

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
ASSETS:		
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
LIABILITIES:		
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
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	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
CASH FLOWS FROM OPERATING ACTIVITIES:		
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
CASH FLOWS FROM INVESTING ACTIVITIES:		
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)
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	(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)
DECREASE IN CASH AND CASH EQUIVALENTS	(1,115,102)	(46,659)
CASH AND CASH EQUIVALENTS, beginning of period	1,482,309	560,059

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)

	March 31, 2018	December 31, 2017
ASSETS:		
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
LIABILITIES:		
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		
Preferred units, various series, at liquidation value, and noncontrolling redeemable interests in properties	201,680	190,480
EQUITY:		
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.

Unaudited Consolidated Statements of Operations and Comprehensive Income

(Dollars in thousands, except per unit amounts)

	For the Three Months Ended	
	March 31,	2017
	2018	
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 loss attributable to noncontrolling interests	(92)	(244)
Preferred unit requirements	1,313	1,313
NET INCOME ATTRIBUTABLE TO UNITHOLDERS	\$ 714,303	\$ 550,006
NET INCOME ATTRIBUTABLE TO UNITHOLDERS ATTRIBUTABLE TO:		
General Partner	\$ 620,654	\$ 477,736
Limited Partners	93,649	72,270
Net income attributable to unitholders	\$ 714,303	\$ 550,006
BASIC AND DILUTED EARNINGS PER UNIT:		
Net income attributable to unitholders	\$ 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

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Changes in available-for-sale securities and other	(289)	689
Comprehensive income	724,334	566,279
Comprehensive income attributable to noncontrolling interests	527	675
Comprehensive income attributable to unitholders	\$ 723,807	\$ 565,604

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
	2018	
CASH FLOWS FROM OPERATING ACTIVITIES:		
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
CASH FLOWS FROM INVESTING ACTIVITIES:		
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)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of units and other	(82)	(82)
Purchase of units related to stock grant recipients' tax withholdings	(276)	(285)
Redemption of limited partner units	(6,267)	—
Purchase of general partner units	(227,901)	(151,690)
Distributions to noncontrolling interest holders in properties	(8,376)	(3,029)
Contributions from noncontrolling interest holders in properties	24	172
Partnership distributions	(698,088)	(631,906)
Mortgage and unsecured indebtedness proceeds, net of transaction costs	1,756,056	1,868,455
Mortgage and unsecured indebtedness principal payments	(2,649,995)	(1,738,725)
Net cash used in financing activities	(1,834,905)	(657,090)
DECREASE IN CASH AND CASH EQUIVALENTS	(1,115,102)	(46,659)
CASH AND CASH EQUIVALENTS, beginning of period	1,482,309	560,059
CASH AND CASH EQUIVALENTS, end of period	\$ 367,207	\$ 513,400

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 premier shopping, dining, entertainment and mixed-use destinations, which consist primarily of malls, Premium Outlets®, and The Mills®. As of March 31, 2018, we owned or held an interest in 206 income producing properties in the United States, which consisted of 107 malls, 68 Premium Outlets, 14 Mills, four lifestyle centers, and 13 other retail properties in 37 states and Puerto Rico. Internationally, as of March 31, 2018, we had ownership interests in nine Premium Outlets in Japan, four Premium Outlets in South Korea, two Premium Outlets in Canada, two Premium Outlets in Malaysia and one Premium Outlet in Mexico. We also own an interest in eight Designer Outlet properties in Europe, of which six properties are consolidated, and one Designer Outlet property in Canada. Of the eight properties in Europe, two are located in Italy, two are located in the Netherlands and one each is located in Austria, Germany, France and the United Kingdom. As of March 31, 2018, we also owned a 21.1% 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 periods ended March 31, 2018 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 2017 Annual Report on Form 10-K of Simon and the Operating Partnership.

As of March 31, 2018, we consolidated 133 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 81 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 58 of the 81 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 19 of the remaining 23 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% for the three months ended March 31, 2018 and 2017. As of March 31, 2018 and December 31, 2017, Simon's ownership interest in the Operating Partnership was 86.9%. 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.

Equity Instruments and Debt Securities

Equity instruments and debt securities consist primarily of the debt securities of our captive insurance subsidiary, equity instruments, 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, 2018 and December 31, 2017, we had equity instruments with readily determinable fair values of \$93.7 million and \$88.3 million, respectively. Effective January 1, 2018, changes in fair value of these equity instruments are recorded in earnings. At March 31, 2018 and December 31, 2017, we had equity instruments without readily determinable fair values of \$186.7 million and \$186.9 million, respectively, for which we have elected the measurement alternative. We regularly evaluate these investments for any impairment in their estimated fair value, as well as any observable price changes for an identical or similar equity instrument of the same issuer, and determined that no material adjustment in the carrying value was required for the three months ended March 31, 2018.

Our deferred compensation plan equity instruments are valued based upon quoted market prices. The investments have a 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, 2018 and December 31, 2017, we held debt securities of \$62.9 million and \$55.7 million, respectively, in our captive insurance subsidiary. The types of securities included in the investment portfolio of our captive insurance subsidiary typically includes 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 subsidiary 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

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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 is recorded and a new cost basis is established. Net unrealized losses recorded in the Operating Partnership's accumulated other comprehensive income (loss) as of March 31, 2018 and December 31, 2017 were approximately \$0.7 million and \$0.4 million, respectively, and represent the valuation adjustments for our investments in debt securities.

Our captive insurance subsidiary is 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.

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 equity instruments with readily available determinable fair values we held at March 31, 2018 and December 31, 2017 were primarily classified as having Level 1 and Level 2 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 balance of \$1.0 million at March 31, 2018 and a gross liability balance of \$24.8 million and \$18.1 million at March 31, 2018 and December 31, 2017, respectively.

Note 6 includes a discussion of the fair value of debt measured using Level 2 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 our noncontrolling interests are as follows:

	As of March 31, 2018	As of December 31, 2017
Limited partners' interests in the Operating Partnership	\$ 523,630	\$ 548,858

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Nonredeemable noncontrolling interests in properties, net	3,800	3,738
Total noncontrolling interests reflected in equity	\$ 527,430	\$ 552,596

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 noncontrolling interests is as follows:

	For the Three Months Ended March 31,	
	2018	2017
Noncontrolling interests, beginning of period	\$ 552,596	\$ 649,464
Net income attributable to noncontrolling interests after preferred distributions and income attributable to redeemable noncontrolling interests in consolidated properties	94,176	72,945
Distributions to noncontrolling interest holders	(92,012)	(84,221)
Other comprehensive (loss) income allocable to noncontrolling interests:		
Unrealized loss on derivative hedge agreements	(804)	(143)
Net loss reclassified from accumulated other comprehensive loss into earnings	283	345
Currency translation adjustments	1,663	1,618
Changes in available-for-sale securities and other	(38)	101
	1,104	1,921
Adjustment to limited partners' interest from change in ownership in the Operating Partnership	(36,221)	(33,235)
Units exchanged for common shares	(70)	(12)
Units redeemed	(474)	—
Long-term incentive performance units	8,307	14,705
Contributions by noncontrolling interests, net, and other	24	171
Noncontrolling interests, end of period	\$ 527,430	\$ 621,738

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 noncontrolling interests is as follows:

	For the Three Months Ended March 31,	
	2018	2017
Noncontrolling nonredeemable interests in properties, net — beginning of period	\$ 3,738	\$ 5,116
Net income attributable to noncontrolling nonredeemable interests	527	675
Distributions to noncontrolling nonredeemable interestholders	(489)	(1,315)
Contributions by noncontrolling nonredeemable interests, net, and other	24	171
Noncontrolling nonredeemable interests in properties, net — end of period	\$ 3,800	\$ 4,647

