

SIMON PROPERTY GROUP INC /DE/
Form 10-Q
May 03, 2017
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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, 2017

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	(Commission File No.)	(I.R.S. Employer
or organization)		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, 2017, Simon Property Group, Inc. had 312,194,210 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, 2017 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, 2017, Simon owned an approximate 86.8% ownership interest in the Operating Partnership, with the remaining 13.2% 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 reference 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, 2017	December 31, 2016
ASSETS:		
Investment properties, at cost	\$ 35,309,727	\$ 35,226,089
Less - accumulated depreciation	11,079,988	10,865,754
	24,229,739	24,360,335
Cash and cash equivalents	513,400	560,059
Tenant receivables and accrued revenue, net	621,600	664,619
Investment in unconsolidated entities, at equity	2,374,693	2,367,583
Investment in Klépierre, at equity	1,821,994	1,797,394
Deferred costs and other assets	1,384,667	1,353,588
Total assets	\$ 30,946,093	\$ 31,103,578
LIABILITIES:		
Mortgages and unsecured indebtedness	\$ 23,149,053	\$ 22,977,104
Accounts payable, accrued expenses, intangibles, and deferred revenues	1,081,185	1,214,022
Cash distributions and losses in partnerships and joint ventures, at equity	1,360,077	1,359,738
Other liabilities	459,926	455,040
Total liabilities	26,050,241	26,005,904
Commitments and contingencies		
Limited partners' preferred interest in the Operating Partnership and noncontrolling redeemable interests in properties	166,847	137,762
EQUITY:		
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	43,323	43,405
Common stock, \$0.0001 par value, 511,990,000 shares authorized, 319,823,256 and 319,823,322 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	9,558,328	9,523,086
Accumulated deficit	(4,559,037)	(4,459,387)
Accumulated other comprehensive loss	(100,843)	(114,126)
Common stock held in treasury, at cost, 7,629,046 and 6,756,748 shares, respectively	(834,536)	(682,562)
Total stockholders' equity	4,107,267	4,310,448
Noncontrolling interests	621,738	649,464
Total equity	4,729,005	4,959,912
Total liabilities and equity	\$ 30,946,093	\$ 31,103,578

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,	
	2017	2016
REVENUE:		
Minimum rent	\$ 846,798	\$ 818,536
Overage rent	28,204	28,916
Tenant reimbursements	378,915	371,613
Management fees and other revenues	30,547	33,400
Other income	61,299	84,250
Total revenue	1,345,763	1,336,715
EXPENSES:		
Property operating	104,048	103,060
Depreciation and amortization	310,832	300,614
Real estate taxes	106,659	109,423
Repairs and maintenance	25,601	26,065
Advertising and promotion	35,948	35,038
Provision for credit losses	5,210	3,664
Home and regional office costs	42,979	38,607
General and administrative	14,001	14,864
Other	23,814	20,479
Total operating expenses	669,092	651,814
OPERATING INCOME	676,671	684,901
Interest expense	(198,202)	(219,190)
Income and other tax benefit (expense)	3,521	(15,186)
Income from unconsolidated entities	69,085	90,626
Gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net	—	22,688
CONSOLIDATED NET INCOME	551,075	563,839
Net income attributable to noncontrolling interests	72,505	82,010
Preferred dividends	834	834
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 477,736	\$ 480,995
BASIC AND DILUTED EARNINGS PER COMMON SHARE:		
Net income attributable to common stockholders	\$ 1.53	\$ 1.55
Consolidated Net Income	\$ 551,075	\$ 563,839
Unrealized loss on derivative hedge agreements	(1,253)	(14,775)
Net loss reclassified from accumulated other comprehensive loss into earnings	2,620	139,339
Currency translation adjustments	13,148	20,933
Changes in available-for-sale securities and other	689	11,891
Comprehensive income	566,279	721,227
Comprehensive income attributable to noncontrolling interests	74,425	104,427
Comprehensive income attributable to common stockholders	\$ 491,854	\$ 616,800

