

SIMON PROPERTY GROUP INC /DE/
Form 10-K/A
May 01, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K/A
(Amendment No. 1)

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

For the fiscal year ended December 31, 2008

SIMON PROPERTY GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

001-14469
(Commission File No.)

04-6268599
(I.R.S. Employer
Identification No.)

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

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

Securities registered pursuant to Section 12 (b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, \$0.0001 par value	New York Stock Exchange
6% Series I Convertible Perpetual Preferred Stock, \$0.0001 par value	New York Stock Exchange
8 ³ / ₈ % Series J Cumulative Redeemable Preferred Stock, \$0.0001 par value	New York Stock Exchange

Securities registered pursuant to Section 12 (g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated
filer ☒

Accelerated
filer ☐

Non-accelerated filer ☐
(Do not check if a smaller reporting company)

Smaller reporting
company ☐

Indicate by checkmark whether the Registrant is a shell company (as defined in rule 12-b of the Act). Yes ☐ No ☒

The aggregate market value of shares of common stock held by non-affiliates of the Registrant was approximately \$19,730 million based on the closing sale price on the New York Stock Exchange for such stock on June 30, 2008.

As of January 31, 2009, Simon Property Group, Inc. had 231,303,288 and 8,000 shares of common stock and Class B common stock outstanding, respectively.

Documents Incorporated By Reference

Portions of the Registrant's Annual Report to Stockholders are incorporated by reference into Parts I, II and IV; and portions of the Registrant's Proxy Statement in connection with its 2009 Annual Meeting of Stockholders are incorporated by reference in Part III.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (the "Amendment") amends the Annual Report on Form 10-K of Simon Property Group, Inc. ("we", "us", or "our"), for the year ended December 31, 2008, that we originally filed with the Securities and Exchange Commission (the "SEC") on February 26, 2009 (the "Original Filing"). On May 1, 2009, we filed a Quarterly Report on Form 10-Q for the period ended March 31, 2009 (the "Quarterly Report"). The Quarterly Report reflects our adoption of Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment to ARB 51* (SFAS 160) and the application of EITF Topic D-98, *Classification and Measurement of Redeemable Securities* (EITF D-98), to certain redeemable securities, as further described in Note 3 to the Condensed Notes to Consolidated Financial Statements included in the Quarterly Report. The Quarterly Report included reclassifications of prior period amounts to conform to the 2009 presentation. We are filing this Amendment to amend Items 6, 7 and 8 in Part II of the Original Filing in their entirety to conform to the 2009 presentation included in the Quarterly Report. In addition, in connection with the filing of this Amendment and pursuant to the rules of the SEC, we are including with this Amendment exhibits consisting of an amended computation of the ratio of earnings to fixed charges and preferred stock dividends, currently dated certifications of our senior executives and a consent from our independent registered public accounting firm. Accordingly, Item 15 of Part IV has also been amended to reflect the filing of these exhibits.

This Form 10-K/A does not attempt to modify or update any other disclosures set forth in the Original Filing, except as required to reflect the amended information in this Form 10-K/A. Additionally, this amended Form 10-K/A, except for the amended information included in Part II and Part IV, speaks as of the filing date of the Original Filing and does not update or discuss any other developments affecting us subsequent to the date of the Original Filing.

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The following tables set forth selected financial data. The selected financial data should be read in conjunction with the financial statements and notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations. Other data we believe is important in understanding trends in our business is also included in the tables. Certain information in this table has been retrospectively adjusted based upon the reclassifications discussed in Note 3 to the consolidated financial statements.