Accumulated Other Comprehensive Income (Loss)

Simon

The changes in components of our accumulated other comprehensive income (loss) attributable to common stockholders consisted of the following net of noncontrolling interest as of March 31, 2018:

	Currency translation adjustments	Accumulated derivative gains, net	Net unrealized losses on marketable securities	Total
Beginning balance	\$ (118,138)	\$ 8,055	\$ (370)	\$ (110,453)
Other comprehensive income (loss) before reclassifications	11,429	(5,343)	(251)	5,835
Amounts reclassified from accumulated other comprehensive income (loss)	—	1,871	—	1,871
Net current-period other comprehensive income (loss)	11,429	(3,472)	(251)	7,706
Ending balance	\$ (106,709)	\$ 4,583	\$ (621)	\$ (102,747)

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

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	2018	2017	
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
Accumulated derivative losses, net	\$ (2,153)	\$ (2,620)	Interest expense
	282	345	Net income attributable to noncontrolling interests
	\$ (1,871)	\$ (2,275)	

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The changes in accumulated other comprehensive income (loss) by component consisted of the following as of March 31, 2018:

	Currency translation adjustments	Accumulated derivative gains, net	Net unrealized losses on marketable securities	Total
Beginning balance	\$ (135,940)	\$ 9,263	\$ (425)	\$ (127,102)
Other comprehensive income (loss) before reclassifications	13,092	(6,146)	(289)	6,657
Amounts reclassified from accumulated other comprehensive income (loss)	—	2,153	—	2,153
Net current-period other comprehensive income (loss)	13,092	(3,993)	(289)	8,810
Ending balance	\$ (122,848)	\$ 5,270	\$ (714)	\$ (118,292)

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

	2018 Amount reclassified from accumulated other comprehensive income (loss)	2017 Amount reclassified from accumulated other comprehensive income (loss)	Affected line item where net income is presented
Details about accumulated other comprehensive income (loss) components:			
Accumulated derivative losses, net	\$ (2,153)	\$ (2,620)	Interest expense

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. 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, 2018 and December 31, 2017, we had no outstanding interest rate derivatives. We generally do not apply hedge accounting to interest rate caps, which had a nominal value as of March 31, 2018 and December 31, 2017, respectively.

We are also exposed to fluctuations in foreign exchange rates on financial instruments which are denominated in foreign currencies, primarily in Yen and Euro. We use currency forward contracts, cross currency swap 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

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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, 2018 and December 31, 2017 (in millions):

Notional Value	Maturity Date	Asset (Liability) Value as of	
		March 31, 2018	December 31, 2017
€ 65.0	May 15, 2018	0.9	—
€ 50.0	May 15, 2019	(3.9)	(2.4)
€ 50.0	May 15, 2019	(6.4)	(4.9)
€ 50.0	May 15, 2020	(7.0)	(5.2)
€ 50.0	May 14, 2021	(7.4)	(5.5)

Asset balances in the above table are included in deferred costs and other assets. Liability balances in the above table are included in other liabilities.

In the first quarter of 2018, we entered into a cross-currency swap agreement to manage our exposure to changes in foreign exchange rates by swapping \$150.0 million of 4.38% fixed-rate U.S. dollar-denominated debt to 1.37% fixed-rate Euro-denominated debt of €121.6 million. The cross-currency swap matures on December 1, 2020. The carrying value of our cross-currency swap agreement at March 31, 2018 is \$0.1 million and is included in deferred costs and other assets.

We have designated the currency forward contracts and cross-currency swap 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 the Operating Partnership's derivative activities, including our share of the other comprehensive income from unconsolidated entities, approximated \$5.3 million and \$9.3 million as of March 31, 2018 and December 31, 2017, 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 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. For the years ended December 31, 2017 and 2016, these revenues were less than 6.0% and 7.0% of consolidated revenue, respectively. The amount and timing of revenue recognition from our services to joint ventures, licensing fee arrangements, and ancillary income under the newly effective standard is consistent with the prior 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. We adopted the standard using the modified retrospective approach on January 1, 2018 and there was no cumulative effect adjustment recognized. Our revenues impacted by this standard are included in management fees

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and other revenues and in other income in the accompanying consolidated statement of operations and comprehensive income.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments — Overall: Recognition and Measurement of Financial Assets and Financial Liabilities," which requires entities to recognize changes in equity investments with readily determinable fair values in net income. We recognized a cumulative effect adjustment of \$7.3 million as of adoption on January 1, 2018 to reclassify unrealized gains previously reported in accumulated other comprehensive income for equity instruments with readily determinable fair values that were previously accounted for as available-for-sale securities and certain equity instruments previously accounted for using the cost method for which the measurement alternative described below was not elected. For those equity instruments that do not have readily determinable fair values, the ASU permits the application of a measurement alternative using the cost of the investment, less any impairments, plus or minus changes resulting from observable price changes for an identical or similar investment of the same issuer. This guidance will be applied prospectively upon the occurrence of an event which establishes fair value to all other equity instruments we account for using the measurement alternative.

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. ASU 2016-02 also limits the capitalization of leasing costs to initial direct costs, which will likely result in a reduction to our capitalized leasing costs and an increase in expenses, though the amount of such change is highly dependent upon the leasing compensation structures in place at the time of adoption.

Substantially all of our revenues and the revenues of our equity method investments are earned from arrangements that are within the scope of ASU 2016-02. Upon adoption of ASU 2016-02, consideration related to non-lease components identified in our lease arrangements will be accounted for using the guidance in ASU 2014-09, which we have determined would (i) necessitate that we reallocate consideration received under many of our lease arrangements between the lease and non-lease component, (ii) result in recognizing revenue allocated to our primary non-lease component (consideration received from fixed common area maintenance arrangements) on a straight-line basis and (iii) require separate presentation of revenue recognized from lease and non-lease components on our statement of operations. However, on January 5, 2018, the FASB issued an Exposure Draft that proposes targeted improvements to ASU 2016-02, which include creating a practical expedient that would provide lessors an option not to separate lease and non-lease components when certain criteria are met and instead account for those components as a single component. If the FASB adopts this proposed update, we believe we would meet the criteria to account for lease and non-lease components as a single component, which would alleviate the requirement upon adoption of ASU 2016-02 that we reallocate or separately present lease and non-lease components. We would, however, recognize consideration received from fixed common area maintenance arrangements on a straight-line basis. In March 2018, the FASB indicated that it intends to adopt the proposed update but a final ASU has not been issued.

Further, upon adoption of ASU 2016-02, leases of land and other arrangements where we are the lessee will be recognized on our balance sheet. Undiscounted future minimum lease payments due under long-term ground leases with termination dates which range from 2019 to 2090, excluding extension options, over the term of these leases total approximately \$780.4 million. The adoption of the guidance will result in the recognition of leased assets and corresponding liabilities discounted over the life of the applicable leases.

We will adopt ASU 2016-02 and any subsequent amendments beginning in the first quarter of 2019. In the Exposure Draft issued on January 5, 2018, the FASB also proposed a transition option that would permit the application of the new guidance as of the adoption date rather than to all periods presented. In March 2018, the FASB also indicated that it intends to adopt the proposed update but a final ASU has not been issued. We are currently evaluating the impact that the adoption

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of the new standard and the update the FASB intends to adopt will have on our consolidated financial statements and method of adoption.