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,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated Net Income	\$ 551,075	\$ 563,839
Adjustments to reconcile consolidated net income to net cash provided by operating activities —		
Depreciation and amortization	335,749	317,799
Gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net	—	(22,688)
Straight-line rent	(8,109)	(12,276)
Equity in income of unconsolidated entities	(69,085)	(90,626)
Distributions of income from unconsolidated entities	70,994	61,170
Changes in assets and liabilities —		
Tenant receivables and accrued revenue, net	54,036	73,323
Deferred costs and other assets	(42,099)	(73,316)
Accounts payable, accrued expenses, intangibles, deferred revenues and other liabilities	(106,868)	(96,767)
Net cash provided by operating activities	785,693	720,458
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions	—	(38,347)
Funding of loans to related parties	(18,963)	—
Repayments of loans to related parties	—	8,207
Capital expenditures, net	(148,595)	(189,032)
Cash impact from the consolidation of properties	—	38,980
Net proceeds from sale of assets	—	27,393
Investments in unconsolidated entities	(58,928)	(104,547)
Purchase of marketable and non-marketable securities	(4,174)	(3,799)
Distributions of capital from unconsolidated entities and other	55,398	65,888
Net cash used in investing activities	(175,262)	(195,257)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sales of common stock and other, net of transaction costs	(82)	(82)
Purchase of shares related to stock grant recipients' tax withholdings	(285)	(870)
Purchase of treasury stock and limited partner units	(151,690)	—
Distributions to noncontrolling interest holders in properties	(3,029)	(2,773)
Contributions from noncontrolling interest holders in properties	172	—
Preferred distributions of the Operating Partnership	(479)	(479)
Distributions to stockholders and preferred dividends	(548,521)	(496,735)
Distributions to limited partners	(82,906)	(83,074)
Proceeds from issuance of debt, net of transaction costs	1,868,455	3,592,168
Repayments of debt	(1,738,725)	(3,429,414)
Net cash used in financing activities	(657,090)	(421,259)

(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(46,659)	103,942
CASH AND CASH EQUIVALENTS, beginning of period	560,059	701,134
CASH AND CASH EQUIVALENTS, end of period	\$ 513,400	\$ 805,076

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)

	March 31, 2017	December 31, 2016
ASSETS:		
Investment properties, at cost	\$ 35,309,727	\$ 35,226,089
Less — accumulated depreciation	11,079,988	10,865,754
	24,229,739	24,360,335
Cash and cash equivalents	513,400	560,059
Tenant receivables and accrued revenue, net	621,600	664,619
Investment in unconsolidated entities, at equity	2,374,693	2,367,583
Investment in Klépierre, at equity	1,821,994	1,797,394
Deferred costs and other assets	1,384,667	1,353,588
Total assets	\$ 30,946,093	\$ 31,103,578
LIABILITIES:		
Mortgages and unsecured indebtedness	\$ 23,149,053	\$ 22,977,104
Accounts payable, accrued expenses, intangibles, and deferred revenues	1,081,185	1,214,022
Cash distributions and losses in partnerships and joint ventures, at equity	1,360,077	1,359,738
Other liabilities	459,926	455,040
Total liabilities	26,050,241	26,005,904
Commitments and contingencies		
Preferred units, various series, at liquidation value, and noncontrolling redeemable interests in properties	166,847	137,762
EQUITY:		
Partners' Equity		
Preferred units, 796,948 units outstanding. Liquidation value of \$39,847	43,323	43,405
General Partner, 312,202,210 and 313,074,574 units outstanding, respectively	4,063,944	4,267,043
Limited Partners, 47,406,454 and 47,276,095 units outstanding, respectively	617,091	644,348
Total partners' equity	4,724,358	4,954,796
Nonredeemable noncontrolling interests in properties, net	4,647	5,116
Total equity	4,729,005	4,959,912
Total liabilities and equity	\$ 30,946,093	\$ 31,103,578

The accompanying notes are an integral part of these statements.

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Simon Property Group, L.P.