	As of or for the Year Ended December 31,				
	2008	2007	2006	2005	2004(1)
	(in thousands, except per share data)				
OPERATING DATA:					
Total consolidated revenue	\$ 3,783,155	\$ 3,650,799	\$ 3,332,154	\$ 3,166,853	\$ 2,585,079
Consolidated Income from continuing operations	599,560	674,605	729,727	503,148	466,791
Net income available to common stockholders	\$ 422,517	\$ 436,164	\$ 486,145	\$ 401,895	\$ 300,647
BASIC EARNINGS PER SHARE:					
Income from continuing operations	\$ 1.88	\$ 2.09	\$ 2.20	\$ 1.27	\$ 1.49
Discontinued operations		(0.13)		0.55	(0.04)
Net income attributable to common stockholders	\$ 1.88	\$ 1.96	\$ 2.20	\$ 1.82	\$ 1.45
Weighted average shares outstanding	225,333	222,998	221,024	220,259	207,990
DILUTED EARNINGS PER SHARE:					
Income from continuing operations	\$ 1.87	\$ 2.08	\$ 2.19	\$ 1.27	\$ 1.48
Discontinued operations		(0.13)		0.55	(0.04)
Net income attributable to common stockholders	\$ 1.87	\$ 1.95	\$ 2.19	\$ 1.82	\$ 1.44
Diluted weighted average shares outstanding	225,884	223,777	221,927	221,130	208,857
Dividends per share (2)	\$ 3.60	\$ 3.36	\$ 3.04	\$ 2.80	\$ 2.60
BALANCE SHEET DATA:					
Cash and cash equivalents	\$ 773,544	\$ 501,982	\$ 929,360	\$ 337,048	\$ 520,084
Total assets	23,422,749	23,442,466	22,003,173	21,068,666	22,018,607
Mortgages and other indebtedness	18,042,532	17,218,674	15,394,489	14,106,117	14,586,393
Total equity	\$ 3,101,967	3,414,612	4,040,676	4,444,227	4,900,450
OTHER DATA:					
Cash flow provided by (used in):					
Operating activities	\$ 1,634,484	\$ 1,559,432	\$ 1,316,148	\$ 1,195,141	\$ 1,100,958
Investing activities	(1,020,872)	(2,049,576)	(607,432)	(52,434)	(2,745,697)
Financing activities	\$ (342,050)	\$ 62,766	\$ (116,404)	\$ (1,325,743)	\$ 1,629,200
Ratio of Earnings to Fixed Charges and Preferred Stock Dividends	1.40x	1.44x	1.56x	1.40x	1.51x
Funds from Operations (FFO) (3)	\$ 1,852,331	\$ 1,691,887	\$ 1,537,223	\$ 1,411,368	\$ 1,181,924
FFO allocable to Simon Property	\$ 1,477,446	\$ 1,342,496	\$ 1,215,319	\$ 1,110,933	\$ 920,196

Notes

(1) On October 14, 2004 we acquired the former Chelsea Property Group, Inc. In the accompanying financial statements, Note 2 describes the basis of presentation.

(2)

Represents dividends declared per period.

(3)

FFO is a non-GAAP financial measure that we believe provides useful information to investors. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations for a definition and reconciliation of FFO.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Simon Property Group, Inc. and Subsidiaries

You should read the following discussion in conjunction with the consolidated financial statements and notes thereto that are included in this Annual Report to Stockholders.

Overview

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

We own, develop, and manage retail real estate properties in five retail real estate platforms: regional malls, Premium Outlet Centers®, The Mills®, community/lifestyle centers, and international properties. As of December 31, 2008, we owned or held an interest in 324 income producing properties in the United States, which consisted of 164 regional malls, 70 community/lifestyle centers, 16 additional regional malls and four additional community centers acquired as a result of the 2007 acquisition of The Mills Corporation, or the Mills acquisition, 40 Premium Outlet Centers, 16 The Mills, and 14 other shopping centers or outlet centers in 41 states plus Puerto Rico. The Mills acquisition is described below in the "Results of Operations" section. We also own interests in four parcels of land held in the United States for future development. In the United States, we have one new property currently under development aggregating approximately 400,000 square feet which will open during 2009. Internationally, we have ownership interests in 52 European shopping centers (located in France, Italy, and Poland); seven Premium Outlet Centers located in Japan, one Premium Outlet Center located in Mexico, one Premium Outlet Center located in Korea, and one shopping center located in China. Also, through joint venture arrangements we have ownership interests in the following properties under development internationally: a 24% interest in two shopping centers in Italy, a 40% interest in a Premium Outlet Center in Japan, and a 32.5% interests in three additional shopping centers under construction in China.

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

Base minimum rents,

Overage and percentage rents based on tenants' sales volume, and

Recoveries of substantially all of our recoverable expenditures, which consist of 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 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:

Focusing on leasing to increase revenues and utilization of economies of scale to reduce operating expenses,

Expanding and re-tenanting existing franchise locations at competitive market rates,

Adding mixed-use elements to properties,

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Selectively acquiring high quality real estate assets or portfolios of assets, and

Selling 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 (including handling fees relating to the sales of

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bank-issued prepaid cards), national marketing alliances, static and digital media initiatives, business development, sponsorship, and events,

Offering property operating services to our tenants and others, including waste handling and facility services, and the sale of energy,

Selling or leasing land adjacent to our shopping center properties, commonly referred to as "outlots" or "outparcels," and

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

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

To support our 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.

As more fully discussed in Notes 3 and 10 of the consolidated financial statements, we have retrospectively adopted SFAS 160 and concurrently applied certain provisions of EITF D-98. This resulted in the recording of certain reclassifications related to previously-reported minority interests and limited partner interests, which are now reported and referred to as noncontrolling interests within this discussion and the consolidated financial statements. These reclassifications had no impact on previously reported net income available to common stockholders or earnings per share.