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 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 the carryover basis for contributions of real estate into a joint venture where control of the real estate is not retained, which will result in the recognition of a gain or loss upon contribution. We adopted the standard using the modified retrospective approach on January 1, 2018 and there was no cumulative effect adjustment to recognize.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities," which introduced amendments to the hedge accounting model to allow for better alignment with risk management practices in addition to simplifying the hedge accounting model. The provisions may permit more risk management strategies to qualify for hedge accounting, including interest rate hedges and foreign currency hedges. We early adopted the ASU on January 1, 2018 as permitted under the standard. There was no impact on our consolidated financial statements at adoption.

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 components of basic and diluted earnings per share and basic and diluted earnings per unit.

Simon

	For the Three Months Ended March 31,	
	2018	2017
Net Income attributable to Common Stockholders — Basic and Diluted	\$ 620,654	\$ 477,736
Weighted Average Shares Outstanding — Basic and Diluted	310,583,643	312,809,981

For the three months ended March 31, 2018, potentially dilutive securities include units that are exchangeable for common stock and long-term incentive performance units, or LTIP units, granted under our long-term incentive

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performance programs that are convertible into units and exchangeable for common stock. No securities had a material dilutive effect for the three months ended March 31, 2018 and 2017. We have not adjusted net income attributable to common stockholders and weighted average shares outstanding for income allocable to limited partners or units, respectively, as doing so would have no dilutive impact. We accrue dividends when they are declared.

The Operating Partnership

	For the Three Months Ended	
	March 31,	
	2018	2017
Net Income attributable to Unitholders — Basic and Diluted	\$ 714,303	\$ 550,006
Weighted Average Units Outstanding — Basic and Diluted	357,446,988	360,130,442

For the three months ended March 31, 2018, potentially dilutive securities include LTIP units. No securities had a material dilutive effect for the three months ended March 31, 2018 and 2017. We accrue distributions when they are declared.

5. Investment in Unconsolidated Entities

Real Estate Joint Ventures and Investments

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 of properties. As discussed in Note 2, we held joint venture interests in 81 properties as of March 31, 2018.

Certain of our joint venture properties are subject to various rights of first refusal, buy sell provisions, put and call rights, or other sale or marketing rights for partners which are customary in real estate joint venture agreements and the industry. We and our partners in these joint ventures may initiate these provisions (subject to any applicable lock up or similar restrictions), which may result in either the sale of our interest or the use of available cash or borrowings, or the use of limited partnership interests in the Operating Partnership, to acquire the joint venture interest from our partner.

We may provide financing to joint ventures primarily in the form of interest bearing construction loans. As of March 31, 2018 and December 31, 2017, we had construction loans and other advances to related parties totaling \$84.9 million and \$87.0 million, respectively, which are included in deferred costs and other assets in the accompanying consolidated balance sheets.

Unconsolidated Entity Transactions

As of March 31, 2018 and December 31, 2017, we had an 11.7% noncontrolling equity interest in HBS, a venture formed with Hudson's Bay Company. The venture has 42 properties in the U.S. and, subsequent to formation, acquired 41 properties from Kaufhof. In exchange for our interest, we committed to contribute \$100.0 million for improvements to certain properties. As of March 31, 2018 and December 31, 2017, we had funded \$68.3 million of this commitment. In addition, we contributed \$178.5 million in connection with the acquisition of the Kaufhof department stores. Our share of net income, net of amortization of our excess investment, was \$4.0 million and \$3.2 million for the three months ended March 31, 2018 and 2017, respectively. Total revenues, operating income and consolidated net income were approximately \$87.2 million, \$76.8 million, and \$51.6 million, respectively, for the three months ended March 31, 2018 and \$81.9 million, \$64.9 million, and \$44.1 million, respectively, for the three months ended March 31, 2017.

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European Investments

At March 31, 2018, we owned 63,924,148 shares, or approximately 21.1%, of Klépierre, which had a quoted market price of \$40.36 per share. Our share of net income, net of amortization of our excess investment, was \$22.9 million and \$7.1 million for the three months ended March 31, 2018 and 2017, respectively. Based on applicable Euro:USD exchange rates and after our conversion of Klépierre's results to GAAP, Klépierre's total revenues, operating income and consolidated net income were approximately \$410.3 million, \$135.8 million and \$202.3 million, respectively, for the three months ended March 31, 2018 and \$342.6 million, \$105.0 million and \$69.5 million, respectively, for the three months ended March 31, 2017.

During the three months ended March 31, 2018, Klépierre completed the disposal of its interests in certain shopping centers. In connection with these disposals, we recorded a gain of \$13.4 million, representing our share of the gains recognized by Klépierre, which is included in gain upon acquisition of controlling interests, sale or disposal of assets and interests in unconsolidated entities and impairment, net in the accompanying consolidated statement of operations and comprehensive income.

We have an interest in a European investee that had interests in nine Designer Outlet properties as of March 31, 2018 and December 31, 2017, respectively. As of March 31, 2018, our legal percentage ownership interests in these properties ranged from 45% to 94%.

In addition, we have a 50.0% noncontrolling interest in a European property management and development company that provides services to the Designer Outlet properties.

We also have minority interests in Value Retail PLC and affiliated entities, which own or have interests in and operate nine luxury outlets located throughout Europe and we have a direct minority ownership in three of those outlets. At March 31, 2018 and December 31, 2017, the carrying value of these equity instruments was \$140.8 million and is included in deferred costs and other assets.

Asian Joint Ventures

We conduct our international Premium Outlet operations in Japan through a joint venture with Mitsubishi Estate Co., Ltd. We have a 40% noncontrolling ownership interest in this joint venture. The carrying amount of our investment in this joint venture was \$247.1 million and \$230.3 million as of March 31, 2018 and December 31, 2017, respectively, including all related components of accumulated other comprehensive income (loss). We conduct our international Premium Outlet operations in South Korea through a joint venture with Shinsegae International Co. We have a 50% noncontrolling ownership interest in this joint venture. The carrying amount of our investment in this joint venture was \$151.9 million and \$149.1 million as of March 31, 2018 and December 31, 2017, respectively, including all related components of accumulated other comprehensive income (loss).

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Summary Financial Information

A summary of our equity method investments and share of income from such investments, excluding Klépierre, our investment in Aéropostale, and HBS, follows.

COMBINED BALANCE SHEETS

	March 31, 2018	December 31, 2017
Assets:		
Investment properties, at cost	\$ 18,514,552	\$ 18,328,747
Less - accumulated depreciation	6,508,984	6,371,363
	12,005,568	11,957,384
Cash and cash equivalents	963,029	956,084
Tenant receivables and accrued revenue, net	382,153	403,125
Deferred costs and other assets	361,497	355,585
Total assets	\$ 13,712,247	\$ 13,672,178
Liabilities and Partners' Deficit:		
Mortgages	\$ 14,886,840	\$ 14,784,310
Accounts payable, accrued expenses, intangibles, and deferred revenue	930,075	1,033,674
Other liabilities	392,747	365,857
Total liabilities	16,209,662	16,183,841
Preferred units	67,450	67,450
Partners' deficit	(2,564,865)	(2,579,113)
Total liabilities and partners' deficit	\$ 13,712,247	\$ 13,672,178
Our Share of:		
Partners' deficit	\$ (1,136,015)	\$ (1,144,620)
Add: Excess Investment	1,721,330	1,733,063
Our net Investment in unconsolidated entities, at equity	\$ 585,315	\$ 588,443

“Excess Investment” represents the unamortized difference of our investment over our share of the equity in the underlying net assets of the joint ventures or other investments acquired and is allocated on a fair value basis primarily to investment properties, lease related intangibles, and debt premiums and discounts. We amortize excess investment over the life of the related depreciable components of investment properties, typically no greater than 40 years, the terms of the applicable leases and the applicable debt maturity, respectively. The amortization is included in the reported amount of income from unconsolidated entities.

