

THE GERALD FOGELSON FORUM ON REAL ESTATE

The following article is based on comments delivered by David Simon, Chief Executive Officer of Simon Property Group, at the April 19, 2007 Gerald Fogelson Forum on Real Estate presented by the Chicago School of Real Estate at Roosevelt University.

Simon's broad portfolio of retail developments delivers for shareholders

By David Simon
Chief Executive Officer
Simon Property Group

As the largest publicly-traded real estate firm in the nation, Simon Property Group has 324 properties including 82 regional shopping malls, 12 Premium Outlet Centers and 14 Mills properties generating \$60 billion in annual retail sales. We also have 53 European centers in France, Italy and Poland, outlet centers in Japan and Mexico, and new projects underway in the U.S., China, Italy, Japan and South Korea.

With a total market capitalization and debt equity of \$56 billion, we're an S&P 500 company and investment grade rated by Moody's Investor Service, the highest rating in the mall industry and Moody's. Our reputation since going public in 1993 is generating strong shareholder returns for shareholders while increasing the quality and scale of opportunities, but always with an eye on our balance sheet.

Much of our portfolio is retail-based, where there is a strong focus on building repeat relationships with retailers. It's rare in the office business to have the same owner in Chicago and Seattle, but in retail, it is very common. That's why you see the same companies in our mall sector.

We don't like to think of ourselves simply as a mall company. We've been pioneers in the creation of the "mall as marketing medium" approach. The larger and more diverse portfolio you have in major metropolitan markets, the better you can act on opportunities to drive earnings. For example, we launched a private label Visa-branded gift card and sold \$515 million of them last year.

We're also alone among our peers in having five retail platforms: traditional regional malls; premium outlets; international business; community lifestyle centers, which essentially are strip malls; and the Mills, a new venture that's basically a value-oriented entertainment center. We believe our muscular presence in the other retail arenas will drive the success of the Mills.

Here's a look at how we view some of these platforms and how they work for us.

Premium outlet business. Retailers rarely admit it, but one of the most profitable businesses, from a four-wall store contribution, is the premium outlet. The returns on development are in the 15% range, compared to 8% to 10% at a typical mall today. We own several properties like this, which are great additions to our platform and have solidified our relationship with our retailers. We're duplicating this success all over the world including Japan, where we have five wildly successful premium outlets with a sixth to open soon.

Lifestyle centers. We're spending \$5 billion on redevelopment of existing malls with a major focus on adding lifestyle centers. These "daily need" open air malls offer a wide range of retailers in convenient locations. We're adding this component to malls with Neiman Marcus, Saks Fifth Avenue and Bloomingdale's stores.

The lifestyle centers are most reflective of what makes our company unique. Over the past 12 months, we've opened two centers including a significant development in Bonita Springs, Fla., which has department stores, Target, restaurants, office space, condominiums and apartments in an outdoor setting.

International business. We can export our know-how, which spans 46 years and includes a variety of products in different geographical areas, but we continue to be selective in our international presence because we think the capital rate compression will continue. We believe value creation will continue through the spread between developing and selling. Working with a number of different international partners, we have several projects going forward including the development of hypermarket-anchored centers in continental Europe. Our project in Warsaw is probably the best new center ever built in Europe and we have some large American-style malls opening in Milan, Naples and Rome.

Mills. We weren't active in acquisitions from 2004 to today, so we refocused on our development and redevelopment pipeline until our recent Mills transaction. Look at Gurnee Mills in suburban Chicago, which was a big piece of real estate serving a big market but part of an under-managed company with a lot of financial issues. What we saw was a unique set of assets that we could buy at a decent price, reposition and add value through our leasing development management expertise. It's a bit of a workout, but with our track record and our position in the industry, I'm confident we'll make this a very successful transaction for our shareholders.

Success is about partnering with the right people and bringing to bear our expertise, whether it is in the outlet sector or the mall sector or the hypermarket anchored centers in China. Demand is always percolating. We're learning the marketplaces through these developments, but we continue to see value creation in the returns we get for our shareholders versus what these projects cost.