Results Overview

Diluted earnings per common share decreased \$0.08 during 2008, or 4.1%, to \$1.87 from \$1.95 for 2007. The decrease is primarily due to the \$20.3 million loss relating to the redemption of remarketable debt securities, and \$21.2 million in impairment charges in 2008, as compared to net gains aggregating \$1.7 million related to sales and disposition activity and impairment charges for the comparable period in 2007. Consolidated total revenues increased \$132.4 million, or 3.6%, driven by the full year effect of our 2007 openings and expansion activities and the releasing of space at higher rental rates per square foot, or psf. Releasing spreads in the regional mall and Premium Outlet portfolios were strong at \$8.02 psf (or 21.3%) and \$12.48 psf (or 48.8%), respectively, due to continued demand for higher quality space in our portfolio. Total operating expenses increased \$106.9 million, or 5.0%, due to additional depreciation provisions related to the full year of operations for 2007 openings and 2008 new openings, an increase in the provision for bad debts due to the estimated uncollectability of certain tenant receivables, and higher personnel and utility costs attributable to normal inflationary increases. Interest costs remained relatively flat despite an increase in total debt due to lowered variable borrowing costs as a result of a reduced one-month LIBOR rate, the benchmark rate for most of our floating rate debt.

In the United States, business fundamentals were relatively stable, except for tenant sales psf which were mixed across the portfolio, and were dependent upon asset type, geographic location, and mix of specialty and luxury tenants. Average base rents for the regional mall and domestic Premium Outlet portfolios were relatively stable for 2008. The regional malls average base rent ended the year at \$39.49 psf, or an increase of 6.5% over 2007. The domestic Premium Outlets average base rent ended the year at \$27.65 psf, or an increase of 7.7%. The stability of the occupancy, rent psf, and releasing rental spread fundamentals contributed to our ability to generate growth in our operating results despite the adverse effects the general economic pressures are creating for our tenants and the consumer.

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Internationally, in 2008, we and our joint venture partners opened three additional centers (one each in Italy, China, and Japan) and expanded two existing Premium Outlet Centers which added an aggregate 1 million square feet of retail space to the international portfolio. Also during 2008, we acquired shares of stock of Liberty

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International, PLC, or Liberty. Liberty operates regional shopping centers and is the owner of other prime retail assets throughout the U.K. Liberty is a U.K. FTSE 100 listed company, with shareholders' funds of £4.7 billion and property investments of £8.6 billion, of which its U.K. regional shopping centers comprise 75%. Assets of the group under control or joint control amount to £11.0 billion. Liberty converted into a U.K. Real Estate Investment Trust (REIT) on January 1, 2007. Our interest in Liberty is less than 5% of their shares and is adjusted to their quoted market price, including a related foreign exchange component.

Our effective overall borrowing rate for the year ended December 31, 2008, decreased 55 basis points to 5.12% as compared to the year ended December 31, 2007. This was a result of a significant decrease in the base LIBOR rate applicable to a majority of our floating rate debt (0.44% at December 31, 2008, versus 4.60% at December 31, 2007) and also the issuance of new unsecured and secured debt at favorable rates. Our financing activities for the year ended December 31, 2008, included:

decreasing borrowings on the Operating Partnership's \$3.5 billion unsecured credit facility, or Credit Facility, to approximately \$1.0 billion during the year ended December 31, 2008. The amount outstanding includes \$446.3 million (U.S. dollar equivalent) in Euro and Yen-denominated borrowings.

borrowing \$735 million on a term loan that matures March 5, 2012 and bears a rate of LIBOR plus 70 basis points. This loan is secured by the cash flow distributed from six properties and has additional availability of \$115 million through the maturity date.

issuing two tranches of senior unsecured notes in May totaling \$1.5 billion at a weighed average fixed interest rate of 5.74%. We used the proceeds of the offering to reduce borrowings on the Credit Facility and for general working capital purposes.

redeeming the \$200.0 million in remarketable debt securities that bore interest at 7.00%, and, as discussed above, resulted in our recognizing a \$20.3 million loss in the second quarter related to this extinguishment of debt.

redeeming a \$150.0 million unsecured note that bore interest at a fixed rate of 5.38%.

borrowing \$190.0 million on a loan secured by Philadelphia Premium Outlets, which matures on July 30, 2014 and bears interest at a variable rate of LIBOR plus 185 basis points. On January 2, 2009, we executed a swap agreement that fixes the interest rate of this loan at 4.19%. We used the proceeds of the borrowing for general working capital purposes.

borrowing \$260 million on a term loan that matures September 23, 2013 and bears interest at a variable rate of LIBOR plus 195 basis points. On January 2, 2009, we executed a swap agreement that fixes the interest rate of this loan at 4.35%. This is a cross-collateralized loan that is secured by The Domain, Shops at Arbor Walk, and Palms Crossing. We used the proceeds of the borrowing for general working capital purposes.