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COMBINED STATEMENTS OF OPERATIONS

	For The Three Months Ended March 31,	
	2018	2017
REVENUE:		
Minimum rent	\$ 475,956	\$ 451,055
Overage rent	59,661	51,369
Tenant reimbursements	223,490	215,780
Other income	81,108	64,327
Total revenue	840,215	782,531
OPERATING EXPENSES:		
Property operating	146,293	132,985
Depreciation and amortization	159,836	153,455
Real estate taxes	68,267	66,583
Repairs and maintenance	23,196	20,230
Advertising and promotion	24,224	22,198
Provision for credit losses	6,501	3,777
Other	49,732	43,355
Total operating expenses	478,049	442,583
Operating Income	362,166	339,948
Interest expense	(150,932)	(142,204)
Net Income	\$ 211,234	\$ 197,744
Third-Party Investors' Share of Net Income	\$ 106,183	\$ 99,686
Our Share of Net Income	105,051	98,058
Amortization of Excess Investment	(21,527)	(22,457)
Income from Unconsolidated Entities	\$ 83,524	\$ 75,601

Our share of income from unconsolidated entities in the above table, aggregated with our share of the results of Klépierre, our investment in Aéropostale, and HBS, is presented in income from unconsolidated entities in the accompanying consolidated statements of operations and comprehensive income. Unless otherwise noted, our share of the gain on sale or disposal of assets and interests in unconsolidated entities, net is reflected within gain upon acquisition of controlling interests, sale or disposal of assets and interests in unconsolidated entities and impairment, net in the accompanying consolidated statements of operations and comprehensive income.

6. Debt

Unsecured Debt

At March 31, 2018, our unsecured debt consisted of \$15.8 billion of senior unsecured notes of the Operating Partnership, \$334.5 million outstanding under the Operating Partnership's \$4.0 billion unsecured revolving credit facility, or Credit Facility, and \$848.6 million outstanding under the Operating Partnership's global unsecured commercial paper

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note program, or Commercial Paper program. The March 31, 2018 balance on the Credit Facility included \$209.5 million (U.S. dollar equivalent) of Yen-denominated borrowings. Foreign currency denominated borrowings under the Credit Facility are designated as net investment hedges of a portion of our international investments.

On March 31, 2018, we had an aggregate available borrowing capacity of \$6.3 billion under the Credit Facility and the Operating Partnership's \$3.5 billion unsecured revolving credit facility, or Supplemental Facility, and together with the Credit Facility, the Credit Facilities. The maximum aggregate outstanding balance under the Credit Facilities during the three months ended March 31, 2018 was \$423.1 million and the weighted average outstanding balance was \$334.8 million. Letters of credit of \$6.2 million were outstanding under the Credit Facilities as of March 31, 2018.

The Credit Facility's initial borrowing capacity of \$4.0 billion may be increased to \$5.0 billion during its term and provides for borrowings denominated in U.S. dollars, Euro, Yen, Sterling, Canadian dollars and Australian dollars. Borrowings in currencies other than the U.S. dollar are limited to 95% of the maximum revolving credit amount, as defined. The initial maturity date of the Credit Facility is June 30, 2021 and can be extended for an additional year to June 30, 2022 at our sole option, subject to our continued compliance with the terms thereof. The base interest rate on the Credit Facility is LIBOR plus 77.5 basis points with a facility fee of 10 basis points.

On February 15, 2018, the Operating Partnership amended and extended the Supplemental Facility. The Supplemental Facility's initial borrowing capacity of \$3.5 billion may be increased to \$4.5 billion during its term and provides for borrowings denominated in U.S. dollars, Euro, Yen, Sterling, Canadian dollars and Australian dollars. The initial maturity date of the Supplemental Facility was extended to June 30, 2022 and can be extended for an additional year to June 30, 2023 at our sole option, subject to our continued compliance with the terms thereof. The base interest rate on the Supplemental Facility was reduced to LIBOR plus 77.5 basis points from LIBOR plus 80 basis points, with a facility fee of 10 basis points.

The Operating Partnership also has available a Commercial Paper program of \$1.0 billion, or the non-U.S. dollar equivalent thereof. The Operating Partnership may issue unsecured commercial paper notes, denominated in U.S. dollars, Euro and other currencies. Notes issued in non-U.S. currencies may be issued by one or more subsidiaries of the Operating Partnership and are guaranteed by the Operating Partnership. Notes will be sold under customary terms in the U.S. and Euro commercial paper note markets and rank (either by themselves or as a result of the guarantee described above) pari passu with the Operating Partnership's other unsecured senior indebtedness. The Commercial Paper program is supported by the Credit Facilities and if necessary or appropriate, we may make one or more draws under either of the Credit Facilities to pay amounts outstanding from time to time on the Commercial Paper program. On March 31, 2018, we had \$848.6 million outstanding under the Commercial Paper program, fully comprised of U.S. dollar-denominated notes with a weighted average interest rate of 1.72%. These borrowings mature on various dates through May 23, 2018 and reduce amounts otherwise available under the Credit Facilities.

On January 3, 2018, the Operating Partnership redeemed at par \$750.0 million of senior unsecured notes with a fixed interest rate of 1.50%.

Mortgage Debt

Total mortgage indebtedness was \$6.7 billion and \$6.9 billion at March 31, 2018 and December 31, 2017, respectively.

Covenants

Our unsecured debt agreements contain financial covenants and other non-financial covenants. If we were to fail to comply with these covenants, after the expiration of the applicable cure periods, the debt maturity could be accelerated or other remedies could be sought by the lender, including adjustments to the applicable interest rate. As of March 31, 2018, we were in compliance with all covenants of our unsecured debt.

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At March 31, 2018, we or our subsidiaries were the borrowers under 47 non-recourse mortgage notes secured by mortgages on 50 properties, including two separate pools of cross-defaulted and cross-collateralized mortgages encumbering a total of five properties. Under these cross-default provisions, a default under any mortgage included in the cross-defaulted pool may constitute a default under all mortgages within that pool and may lead to acceleration of the indebtedness due on each property within the pool. Certain of our secured debt instruments contain financial and other non-financial covenants which are specific to the properties that serve as collateral for that debt. If the applicable borrower under these non-recourse mortgage notes were to fail to comply with these covenants, the lender could accelerate the debt and enforce its rights against their collateral. At March 31, 2018, the applicable borrowers under these non-recourse mortgage notes were in compliance with all covenants where non-compliance could individually or in the aggregate, giving effect to applicable cross-default provisions, have a material adverse effect on our financial condition, liquidity or results of operations.

Fair Value of Debt

The carrying value of our variable-rate mortgages and other loans approximates their fair values. We estimate the fair values of consolidated fixed-rate mortgages using cash flows discounted at current borrowing rates and other indebtedness using cash flows discounted at current market rates. We estimate the fair values of consolidated fixed-rate unsecured notes using quoted market prices, or, if no quoted market prices are available, we use quoted market prices for securities with similar terms and maturities. The book value of our consolidated fixed-rate mortgages and unsecured indebtedness including commercial paper was \$22.4 billion and \$23.4 billion as of March 31, 2018 and December 31, 2017, respectively. The fair values of these financial instruments and the related discount rate assumptions as of March 31, 2018 and December 31, 2017 are summarized as follows:

	March 31, 2018		December 31, 2017	
Fair value of fixed-rate mortgages and unsecured indebtedness	\$ 22,443		\$ 24,003	
Weighted average discount rates assumed in calculation of fair value for fixed-rate mortgages	4.59	%	4.25	%
Weighted average discount rates assumed in calculation of fair value for unsecured indebtedness	4.45	%	4.10	%

7. Equity

During the three months ended March 31, 2018, Simon issued 6,000 shares of common stock to a limited partner of the Operating Partnership in exchange for an equal number of units pursuant to the partnership agreement of the Operating Partnership. On March 21, 2018, the Operating Partnership redeemed 40,503 units from a limited partner for \$6.3 million. These transactions increased Simon's ownership interest in the Operating Partnership.

