitions and Dispositions**

On March 1, 2007, we acquired the remaining 40% interest in both University Park Mall and University Center located in Mishawaka, IN from our partner and as a result, we now own 100% of University Park Mall, a regional mall Property, and University Center, a community/lifestyle center Property. On March 28, 2007, we acquired The Maine Outlet, a 112,000 square foot outlet center located in Kittery, Maine, which is adjacent to and will be included with our Kittery Premium Outlets Property. On August 23, 2007, we acquired Las Americas Premium Outlets, a 560,000 square foot upscale outlet center located in San Diego, California.

During the nine-month period ended September 30, 2007, we disposed of certain non-significant properties summarized as follows:

| *Properties (City, State)* | *Previous Ownership %* | *Date of Disposal* |
|---|---|---|
| Alton Square (Alton, Illinois) | 100 % | August 2, 2007 |
| Griffith Park Plaza (Chicago, Illinois) | 100 | September 20, 2007 |
| University Mall (Little Rock, Arkansas) | 100 | September 28, 2007 |
| Boardman Plaza (Youngstown, Ohio) | 100 | September 28, 2007 |

**10. Recent Financial Accounting Standards**

On January 1, 2007, we adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on description, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of FIN 48 did not have any impact on our financial position or results of operations.

In September 2006, the FASB issued FASB No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 is definitional and disclosure oriented and addresses how companies should approach measuring fair value when required by GAAP; it does not create or modify any current GAAP requirements to apply fair value accounting. The Standard provides a single definition for fair value that is to be applied consistently for all accounting applications, and also generally describes and prioritizes according to reliability the methods and inputs used in valuations. SFAS 157 prescribes various disclosures about financial statement categories and amounts which are measured at fair value, if such disclosures are not already specified elsewhere in GAAP. The new measurement and disclosure requirements of SFAS 157 are effective for us in the first quarter of 2008. We do not expect the adoption of SFAS 157 will have a significant impact on our financial position or results of operations.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

You should read the following discussion in conjunction with the financial statements and notes thereto that are included in this report. Certain statements made in this section or elsewhere in this report may be deemed "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Although we believe the expectations reflected in any forward-looking statements are based on reasonable assumptions, we can give no assurance that our expectations will be attained, and it is possible that our actual results may differ materially from those indicated by these forward-looking statements due to a variety of risks and uncertainties. Those risks and uncertainties include, but are not limited to: our ability to meet debt service requirements, the availability of financing, changes in our credit rating, changes in market rates of interest and foreign exchange rates for foreign currencies, the ability to hedge interest rate risk, risks associated with the acquisition, development and expansion of properties, general risks related to retail real estate, the liquidity of real estate investments, environmental liabilities, international, national, regional and local economic climates, changes in market rental rates, trends in the retail industry, relationships with anchor tenants, the inability to collect rent due to the bankruptcy or insolvency of tenants or otherwise, risks relating to joint venture properties, costs of common area maintenance, competitive market forces, risks related to international activities, insurance costs and coverage, impact of terrorist activities, inflation and maintenance of REIT status. We discussed these and other risks and uncertainties under the heading "Risk Factors" in our annual and quarterly periodic reports filed with the SEC that could cause our actual results to differ materially from the forward-looking statements that we make. We may update that discussion in our periodic reports, but otherwise we undertake no duty or obligation to update or revise these forward-looking statements, whether as a result of new information, future developments, or otherwise.

**Overview**

Simon Property Group, Inc. ("Simon Property") is a Delaware corporation that operates as a self-administered and self-managed real estate investment trust ("REIT"). To qualify as a REIT, among other things, a company must distribute at least 90 percent of its taxable income to its stockholders annually. Taxes are paid by stockholders on ordinary dividends received and any capital gains distributed. Most states also follow this federal treatment and do not require REITs to pay state income tax. Simon Property Group, L.P. (the "Operating Partnership") is a majority-owned partnership subsidiary of Simon Property that owns all of our real estate properties. In this discussion, the terms "we", "us" and "our" refer to Simon Property, the Operating Partnership, and their subsidiaries.

We are engaged in the ownership, development, and management of retail real estate properties, primarily regional malls, Premium Outlet® centers, The Mills®, and community/lifestyle centers. As of September 30, 2007, we owned or held an interest in 320 income-producing properties in the United States, which consisted of 169 regional malls, 37 Premium Outlet centers, 66 community/lifestyle centers, 38 properties acquired in the Mills acquisition, and 10 other shopping centers or outlet centers in 41 states plus Puerto Rico (collectively, the "Properties", and individually, a "Property"). Of the 38 Mills properties acquired, 17 of these properties are The Mills, 18 are regional

malls, and 3 are community centers. We also own interests in three parcels of land held in the United States for future development (together with the Properties, the "Portfolio"). In the United States, we have six new properties currently under development aggregating approximately 3.6 million square feet which will open during 2007 through late 2008. Internationally, we have ownership interests in 50 European shopping centers (France, Italy and Poland); six Premium Outlet centers in Japan; one Premium Outlet center in Mexico; and one Premium Outlet center in South Korea. We also own a 32.5% interest in five shopping centers located in China, all of which are currently under construction.

***Operating Fundamentals***

We generate the majority of our revenues from leases with retail tenants including:

- Base minimum rents and cart and kiosk rentals,
- Overage and percentage rents based on tenants' sales volume, and
- Recoveries of a significant portion of our operating expenses, including common area maintenance, real estate taxes, and insurance.

Revenues of our management company, after inter-entity eliminations, consist primarily of management fees that are typically based upon the revenues of the property being managed.

We seek growth in our earnings, funds from operations ("FFO"), and cash flows by enhancing the profitability and operation of our properties and investments. We seek to accomplish this growth by:

- Focusing on leasing to increase revenues and using our economies of scale to reduce operating expenses,
- Expanding and re-tenanting existing franchise locations at competitive market rates,
- Adding mixed-use elements to our Portfolio through our asset intensification initiatives (this may include adding elements such as multifamily, condominiums, hotel and self-storage at selected locations),
- Acquiring high quality real estate assets or portfolios of assets, and
- Selling non-core assets.

We also grow by generating supplemental revenues in our existing real estate portfolio, from outlot parcel sales and, due to our size and tenant relationships, from the following:

- Simon Brand Ventures ("Simon Brand") mall marketing initiatives revenue sources which include: payment systems (including marketing fees relating to the sales of bank-issued prepaid cards), national marketing alliances, static and digital media initiatives, business development, sponsorship, and other events.
- Simon Business Network ("Simon Business") property operating services to our tenants and others resulting from its relationships with vendors.

We focus on high quality real estate across the retail real estate spectrum. We expand or renovate to enhance existing assets' profitability and market share when we believe the investment of our capital meets our risk-reward criteria. We selectively develop new properties in major metropolitan areas that exhibit strong population and economic growth.

We also routinely review and evaluate acquisition opportunities based on their complement to our Portfolio. We are selectively expanding our international presence. Our international strategy includes partnering with established real estate companies and financing international investments with local currency to minimize foreign exchange risk.