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The portfolio data discussed in this overview includes the following key operating statistics: occupancy; average base rent per square foot; and comparable sales per square foot for our four domestic platforms. We include acquired properties in this data beginning in the year of acquisition and remove properties sold in the year disposed. We are separately reporting in this section the 16 regional malls we acquired in the 2007 acquisition of The Mills Corporation, or the Mills acquisition. We do not include any properties located outside of the United States in this section. 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.

	2008	%/Basis Points Change(1)	2007	%/Basis Points Change(1)	2006	%/Basis Point Change(1)
Regional Malls:						
<u>Occupancy</u>						
Consolidated	92.6%	-130 bps	93.9%	+90 bps	93.0%	-30 bps
Unconsolidated	91.9%	-80 bps	92.7%	-80 bps	93.5%	+80 bps
Total Portfolio	92.4%	-110 bps	93.5%	+30 bps	93.2%	+10 bps

Average Base Rent per Square**Foot**

Consolidated	\$ 38.21	5.4%	\$ 36.24	4.2%	\$ 34.79	2.2%
Unconsolidated	\$ 42.03	8.5%	\$ 38.73	6.2%	\$ 36.47	3.3%
Total Portfolio	\$ 39.49	6.5%	\$ 37.09	4.8%	\$ 35.38	2.6%

Comparable Sales per Square**Foot**

Consolidated	\$ 445	(5.6%)	\$ 472	2.2%	\$ 462	6.2%
Unconsolidated	\$ 523	(1.5%)	\$ 530	4.9%	\$ 505	5.6%
Total Portfolio	\$ 470	(4.3%)	\$ 491	3.2%	\$ 476	5.8%

Premium Outlet Centers:

<u>Occupancy</u>	98.9%	-80 bps	99.7%	+30 bps	99.4%	-20 bps
<u>Average Base Rent per Square</u>	\$ 27.65	7.7%	\$ 25.67	5.9%	\$ 24.23	4.6%
<u>Foot</u>						
<u>Comparable Sales per Square</u>	\$ 513	1.8%	\$ 504	7.0%	\$ 471	6.1%
<u>Foot</u>						

The Mills®:

<u>Occupancy</u>	94.5%	+40 bps	94.1%			
<u>Average Base Rent per Square</u>	\$ 19.51	2.4%	\$ 19.06			
<u>Foot</u>						
<u>Comparable Sales per Square</u>	\$ 372	0.1%	\$ 372			
<u>Foot</u>						

Mills Regional Malls:

<u>Occupancy</u>	87.4%	-210 bps	89.5%			
<u>Average Base Rent per Square</u>	\$ 36.99	3.8%	\$ 35.63			
<u>Foot</u>						
<u>Comparable Sales per Square</u>	\$ 418	(5.8%)	\$ 444			
<u>Foot</u>						

Community/Lifestyle Centers:

Occupancy

Consolidated	89.3%	-360 bps	92.9%	+140 bps	91.5%	+200 bps
Unconsolidated	93.3%	-330 bps	96.6%	+10 bps	96.5%	+40 bps
Total Portfolio	90.7%	-340 bps	94.1%	+90 bps	93.2%	+160 bps

Average Base Rent per Square

Foot

Consolidated	\$ 13.70	7.6%	\$ 12.73	7.0%	\$ 11.90	1.7%
Unconsolidated	\$ 12.41	4.7%	\$ 11.85	1.5%	\$ 11.68	8.0%
Total Portfolio	\$ 13.25	6.6%	\$ 12.43	5.2%	\$ 11.82	3.6%

(1)

Percentages may not recalculate due to rounding.

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Occupancy Levels and Average Base Rent Per Square Foot. Occupancy and average base rent are based on mall and freestanding Gross Leasable Area, or GLA, owned by us in the regional malls, and all tenants at The Mills, Premium Outlet Centers, and community/lifestyle centers. Our portfolio has maintained relatively stable occupancy and increased the aggregate average base rents despite the current economic climate.

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

International Property Data

The following are selected key operating statistics for certain of our international properties.

	2008	% Change	2007	% Change	2006
European Shopping Centers					
Occupancy	98.4%		98.7%		97.1%
Comparable sales per square foot	€411	-2.5%	€421	7.7%	€391
Average rent per square foot	€30.11	1.8%	€29.58	12.5%	€26.29
International Premium Outlet Centers (1)					
Occupancy	99.9%		100%		100%
Comparable sales per square foot	¥92,000	-1.3%	¥93,169	4.4%	¥89,238
Average rent per square foot	¥4,685	1.3%	¥4,626	-0.4%	¥4,646

- (1) Does not include one center in Mexico (Premium Outlets Punta Norte), one center in Korea (Yeoju Premium Outlets), and one shopping center in China.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, requires management to use judgment in the application of accounting policies, including making estimates and assumptions. We base our estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied resulting in a different presentation of our financial statements. From time to time, we evaluate our estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current information. Below is a discussion of accounting policies that we consider critical in that they may require complex judgment in their application or require estimates about matters that are inherently uncertain. For a summary of our significant accounting policies, see Note 3 of the Notes to Consolidated Financial Statements.