Unaudited Consolidated Statements of Operations and Comprehensive Income

(Dollars in thousands, except per unit amounts)

	For the Three Months Ended March 31,	
	2017	2016
REVENUE:		
Minimum rent	\$ 846,798	\$ 818,536
Overage rent	28,204	28,916
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Management fees and other revenues	30,547	33,400
Other income	61,299	84,250
Total revenue	1,345,763	1,336,715
EXPENSES:		
Property operating	104,048	103,060
Depreciation and amortization	310,832	300,614
Real estate taxes	106,659	109,423
Repairs and maintenance	25,601	26,065
Advertising and promotion	35,948	35,038
Provision for credit losses	5,210	3,664
Home and regional office costs	42,979	38,607
General and administrative	14,001	14,864
Other	23,814	20,479
Total operating expenses	669,092	651,814
OPERATING INCOME	676,671	684,901
Interest expense	(198,202)	(219,190)
Income and other tax benefit (expense)	3,521	(15,186)
Income from unconsolidated entities	69,085	90,626
Gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net	—	22,688
CONSOLIDATED NET INCOME	551,075	563,839
Net (loss) income attributable to noncontrolling interests	(244)	729
Preferred unit requirements	1,313	1,313
NET INCOME ATTRIBUTABLE TO UNITHOLDERS	\$ 550,006	\$ 561,797
NET INCOME ATTRIBUTABLE TO UNITHOLDERS ATTRIBUTABLE TO:		
General Partner	\$ 477,736	\$ 480,995
Limited Partners	72,270	80,802
Net income attributable to unitholders	\$ 550,006	\$ 561,797
BASIC AND DILUTED EARNINGS PER UNIT:		
Net income attributable to unitholders	\$ 1.53	\$ 1.55
Consolidated net income	\$ 551,075	\$ 563,839
Unrealized loss on derivative hedge agreements	(1,253)	(14,775)
Net loss reclassified from accumulated other comprehensive loss into earnings	2,620	139,339
Currency translation adjustments	13,148	20,933

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Changes in available-for-sale securities and other	689	11,891
Comprehensive income	566,279	721,227
Comprehensive income attributable to noncontrolling interests	675	729
Comprehensive income attributable to unitholders	\$ 565,604	\$ 720,498

The accompanying notes are an integral part of these statements.

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Simon Property Group, L.P.

Unaudited Consolidated Statements of Cash Flows

(Dollars in thousands)

	For the Three Months Ended March 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated Net Income	\$ 551,075	\$ 563,839
Adjustments to reconcile consolidated net income to net cash provided by operating activities —		
Depreciation and amortization	335,749	317,799
Gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net	—	(22,688)
Straight-line rent	(8,109)	(12,276)
Equity in income of unconsolidated entities	(69,085)	(90,626)
Distributions of income from unconsolidated entities	70,994	61,170
Changes in assets and liabilities —		
Tenant receivables and accrued revenue, net	54,036	73,323
Deferred costs and other assets	(42,099)	(73,316)
Accounts payable, accrued expenses, intangibles, deferred revenues and other liabilities	(106,868)	(96,767)
Net cash provided by operating activities	785,693	720,458
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions	—	(38,347)
Funding of loans to related parties	(18,963)	—
Repayments of loans to related parties	—	8,207
Capital expenditures, net	(148,595)	(189,032)
Cash impact from the consolidation of properties	—	38,980
Net proceeds from sale of assets	—	27,393
Investments in unconsolidated entities	(58,928)	(104,547)
Purchase of marketable and non-marketable securities	(4,174)	(3,799)
Distributions of capital from unconsolidated entities and other	55,398	65,888
Net cash used in investing activities	(175,262)	(195,257)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of units and other	(82)	(82)
Purchase of units related to stock grant recipients' tax withholdings	(285)	(870)
Purchase of limited partner units	(151,690)	—
Distributions to noncontrolling interest holders in properties	(3,029)	(2,773)
Contributions from noncontrolling interest holders in properties	172	—
Partnership distributions	(631,906)	(580,288)
Mortgage and unsecured indebtedness proceeds, net of transaction costs	1,868,455	3,592,168
Mortgage and unsecured indebtedness principal payments	(1,738,725)	(3,429,414)
Net cash used in financing activities	(657,090)	(421,259)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(46,659)	103,942
CASH AND CASH EQUIVALENTS, beginning of period	560,059	701,134

CASH AND CASH EQUIVALENTS, end of period	\$ 513,400	\$ 805,076
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The accompanying notes are an integral part of these statements.