To support our overall growth goals, we employ a three-fold capital strategy:

Provide the capital necessary to fund growth,

Maintain sufficient flexibility to access capital in many forms, both public and private, and

Manage our overall financial structure in a fashion that preserves our investment grade ratings.

***Results Overview***

Diluted earnings per common share increased $0.18 during the first nine months of 2007, or 14.2%, to $1.45 from $1.27 for the same period last year. The 2006 results included a $34.4 million gain (or $0.12 per diluted share) from the sale of partnership interests in one of our European joint ventures to our partner, Ivanhoe Cambridge, Inc. ("Ivanhoe"), an affiliate of Caisse de dépôt et placement du Québec, and the recognition of $15.3 million in income (or $0.05 per diluted share) from the sale of a regional mall entity in which we held beneficial interests to receive cash flow, capital distributions, and related profits and losses. Included in the nine month period in 2007 was the receipt of

$19.0 million (or $0.07 per diluted share) of lease settlements from anchor store activity, our share of the gain on the sale of assets in Poland of $90.2 million (or $0.32 per diluted share) and approximately $32.7 million (or $0.12 per diluted share) of interest income attributable to loans made to The Mills Corporation and its majority-owned subsidiary, The Mills Limited Partnership (collectively "Mills") and SPG-FCM Ventures, LLC ("SPG-FCM"), net of inter-entity eliminations. Also included in the second and third quarters of 2007 was approximately $48 million (or $0.17 per diluted share) of additional amortization and depreciation, representing our share of the stepped-up basis of assets acquired by SPG-FCM.

Our core business fundamentals remained strong during the first three quarters of 2007. Regional mall comparable sales per square foot ("psf") continued to increase during the first three quarters of 2007, increasing 3.8% to $491 psf from $474 psf for the same period in 2006 reflecting strong retail sales activity. Our regional mall average base rents increased 4.8% to $36.92 psf as of September 30, 2007, from $35.23 psf as of September 30, 2006. Regional mall occupancy was 92.7% as of September 30, 2007, as compared to 92.5% as of September 30, 2006. In addition, our regional mall leasing spreads were $8.85 psf as of September 30, 2007, representing a 23.0% increase over expiring rents. The operating fundamentals of the Premium Outlet centers also contributed to the improved operating results for the nine month period, with that portion of the Portfolio effectively fully occupied at 99.6%, comparable sales psf increasing 8.0% to $499, and leasing spreads at $7.53, or 31.8% above expiring rents.

Despite the interest rate environment that has maintained a fairly stable LIBOR rate (5.12% at September 30, 2007, versus 5.32% at September 30, 2006), our effective overall borrowing rate for the nine months ended September 30, 2007, decreased 18 basis points as compared to the nine months ended September 30, 2006. This was principally as a result of the issuance of fixed rate debt during the latter part of 2006. Our financing activities for the nine months ended September 30, 2007, are highlighted by the following:

We repaid four mortgages totaling $191.3 million that bore interest at fixed rates ranging from 7.65% to 9.38%.

We increased our borrowings on the Credit Facility to approximately $1.5 billion during the nine months ended September 30, 2007, principally as a result of our $650 million funding commitment to SPG-FCM for the Mills acquisition and loans made to Mills and SPG-FCM by the Operating Partnership totaling $769.6 million.

As a result of the Mills acquisition, we now hold a controlling ownership interest in Gwinnett Place and Town Center at Cobb, and we now consolidate those two Properties. Included in this consolidation were two mortgages secured by Gwinnett Place of $35.6 million and $79.2 million at fixed rates of 7.54% and 7.25%, respectively, and two mortgages secured by Town Center at Cobb of $45.4 million and $60.3 million at fixed rates of 7.54% and 7.25%, respectively. On May 23, 2007, we refinanced Gwinnett Place and Town Center at Cobb with $115.0 million and $280.0 million mortgages at fixed rates of 5.68% and 5.74% respectively.

We placed a $200.0 million fixed-rate mortgage on Independence Center, a regional mall Property, on July 10, 2007 which matures on July 10, 2017 and bears a rate of 5.94%.

As a result of the acquisition of Las Americas Premium Outlets on August 23, 2007, we consolidated its $180.0 million fixed-rate mortgage that matures June 11, 2016 and bears a rate of 5.84%.

***United States Portfolio Data***

The Portfolio data discussed in this overview includes the following key operating statistics: occupancy, average base rent per square foot, and comparable sales per square foot for our three domestic platforms. We include acquired Properties in this data beginning in the year of acquisition and remove properties sold in the year disposed. We do not include any Properties located outside of the United States. The following table sets forth these key operating statistics for:

Properties that are consolidated in our consolidated financial statements,

Properties we account for under the equity method of accounting as joint ventures, and

the foregoing two categories of Properties on a total Portfolio basis.

***Domestic Property Data:***

| | *September 30, 2007* | *%/basis point Change(1)* | *September 30, 2006* | *%/basis point Change(1)* |
|---|---|---|---|---|
| **Regional Malls:** | | | | |
| ***Occupancy*** | | | | |
| Consolidated | **93.0%** | **+60 bps** | 92.4% | -20 bps |
| Unconsolidated | **92.2%** | **-60 bps** | 92.8% | +20 bps |
| **Total Portfolio** | **92.7%** | **+20 bps** | 92.5% | -10 bps |
| ***Average Base Rent per Square Foot*** | | | | |
| Consolidated | **$35.99** | **3.6%** | $34.74 | 2.8% |
| Unconsolidated | **$38.71** | **7.2%** | $36.11 | 2.4% |
| **Total Portfolio** | **$36.92** | **4.8%** | $35.23 | 2.7% |
| ***Comparable Sales Per Square Foot*** | | | | |
| Consolidated | **$473** | **2.8%** | $460 | 7.5% |
| Unconsolidated | **$530** | **6.0%** | $500 | 5.0% |
| **Total Portfolio** | **$491** | **3.8%** | $474 | 6.5% |
| **Premium Outlet Centers:** | | | | |
| Occupancy | **99.6%** | **+30 bps** | 99.3% | -30 bps |
| Average base rent per square foot | **$25.45** | **5.8%** | $24.05 | 4.6% |
| Comparable sales per square foot | **$499** | **8.0%** | $462 | 6.0% |
| **The Mills®: (2)** | | | | |
| Occupancy | **94.1%** | | | |
| Comparable sales per square foot | **$373** | | | |
| Average base rent per square foot | **$18.82** | | | |
| **Mills Regional Malls:** | | | | |
| Occupancy | **88.5%** | | | |
| Comparable sales per square foot | **$451** | | | |
| Average base rent per square foot | **$35.10** | | | |
| **Community/Lifestyle Centers:** | | | | |
| ***Occupancy*** | | | | |
| Consolidated | **91.0%** | **+290 bps** | 88.1% | -140 bps |
| Unconsolidated | **96.5%** | **-10 bps** | 96.6% | +110 bps |
| **Total Portfolio** | **92.8%** | **+210 bps** | 90.7% | -60 bps |
| ***Average Base Rent per Square Foot*** | | | | |
| Consolidated | **$12.33** | **3.1%** | $11.96 | 3.3% |
| Unconsolidated | **$11.78** | **5.9%** | $11.12 | 6.0% |
| **Total Portfolio** | **$12.15** | **3.9%** | $11.69 | 4.1% |

(1) Percentages may not recalculate due to rounding. Percentages and basis point changes are representative of the change from the comparable prior period.