We, as a lessor, retain substantially all of the risks and benefits of ownership of the investment properties and account for our leases as operating leases. We accrue minimum rents on a straight-line basis over the terms of their respective leases. Substantially all of our retail tenants are also required to pay overage rents based on sales over a stated base amount during the lease year. We recognize overage rents only when each tenant's sales exceed its sales threshold.

We review investment properties for impairment on a property-by-property basis whenever events or changes in circumstances indicate that the carrying value of investment properties may not be recoverable. These circumstances include, but are not limited to, declines in cash flows, occupancy and comparable sales per square foot at the property. We recognize an impairment of investment property when the estimated undiscounted operating income before depreciation and amortization plus its residual value is less than the carrying value of the property. To the extent impairment has occurred, we charge to income the excess of

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carrying value of the property over its estimated fair value. We may decide to sell properties that are held for use and the sale prices of these properties may differ from their carrying values.

To maintain our status as a REIT, we must distribute at least 90% of our taxable income in any given year and meet certain asset and income tests. We monitor our business and transactions that may potentially impact our REIT status. In the unlikely event that we fail to maintain our REIT status, and available relief provisions do not apply, then we would be required to pay federal income taxes at regular corporate income tax rates during the period we did not qualify as a REIT. If we lost our REIT status, we could not elect to be taxed as a REIT for four years unless our failure was due to reasonable cause and certain other conditions were met. As a result, failing to maintain REIT status would result in a significant increase in the income tax expense recorded during those periods.

We make estimates as part of our allocation of the purchase price of acquisitions to the various components of the acquisition based upon the relative value of each component. The most significant components of our allocations are typically the allocation of fair value to the buildings as-if-vacant, land and market value of in-place leases. In the case of the fair value of buildings and the allocation of value to land and other intangibles, our estimates of the values of these components will affect the amount of depreciation we record over the estimated useful life of the property acquired or the remaining lease term. In the case of the market value of in-place leases, we make our best estimates of the tenants' ability to pay rents based upon the tenants' operating performance at the property, including the competitive position of the property in its market as well as sales psf, rents psf, and overall occupancy cost for the tenants in place at the acquisition date. Our assumptions affect the amount of future revenue that we will recognize over the remaining lease term for the acquired in-place leases.

A variety of costs are incurred in the acquisition, development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. Our capitalization policy on development properties is guided by SFAS No. 34 "Capitalization of Interest Cost" and SFAS No. 67 "Accounting for Costs and the Initial Rental Operations of Real Estate Properties." The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We consider a construction project as substantially completed and held available for occupancy and cease capitalization of costs upon opening.

Results of Operations

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

On December 31, 2008, we acquired an additional 5% interest in Gateway Shopping Center.

On November 13, 2008, we opened Jersey Shore Premium Outlets, a 435,000 square foot outlet center with 120 designer and name-brand outlet stores located in Tinton Falls, New Jersey.

On November 6, 2008, we opened the second phase of Orlando Premium Outlets, a 114,000 square foot expansion that is 100% leased and adds 40 new merchants, located in Orlando, Florida.

On September 12, 2008, we acquired an additional 3.2% interest in White Oaks Mall.

On May 1, 2008, we opened Pier Park, a 900,000 square foot, open-air retail center located in Panama City, Florida.

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On March 27, 2008, we opened Houston Premium Outlets, a 427,000 square foot outlet center located approximately 30 miles west of Houston in Cypress, Texas.

On January 1, 2008 we acquired an additional 1.8% interest in Oxford Valley Mall and Lincoln Plaza.

On November 15, 2007, we opened Palms Crossing, a 396,000 square foot community center, located adjacent to the new McAllen Convention Center in McAllen, Texas.

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On November 8, 2007, we opened Philadelphia Premium Outlets, a 425,000 square foot outlet center located 35 miles northwest of Philadelphia in Limerick, Pennsylvania.

On November 1, 2007, we acquired an additional 6.5% interest in Montgomery Mall.

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

On July 13, 2007, we acquired an additional 1% interest in Bangor Mall.

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

On March 28, 2007, we acquired a 100% interest in The Maine Outlet, a 112,000 square foot outlet center located in Kittery, Maine for a purchase price of \$45.2 million.

On March 9, 2007, we opened The Domain, in Austin, Texas, which combines 700,000 square feet of luxury fashion and restaurant space, 75,000 square feet of Class A office space and 390 apartments.

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

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

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

On November 2, 2006, we received capital transaction proceeds of \$102.2 million related to the beneficial interests in a mall that the Simon family contributed to us in 2006. This transaction terminated our beneficial interests and resulted in the recognition of an \$86.5 million gain.

