

SIMON PROPERTY GROUP INC /DE/  
Form 10-Q  
May 03, 2018  
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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 March 31, 2018

SIMON PROPERTY GROUP, INC.

SIMON PROPERTY GROUP, L.P.

(Exact name of registrant as specified in its charter)

Delaware	001 14469	04 6268599
(Simon Property Group, Inc.)	(Simon Property Group, Inc.)	(Simon Property Group, Inc.)
Delaware	001-36110	34-1755769
(Simon Property Group, L.P.)	(Simon Property Group, L.P.)	(Simon Property Group, L.P.)
(State of incorporation or organization)	(Commission File No.)	(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.

Simon Property Group, Inc.    Yes    No    Simon Property Group, L.P.    Yes    No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Simon Property Group, Inc.    Yes    No    Simon Property Group, L.P.    Yes    No

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Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act (check one):

Simon Property Group, Inc.:

Large accelerated filer	Accelerated filer	Non accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
			Emerging growth company

Simon Property Group, L.P.:

Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
			Emerging growth company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Simon Property Group, Inc.

Simon Property Group, L.P.

Indicate by check mark whether Registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Simon Property Group, Inc.	Yes	No	Simon Property Group, L.P.	Yes	No
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As of March 31, 2018, Simon Property Group, Inc. had 309,689,894 shares of common stock, par value \$0.0001 per share, and 8,000 shares of Class B common stock, par value \$0.0001 per share, outstanding. Simon Property Group, L.P. has no common stock outstanding.

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarterly period ended March 31, 2018 of Simon Property Group, Inc., a Delaware corporation, and Simon Property Group, L.P., a Delaware limited partnership. Unless stated otherwise or the context otherwise requires, references to “Simon” mean Simon Property Group, Inc. and references to the “Operating Partnership” mean Simon Property Group, L.P. References to “we,” “us” and “our” mean collectively Simon, the Operating Partnership and those entities/subsidiaries owned or controlled by Simon and/or the Operating Partnership.

Simon is a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code. We are structured as an umbrella partnership REIT under which substantially all of our business is conducted through the Operating Partnership, Simon’s majority owned partnership subsidiary, for which Simon is the general partner. As of March 31, 2018, Simon owned an approximate 86.9% ownership interest in the Operating Partnership, with the remaining 13.1% ownership interest owned by limited partners. As the sole general partner of the Operating Partnership, Simon has exclusive control of the Operating Partnership’s day to day management.

We operate Simon and the Operating Partnership as one business. The management of Simon consists of the same members as the management of the Operating Partnership. As general partner with control of the Operating Partnership, Simon consolidates the Operating Partnership for financial reporting purposes, and Simon has no material assets or liabilities other than its investment in the Operating Partnership. Therefore, the assets and liabilities of Simon and the Operating Partnership are the same on their respective financial statements.

We believe that combining the quarterly reports on Form 10-Q of Simon and the Operating Partnership into this single report provides the following benefits:

- enhances investors’ understanding of Simon and the Operating Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- eliminates duplicative disclosure and provides a more streamlined presentation since substantially all of the disclosure in this report applies to both Simon and the Operating Partnership; and
- creates time and cost efficiencies through the preparation of one combined report instead of two separate reports.

We believe it is important for investors to understand the few differences between Simon and the Operating Partnership in the context of how we operate as a consolidated company. The primary difference is that Simon itself does not conduct business, other than acting as the general partner of the Operating Partnership and issuing equity or equity related instruments from time to time. In addition, Simon itself does not incur any indebtedness, as all debt is incurred by the Operating Partnership or entities/subsidiaries owned or controlled by the Operating Partnership.

The Operating Partnership holds, directly or indirectly, substantially all of our assets, including our ownership interests in our joint ventures. The Operating Partnership conducts substantially all of our business and is structured as a partnership with no publicly traded equity. Except for the net proceeds from equity issuances by Simon, which are contributed to the capital of the Operating Partnership in exchange for, in the case of common stock issuances by Simon, common units of partnership interest in the Operating Partnership, or units, or, in the case of preferred stock issuances by Simon, preferred units of partnership interest in the Operating Partnership, or preferred units, the Operating Partnership, directly or indirectly, generates the capital required by our business through its operations, the incurrence of indebtedness, proceeds received from the disposition of certain properties and joint ventures and the issuance of units or preferred units to third parties.

The presentation of stockholders’ equity, partners’ equity and noncontrolling interests are the main areas of difference between the consolidated financial statements of Simon and those of the Operating Partnership. The differences between stockholders’ equity and partners’ equity result from differences in the equity issued at the Simon and

Operating Partnership levels. The units held by limited partners in the Operating Partnership are accounted for as partners' equity in the Operating Partnership's financial statements and as noncontrolling interests in Simon's financial statements. The noncontrolling interests in the Operating Partnership's financial statements include the interests of unaffiliated partners in various consolidated partnerships. The noncontrolling interests in Simon's financial statements include the same noncontrolling interests at the Operating Partnership level and, as previously stated, the units held by limited partners of the Operating Partnership. Although classified differently, total equity of Simon and the Operating Partnership is the same.