(2) No comparable data available for The Mills properties or Mills regional mall properties.

***Occupancy Levels and Average Base Rent Per Square Foot.*** Occupancy and average base rent are based on mall and freestanding Gross Leaseable Area ("GLA") owned by us ("Owned GLA") in the regional malls, all tenants at the Premium Outlet centers, all tenants in the properties acquired from Mills, and all tenants at community/lifestyle centers. Our Portfolio has maintained stable occupancy and increased average base rents.

***Comparable Sales Per Square Foot.*** Comparable sales include total reported retail tenant sales at Owned GLA (for mall and freestanding stores with less than 10,000 square feet) in the regional malls and all reporting tenants at the Premium Outlet centers. Retail sales at Owned GLA affect revenue and profitability levels because sales determine the amount of minimum rent that can be charged, the percentage rent realized, and the recoverable expenses (common area maintenance, real estate taxes, etc.) that tenants can afford to pay.

***International Property Data***

The following key operating statistics are provided for our international properties, which are accounted for using the equity method of accounting.

| | *September 30, 2007* | *%/basis point Change* | *September 30, 2006* | *%/basis point Change* |
|---|---|---|---|---|
| **European Shopping Centers:** | | | | |
| Occupancy | **98.9%** | **+200bps** | 96.9% | -80bps |
| Comparable sales per square foot | **€ 411** | **6.5%** | € 386 | -0.4% |
| Average base rent per square foot | **€28.81** | **9.7%** | €26.26 | 1.0% |
| **International Premium Outlets (1)** | | | | |
| Occupancy | **100.0%** | | 100.0% | |
| Comparable sales per square foot | **¥91,791** | **2.3%** | ¥89,746 | 5.6% |
| Average base rent per square foot | **¥ 4,576** | **-2.3%** | ¥ 4,686 | 3.9% |

(1) Does not include our centers in Mexico (Premium Outlets Punta Norte) and South Korea (Yeoju Premium Outlets).

**Results of Operations**

In addition to the activity discussed above and in the Results Overview, the following acquisitions, Property openings, and other activity affected our consolidated results from continuing operations in the comparative periods:

On August 23, 2007, we acquired Las Americas Premium Outlets, a 560,000 square foot upscale outlet center located in San Diego, California, for $283.5 million, including the assumption of $180.0 million in existing debt on the property.

On March 9, 2007, we opened The Domain, in Austin, Texas, which combines 700,000 square feet of luxury fashion and restaurant space, 75,000 square feet of Class A office space and 390 apartments. The Domain is anchored by Macy's and central Texas' first Neiman Marcus.

On March 1, 2007, we acquired the remaining 40% interest in University Park Mall and University Center. We had previously consolidated these properties, but now have no provision for minority interest in our consolidated income from continuing operations since March 1, 2007.

On March 29, 2007, we acquired an additional 25% interest in two regional malls (Town Center at Cobb and Gwinnett Place) in the Mills acquisition and now consolidate those Properties. Our income from continuing operations now reflects the 25% minority partner's interest in those Properties' operations.

On December 1, 2006, we opened Shops at Arbor Walk, a 230,841 square foot community center located in Austin, Texas.

On November 2, 2006, we opened Rio Grande Valley Premium Outlets, a 404,000 square foot upscale outlet center in Mercedes, Texas, 20 miles east of McAllen, Texas, and 10 miles from the Mexico border.

On November 2, 2006, we received $102.2 million resulting from the sale of a regional mall which resulted in the recognition of an $86.5 million gain.

On November 1, 2006, we acquired the remaining 50% interest in Mall of Georgia from our partner for $252.6 million, including the assumption of $96.0 million of debt.

On August 4, 2006, we opened Round Rock Premium Outlets, a 432,000 square foot Premium Outlet center located 20 minutes North of Austin, Texas in Round Rock, Texas.

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In addition to the activity discussed in the Results Overview, the following acquisitions, dispositions, and openings affected our income from unconsolidated entities in the comparative periods:

On September 27, 2007, Gallerie Commerciali Italia ("GCI") opened Cinisello, located in Milan, Italy.

On July 26, 2007, GCI opened Porta di Roma, a 1.3 million square foot shopping center in Rome, Italy.

On July 5, 2007, Simon Ivanhoe S.à.r.l. ("Simon Ivanhoe") sold its interest in the assets located in Poland, for which we recorded our share of the gain of $90.2 million.

On July 5, 2007, we opened the 195,000 square foot first phase of Kobe-Sanda Premium Outlets, located just north of downtown Kobe, Japan.

On June 1, 2007, we opened Yeoju Premium Outlets, a 250,000 square foot center in South Korea.

On November 10, 2006, we opened Coconut Point, in Bonita Springs, Florida, a 1.2 million square foot, open-air shopping center complex with village, lakefront and community center areas.

On October 26, 2006, we opened the 200,000 square foot expansion of a shopping center in Wasquehal, France.

On October 14, 2006, we opened a 53,000 square foot expansion of Toki Premium Outlets.

On September 28, 2006, we opened Gliwice Shopping Center, a 380,000 square foot shopping center in Gliwice, Poland.

On May 31, 2006, GCI opened Giugliano, an 800,000 square foot center anchored by a hypermarket, in Italy.

For the purposes of the following comparison between the nine months ended September 30, 2007, and 2006, the above transactions are referred to as the "Property Transactions". In the following discussions of our results of operations, "comparable" refers to Properties open and operating throughout the periods in both 2007 and 2006.

We sold the following properties in 2007 and 2006 on the indicated date. Due to the limited significance of these properties on our financial statements, we did not report these properties as discontinued operations.

| ***Property*** | ***Date of Disposition*** |
|---|---|
| Alton Square | August 2, 2007 |
| Griffith Park Plaza | September 20, 2007 |
| University Mall | September 28, 2007 |
| Boardman Plaza | September 28, 2007 |
| Wabash Village | July 27, 2006 |
| Trolley Square | August 3, 2006 |
| Northland Plaza | December 22, 2006 |

***Three Months Ended September 30, 2007 vs. Three Months Ended September 30, 2006***

Minimum rents, excluding rents from our consolidated Simon Brand and Simon Business initiatives, increased $35.5 million during the period, of which the Property Transactions accounted for $24.6 million of the increase. Total amortization of the fair market value of in-place leases served to decrease minimum rents by $2.6 million over that of the third quarter of 2006 due to certain in-place lease adjustments becoming fully amortized. Comparable rents, excluding rents from Simon Brand and Simon Business, increased $10.8 million, or 2.2%. This was primarily due to the leasing of space at higher rents that resulted in an increase in minimum rents of $16.1 million, offset by a $5.3 million decrease in comparable property straight-line rents and fair market value of in-place leases amortization.

Overage rents increased $5.1 million or 23.3%, reflecting increases in tenants' sales.

Tenant reimbursements, excluding Simon Business initiatives, increased $27.9 million, of which the Property Transactions accounted for $12.2 million. The remaining $15.7 million, or 6.9%, was in Comparable Properties and was due to inflationary increases in property operating costs and our ongoing initiative of converting our leases to a fixed reimbursement for common area maintenance costs.