On November 1, 2006, we acquired the remaining 50% interest in Mall of Georgia from our partner for \$252.6 million which includes the assumption of our \$96.0 million share of debt, and as a result consolidated the property.

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

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

On December 30, 2008, Cincinnati Mills, one of the properties we acquired in the Mills acquisition, was sold. We held a 50% interest the shopping center.

On October 16, 2008, Chelsea Japan Company, Ltd., or Chelsea Japan, the joint venture which operates the Japanese Premium Outlet Centers in which we have a 40% ownership interest, opened Sendai-Izumi Premium Outlets. The 172,000 square foot first phase of the project opened fully leased to 80 tenants, and is located in Izumi Park Town serving the Sendai market of northern Honshu Island.

On August 25, 2008, Gallerie Commerciali Italia, or GCI, one of our two European joint ventures, opened Monza, a 211,600 square foot shopping center in Monza, Italy.

On June 5, 2008, Great Mall Investments, Ltd., or GMI, the joint venture which operates the hypermarket centers located in China in which we have a 32.5% ownership interest, opened Changshu IN CITY Plaza, a 487,000 square foot retail center located in Changshu, China. The center is anchored by Wal-Mart and has approximately 140 other retail shops.

On May 2, 2008, we and our partner opened Hamilton Town Center, a 950,000 square foot open-air retail center in Noblesville, Indiana. We hold a 50% interest in this center.

On December 6, 2007, GCI opened Nola, a 876,000 square foot shopping center in Naples, Italy.

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On October 17, 2007, we acquired an 18.75% interest in Denver West Village in Lakewood, Colorado through our 50% ownership in SPG-FCM.

On September 27, 2007, GCI opened Cinisello, located in Milan, Italy.

On July 5, 2007, Simon Ivanhoe S.à.r.l, or Simon Ivanhoe, our other European joint venture, sold its interest in five assets located in Poland, for which we recorded our share of the gain of \$90.6 million.

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

On June 1, 2007, Chelsea Japan opened Yeosu Premium Outlets, a 250,000 square foot center in Korea.

On February 16, 2007, SPG-FCM Ventures, LLC, or SPG-FCM, an entity in which a subsidiary of the Operating Partnership holds a 50% interest, entered into a definitive agreement to acquire The Mills Corporation, or Mills. The Mills acquisition added 36 properties and over 42 million square feet of gross leasable area to our portfolio. The properties are generally located in major metropolitan areas and consist of a combination of traditional anchor tenants, local and national retailers, and a number of larger "big box" tenants. We made an equity investment of \$650.0 million and provided loans to SPG-FCM and Mills in various amounts throughout 2007 to acquire Mills' remaining common and preferred equity, and to pay various costs of the transaction. We serve as manager of the properties acquired in this transaction, which is more fully discussed in the "Liquidity and Capital Resources" section.

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

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

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

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

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

For the purposes of the following comparisons between the years ended December 31, 2008 and 2007 and the years ended December 31, 2007 and 2006, the above transactions are referred to as the property transactions. In the following discussions of our results of operations, "comparable" refers to properties open and operating throughout both the current and prior year.

In 2008 we had no consolidated property dispositions. During 2007, we disposed of five consolidated properties that had an aggregate book value of \$91.6 million for aggregate sales proceeds of \$56.4 million, resulting in a net loss on sale of \$35.3 million. The loss on sale of these assets has been reported as discontinued operations in the consolidated statements of operations. The operating results of the properties that we sold or disposed during 2007 were not significant to our consolidated results of operations. The following is a list of consolidated property dispositions and the date of disposition for which we have reported the operations or results of sale with discontinued operations:

Property	Date of Disposition
Lafayette Square	December 27, 2007

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University Mall	September 28, 2007
Boardman Plaza	September 28, 2007
Griffith Park Plaza	September 20, 2007
Alton Square	August 2, 2007

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We sold the following properties in 2006. Due to the limited significance of these properties' operations and result of disposition on our consolidated financial statements, we did not report these properties as discontinued operations.

Property	Date of Disposition
Northland Plaza	December 22, 2006
Trolley Square	August 3, 2006
Wabash Village	July 27, 2006

Year Ended December 31, 2008 vs. Year Ended December 31, 2007

Minimum rents increased \$137.2 million in 2008, of which the property transactions accounted for \$64.6 million of the increase. Comparable rents increased \$72.6 million, or 3.6%. This was primarily due to an increase in minimum rents of \$82.1 million and an \$8.5 million increase in straight-line rents, offset by a \$16.4 million decrease in comparable property activity, primarily attributable to lower amounts of fair market value of in-place lease amortization.

Overage rents decreased \$9.8 million or 8.9%, as a result of a reduction in tenant sales for the period as compared to the prior year.