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To help investors understand the differences between Simon and the Operating Partnership, this report provides:

- separate consolidated financial statements for Simon and the Operating Partnership;
- a single set of condensed notes to such consolidated financial statements that includes separate discussions of noncontrolling interests and stockholders' equity or partners' equity, accumulated other comprehensive income (loss) and per share and per unit data, as applicable;
- a combined Management's Discussion and Analysis of Financial Condition and Results of Operations section that also includes discrete information related to each entity; and
- separate Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds sections related to each entity.

This report also includes separate Part I, Item 4. Controls and Procedures sections and separate Exhibits 31 and 32 certifications for each of Simon and the Operating Partnership in order to establish that the requisite certifications have been made and that Simon and the Operating Partnership are each compliant with Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 and 18 U.S.C. §1350. The separate discussions of Simon and the Operating Partnership in this report should be read in conjunction with each other to understand our results on a consolidated basis and how management operates our business.

In order to highlight the differences between Simon and the Operating Partnership, the separate sections in this report for Simon and the Operating Partnership specifically refer to Simon and the Operating Partnership. In the sections that combine disclosure of Simon and the Operating Partnership, this report refers to actions or holdings of Simon and the Operating Partnership as being "our" actions or holdings. Although the Operating Partnership is generally the entity that directly or indirectly enters into contracts and joint ventures, holds assets and incurs debt, we believe that references to "we," "us" or "our" in this context is appropriate because the business is one enterprise and we operate substantially all of our business through the Operating Partnership.

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Simon Property Group, Inc.

Simon Property Group, L.P.

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Simon Property Group, Inc.

Unaudited Consolidated Balance Sheets

(Dollars in thousands, except share amounts)

	March 31, 2018	December 31, 2017
<b>ASSETS:</b>		
Investment properties, at cost	\$ 36,383,699	\$ 36,393,464
Less - accumulated depreciation	12,074,719	11,935,949
	24,308,980	24,457,515
Cash and cash equivalents	367,207	1,482,309
Tenant receivables and accrued revenue, net	686,158	742,672
Investment in unconsolidated entities, at equity	2,268,956	2,266,483
Investment in Klépierre, at equity	2,011,919	1,934,676
Deferred costs and other assets	1,374,640	1,373,983
Total assets	\$ 31,017,860	\$ 32,257,638
<b>LIABILITIES:</b>		
Mortgages and unsecured indebtedness	\$ 23,647,623	\$ 24,632,463
Accounts payable, accrued expenses, intangibles, and deferred revenues	1,180,851	1,269,190
Cash distributions and losses in unconsolidated entities, at equity	1,421,879	1,406,378
Other liabilities	532,491	520,363
Total liabilities	26,782,844	27,828,394
Commitments and contingencies		
Limited partners' preferred interest in the Operating Partnership and noncontrolling redeemable interests in properties	201,680	190,480
<b>EQUITY:</b>		
Stockholders' Equity		
Capital stock (850,000,000 total shares authorized, \$0.0001 par value, 238,000,000 shares of excess common stock, 100,000,000 authorized shares of preferred stock):		
Series J 83/8% cumulative redeemable preferred stock, 1,000,000 shares authorized, 796,948 issued and outstanding with a liquidation value of \$39,847	42,994	43,077
Common stock, \$0.0001 par value, 511,990,000 shares authorized, 320,328,774 and 320,322,774 issued and outstanding, respectively	32	32
Class B common stock, \$0.0001 par value, 10,000 shares authorized, 8,000 issued and outstanding	—	—
Capital in excess of par value	9,647,272	9,614,748
Accumulated deficit	(4,774,442)	(4,782,173)
Accumulated other comprehensive loss	(102,747)	(110,453)
Common stock held in treasury, at cost, 10,638,880 and 9,163,920 shares, respectively	(1,307,203)	(1,079,063)
Total stockholders' equity	3,505,906	3,686,168
Noncontrolling interests	527,430	552,596
Total equity	4,033,336	4,238,764
Total liabilities and equity	\$ 31,017,860	\$ 32,257,638

The accompanying notes are an integral part of these statements.

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Simon Property Group, Inc.