Management fees and other income increased $14.2 million principally as a result of additional management fees derived from the additional properties being managed from the Mills acquisition and additional leasing and development fees as a result of incremental Property activity.

Total other income, excluding Simon Brand and Simon Business initiatives, increased $2.5 million, and was principally the result of the following:

- a $8.5 million increase in interest income due primarily to interest income for the period as a result of Mills-related loans, net of inter-entity eliminations, combined with increased rates on short term investment of excess cash,
- a $2.6 million increase in loan financing fees related to Mills-related loans,
- a $2.5 million increase in lease settlement income,
- a $6.0 million decrease in gains on land sale activity, and
- A $5.0 million net decrease related to activity from 2006 that included the sale of a holding in a technology venture by Chelsea, and the sale of air rights at Las Vegas Outlet Center.

Revenues from Simon Brand and Simon Business initiatives increased $3.2 million to $33.7 million from $30.5 million. The increase in revenues was primarily due to increased event and sponsorship income.

Property operating expenses increased $3.5 million, a $2.7 million increase from the effect of the Property Transactions.

Depreciation and amortization expense increased $13.3 million and is primarily a result of the Property Transactions.

Real estate taxes increased $4.5 million from the prior period and was due to the effect of increased assessments and growth of the Portfolio, including the Property Transactions.

Repairs and maintenance increased $2.4 million due to greater snow removal costs in 2007, inflationary increases and new property openings.

Advertising expense increased $4.5 million primarily due to increased local print and outdoor advertising.

Provision for credit losses increased $2.7 million as a result of significant recoveries we received in the comparable period of 2006 which did not recur in 2007.

Interest expense increased $32.0 million due principally to the impact of the issuances of unsecured notes in 2006, and the costs of borrowings used to fund the Mills acquisition. Also impacting interest expense was the consolidation of Town Center at Cobb, Gwinnett Place, and Mall of Georgia as a result of our acquisition of additional ownership interests.

Income tax expense of taxable REIT subsidiaries decreased $1.9 million due to a reduction in the taxable income for the management company as a result of structural changes made to our wholly-owned captive insurance entities.

Income from unconsolidated entities decreased $17.4 million from the third quarter of 2006 as a result of the inclusion of the Mills properties. On a net income basis, our share of income from SPG-FCM approximated a net loss of $9.0 million due to additional depreciation and amortization expenses on asset basis step ups in purchase accounting approximating $20 million for the 2007 quarter.

Gain on sales of assets and interests in unconsolidated entities increased $72.7 million over the prior period as a result of Simon Ivanhoe selling its interest in the assets located in Poland, for which we recorded our share of the gain of $90.2 million, offset by the net effect of the sale of four non-core U.S. properties.

Preferred dividends decreased $4.1 million because we redeemed our Series F preferred stock in the fourth quarter of 2006.

***Nine months Ended September 30, 2007 vs. Nine months Ended September 30, 2006***

Minimum rents, excluding rents from our consolidated Simon Brand and Simon Business initiatives, increased $91.4 million during the period, of which the Property Transactions accounted for $61.9 million of the increase. Total amortization of the fair market value of in-place leases served to decrease minimum rents by $6.8 million over that of the first nine months of 2006 due to certain in-place lease adjustments

becoming fully amortized. Comparable rents, excluding rents from Simon Brand and Simon Business, increased $29.5 million, or 2.1%. This was primarily due to the leasing of space at higher rents that resulted in an increase in minimum rents of $36.8 million offset by a $7.3 million

decrease in comparable property straight-line rents and fair market value of in-place leases amortization. In addition, rents from carts, kiosks, and other temporary tenants increased comparable rents by $0.3 million.

Overage rents increased $10.3 million or 19.3%, reflecting the increases in tenants' sales.

Tenant reimbursements, excluding Simon Business initiatives, increased $47.0 million, of which the Property Transactions accounted for $27.5 million. The remainder of the increase of $19.5 million, or 2.9%, was in comparable Properties and was due to inflationary increases in property operating costs and our ongoing initiative of converting our leases to a fixed reimbursement for common area maintenance costs.

Management fees and other income increased $13.0 million principally as a result of additional management fees derived from the additional properties being managed from the Mills acquisition and additional leasing and development fees as a result of incremental Property activity.

Total other income, excluding Simon Brand and Simon Business initiatives, increased $41.1 million, and was principally the result of the following:

- a $40.4 million increase in interest income due to $32.7 million in net interest income for the period as a result of Mills-related loans, combined with increased interest rates and excess cash from our December 2006 senior notes offering,
- a $15.3 million increase in lease settlement income as a result of settlements received from two department anchor stores in 2007 as compared to our 2006 lease settlement income from certain non-anchor tenants,
- $12.4 million in loan financing fees related to Mills-related loans,
- a $19.3 million decrease in gains on land sale activity, and
- a $7.7 million decrease in other net activity during the comparable period of 2006 on comparable Properties related primarily to the sale of a technology venture held by Chelsea and the sale of air rights at a property in Texas and in Nevada.

Revenues from Simon Brand and Simon Business initiatives increased $7.3 million to $95.9 million from $88.6 million. The increase in revenues is primarily due to increased event and sponsorship income.

Property operating expenses increased $11.7 million, a $11.2 million increase from the effect of the Property Transactions.

Depreciation and amortization expense increased $38.3 million and is primarily a result of the Property Transactions.

Real estate taxes increased $10.5 million from the prior period due principally to increases in expenses at our comparable properties of $3.0 million due to the effect of increased assessments. During the nine month comparable period of 2006, we realized a net impact of $6.6 million in refunds received at various properties. The Property Transactions also added to the aggregate expenses for the nine month period of 2007 which serves to somewhat offset the effect of the prior year refunds.

Repairs and maintenance increased $9.4 million due to increased snow removal costs in 2007 than that of 2006, inflationary increases and the effect of the Property Transactions.

Advertising and promotion increased $5.8 million primarily due to the Property Transactions.

Other expenses increased $2.2 million primarily due to increased state and local taxes at the Comparable Properties.

Interest expense increased $93.2 million due principally to the following:

- the additional borrowings to fund the Mills-related loans,
- the impact of increases in our average borrowing rates for our variable rate debt; and

the impact of increased fixed rate debt of $1.6 billion, which are generally at higher rates than our variable rate debt, due to the issuances of fixed-rate unsecured notes in May, August, and December of 2006.

Also impacting interest expense was the consolidation of Town Center at Cobb, Gwinnett Place, and Mall of Georgia as a result of our acquisition of additional ownership interests.

Income tax expense of taxable REIT subsidiaries decreased $6.0 million due to a reduction in the taxable income for the management company as a result of structural changes made to our wholly-owned captive insurance entities.

Income from unconsolidated entities decreased $38.0 million, due in part to the prior year recognition of $15.3 million for the receipt of a beneficial interest in a regional mall entity, which represents the majority of the decrease in our income from unconsolidated entities, net in the consolidated financial statements. This beneficial interest was terminated in November 2006. Also contributing to the decrease is the impact of the Mills transaction (net of eliminations). On a net income basis, our share of income from SPG-FCM approximates a net loss of $19.1 million due to additional depreciation and amortization expenses on asset basis step-ups in purchase accounting approximating $48 million for the second and third quarter of 2007.