Tenant reimbursements increased \$42.8 million, due to a \$26.9 million increase attributable to the property transactions and a \$15.9 million, or 1.6%, increase in the comparable properties due to our ongoing initiative to convert leases to a fixed reimbursement methodology for common area maintenance costs.

Management fees and other revenues increased \$18.7 million principally as a result of the full year of additional management fees derived from managing the properties acquired in the Mills acquisition, and additional leasing and development fees as a result of incremental joint venture property activity.

Total other income decreased \$56.6 million, and was principally the result of the following:

a \$26.7 million decrease in interest income primarily due to the repayment of loans made to SPG-FCM and Mills, and lower interest rates attributable to this loan facility, combined with decreased interest earnings on investments due to lower excess cash balances and interest rates earned in 2008 as compared to 2007,

an \$18.7 million decrease in lease settlement income as a result of significant lease settlements received from two department stores in 2007, and

a \$14.3 million decrease in loan financing fees related to Mills-related loan activity during 2007 which did not recur in 2008.

These decreases were offset by a \$3.1 million increase in net other activity.

Depreciation and amortization expense increased \$63.8 million in 2008 primarily due to our acquisition, expansion and renovation activity and the accelerated depreciation of tenant improvements for tenant leases terminated during the period and for properties scheduled for redevelopment.

Real estate taxes increased \$21.3 million from the prior period, \$9.0 million of which is related to the property transactions, and \$12.3 million from our comparable properties due to the effect of increases resulting from reassessments, higher tax rates, and the effect of expansion and renovation activities.

Repairs and maintenance decreased \$12.3 million due to our cost savings efforts.

Provision for credit losses increased \$14.5 million primarily due to an increase in tenant bankruptcies and tenant delinquencies. This was reflected in total square footage lost to tenant bankruptcies of 1,104,000 during 2008 as compared to only 69,000 square feet in 2007. We anticipate a challenging environment for our tenants continuing into 2009.

Home and regional office expense increased \$8.3 million primarily due to increased personnel costs, primarily the result of the Mills acquisition, and the increased expense from certain incentive compensation plans.

Other expenses increased \$6.1 million due to increased consulting and professional fees, including legal fees and related costs.

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Interest expense increased \$1.3 million despite an \$823.9 million increase in consolidated borrowings to fund our development and redevelopment activities, and the full year impact of our borrowings to fund the Mills-related loans, due to a 55 basis point decline in our weighted average borrowing rates. This decrease in weighted average borrowing rates was driven primarily by a decline in the applicable LIBOR rate for a majority of our consolidated floating rate debt instruments, including the Credit Facility.

We recognized a loss on extinguishment of debt of \$20.3 million in the second quarter of 2008 related to the redemption of \$200 million in remarketable debt securities. We extinguished the debt because the remarketing reset base rate was above the rate for 30-year U.S. Treasury securities at the date of redemption.

Income tax expense of taxable REIT subsidiaries increased \$14.9 million due primarily to a \$19.5 million tax benefit recognized in 2007 related to the impairment charge resulting from the write-off of our investment in a land joint venture in Phoenix, Arizona.

Income from unconsolidated entities decreased \$5.9 million, due primarily to the impact of the Mills acquisition (net of eliminations). On a net basis, our share of loss from SPG-FCM increased \$4.7 million from the prior period due to a full year of SPG-FCM activity in 2008 as compared to only nine months of activity in 2007. The loss was driven by depreciation and amortization expense on asset basis step-ups in purchase accounting.

In 2008, we recognized an impairment of \$21.2 million primarily representing the write-down of a mall property to its estimated net realizable value and the write-off of predevelopment costs for various development opportunities that we no longer plan to pursue. In 2007, we recognized an impairment of \$55.1 million related to a land joint venture in Phoenix, Arizona.

The gain on sale of assets and interests in unconsolidated entities of \$92.0 million in 2007 was primarily the result of Simon Ivanhoe selling its interest in certain assets located in Poland.

Preferred distributions of the Operating Partnership decreased \$4.0 million as a result of the conversion or exchange of 1.5 million Series I preferred units to common units or Series I preferred shares.

In 2007, the loss on sale of discontinued operations of \$35.3 million represents the net loss upon disposition of five non-core properties consisting of three regional malls and two community/lifestyle centers.

Preferred dividends decreased \$14.0 million as a result of the conversion of 6.4 million Series I preferred shares into common shares and the redemption of the Series G preferred stock in the fourth quarter of 2007.