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Simon Property Group, Inc.
Simon Property Group, L.P.
Condensed Notes to Consolidated Financial Statements
(Unaudited)
(Dollars in thousands, except share, per share, unit and per unit amounts
and where indicated in millions or billions)

1. Organization

Simon Property Group, Inc. is a Delaware corporation that operates as a self-administered and self-managed real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code. REITs will generally not be liable for U.S. federal corporate income taxes as long as they distribute not less than 100% of their REIT taxable income. Simon Property Group, L.P. is our majority-owned Delaware partnership subsidiary that owns all of our real estate properties and other assets. In these condensed notes to the consolidated financial statements, 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. Unless otherwise indicated, these condensed notes to consolidated financial statements apply to both Simon and the Operating Partnership. According to the Operating Partnership's partnership agreement, the Operating Partnership is required to pay all expenses of Simon.

We own, develop and manage retail real estate properties, which consist primarily of malls, Premium Outlets®, and The Mills®. As of March 31, 2017, we owned or held an interest in 206 income producing properties in the United States, which consisted of 108 malls, 67 Premium Outlets, 14 Mills, four lifestyle centers, and 13 other retail properties in 37 states and Puerto Rico. Internationally, as of March 31, 2017, we had ownership interests in nine Premium Outlets in Japan, three Premium Outlets in South Korea, two Premium Outlets in Canada, one Premium Outlet in Mexico, and one Premium Outlet in Malaysia. We also own an interest in six Designer Outlet properties in Europe and one Designer Outlet property in Canada, of which four properties are consolidated. Of the six properties in Europe, two are located in Italy and one each is located in Austria, Germany, the Netherlands, and the United Kingdom. As of March 31, 2017, we also owned a 20.5% equity stake in Klépierre SA, or Klépierre, a publicly traded, Paris based real estate company which owns, or has an interest in, shopping centers located in 16 countries in Europe.

2. Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of all controlled subsidiaries, and all significant intercompany amounts have been eliminated. Due to the seasonal nature of certain operational activities, the results for the interim period ended March 31, 2017 are not necessarily indicative of the results to be expected for the full 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 the combined 2016 Annual Report on Form 10-K of Simon and the Operating Partnership.

As of March 31, 2017, we consolidated 134 wholly owned properties and 17 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 78 properties, or the joint venture properties, as well as our investments in Klépierre, Aéropostale, and HBS Global Properties, or HBS, using the equity method of accounting, as we have determined we have significant influence over their operations. We manage the day to day operations of 57 of the 78 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. Our investments in joint ventures in Japan, South Korea, Mexico, Malaysia, Germany, Canada, and the United Kingdom comprise 17 of the remaining 21 properties. These international properties are managed by joint ventures in which we share control.

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Preferred distributions of the Operating Partnership are accrued at declaration and represent distributions on outstanding preferred units of partnership interests, or preferred units, and are included in net income attributable to noncontrolling interests. We allocate net operating results of the Operating Partnership after preferred distributions to limited partners and to Simon based on the partners' respective weighted average ownership interests in the Operating Partnership. Net operating results of the Operating Partnership attributable to limited partners are reflected in net income attributable to noncontrolling interests. Simon's weighted average ownership interest in the Operating Partnership was 86.9% and 85.6% for the three months ended March 31, 2017 and 2016, respectively. As of March 31, 2017 and December 31, 2016, Simon's ownership interest in the Operating Partnership was 86.8% and 86.9%, respectively. We adjust the noncontrolling limited partners' interests at the end of each period to reflect their interest in the net assets of the Operating Partnership.

Preferred unit requirements in the Operating Partnership's accompanying consolidated statements of operations and comprehensive income represent distributions on outstanding preferred units and are recorded when declared.

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 fair value. Cash equivalents generally consist of commercial paper, bankers' acceptances, Eurodollars, repurchase agreements, and money market deposits or securities. Financial instruments that potentially subject us to concentrations of credit risk include our cash and cash equivalents and our trade accounts receivable. We place our cash and cash equivalents with institutions of high credit quality. However, at certain times, such cash and cash equivalents are in excess of Federal Deposit Insurance Corporation and Securities Investor Protection Corporation insurance limits.

Marketable and Non Marketable Securities

Marketable securities consist primarily of the investments of our captive insurance subsidiaries, available for sale securities, our deferred compensation plan investments, and certain investments held to fund the debt service requirements of debt previously secured by investment properties. At March 31, 2017 and December 31, 2016, we had marketable securities of \$161.9 million and \$156.2 million, respectively, generally accounted for as available-for-sale, which are adjusted to their quoted market price with a corresponding adjustment in other comprehensive income (loss). Net unrealized gains recorded in accumulated other comprehensive income (loss) as of March 31, 2017 and December 31, 2016 were approximately \$16.1 million and \$15.4 million, respectively, and represent the valuation adjustments for our marketable securities.