Gain on sales of assets and interests in unconsolidated entities increased $31.3 million over the prior period as a result of Simon Ivanhoe selling its interest in the assets located in Poland, for which we recorded our share of the gain of $90.2 million, offset by the net effect of the sale of four non-core U.S. properties. In 2006 we recorded a $34.4 million gain on the sale of 10.5% of our interests in Simon Ivanhoe, a $7.6 million gain on the sale Great Northeast Plaza, a $7.3 million gain on the sale of Trolley Square, and a $2.0 million gain on the sale of Wabash Village.

Preferred distributions of the Operating Partnership decreased $4.4 million due to the effect of the conversion of preferred units to common units or shares.

Preferred dividends decreased $12.4 million because we redeemed our Series F preferred stock in the fourth quarter of 2006.

**Liquidity and Capital Resources**

Because we generate revenues primarily from long-term leases, our financing strategy relies primarily on long-term fixed rate debt. We manage our floating rate debt to be at or below 15-25% of total outstanding indebtedness by setting interest rates for each financing or refinancing based on current market conditions. Because of attractive fixed-rate debt opportunities in the past three years, floating rate debt currently comprises only approximately 14% of our total consolidated debt. Most of our floating rate debt relates to borrowings made from our Credit Facility to consummate the Mills acquisition. We also enter into interest rate protection agreements as appropriate to assist in managing our interest rate risk. We derive most of our liquidity from leases that generate positive net cash flow from operations and distributions of capital from unconsolidated entities that totaled $1.2 billion during the first nine months of 2007. In addition, our Credit Facility provides an alternative source of liquidity as our cash needs vary from time to time.

Our balance of cash and cash equivalents decreased $539.4 million during 2007 to $390.0 million as of September 30, 2007, as we utilized funds that were raised in the December 2006 issuance of unsecured notes for the Mills acquisition. The September 30, 2007, and December 31, 2006, balances include $26.5 million and $27.2 million, respectively, related to our co-branded gift card programs, which we do not consider available for general working capital purposes.

On September 30, 2007, our Credit Facility had available borrowing capacity of approximately $1.5 billion. During the first nine months of 2007, the maximum amount outstanding under the Credit Facility was $2.0 billion and the weighted average amount outstanding was $1.2 billion. The weighted average interest rate was 5.34% for the period ended September 30, 2007.

We and the Operating Partnership also have access to public equity and long term unsecured debt markets and access to private equity from institutional investors at the Property level.

**Acquisition of The Mills Corporation by SPG-FCM**

On February 16, 2007, SPG-FCM entered into a definitive merger agreement to acquire all of the outstanding common stock of Mills for $25.25 per common share in cash. The acquisition was completed through a cash tender offer and a subsequent merger transaction which concluded on April 3, 2007. As of September 30, 2007, we and Farallon had each funded $650.0 million into SPG-FCM to acquire all of the common stock of Mills. As part of the transaction, the Operating Partnership also made loans to SPG-FCM and Mills that bear interest primarily at rates of

LIBOR plus 270-275 basis points. These funds were used by SPG-FCM and Mills to repay loans and other obligations of Mills, including the redemption of preferred stock, during the period. Aggregate activity of these loans to SPG-FCM and Mills during the current quarterly period increased the aggregate principal balance of those loans to approximately $769.6 million as of September 30, 2007. During the first nine months of 2007 we recorded approximately $32.7 million, respectively, in interest income (net of inter-entity eliminations). We also recorded fee income, including fee income amortization related to up-front fees on loans made to SPG-FCM and Mills, during the first nine months of 2007 of approximately $12.4 million, respectively (net of inter-entity eliminations), for providing refinancing services to Mills' properties and SPG-FCM.

As a result of the change in control of Mills, holders of Mills' Series F convertible cumulative redeemable preferred stock had the right to require the repurchase of their shares for cash equal to the liquidation preference per share plus accrued and unpaid dividends. During the second quarter of 2007, all of the holders of Mills' Series F preferred stock exercised this right, and Mills redeemed this series of preferred stock for approximately $333.2 million, including accrued dividends. Further, as of August 1, 2007, The Mills Corporation was liquidated and the holders of the remaining series' of Mills preferred stock were paid approximately $693.0 million, including accrued dividends.

During the third quarter of 2007, the holders of less than 5,000 common units in the Mills' operating partnership ("Mills Units") received $25.25 in cash, and those holding 5,000 or more Mills Units had the option to exchange for cash of $25.25, or Units of the Operating Partnership based on a fixed exchange ratio of 0.211 Operating Partnership Units for Mills Unit. That option expired on August 1, 2007. Holders electing to exchange received 66,036 Units in the Operating Partnership for their Mills Units. The remaining Mills Units were exchanged for cash.

Effective July 1, 2007, we or an affiliate of ours began serving as the manager for substantially all of the additional 38 properties in which SPG-FCM holds an interest. In conjunction with the Mills acquisition, we acquired a controlling interest in two properties in which we previously held a 50% ownership interest (Town Center at Cobb and Gwinnett Place) and as a result we have consolidated these two properties at the date of acquisition.

SPG-FCM has completed its preliminary purchase price allocations for the acquisition of Mills. The valuations were developed with the assistance of a third-party professional appraisal firm. The acquisition involved the assumption of $954.9 million of preferred stock, a proportionate share of property-level mortgage debt, SPG-FCM's share of which approximated $4.0 billion, and certain liabilities and contingencies and an ongoing investigation of The Mills Corporation by the Securities and Exchange Commission. The preliminary allocations will be finalized within one year of the acquisition date in accordance with applicable accounting standards.

**Cash Flows**

Our net cash flow from operating activities and distributions of capital from unconsolidated entities for the nine months ended September 30, 2007, totaled $1.2 billion. In addition, we had net proceeds from all of our debt financing and repayment activities in this period of $1.5 billion. These activities are further discussed below in Financing and Debt. We also:

- repurchased limited partner Units and common stock amounting to $81.4 million,
- paid stockholder dividends and unitholder distributions of $708.0 million,
- paid preferred stock dividends and preferred unit distributions totaling $59.2 million,
- funded consolidated capital expenditures of $688.8 million (these capital expenditures include development costs of $317.0 million, renovation and expansion costs of $232.6 million, and tenant costs and other operational capital expenditures of $139.2 million), and
- funded investments in unconsolidated entities of $662.3 million.

In general, we anticipate that cash generated from operations will be sufficient to meet operating expenses, monthly debt service, recurring capital expenditures, and distributions to stockholders necessary to maintain our REIT qualification for 2007 and on a long-term basis. In addition, we expect to be able to obtain capital for nonrecurring capital expenditures, such as acquisitions, major building renovations and expansions, as well as for scheduled principal maturities on outstanding indebtedness, from:

- excess cash generated from operating performance and working capital reserves,
- borrowings on our Credit Facility,

additional secured or unsecured debt financing, or

additional equity raised in the public or private markets.