On February 13, 2017, Simon's Board of Directors authorized a two-year extension of the previously authorized \$2.0 billion common stock repurchase plan through March 31, 2019. Simon may repurchase the shares in the open market or in privately negotiated transactions as market conditions warrant. During the three months ended March 31, 2018, Simon purchased 1,473,588 shares at an average price of \$154.66 per share as part of this program. During the three months ended March 31, 2017, Simon purchased 870,692 shares at an average price of \$174.22 per share as part of this program. As Simon repurchases shares under this program, the Operating Partnership repurchases an equal number of units from Simon.

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Temporary Equity

Simon

Simon classifies as temporary equity those securities for which there is the possibility that Simon could be required to redeem the security for cash irrespective of the probability of such a possibility. As a result, Simon classifies one series of preferred units in the Operating Partnership and noncontrolling redeemable interests in properties in temporary equity. Each of these securities is discussed further below.

Limited Partners' Preferred Interest in the Operating Partnership and Noncontrolling Redeemable Interests in Properties. The redemption features of the preferred units in the Operating Partnership contain provisions which could require the Operating Partnership to settle the redemption in cash. As a result, this series of preferred units in the Operating Partnership remains classified outside permanent equity. The remaining interests in a property or portfolio of properties which are redeemable at the option of the holder or in circumstances that may be outside Simon's control are accounted for as temporary equity. The carrying amount of the noncontrolling interest is adjusted to the redemption amount assuming the instrument is redeemable at the balance sheet date. Changes in the redemption value of the underlying noncontrolling interest are recorded within accumulated deficit. There were no noncontrolling interests redeemable at amounts in excess of fair value as of March 31, 2018 and December 31, 2017. The following table summarizes the preferred units in the Operating Partnership and the amount of the noncontrolling redeemable interests in properties as follows:

	As of March 31, 2018	As of December 31, 2017
7.50% Cumulative Redeemable Preferred Units, 260,000 units authorized, 255,373 issued and outstanding	\$ 25,537	\$ 25,537
Other noncontrolling redeemable interests in properties	176,143	164,943
Limited partners' preferred interest in the Operating Partnership and noncontrolling redeemable interests in properties The Operating Partnership	\$ 201,680	\$ 190,480

The Operating Partnership classifies as temporary equity those securities for which there is the possibility that the Operating Partnership could be required to redeem the security for cash, irrespective of the probability of such a possibility. As a result, the Operating Partnership classifies one series of preferred units and noncontrolling redeemable interests in properties in temporary equity. The following table summarizes the preferred units and the amount of the noncontrolling redeemable interests in properties as follows:

	As of	As of
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	March 31, 2018	December 31, 2017
7.50% Cumulative Redeemable Preferred Units, 260,000 units authorized, 255,373 issued and outstanding	\$ 25,537	\$ 25,537
Other noncontrolling redeemable interests in properties	176,143	164,943
Total preferred units, at liquidation value, and noncontrolling redeemable interests in properties	\$ 201,680	\$ 190,480
Stock Based Compensation		

Awards under our stock based compensation plans primarily take the form of LTIP unit and restricted stock grants. Restricted stock and awards under the LTIP programs are all performance based and are based on various individual,

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corporate and business unit performance measures as further described below. The expense related to these programs, net of amounts capitalized, is included within home and regional office costs and general and administrative costs in the accompanying statements of operations and comprehensive income.

LTIP Programs. The Compensation Committee has approved long term, performance based incentive compensation programs, or the LTIP programs, for certain senior executive officers. Awards under the LTIP programs take the form of LTIP units, a form of limited partnership interest issued by the Operating Partnership, which are subject to the participant maintaining employment with us through certain dates and other conditions as described in the applicable award agreements. Awarded LTIP units not earned in accordance with the conditions set forth in the applicable award agreements are forfeited. Earned and fully vested LTIP units are equivalent to units of the Operating Partnership. During the performance period, participants are entitled to receive distributions on the LTIP units awarded to them equal to 10% of the regular quarterly distributions paid on a unit of the Operating Partnership. As a result, we account for these LTIP units as participating securities under the two class method of computing earnings per share.

Awards under the LTIP programs for 2016 will be considered earned if, and only to the extent to which, applicable total shareholder return, or TSR, performance measures, as defined in the applicable award agreements, are achieved during the applicable performance periods. Once earned, LTIP units are subject to a two-year vesting period. One half of the earned LTIP units will vest on January 1 of each of the second and third years following the end of the applicable performance period.

In 2018, the Compensation Committee established and granted awards under a redesigned LTIP program, or the 2018 LTIP program. Awards under the 2018 LTIP program were granted in two tranches, Tranche A LTIP units and Tranche B LTIP units. Each of the Tranche A LTIP units and the Tranche B LTIP units will be considered earned if, and only to the extent to which, the respective goals based on Funds From Operations, or FFO, per share or Relative TSR Goal performance criteria, as defined in the applicable award agreements, are achieved during the applicable two-year and three-year performance periods of the Tranche A LTIP units and Tranche B LTIP units, respectively. One half of the earned Tranche A LTIP units will vest on January 1, 2021 with the other one-half vesting on January 1, 2022. All of the earned Tranche B LTIP units will vest on January 1, 2022.

The grant date fair value of the portion of the LTIP units based on achieving the target FFO performance criteria is \$6.25 million for the Tranche A LTIP units and the Tranche B LTIP units, for a total of \$12.5 million. The 2018 LTIP program provides that the value of the FFO-based award may be adjusted up or down based on the Company's performance compared to the target FFO performance criteria and has a maximum potential fair value of \$18.75 million. The value of the FFO-based award is recorded as expense over the period from the grant date to the date at which the awards, if earned, would become vested, based on our assessment as to whether it is probable that the performance criteria will be achieved during the applicable performance periods.

The grant date fair values of any LTIP units based on TSR performance are estimated using a Monte Carlo model, and the resulting fixed expense is recorded regardless of whether the TSR performance criteria are achieved if the required service is delivered. The grant date fair values are being amortized into expense over the period from the grant date to

the date at which the awards, if earned, would become vested.

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The Compensation Committee approved LTIP unit grants as shown in the table below. The extent to which LTIP units were earned, and the aggregate grant date fair value, are as follows:

LTIP Program	LTIP Units Earned	Grant Date Fair Value of TSR Award	Grant Date Target Value of FFO-Based Award
2013-2015 LTIP program	466,405	\$28.5 million	—
2014-2016 LTIP program	120,314	\$27.5 million	—
2015-2017 LTIP program	—	\$25.1 million	—
2016-2018 LTIP program	To be determined in 2019	\$26.3 million	—
2018 LTIP program - Tranche A	To be determined in 2020	\$6.25 million	\$6.25 million
2018 LTIP program - Tranche B	To be determined in 2021	\$6.25 million	\$6.25 million

We recorded compensation expense, net of capitalization, related to these LTIP programs of approximately \$4.8 million and \$4.6 million for the three months ended March 31, 2018 and 2017, respectively.

Restricted Stock. We recorded compensation expense, net of capitalization, related to restricted stock of approximately \$2.3 million and \$2.2 million for the three months ended March 31, 2018 and 2017, respectively.