The types of securities included in the investment portfolio of our captive insurance subsidiaries typically include U.S. Treasury or other U.S. government securities as well as corporate debt securities with maturities ranging from less than 1 year to 10 years. These securities are classified as available for sale and are valued based upon quoted market prices or other observable inputs when quoted market prices are not available. The amortized cost of debt securities, which approximates fair value, held by our captive insurance subsidiaries is adjusted for amortization of premiums and accretion of discounts to maturity. Changes in the values of these securities are recognized in accumulated other comprehensive income (loss) until the gain or loss is realized or until any unrealized loss is deemed to be other than temporary. We review any declines in value of these securities for other than temporary impairment and consider the severity and duration of any decline in value. To the extent an other than temporary impairment is deemed to have occurred, an impairment charge is recorded and a new cost basis is established.

Our insurance subsidiaries are required to maintain statutory minimum capital and surplus as well as maintain a minimum liquidity ratio. Therefore, our access to these securities may be limited. Our deferred compensation plan investments are classified as trading securities and are valued based upon quoted market prices. The investments have a

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matching liability as the amounts are fully payable to the employees that earned the compensation. Changes in value of these securities and changes to the matching liability to employees are both recognized in earnings and, as a result, there is no impact to consolidated net income.

At March 31, 2017 and December 31, 2016, we had investments of \$211.0 million and \$210.5 million, respectively, in non marketable securities that we account for under the cost method. We regularly evaluate these investments for any other-than-temporary impairment in their estimated fair value and determined that no material adjustment in the carrying value was required for the three months ended March 31, 2017.

Fair Value Measurements

Level 1 fair value inputs are quoted prices for identical items in active, liquid and visible markets such as stock exchanges. Level 2 fair value inputs are observable information for similar items in active or inactive markets, and appropriately consider counterparty creditworthiness in the valuations. Level 3 fair value inputs reflect our best estimate of inputs and assumptions market participants would use in pricing an asset or liability at the measurement date. The inputs are unobservable in the market and significant to the valuation estimate. We have no investments for which fair value is measured on a recurring basis using Level 3 inputs.

The marketable securities we held at March 31, 2017 and December 31, 2016 were primarily classified as having Level 1 fair value inputs. In addition, we had derivative instruments which were classified as having Level 2 inputs, which consist primarily of foreign currency forward contracts and interest rate swap agreements with a gross asset value of \$42.4 million and \$43.9 million at March 31, 2017 and December 31, 2016, respectively.

Note 6 includes a discussion of the fair value of debt measured using Level 2 inputs. Notes 5 and 9 include discussions of the fair values recorded in purchase accounting using Level 2 and Level 3 inputs. Level 3 inputs to our purchase accounting and impairment analyses include our estimations of net operating results of the property, capitalization rates and discount rates.

Noncontrolling Interests

Simon

Details of the carrying amount of Simon's noncontrolling interests are as follows:

	As of March 31, 2017	As of December 31, 2016
Limited partners' interests in the Operating Partnership	\$ 617,091	\$ 644,348
Nonredeemable noncontrolling interests in properties, net	4,647	5,116

Total noncontrolling interests reflected in equity	\$ 621,738	\$ 649,464
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Net income attributable to noncontrolling interests (which includes nonredeemable and redeemable noncontrolling interests in consolidated properties, limited partners' interests in the Operating Partnership and preferred distributions payable by the Operating Partnership on its outstanding preferred units) is a component of consolidated net income. In addition, the individual components of other comprehensive income (loss) are presented in the aggregate for both controlling and noncontrolling interests, with the portion attributable to noncontrolling interests deducted from comprehensive income attributable to common stockholders.