**Financing and Debt**

**Unsecured Debt**

***Credit Facility.*** Significant draws on the Credit Facility during the nine months ended September 30, 2007, were as follows (in thousands):

| Draw Date | Draw Amount | Use of Credit Line Proceeds |
|---|---|---|
| February 16, 2007 | $ 600,000 | Borrowing to partially fund a $1.187 billion loan to Mills. |
| March 29, 2007 | 550,000 | Borrowing to fund our equity commitment for the Mills acquisition and to fund a loan to SPG-FCM. |
| April 17, 2007 | 140,000 | Borrowing to fund a loan to SPG-FCM. |
| June 28, 2007 | 181,000 | Borrowing to fund a loan to SPG-FCM. |
| July 31, 2007 | 557,000 | Borrowing to fund a loan to SPG-FCM. |
| August 23, 2007 | 105,000 | Borrowing to fund Las Americas Premium Outlets acquisition. |
| September 20, 2007 | 180,000 | Borrowing to fund repayment of the SPG Medium Term Notes. |

Other amounts drawn on the Credit Facility were primarily for general working capital purposes. We repaid a total of $2.3 billion on the Credit Facility during the nine months ended September 30, 2007, with our share of proceeds we received from SPG-FCM due to the refinancing of selected Mills properties and the establishment of a Mills senior term loan facility. The total outstanding balance on the Credit Facility as of September 30, 2007, was $1.5 billion, and the maximum amount outstanding during the nine months ended September 30, 2007, was approximately $2.0 billion. During the first nine months of 2007, the weighted average outstanding balance on the Credit Facility was approximately $1.2 billion.

On October 4, 2007, we implemented the $500 million accordion feature in our Credit Facility, increasing the revolving borrowing capacity from $3.0 billion to $3.5 billion. The expanded capacity includes a larger $875 million multi-currency tranche for Euro, Yen and Sterling borrowings.

**Secured Debt**

Total secured indebtedness was $5.3 billion and $4.4 billion at September 30, 2007, and December 31, 2006, respectively. During the nine months ended September 30, 2007, we repaid $191.3 million in mortgage loans, unencumbering four properties.

As a result of the Mills acquisition, we now hold a controlling ownership interest in Gwinnett Place and Town Center at Cobb, and as a result these Properties were consolidated as of the acquisition date. This included the consolidation of two mortgages secured by Gwinnett Place of $35.6 million and $79.2 million at fixed rates of 7.54% and 7.25%, respectively, and two mortgages secured by Town Center at Cobb of $45.4 million and $60.3 million at fixed rates of 7.54% and 7.25%, respectively. On May 23, 2007, we refinanced Gwinnett Place and Town Center at Cobb with $115.0 million and $280.0 million mortgages at fixed rates of 5.68% and 5.74%, respectively.

Independence Center financed a $200.0 million mortgage on July 10, 2007. The mortgage matures on July 10, 2017, and is fixed at a rate of 5.94%.

As a result of the acquisition of Las Americas Premium Outlets on August 23, 2007, we consolidated its $180.0 million 5.84%. fixed rate mortgage, which matures June 11, 2016.

***Summary of Financing***

Our consolidated debt, adjusted to reflect outstanding derivative instruments, and the effective weighted average interest rates as of September 30, 2007, and December 31, 2006, consisted of the following (dollars in thousands):

| **Debt Subject to** | ***Adjusted Balance as of September 30, 2007*** | ***Effective Weighted Average Interest Rate*** | ***Adjusted Balance as of December 31, 2006*** | ***Effective Weighted Average Interest Rate*** |
|---|---|---|---|---|
| **Fixed Rate** | **$ 14,951,388** | **5.92%** | $ 14,548,226 | 6.02% |
| **Variable Rate** | **2,315,063** | **5.49%** | 846,263 | 5.01% |
| | **$ 17,266,451** | **5.86%** | $ 15,394,489 | 5.97% |

As of September 30, 2007, we had interest rate cap protection agreements on approximately $94 million of consolidated variable rate debt. We also hold $370.0 million of notional amount variable rate swap agreements that have a weighted average variable pay rate of 5.69% and a weighted average fixed receive rate of 3.72%. As of September 30, 2007, the net effect of these agreements effectively converted $370.0 million of fixed rate debt to variable rate debt.

***Contractual Obligations and Off-Balance Sheet Arrangements.*** There have been no material changes in our outstanding capital expenditure commitments since December 31, 2006, as previously disclosed in our 2006 Annual Report on Form 10-K. The following table summarizes the material aspects of our future obligations as of September 30, 2007, for the remainder of 2007 and subsequent years thereafter (dollars in thousands):

| | ***2007*** | ***2008-2009*** | ***2010-2012*** | ***After 2012*** | ***Total*** |
|---|---|---|---|---|---|
| **Long Term Debt** | | | | | |
| Consolidated (1) | $ 891,285 | $ 2,507,967 | $ 7,961,020 | $ 5,865,001 | $ 17,225,273 |
| **Pro rata share of Long-Term Debt:** | | | | | |
| Consolidated (2) | $ 890,587 | $ 2,494,364 | $ 7,808,340 | $ 5,740,533 | $ 16,933,824 |
| Joint Ventures (2) | 74,620 | 1,126,663 | 2,521,338 | 2,679,516 | 6,402,137 |
| **Total Pro Rata Share of Long-Term Debt** | $ 965,207 | $ 3,621,027 | $ 10,329,678 | $ 8,420,049 | $ 23,335,961 |

(1) Represents principal maturities and therefore, excludes net premiums and discounts and fair value swaps of $41,178.

(2) Represents our pro rata share of principal maturities and excludes net premiums and discounts.

Our off-balance sheet arrangements consist primarily of our investments in real estate joint ventures which are common in the real estate industry and are described in Note 5 of the notes to the accompanying financial statements. Joint venture debt is the liability of the joint venture, is typically secured by the joint venture Property, and is non-recourse to us. As of September 30, 2007, we have loan guarantees and other guarantee obligations of $128.4 million and $30.0 million, respectively, to support our total $6.4 billion share of joint venture mortgage and other indebtedness presented in the table above.

**Acquisitions and Dispositions**

Buy-sell provisions are common in real estate partnership agreements. Most of our partners are institutional investors who have a history of direct investment in retail real estate. Our partners in our joint venture properties may initiate these provisions at any time. If we determine it is in our stockholders' best interests for us to purchase the joint venture interest and we believe we have adequate liquidity to execute the purchase without hindering our cash flows or liquidity, then we may initiate these provisions or elect to buy. If we decide to sell any of our joint venture interests, we expect to use the net proceeds to reduce outstanding indebtedness or to reinvest in development, redevelopment, or expansion opportunities.

***Acquisitions.*** The acquisition of high quality individual properties or portfolios of properties remain an integral component of our growth strategies.

On August 23, 2007, we acquired Las Americas Premium Outlets, a 560,000 square foot upscale outlet center located at the San Diego Tijuana border in Southern California for $283.5million, including the assumption of a $180.0 million existing mortgage on the property.

On March 29, 2007, as part of the Mills acquisition, we acquired an additional 25% interest in two regional malls (Town Center at Cobb and Gwinnett Place), and as a result we now consolidate those properties.