Other Compensation Arrangements. On July 6, 2011, in connection with the execution of an employment agreement, the Compensation Committee granted David Simon, Simon's Chairman and Chief Executive Officer, a retention award in the form of 1,000,000 LTIP units, or the Award, for his continued service as Simon's Chairman and Chief Executive Officer through July 5, 2019. Effective December 31, 2013, the Award was modified, or the Current Award, and as a result the LTIP units now become earned and eligible to vest based on the attainment of Company based performance goals, in addition to the service based vesting requirement included in the original Award. The Current Award does not contain an opportunity for Mr. Simon to receive additional LTIP units above and beyond the original Award should our performance exceed the higher end of the performance criteria. The performance criteria of the Current Award are based on the attainment of specific FFO per share. Because the performance criteria has been met, a maximum of 360,000 LTIP units, or the A units, 360,000 LTIP units, or the B units, and 280,000 LTIP units, or the C units, became earned on December 31, 2015, December 31, 2016 and December 31, 2017, respectively. Based on the Company's performance in 2015, 360,000 A units were earned. Based on the Company's performance in 2016, 360,000 B units were earned. Based on the Company's performance in 2017, 280,000 C units were earned. If the relevant performance criteria had not been achieved, all or a portion of the Current Award would have been forfeited. The earned A units vested on January 1, 2018, earned B units will vest on January 1, 2019 and earned C units will vest on June 30, 2019, subject to Mr. Simon's continued employment through such applicable date. The grant date fair value of the retention

award of \$120.3 million is being recognized as expense over the eight year term of his employment agreement on a straight line basis based through the applicable vesting periods of the A units, B units and C units.

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Changes in Equity

Simon

The following table provides a reconciliation of the beginning and ending carrying amounts of total equity, equity attributable to common stockholders and equity attributable to noncontrolling interests:

	Preferred Stock	Common Stock	Accumulated Other Comprehensive Income (Loss)	Capital in Excess of Par Value	Accumulated Deficit	Common Stock Held in Treasury	Noncontrolling interests	Total Equity
January 1, 2018	\$ 43,077	\$ 32	\$ (110,453)	\$ 9,614,748	\$ (4,782,173)	\$ (1,079,063)	\$ 552,596	\$ 4,223,000
Issuance of limited partnership units for common shares				70			(70)	—
Repurchase of stock purchase units				(5,793)		(227,901)	(474)	(6,228)
Conversion of limited partnership units							8,307	8,307
Net change in equity and disposition					7,264			7,264
Noncontrolling interests, including other	(83)			2,026	(14,935)	(239)	24	(13,107)
Conversion of limited partnership interest								
Change in ownership in the Simon Property Group Partnership				36,221			(36,221)	—
Contributions to common stockholders and limited partnership, excluding Simon Property Group Partnership					(606,086)		(91,523)	(697,630)
Contributions to other noncontrolling partners							(489)	(489)

Comprehensive income,
 net of \$479
 attributable to preferred
 interests in
 the Operating
 Partnership and a \$619
 loss attributable to
 noncontrolling
 redeemable interests in
 properties

January 1, 2018	\$ 42,994	\$ 32	7,706 \$ (102,747)	\$ 9,647,272	621,488 \$ (4,774,442)	\$ (1,307,203)	95,280 \$ 527,430	724,474 \$ 4,033,336
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The Operating Partnership

The following table provides a reconciliation of the beginning and ending carrying amounts of total equity, equity attributable to partners and equity attributable to noncontrolling interests:

	Preferred Units	Simon (Managing General Partner)	Limited Partners	Noncontrolling interests	Total Equity
January 1, 2018	\$ 43,077	\$ 3,643,091	\$ 548,858	\$ 3,738	\$ 4,238,764
Limited partner units exchanged to units		70	(70)		—
Treasury unit purchase		(227,901)			(227,901)
Redemption of limited partner units		(5,793)	(474)		(6,267)
LTIP Units			8,307		8,307
Cumulative effect of accounting change		7,264			7,264
Purchase and disposition of noncontrolling interests, net and other	(83)	(13,148)		24	(13,207)
Adjustment to limited partners' interest from change in ownership in the Operating Partnership		36,221	(36,221)		—
Distributions to limited partners, excluding preferred interests classified as temporary equity	(834)	(605,252)	(91,523)	(489)	(698,098)
Comprehensive income, excluding \$479 attributable to preferred interests in the Operating Partnership and a \$619 loss attributable to noncontrolling redeemable interests in properties	834	628,360	94,753	527	724,474
March 31, 2018	\$ 42,994	\$ 3,462,912	\$ 523,630	\$ 3,800	\$ 4,033,336

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8. Commitments and Contingencies

Litigation

We are involved from time-to-time in various legal and regulatory proceedings that arise in the ordinary course of our business, including, but not limited to, commercial disputes, environmental matters, and litigation in connection with transactions such as acquisitions and divestitures. We believe that current proceedings will not have a material adverse effect on our financial condition, liquidity, or results of operations. We record a liability when a loss is considered probable and the amount can be reasonably estimated.

In May 2010, Opry Mills sustained significant flood damage. Insurance proceeds of \$50 million have been funded by the primary insurer and remediation and restoration work has been completed. The property re opened on March 29, 2012. The excess insurance carriers (those providing coverage above \$50 million) denied our claim under the policy for additional proceeds (of up to \$150 million) to pay further amounts for restoration costs and business interruption losses. In the first quarter of 2015, summary judgment was granted by the trial court in our favor, concluding that up to \$150 million of additional coverage is available under our excess insurance policies for this claim. In July and August 2015, trial on the damages portion of our claim was completed and the jury entered a verdict for damages in the amount of \$204.1 million (inclusive of the \$50.0 million previously paid by the primary carrier). In April 2016, the court entered final judgment in the amount of the jury verdict. On January 26, 2018, the Court of Appeals of Tennessee reversed the trial court's summary judgment on the amount of available coverage and ruled that the policy limit was \$50 million. The Company is seeking a review of this ruling by the Tennessee Supreme Court. We will continue our efforts through the conclusion of the pending litigation, including any and all appeals, to recover our losses, including consequential damages, under the excess insurance policies for Opry Mills and from our former insurance broker, Aon Risk Services Central Inc., who is a defendant in this case, but did not participate in the trial. However, no assurance can be made that our efforts to recover these losses will be successful.

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 March 31, 2018 and December 31, 2017, the Operating Partnership guaranteed joint venture related mortgage indebtedness of \$207.0 million and \$211.6 million, respectively (of which we have a right of recovery from our venture partners of \$10.8 million). Mortgages guaranteed by the Operating Partnership are secured by the property of the joint venture which could be sold in order to satisfy the outstanding obligation and which has an estimated fair value in excess of the guaranteed amount.

Concentration of Credit Risk

Our U.S. Malls, Premium Outlets, and The Mills rely heavily upon anchor tenants to attract customers; however, anchor retailers do not contribute materially to our financial results as many anchor retailers own their spaces. All material operations are within the United States and no customer or tenant accounts for 5% or more of our

consolidated revenues.

9. Real Estate Acquisitions and Dispositions

During the first three months of 2018, we recorded net gains of \$135.3 million primarily related to disposition activity which included the foreclosure of a consolidated property in satisfaction of its \$200 million non-recourse mortgage.

Unless otherwise noted, gains and losses on the above transactions are included in gain upon acquisition of controlling interests, sale or disposal of assets and interests in unconsolidated entities and impairment, net in the accompanying consolidated statements of operations and comprehensive income. We capitalize asset acquisition costs and expense costs related to business combinations, as well as disposition related costs as they are incurred. We incurred a minimal amount of transaction expenses during the three months ended March 31, 2018 and 2017.