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A rollforward of nonredeemable noncontrolling interests is as follows:

	For the Three Months Ended Ended March 31,	
	2017	2016
Noncontrolling interests, beginning of period	\$ 649,464	\$ 744,905
Net income attributable to noncontrolling interests after preferred distributions and income attributable to redeemable noncontrolling interests in consolidated properties	72,945	81,459
Distributions to noncontrolling interest holders	(84,221)	(83,728)
Other comprehensive income (loss) allocable to noncontrolling interests:		
Unrealized gain on derivative hedge agreements	(143)	(2,103)
Net loss reclassified from accumulated other comprehensive loss into earnings	345	20,146
Currency translation adjustments	1,618	2,696
Changes in available-for-sale securities and other	101	1,680
	1,921	22,419
Adjustment to limited partners' interest from change in ownership in the Operating Partnership	(33,235)	(5,143)
Units exchanged for common shares	(12)	(16)
Long-term incentive performance units	14,705	12,061
Contributions by noncontrolling interests, net, and other	171	—
Noncontrolling interests, end of period	\$ 621,738	\$ 771,957

The Operating Partnership

Our evaluation of the appropriateness of classifying the Operating Partnership's common units of partnership interest, or units, held by Simon and the Operating Partnership's limited partners within permanent equity considered several significant factors. First, as a limited partnership, all decisions relating to the Operating Partnership's operations and distributions are made by Simon, acting as the Operating Partnership's sole general partner. The decisions of the general partner are made by Simon's Board of Directors or management. The Operating Partnership has no other governance structure. Secondly, the sole asset of Simon is its interest in the Operating Partnership. As a result, a share of common stock of Simon, or common stock, if owned by the Operating Partnership, is best characterized as being similar to a treasury share and thus not an asset of the Operating Partnership.

Limited partners of the Operating Partnership have the right under the Operating Partnership's partnership agreement to exchange their units for shares of common stock or cash, as selected by Simon as the sole general partner. Accordingly, we classify units held by limited partners in permanent equity because Simon may elect to issue shares

of common stock to limited partners exercising their exchange rights rather than using cash. Under the Operating Partnership's partnership agreement, the Operating Partnership is required to redeem units held by Simon only when Simon has repurchased shares of common stock. We classify units held by Simon in permanent equity because the decision to redeem those units would be made by Simon.

Net income attributable to noncontrolling interests (which includes nonredeemable and redeemable noncontrolling interests in consolidated properties) is a component of consolidated net income.

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A rollforward of nonredeemable noncontrolling interests is as follows:

	For the Three Months Ended March 31,	
	2017	2016
Noncontrolling nonredeemable interests in properties, net — beginning of period	\$ 5,116	\$ 3,456
Net income attributable to noncontrolling nonredeemable interests	675	657
Distributions to noncontrolling nonredeemable interestholders	(1,315)	(654)
Contributions by noncontrolling interests, net, and other	171	—
Noncontrolling nonredeemable interests in properties, net — end of period	\$ 4,647	\$ 3,459

Accumulated Other Comprehensive Income (Loss)

Simon

The changes in components of Simon's accumulated other comprehensive income (loss) consisted of the following net of noncontrolling interest as of March 31, 2017:

	Currency translation adjustments	Accumulated derivative gains, net	Net unrealized gains on marketable securities	Total
Beginning balance	\$ (157,864)	\$ 30,374	\$ 13,364	\$ (114,126)
Other comprehensive income (loss) before reclassifications	11,530	(1,110)	588	11,008
Amounts reclassified from accumulated other comprehensive income	—	2,275	—	2,275
Net current-period other comprehensive income	11,530	1,165	588	13,283
Ending balance	\$ (146,334)	\$ 31,539	\$ 13,952	\$ (100,843)

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The reclassifications out of accumulated other comprehensive income (loss) consisted of the following during the three months ended March 31:

	2017	2016	
Details about accumulated other comprehensive income (loss) components:	Amount reclassified from accumulated other comprehensive income (loss)	Amount reclassified from accumulated other comprehensive income (loss)	Affected line item where net income is presented
Currency translation adjustments	\$ —	\$ (136,806)	Gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net
	—	19,779	Net income attributable to noncontrolling interests
	\$ —	\$ (117,027)	
Accumulated derivative gains, net	\$ (2,620)	\$ (2,905)	Interest expense
	—	372	Gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net
	345	366	Net income attributable to noncontrolling interests
	\$ (2,275)	\$ (2,167)	

The Operating Partnership

The changes in accumulated other comprehensive income (loss) by component consisted of the following as of March 31, 2017:

	Currency translation adjustments	Accumulated derivative gains, net	Net unrealized gains on marketable securities	Total
Beginning balance	\$ (181,706)	\$ 34,956	\$ 15,383	\$ (131,367)

Other comprehensive income (loss) before reclassifications	13,148	(1,253)	689	12,584
Amounts reclassified from accumulated other comprehensive income	—	2,620	—	2,620
Net current-period other comprehensive income	13,148	1,367	689	15,204
Ending balance	\$ (168,558)	\$ 36,323	\$ 16,072	\$ (116,163)

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The reclassifications out of accumulated other comprehensive income (loss) consisted of the following during the three months ended March 31:

	2017	2016	
Details about accumulated other comprehensive income (loss) components:	Amount reclassified from accumulated other comprehensive income (loss)	Amount reclassified from accumulated other comprehensive income (loss)	Affected line item where net income is presented
Currency translation adjustments	\$ —	\$ (136,806)	Gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net
	\$ —	\$ (136,806)	
Accumulated derivative gains, net	\$ (2,620)	\$ (2,905)	Interest expense
	—	372	Gain upon acquisition of controlling interests and sale or disposal of assets and interests in unconsolidated entities, net
	\$ (2,620)	\$ (2,533)	

Derivative Financial Instruments

We record all derivatives on our consolidated balance sheets at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have designated a derivative as a hedge and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. We may use a variety of derivative financial instruments in the normal course of business to selectively manage or hedge a portion of the risks associated with our indebtedness and interest payments. Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish this objective, we primarily use interest rate swaps and caps. We require that hedging derivative instruments be highly effective in reducing the risk exposure that they are designated to hedge. As a result, there is no significant ineffectiveness from any of our derivative activities. We formally designate any instrument that meets these hedging criteria as a hedge at the inception of the derivative contract. We have no credit risk related hedging or derivative activities.

As of March 31, 2017 and December 31, 2016, we had the following outstanding interest rate derivative:

Interest Rate Derivative	Number of Instruments	Notional Amount
Interest Rate Swap	1	\$ 250.0 million

The carrying value of our interest rate swap agreement, at fair value, as of both March 31, 2017 and December 31, 2016, was an asset value of \$21.1 million, all of which is included in deferred costs and other assets. We generally do not

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apply hedge accounting to interest rate caps, which had a nominal value as of March 31, 2017 and December 31, 2016, respectively.

We are also exposed to fluctuations in foreign exchange rates on financial instruments which are denominated in foreign currencies, primarily in Japan and Europe. We use currency forward contracts and foreign currency denominated debt to manage our exposure to changes in foreign exchange rates on certain Yen and Euro denominated receivables and net investments. Currency forward contracts involve fixing the Yen:USD or Euro:USD exchange rate for delivery of a specified amount of foreign currency on a specified date. The currency forward contracts are typically cash settled in U.S. dollars for their fair value at or close to their settlement date.

We had the following Euro:USD forward contracts at March 31, 2017 and December 31, 2016 (in millions):

Notional Value		Asset Value as of	
		March 31, 2017	December 31, 2016
€ 50.0	August 11, 2017	\$ 15.1	\$ 15.5
€ 50.0	May 15, 2019	3.6	3.9
€ 50.0	May 15, 2019	1.2	1.5
€ 50.0	May 15, 2020	0.9	1.1
€ 50.0	May 14, 2021	0.4	0.6

Asset balances in the above table are included in deferred costs and other assets. We have designated the above as net investment hedges. Accordingly, we report the changes in fair value in other comprehensive income (loss). Changes in the value of these forward contracts are offset by changes in the underlying hedged Euro-denominated joint venture investment.

The total gross accumulated other comprehensive income related to our derivative activities, including our share of the other comprehensive income from unconsolidated entities, approximated \$36.3 million and \$35.0 million as of March 31, 2017 and December 31, 2016, respectively.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, "Revenue From Contracts With Customers." ASU 2014-09 amends the existing accounting standards for revenue recognition. The new standard provides accounting guidance for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers. The guidance also provides a model for the measurement and recognition of gains and losses on the sale of certain

nonfinancial assets, such as property, including real estate.