On March 28, 2007, we acquired The Maine Outlet, a 112,000 square foot outlet center located in Kittery, Maine for a purchase price of $45.2 million. The center is 99% occupied and will be combined with our existing Kittery Premium Outlet Property.

On March 1, 2007, we acquired the remaining 40% interest in both University Park Mall and University Center located in Mishawaka, IN for a purchase price of $50.7 million. As a result we now own 100% of these Properties.

***Dispositions.*** We continue to pursue the sale of Properties that no longer meet our strategic criteria or that are not the primary retail venue within their trade area. During the first nine months of 2007, we disposed of the following wholly-owned Properties: Alton Square a regional mall located in Alton, Illinois; Griffith Park Plaza, a community center located in Griffith, Indiana; University Mall, a regional mall located in Little Rock, Arkansas; and Boardman Plaza, a community center located in Youngstown, Ohio. Our joint venture partnership, Simon Ivanhoe, sold its interest in five assets located in Poland, of which we held a 50% interest. As part of the sale, we received a distribution of proceeds from Simon Ivanhoe of $125.4 million.

In addition to the distribution from Simon Ivanhoe, we received net proceeds of $38.7 million on the U.S. property dispositions. We recorded our share of the gain on these disposals of $82.7 million and presented it in the consolidated statement operations as gain on sale of assets and interests in unconsolidated entities, net. We do not believe the sale of these properties will have a material impact on our future results of operations or cash flows. We believe the disposition of these properties will enhance the average overall quality of our Portfolio.

**Development Activity**

***New U.S. Developments.*** The following describes certain of our new development projects, the estimated total cost, and our share of the estimated total cost and our share of the construction in progress balance as of September 30, 2007 (dollars in millions):

| *Property* | *Location* | *Gross Leasable Area* | *Estimated Total Cost (a)* | *Our Share of Estimated Total Cost* | *Our Share of Construction in Progress* | *Estimated Opening Date* |
|---|---|---|---|---|---|---|
| **Under Construction:** | | | | | | |
| Hamilton Town Center | Noblesville, IN | 950,000 | $ 118 | $ 59 | $ 17 | 2nd Quarter 2008 |
| Houston Premium Outlets | Houston, TX | 433,000 | 96 | 96 | 60 | 1st Quarter 2008 |
| Jersey Shore Premium Outlets | Tinton Falls, NJ | 435,000 | 157 | 157 | 39 | 4th Quarter 2008 |
| Palms Crossing | McAllen, TX | 396,000 | 65 | 65 | 46 | 4th Quarter 2007 |
| Philadelphia Premium Outlets | Limerick, PA | 425,000 | 119 | 119 | 108 | 4th Quarter 2007 |
| Pier Park | Panama City Beach, FL | 920,000 | 140 | 140 | 75 | 1st Quarter 2008 |

(a) Represents the project costs net of land sales, tenant reimbursements for construction and other items (where applicable).

We expect to fund these projects with available cash flow from operations, borrowings from our Credit Facility, or project specific construction loans. We expect our share of total 2007 new development costs remaining for the year to be approximately $225 million.

***Strategic Expansions and Renovations.*** In addition to new development, we also incur costs related to construction for significant renovation and/or expansion projects at our properties. Included in these projects are the renovation and addition of Crate & Barrel and Nordstrom at Burlington Mall; Nordstrom at Northshore Mall, Ross Park Mall, and Aventura Mall; expansions and life-style additions at Castleton Square, Greenwood Park Mall, Lehigh Valley Mall, Tacoma Mall, Town Center at Boca Raton, and University Park Mall; a Neiman Marcus expansion at Lenox Square; Phase II expansions at Las Vegas Premium Outlets, Orlando Premium Outlets, Rio Grande Valley

Premium Outlets, and St. Johns Town Center; and the acquisition and renovation of several anchor stores, previously operated by Federated Department Stores.

We expect to fund these capital projects with available cash flow from operations or borrowings from the Credit Facility. We have other renovation and/or expansion projects currently under construction or in preconstruction development and expect to invest a total of approximately $200 million (our share) on expansion and renovation activities for the remainder of 2007.

***International.*** We typically reinvest net cash flow from our international investments to fund future international development activity. We believe this strategy mitigates some of the risk of our initial investment and our exposure to changes in foreign currencies. We have also funded our European investments with Euro-denominated borrowings that act as a natural hedge against local currency fluctuations. This has also been the case with our Premium Outlet joint ventures in Japan and Mexico where we use Yen and Peso denominated financing. We expect our share of international development for 2007 to approximate $200 million.

Currently, our net income exposure to changes in the volatility of the Euro, Yen, Peso and other foreign currencies is not material. In addition, since cash flows from operations are currently being reinvested in other development projects, we do not expect to repatriate foreign denominated earnings in the near term, except for our share of the proceeds from the sale of five properties owned by Simon Ivanhoe described below.

The carrying amount of our total combined investment in Simon Ivanhoe and GCI as of September 30, 2007, net of the related cumulative translation adjustment, was $309.8 million. Our investments in Simon Ivanhoe and GCI are accounted for using the equity method of accounting. Currently, two European developments are under construction, which will add approximately 1.8 million square feet of GLA for a total net cost of approximately €386.6 million, of which our share is approximately €123.8 million, or $176.7 million based on Euro:USD exchange rates. Additionally, on July 5, 2007, Simon Ivanhoe sold its interest in five of the assets located in Poland, for which we recorded our share of the gain of $90.2 million.

As of September 30, 2007, the carrying amount of our 40% joint venture investment in the six Japanese Premium Outlet centers, net of the related cumulative translation adjustment, was $275.1 million. Currently, two properties in Japan are undergoing expansion projects which will add approximately 148,000 square feet of GLA for a total net cost of approximately ¥8.9 billion, of which our share is approximately ¥3.6 billion, or $28.9 million based on Yen:USD exchange rates.

During 2006, we finalized the formation of joint venture arrangements to develop and operate shopping centers in China. We will own a 32.5% interest in a joint venture entity, Great Mall Investments, Ltd. ("GMI"). The shopping centers will be anchored by Wal-Mart stores We are initially developing five centers in China, all of which are under construction, as of September 30, 2007. Our total equity commitment for these centers approximates $58.1 million and as of September 30, 2007 our combined investment in GMI is approximately $30.8 million.

**Distributions and Stock Repurchase Program**

We paid a common stock dividend of $0.84 per share in the third quarter of 2007. We are required to pay a minimum level of dividends to maintain our status as a REIT. Our dividends and limited partner distributions typically exceed our net income generated in any given year primarily because of depreciation, which is a "non-cash" expense. Future dividends and distributions of the Operating Partnership will be determined by the Board based on actual results of operations, cash available for dividends and limited partner distributions, and what may be required to maintain our status as a REIT.

On July 26, 2007, the our Board of Directors authorized us to repurchase up to $1.0 billion of our common stock over the next twenty-four months as market conditions warrant. We may repurchase the shares in the open market or in privately negotiated transactions. During the third quarter of 2007, we repurchased 572,000 shares at an average price of $86.11 per share as part of this program. The program has remaining availability of approximately $950.7 million.