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

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included in this report.

Overview

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. 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. According to the Operating Partnership's partnership agreement, the Operating Partnership is required to pay all expenses of Simon.

We own, develop and manage premier shopping, dining, entertainment and mixed-use destinations, which consist primarily of malls, Premium Outlets®, and The Mills®. As of March 31, 2018, we owned or held an interest in 206 income-producing properties in the United States, which consisted of 107 malls, 68 Premium Outlets, 14 Mills, four lifestyle centers, and 13 other retail properties in 37 states and Puerto Rico. In addition, we have redevelopment and expansion projects, including the addition of anchors, big box tenants, and restaurants, underway at 28 properties in the United States, Canada and Asia. We have one outlet under development. Internationally, as of March 31, 2018, we had ownership interests in nine Premium Outlets in Japan, four Premium Outlets in South Korea, two Premium Outlets in Canada, two Premium Outlets in Malaysia and one Premium Outlet in Mexico. We also own an interest in eight Designer Outlet properties in Europe, of which six properties are consolidated, and one Designer Outlet property in Canada. Of the eight properties in Europe, two are located in Italy, two are located in the Netherlands and one each is located in Austria, Germany, France and the United Kingdom. We also have four international outlet properties under development. As of March 31, 2018, we also owned a 21.1% 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.

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

- base minimum rents,
- overage and percentage rents based on tenants' sales volumes, and
- recoverable expenditures such as property operating, real estate taxes, repair and maintenance, and advertising and promotional expenditures.

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

We invest in real estate properties to maximize total financial return which includes both operating cash flows and capital appreciation. We seek growth in earnings, funds from operations, or FFO, and cash flows by enhancing the profitability and operation of our properties and investments. We seek to accomplish this growth through the following:

- attracting and retaining high quality tenants and utilizing economies of scale to reduce operating expenses,
- expanding and re-tenanting existing highly productive locations at competitive rental rates,
- selectively acquiring or increasing our interests in high quality real estate assets or portfolios of assets,

- generating consumer traffic in our retail properties through marketing initiatives and strategic corporate alliances, and
- selling selective non-core assets.

We also grow by generating supplemental revenues from the following activities:

- establishing our malls as leading market resource providers for retailers and other businesses and consumer-focused corporate alliances, including payment systems (such as handling fees relating to the sales of bank-issued prepaid cards), national marketing alliances, static and digital media initiatives, business development, sponsorship, and events,

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- offering property operating services to our tenants and others, including waste handling and facility services, and the provision of energy services,
 - selling or leasing land adjacent to our properties, commonly referred to as “outlots” or “outparcels,” and
 - generating interest income on cash deposits and investments in loans, including those made to related entities.
- We focus on high quality real estate across the retail real estate spectrum. We expand or redevelop properties to enhance profitability and market share of existing assets when we believe the investment of our capital meets our risk reward criteria. We selectively develop new properties in markets we believe are not adequately served by existing retail outlet properties.

We routinely review and evaluate acquisition opportunities based on their ability to enhance our portfolio. 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 growth, 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 credit ratings.

We consider FFO, net operating income, or NOI, portfolio NOI and comparable property NOI (NOI for properties owned and operated in both periods under comparison) to be key measures of operating performance that are not specifically defined by accounting principles generally accepted in the United States, or GAAP. We use these measures internally to evaluate the operating performance of our portfolio and provide a basis for comparison with other real estate companies. Reconciliations of these measures to the most comparable GAAP measure are included below in this discussion.

Results Overview

Diluted earnings per share and diluted earnings per unit increased \$0.47 during the first three months of 2018 to \$2.00 from \$1.53 for the same period last year. The increase in diluted earnings per share and diluted earnings per unit was primarily attributable to:

- improved operating performance and solid core business fundamentals in 2018 and the impact of our acquisition and expansion activity,
- 2018 net gains primarily related to disposition activity of \$135.3 million, or \$0.38 per diluted share/unit,
- increased consolidated lease settlement activity in 2018 of \$18.8 million, or \$0.05 per diluted share/unit, and
- increased income related to distributions from an international investment in 2018 of \$20.2 million, or \$0.06 per diluted share/unit, partially offset by
- increased interest expense in 2018 of \$7.3 million, or \$0.02 per diluted share/unit.

Solid core business fundamentals during the first three months of 2018 were primarily driven by strong leasing activity. Portfolio NOI grew by 4.8% for the three month period in 2018 over the prior year period. Comparable property NOI grew 2.3% for our portfolio of U.S. Malls, Premium Outlets, and The Mills. Total sales per square foot, or psf, increased from \$615 psf at March 31, 2017 to \$641 psf, or 4.2%, at March 31, 2018, for our U.S. Malls and Premium Outlets. Average base minimum rent for U.S. Malls and Premium Outlets increased 3.2% to \$53.54 psf as of March 31, 2018, from \$51.87 psf as of March 31, 2017. Leasing spreads in our U.S. Malls and Premium Outlets were favorable as we were able to lease available square feet at higher rents, resulting in an open/close leasing spread (based on total tenant payments — base minimum rent plus common area maintenance) of \$8.45 psf (\$75.77 openings compared to \$67.32 closings) as of March 31, 2018, representing a 12.6% increase. Ending occupancy for our U.S. Malls and Premium Outlets decreased 1.0% to 94.6% as of March 31, 2018, from 95.6% as of March 31, 2017.

Our effective overall borrowing rate at March 31, 2018 on our consolidated indebtedness decreased nine basis points to 3.31% as compared to 3.40% at March 31, 2017. This reduction was primarily due to a decrease in the effective overall borrowing rate on fixed rate debt of 10 basis points (3.37% at March 31, 2018 as compared to 3.47% at March 31, 2017) partially offset by an increase in the effective overall borrowing rate on variable rate debt of 35 basis points (2.32%

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at March 31, 2018 as compared to 1.97% at March 31, 2017). The weighted average years to maturity of our consolidated indebtedness was 7.0 years at March 31, 2018 and December 31, 2017, respectively. Our financing activity for the three months ended March 31, 2018 included:

- Decreasing our borrowings under the Operating Partnership's global unsecured commercial paper note program, or the Commercial Paper program, by \$129.8 million through the issuance of U.S. dollar denominated notes.
- Redeeming at par \$750.0 million of senior unsecured notes with a fixed interest rate of 1.50% on January 3, 2018.

United States Portfolio Data

The portfolio data discussed in this overview includes the following key operating statistics: ending occupancy, average base minimum rent per square foot, and total sales per square foot for our domestic assets. We include acquired properties in this data beginning in the year of acquisition and remove disposed properties in the year of disposition. For comparative purposes, we separate the information related to The Mills from our other U.S. operations. We also do not include any information for properties located outside 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.

	March 31, 2018	March 31, 2017	%/Basis Points Change (1)
U.S. Malls and Premium Outlets:			
Ending Occupancy			
Consolidated	94.7%	95.8%	-110 bps
Unconsolidated	94.5%	94.9%	40 bps
Total Portfolio	94.6%	95.6%	-100 bps
Average Base Minimum Rent per Square Foot			
Consolidated	\$ 51.79	\$ 50.29	3.0%
Unconsolidated	\$ 58.20	\$ 56.29	3.4%
Total Portfolio	\$ 53.54	\$ 51.87	3.2%
Total Sales per Square Foot			
Consolidated	\$ 625	\$ 599	4.4%
Unconsolidated	\$ 686	\$ 663	3.4%
Total Portfolio	\$ 641	\$ 615	4.2%
The Mills:			
Ending Occupancy	98.3%	97.7%	60 bps
Average Base Minimum Rent per Square Foot	\$ 31.38	\$ 29.53	6.3%
Total Sales per Square Foot	\$ 599	\$ 562	6.5%

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

Ending Occupancy Levels and Average Base Minimum Rent per Square Foot. Ending occupancy is the percentage of gross leasable area, or GLA, which is leased as of the last day of the reporting period. We include all company owned space except for mall anchors, mall majors, mall freestanding and mall outlots in the calculation. Base minimum rent per square foot is the average base minimum rent charge in effect for the reporting period for all tenants that would qualify to be included in ending occupancy.