Unaudited Consolidated Statements of Operations and Comprehensive Income

(Dollars in thousands, except per share amounts)

	For the Three Months Ended March 31,	
	2018	2017
REVENUE:		
Minimum rent	\$ 860,172	\$ 846,798
Overage rent	32,990	28,204
Tenant reimbursements	380,363	378,915
Management fees and other revenues	28,181	30,547
Other income	98,108	61,299
Total revenue	1,399,814	1,345,763
EXPENSES:		
Property operating	113,448	104,048
Depreciation and amortization	316,936	310,832
Real estate taxes	114,187	106,659
Repairs and maintenance	27,684	25,601
Advertising and promotion	34,800	35,948
Provision for credit losses	5,632	5,210
Home and regional office costs	41,064	42,979
General and administrative	12,628	14,001
Other	31,502	23,814
Total operating expenses	697,881	669,092
OPERATING INCOME	701,933	676,671
Interest expense	(205,492)	(198,202)
Income and other tax (expense) benefit	(6,220)	3,521
Income from unconsolidated entities	90,026	69,085
Gain upon acquisition of controlling interests, sale or disposal of assets and interests in unconsolidated entities and impairment, net	135,277	—
CONSOLIDATED NET INCOME	715,524	551,075
Net income attributable to noncontrolling interests	94,036	72,505
Preferred dividends	834	834
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 620,654	\$ 477,736
BASIC AND DILUTED EARNINGS PER COMMON SHARE:		
Net income attributable to common stockholders	\$ 2.00	\$ 1.53
Consolidated Net Income	\$ 715,524	\$ 551,075
Unrealized loss on derivative hedge agreements	(6,146)	(1,253)
Net loss reclassified from accumulated other comprehensive loss into earnings	2,153	2,620
Currency translation adjustments	13,092	13,148
Changes in available-for-sale securities and other	(289)	689
Comprehensive income	724,334	566,279
Comprehensive income attributable to noncontrolling interests	95,140	74,425
Comprehensive income attributable to common stockholders	\$ 629,194	\$ 491,854

The accompanying notes are an integral part of these statements.

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Simon Property Group, Inc.

Unaudited Consolidated Statements of Cash Flows

(Dollars in thousands)

	For the Three Months Ended March 31,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Consolidated Net Income	\$ 715,524	\$ 551,075
Adjustments to reconcile consolidated net income to net cash provided by operating activities —		
Depreciation and amortization	334,672	335,749
Gain upon acquisition of controlling interests, sale or disposal of assets and interests in unconsolidated entities and impairment, net	(135,277)	—
Unrealized change in fair value of equity instruments	3,029	—
Straight-line rent	(6,276)	(8,109)
Equity in income of unconsolidated entities	(90,026)	(69,085)
Distributions of income from unconsolidated entities	77,870	70,994
Changes in assets and liabilities —		
Tenant receivables and accrued revenue, net	71,858	54,036
Deferred costs and other assets	(62,839)	(42,099)
Accounts payable, accrued expenses, intangibles, deferred revenues and other liabilities	(65,058)	(106,868)
Net cash provided by operating activities	843,477	785,693
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Funding of loans to related parties	(1,833)	(18,963)
Capital expenditures, net	(172,756)	(148,595)
Investments in unconsolidated entities	(10,859)	(58,928)
Purchase of marketable and non-marketable securities	(7,542)	(4,174)
Distributions of capital from unconsolidated entities and other	69,316	55,398
Net cash used in investing activities	(123,674)	(175,262)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from sales of common stock and other, net of transaction costs	(82)	(82)
Purchase of shares related to stock grant recipients' tax withholdings	(276)	(285)
Redemption of limited partner units	(6,267)	—
Purchase of treasury stock	(227,901)	(151,690)
Distributions to noncontrolling interest holders in properties	(8,376)	(3,029)
Contributions from noncontrolling interest holders in properties	24	172
Preferred distributions of the Operating Partnership	(479)	(479)
Distributions to stockholders and preferred dividends	(606,086)	(548,521)
Distributions to limited partners	(91,523)	(82,906)
Proceeds from issuance of debt, net of transaction costs	1,756,056	1,868,455
Repayments of debt	(2,649,995)	(1,738,725)
Net cash used in financing activities	(1,834,905)	(657,090)
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,115,102)</b>	<b>(46,659)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>1,482,309</b>	<b>560,059</b>

CASH AND CASH EQUIVALENTS, end of period	\$ 367,207	\$ 513,400
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The accompanying notes are an integral part of these statements.

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Simon Property Group, L.P.

Unaudited Consolidated Balance Sheets

(Dollars in thousands, except unit amounts)

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<b>LIABILITIES:</b>		
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Cash distributions and losses in unconsolidated entities, at equity	1,421,879	1,406,378
Other liabilities	532,491	520,363
Total liabilities	26,782,844	27,828,394
Commitments and contingencies		
Preferred units, various series, at liquidation value, and noncontrolling redeemable interests in properties	201,680	190,480
<b>EQUITY:</b>		
Partners' Equity		
Preferred units, 796,948 units outstanding. Liquidation value of \$39,847	42,994	43,077
General Partner, 309,697,894 and 311,166,854 units outstanding, respectively	3,462,912	3,643,091
Limited Partners, 46,829,844 and 46,879,625 units outstanding, respectively	523,630	548,858
Total partners' equity	4,029,536	4,235,026
Nonredeemable noncontrolling interests in properties, net	3,800	3,738
Total equity	4,033,336	4,238,764
Total liabilities and equity	\$ 31,017,860	\$ 32,257,638

The accompanying notes are an integral part of these statements.

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Simon Property Group, L.P.