**Non-GAAP Financial Measure Funds from Operations**

Industry practice is to evaluate real estate properties in part based on funds from operations ("FFO"). We consider FFO to be a key measure of our operating performance that is not specifically defined by accounting

principles generally accepted in the United States ("GAAP"). We believe that FFO is helpful to investors because it is a widely recognized measure of the performance of REITs and provides a relevant basis for comparison among REITs. We also use FFO to internally measure the operating performance of our Portfolio.

As defined by the National Association of Real Estate Investment Trusts ("NAREIT"), FFO is consolidated net income computed in accordance with GAAP:

- excluding real estate related depreciation and amortization,
- excluding gains and losses from extraordinary items and cumulative effects of accounting changes,
- excluding gains and losses from the sales of real estate,
- plus the allocable portion of FFO of unconsolidated entities accounted for under the equity method of accounting, based upon economic ownership interest, and
- all determined on a consistent basis in accordance with GAAP.

We have adopted NAREIT's clarification of the definition of FFO that requires us to include the effects of nonrecurring items not classified as extraordinary, cumulative effect of accounting change or resulting from the sale or disposal of depreciable real estate. However, you should understand that our computation of FFO might not be comparable to FFO reported by other REITs and that FFO:

- does not represent cash flow from operations as defined by GAAP,
- should not be considered as an alternative to net income determined in accordance with GAAP as a measure of operating performance, and
- is not an alternative to cash flows as a measure of liquidity.

The following schedule sets forth total FFO before allocation to the limited partners of the Operating Partnership and FFO allocable to Simon Property. This schedule also reconciles consolidated net income, which we believe is the most directly comparable GAAP financial measure, to FFO for the periods presented.

| | *For the three months ended September 30,* | | *For the nine months ended September 30,* | |
|---|---|---|---|---|
| | ***2007*** | ***2006*** | ***2007*** | ***2006*** |
| (in thousands) | | | | |
| **Funds from Operations** | **$ 418,710** | $ 369,506 | **$ 1,184,144** | $ 1,086,803 |
| **Increase in FFO from prior period** | **13.3%** | 9.4% | **9.0%** | 9.5% |
| **Reconciliation:** | | | | |
| **Net Income** | **$ 179,227** | $ 112,995 | **$ 366,234** | $ 336,848 |
| Limited partners' interest in the Operating Partnership and preferred distributions of the Operating Partnership | **48,279** | 31,844 | **100,441** | 95,076 |
| Limited partners' interest in discontinued operations | **(6)** | 11 | **(44)** | 23 |
| Depreciation and amortization from consolidated properties, beneficial interests, and discontinued operations | **220,984** | 209,023 | **660,325** | 633,013 |
| Simon's share of depreciation and amortization from unconsolidated entities | **74,397** | 52,477 | **205,697** | 155,555 |
| Gain on disposal or sale of discontinued operations, net and loss on sales of interests in unconsolidated entities | **(82,197)** | (9,457) | **(82,697)** | (51,472) |
| Minority interest portion of depreciation and amortization | **(2,302)** | (2,091) | **(6,595)** | (6,222) |
| Preferred distributions and dividends | **(19,672)** | (25,296) | **(59,217)** | (76,018) |
| **Funds from Operations** | **$ 418,710** | $ 369,506 | **$ 1,184,144** | $ 1,086,803 |
| FFO Allocable to Simon Property | **$ 332,392** | $ 292,351 | **$ 939,481** | $ 859,425 |
| **Diluted net income per share to diluted FFO per share reconciliation:** | | | | |
| **Diluted net income per share** | **$ 0.74** | $ 0.43 | **$ 1.45** | $ 1.27 |
| Depreciation and amortization from consolidated Properties and beneficial interests, and our share of depreciation and amortization from unconsolidated affiliates, net of minority interest portion of depreciation and amortization | **1.04** | 0.92 | **3.05** | 2.80 |
| Gain on sales of other assets, and real estate and discontinued operations | **(0.29)** | (0.03) | **(0.29)** | (0.18) |
| Impact of additional dilutive securities for FFO per share | **(0.03)** | (0.02) | **(0.07)** | (0.07) |
| **Diluted FFO per share** | **$ 1.46** | $ 1.30 | **$ 4.14** | $ 3.82 |

## Item 3. Qualitative and Quantitative Disclosure About Market Risk

***Sensitivity Analysis.*** We disclosed a comprehensive qualitative and quantitative analysis regarding market risk in the Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2006 Annual Report on Form 10-K. There have been no material changes in the assumptions used or results obtained regarding market risk since December 31, 2006.

## Item 4. Controls and Procedures

***Evaluation of Disclosure Controls and Procedures.*** We carried out an evaluation under the supervision and with participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2007.

***Changes in Internal Control Over Financial Reporting.*** There have not been any changes in our internal control over financial reporting (as defined in Rule 13a-15(f)) that occurred during the quarter ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Part II Other Information**

**Item 1. Legal Proceedings**

There have been no material developments with respect to the pending litigation disclosed in our 2006 Annual Report on Form 10-K.

We are involved in various other legal proceedings that arise in the ordinary course of our business. We believe that such routine litigation, claims and administrative proceedings will not have a material adverse impact on our financial position or our results of operations. We record a liability when a loss is considered probable and the amount can be reasonably estimated.

**Item 1A. Risk Factors**

Through the period covered by this report, there were no significant changes to the Risk Factors disclosed in "Part I, Item 1: Business" of our 2006 Annual Report on Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

There were no unregistered sales of our equity securities during the quarter ended September 30, 2007.

**Issuer Purchases of Equity Securities**

There following table summarizes repurchases of common stock settled during the three month period ended September 30, 2007:

| *Period* | *Total Number of Shares Purchased* | *Average Price Paid per Share* | *Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)* | *Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs* |
|---|---|---|---|---|
| July 1 July 31, 2007 | | | | $ 1,000,000,000 |
| August 1 August 31, 2007 | 572,000 | $ 86.11 | 572,000 | 950,747,821 |
| September 1 September 30, 2007 | | | | 950,747,821 |
| Total | 572,000 | $ 86.11 | 572,000 | $ 950,747,821 |

(1) On July 26, 2007, the our Board of Directors authorized us to repurchase up to $1.0 billion of our common stock over the next twenty-four months as market conditions warrant. We may repurchase the shares in the open market or in privately negotiated transactions.

**Item 5. Other Information**

During the quarter covered by this report, the Audit Committee of Simon Property's Board of Directors approved Ernst & Young, LLP, the Company's independent registered public accounting firm, to perform certain international tax compliance services. This disclosure is made pursuant to Section 10A(i)(2) of the Securities Exchange Act of 1934, as added by Section 202 of the Sarbanes-Oxley Act of 2002.

**Item 6. Exhibits**

| Exhibit Number | Exhibit Descriptions |
|---|---|
| 3.2 | Amended and Restated By-Laws (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed October 26, 2007). |
| 31.1 | Certification by the Chief Executive Officer pursuant to rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification by the Chief Financial Officer pursuant to rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 | Certification by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**SIMON PROPERTY GROUP, INC.**

/s/ STEPHEN E. STERRETT

Stephen E. Sterrett
Executive Vice President and Chief Financial Officer

Date: November 2, 2007

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