Total Sales per Square Foot. Total sales include total reported retail tenant sales on a trailing 12 month basis at owned GLA (for mall stores with less than 10,000 square feet) in the malls and The Mills and stores with less than

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20,000 square feet in the Premium Outlets. 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.

Current Leasing Activities

During the three months ended March 31, 2018, we signed 182 new leases and 278 renewal leases (excluding mall anchors and majors, new development, redevelopment and leases with terms of one year or less) with a fixed minimum rent across our U.S. Malls and Premium Outlets portfolio, comprising approximately 1.7 million square feet, of which 1.5 million square feet related to consolidated properties. During the comparable period in 2017, we signed 204 new leases and 399 renewal leases with a fixed minimum rent, comprising approximately 1.9 million square feet, of which 1.4 million square feet related to consolidated properties. The average annual initial base minimum rent for new leases was \$54.88 per square foot in 2018 and \$67.01 per square foot in 2017 with an average tenant allowance on new leases of \$46.63 per square foot and \$46.05 per square foot, respectively.

Japan Data

The following are selected key operating statistics for our Premium Outlets in Japan. The information used to prepare these statistics has been supplied by the managing venture partner.

	March 31, 2018	March 31, 2017	%/Basis Points Change
Ending Occupancy	99.6%	99.8%	-20 bps
Total Sales per Square Foot	¥ 106,210	¥ 100,747	5.42%
Average Base Minimum Rent per Square Foot	¥ 5,075	¥ 5,048	0.53%

Results of Operations

The following acquisitions, dispositions and openings of consolidated properties affected our consolidated results in the comparative periods:

- During the three months ended March 31, 2018, we disposed of one retail property.
- On April 21, 2017, through our European investee, we acquired Rosada Designer Outlet, a 247,500 square foot center in Roosendaal, Netherlands. We have a 94% interest in this new center.
- On April 13, 2017, through our European investee, we opened Provence Designer Outlet, a 269,000 square foot center in Miramas, France. We have a 90% interest in this new center.

The following dispositions and openings of joint venture properties affected our income from unconsolidated entities in the comparative periods:

- During 2017, we disposed of our interests in one retail property.
 - On September 14, 2017, we and our partner opened The Shops at Clearfork, a 500,000 square foot center in Fort Worth, Texas. We have a 45% noncontrolling interest in this new center.
- On June 29, 2017, we and our partner opened Norfolk Premium Outlets, a 332,000 square foot center in Norfolk, Virginia. We have a 65% noncontrolling interest in this new center.
- On June 15, 2017, we and our partner opened Genting Highlands Premium Outlets in Kuala Lumpur, Malaysia. We have a 50% noncontrolling interest in this 278,000 square foot center.

On April 6, 2017, we and our partner opened Siheung Premium Outlets, a 444,400 square foot center in Siheung (Seoul), South Korea. We have a 50% noncontrolling interest in this new center.

For the purposes of the following comparison between the three months ended March 31, 2018 and 2017, the above transactions are referred to as the property transactions. In the following discussions of our results of operations, “comparable” refers to properties we owned or held interests in and operated in both of the periods under comparison.

During the third quarter of 2017, two of our wholly-owned properties located in Puerto Rico sustained significant

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damage as a result of Hurricane Maria. For purposes of the below comparisons, these properties are also included in the property transactions due to the fact they were not open for business during the entirety of the periods being compared.

Three months ended March 31, 2018 vs. Three months ended March 31, 2017

Minimum rents increased \$13.4 million during 2018, of which the comparable rents increased \$15.3 million, or 1.9%, primarily attributable to an increase in base minimum rents, offset partially by a \$1.9 million decrease related to the property transactions. Overage rents increased \$4.8 million, or 17.0%, as a result of an increase in tenant sales.

Total other income increased \$36.8 million, primarily due to a \$20.2 million increase in income related to distributions from an international investment, an \$18.8 million increase in lease settlement income and a \$2.2 million increase in Simon Brand Venture revenues, partially offset by a \$4.9 million decrease related to non-retail real estate sales recorded in 2017.

Property operating expense increased \$9.4 million, with the international property transactions accounting for \$1.9 million of the increase. The comparable properties increased \$7.5 million as a result of increased utility expenses due to the harsh winter, as well as increased personnel costs.

Real estate taxes increased \$7.5 million as a result of lower refunds received in 2018 as compared to 2017.

Other expense increased \$7.7 million primarily related to a \$3.0 million mark-to-market adjustment on an equity instrument with a readily available fair value required as a result of the adoption of a new accounting pronouncement, and an increase in legal fees and expenses of \$2.1 million.

Income and other taxes increased \$9.7 million due to a lower tax benefit from improved performance and a lower tax rate on our share of results in the retail operations venture of Aéropostale as compared to 2017, and increased withholding and income taxes related to certain of our international investments.

Income from unconsolidated entities increased \$20.9 million primarily due to the stronger operations of the retail operations venture of Aéropostale of \$8.6 million and favorable results of operations from our international joint venture investments and our acquisition and development activity.

During 2018, we recorded net gains of \$135.3 million primarily related to our disposition activity.

Simon's net income attributable to noncontrolling interests increased \$21.5 million due to an increase in the net income of the Operating Partnership.

Liquidity and Capital Resources

Because we own long lived income producing assets, our financing strategy relies primarily on long term fixed rate debt. Floating rate debt comprised only 4.9% of our total consolidated debt at March 31, 2018. We also enter into interest rate protection agreements from time to time to manage our interest rate risk. We derive most of our liquidity from positive net cash flow from operations and distributions of capital from unconsolidated entities that totaled \$912.8 million in the aggregate during the three months ended March 31, 2018. The Operating Partnership has a \$4.0 billion unsecured revolving credit facility, or Credit Facility, and a \$3.5 billion supplemental unsecured revolving credit facility, or Supplemental Facility, and together with the Credit Facility, the Credit Facilities. The Credit Facilities and the Commercial Paper program provide alternative sources of liquidity as our cash needs vary from time to time. Borrowing capacity under these sources may be increased as discussed further below.

Our balance of cash and cash equivalents decreased \$1.1 billion during the first three months of 2018 to \$367.2 million as of March 31, 2018 as further discussed in “Cash Flows” below.

On March 31, 2018, we had an aggregate available borrowing capacity of approximately \$6.3 billion under the Credit Facilities, net of outstanding borrowings of \$334.5 million and amounts outstanding under the Commercial Paper program of \$848.6 million and letters of credit of \$6.2 million. For the three months ended March 31, 2018, the maximum aggregate outstanding balance under the Credit Facilities was \$423.1 million and the weighted average outstanding balance was \$334.8 million. The weighted average interest rate was 1.30% for the three months ended March 31, 2018.

Simon has historically had access to public equity markets and the Operating Partnership has historically had access to private and public long and short-term unsecured debt markets and access to secured debt and private equity from institutional investors at the property level.

Our business model and Simon’s status as a REIT require us to regularly access the debt markets to raise funds