Our revenues that will be impacted by this standard primarily include management, development, leasing and financing fee revenues for services performed related to various domestic joint ventures that we manage, licensing fees earned from various international properties, sales of real estate, including land parcels and operating properties, and other ancillary income earned at our properties. In 2016, these revenues were less than 7.0% of consolidated revenue. We expect that the amount and timing of revenue recognition from our management services to joint ventures referenced above and licensing fee arrangements will be generally consistent with our current measurement and pattern of recognition. In addition, we do not actively sell operating properties as part of our core business strategy and, accordingly, the sale of properties does not generally constitute a significant part of our revenue and cash flows. As a result, we do not expect the adoption of this standard to have a significant impact on our consolidated financial statements as a whole.

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We expect to adopt the standard using the modified retrospective approach, which requires a cumulative effect adjustment as of the date of adoption. The new standard is effective for us beginning with the first quarter of 2018.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments — Overall: Recognition and Measurement of Financial Assets and Financial Liabilities," which will require entities to measure their equity investments at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicability exception. The practicability exception will be available for equity investments that do not have readily determinable fair values. The guidance will be effective for us beginning with the first quarter of 2018. We are currently evaluating the impact that the adoption of the new standard will have on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases," which will result in lessees recognizing most leased assets and corresponding lease liabilities on the balance sheet. Lessor accounting will remain substantially similar to the current accounting; however, certain refinements were made to conform the standard with the recently issued revenue recognition guidance in ASU 2014-09, specifically related to the allocation and recognition of contract consideration earned from lease and non-lease revenue components. Leasing costs that are eligible to be capitalized as initial direct costs are also limited by ASU 2016-02.

Substantially all of our revenue and the revenues of our equity method investments are earned from arrangements that are within the scope of ASU 2016-02, thus we anticipate that the timing of recognition and financial statement presentation of certain revenues, particularly those that relate to consideration from non-lease components, including fixed common area maintenance arrangements, may be affected. Upon adoption of ASU 2016-02, consideration related to these non-lease components will be accounted for using the guidance in ASU 2014-09. Further, leases of land and other arrangements where we are the lessee will be recognized on our balance sheet. We will adopt ASU 2016-02 beginning in the first quarter of 2019 using the modified retrospective approach required by the standard. We are currently evaluating the impact that the adoption of the new standard will have on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses," which introduces new guidance for an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. Instruments in scope include loans, held-to-maturity debt securities, and net investments in leases as well as reinsurance and trade receivables. This standard will be effective for us in fiscal years beginning after December 15, 2019. We are currently evaluating the impact that the adoption of the new standard will have on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations: Clarifying the Definition of a Business", which amends guidance that assists preparers in evaluating whether a transaction will be accounted for as an acquisition of an asset or a business, likely resulting in more acquisitions being accounted for as asset acquisitions. There are certain differences in accounting under these models, including the capitalization of transaction expenses and application of a cost accumulation model in an asset acquisition. The standard is effective

for annual periods beginning after December 15, 2018. We adopted this standard early as of January 1, 2017 as permitted under the standard.

In February 2017, the FASB issued ASU 2017-05, “Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets”, which clarifies the scope and application of Accounting Standards Codification 610-20 on the sale or transfer of nonfinancial assets and in substance assets to noncustomers, including partial sales. The standard generally aligns the measurement of a retained interest in a nonfinancial asset with that of a retained interest in a business. It also eliminates the use of carryover basis for contributions of real estate. This standard will be effective for us beginning with the first quarter of 2018. We are currently evaluating the impact that the adoption of the new standard will have on our consolidated financial statements.

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4. Per Share and Per Unit Data

We determine basic earnings per share and basic earnings per unit based on the weighted average number of shares of common stock or units, as applicable, outstanding during the period and we consider any participating securities for purposes of applying the two-class method. We determine diluted earnings per share and diluted earnings per unit based on the weighted average number of shares of common stock or units, as applicable, outstanding combined with the incremental weighted average number of shares or units, as applicable, that would have been outstanding assuming all potentially dilutive securities were converted into shares of common stock or units, as applicable, at the earliest date possible. The following tables set forth the computation of basic and diluted earnings per share and basic and diluted earnings per unit.

Simon

	For the Three Months Ended March 31,	
	2017	2016
Net Income attributable to Common Stockholders — Basic and Diluted	\$ 477,736	\$ 480,995