Year Ended December 31, 2007 vs. Year Ended December 31, 2006

Minimum rents increased \$133.9 million in 2007, of which the property transactions accounted for \$87.0 million of the increase. Total amortization of the fair market value of in-place leases served to decrease minimum rents by \$8.8 million due to certain in-place lease adjustments becoming fully amortized. Comparable rents increased \$46.8 million, or 2.3%. This was primarily due to the leasing of space at higher rents that resulted in an increase in minimum rents of \$54.6 million offset by a \$9.2 million decrease in comparable property straight-line rents and fair market value of in-place lease amortization. In addition, rents from carts, kiosks, and other temporary tenants increased comparable rents by \$1.4 million.

Overage rents increased \$14.2 million or 14.9%, reflecting increases in tenant sales.

Tenant reimbursements increased \$76.6 million, of which the property transactions accounted for \$40.2 million. The remainder of the increase of \$36.4 million, or 3.8%, was in comparable properties and was due to inflationary increases in property operating costs and our ongoing initiative of converting our leases to a fixed reimbursement methodology for common area maintenance costs.

Management fees and other income increased \$31.5 million principally as a result of additional management fees derived from the additional properties being managed from the Mills acquisition and additional leasing and development fees as a result of incremental property activity.

Total other income increased \$62.5 million, and was principally the result of the following:

a \$46.4 million increase in interest income, of which \$39.1 million is as a result of Mills-related loans, combined with increased interest rates on the investment of excess cash balances,

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an \$18.4 million increase in lease settlement income as a result of settlements received from two department stores in 2007,

a \$17.4 million increase in loan financing fees, net of intercompany eliminations, related to Mills-related loan refinancing activity, offset by

a \$19.7 million decrease in gains on land sale activity.

Property operating expenses increased \$13.3 million, or 3.0%, primarily as a result of the property transactions and inflationary increases.

Depreciation and amortization expense increased \$49.4 million and is primarily a result of the property transactions.

Real estate taxes increased \$13.1 million from the prior period, \$10.4 million of which is related to the property transactions, and \$2.7 million from our comparable properties due to the effect of increases resulting from reassessments, higher tax rates, and the effect of expansion and renovation activities.

Repairs and maintenance increased \$14.2 million due to increased snow removal costs in 2007 over that of 2006, normal inflationary increases, and the effect of the property transactions.

Advertising and promotion increased \$5.9 million primarily due to the effect of the property transactions.

Home and Regional office expense increased \$7.3 million primarily due to increased personnel costs, primarily the result of the Mills acquisition, and the effect of incentive compensation plans.

General and administrative expenses increased \$2.9 million due to increased executive salaries, principally as a result of additional share-based payment amortization from the vesting of restricted stock grants.

Interest expense increased \$124.0 million due principally to the following:

increased borrowings to fund our development and redevelopment activities;

additional borrowings to fund the Mills-related loans; and

the full year effect of May, August, and December 2006 senior note offerings.

Also impacting interest expense was the consolidation of Town Center at Cobb, Gwinnett Place, and Mall of Georgia as a result of our acquisition of additional ownership interests, and the assumption of debt related to the acquisition of Las Americas Premium Outlets.

Income tax expense of taxable REIT subsidiaries decreased \$22.7 million due primarily to a \$19.5 million tax benefit recognized related to the impairment charge related to our write-off of our entire investment in Surprise Grand Vista JV I, LLC, which is developing land located in Phoenix, Arizona, along with a reduction in the taxable income for the management company as a result of structural changes made to our wholly-owned captive insurance entities.

Income from unconsolidated entities decreased \$72.7 million, due in part to the impact of the Mills transaction (net of eliminations). On a consolidated net income basis, our share of income from SPG-FCM approximates a net loss of \$58.7 million for the year due to additional depreciation and amortization expenses on asset basis step-ups in purchase accounting approximating \$102.2 million for the second through fourth quarters of 2007. Also contributing to the decrease is the prior year recognition of \$15.6 million in income related to a beneficial interest that we held in 2006 in a regional mall entity. This beneficial interest was terminated in November 2006.

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In 2007, we recognized an impairment of \$55.1 million related to our Surprise Grand Vista venture in Phoenix, Arizona. As described above, the charge to earnings resulted in a \$19.5 million tax benefit, resulting in a net charge to earnings, before consideration of the limited partners' interest, of \$35.6 million.

We recorded a \$92.0 million net gain on the sales of assets and interests in unconsolidated entities in 2007 primarily as a result of the sale of five assets in Poland by Simon Ivanhoe. In 2006, we recorded a gain related to the sale of a beneficial interest of \$86.5 million, a \$34.4 million gain on the sale of a 10.5% interest in Simon Ivanhoe, and the net gain on the sale of four non-core properties, including one joint venture property, of \$12.2 million.

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Preferred distributions of the Operating Partnership decreased \$5.4 million due to the effect of the conversion of preferred units to common units or shares.

In 2007, the loss on sale of discontinued operations of \$35.3 million represents the net loss upon disposition of five non-core properties consisting of three regional malls and two community/lifestyle centers.

Preferred dividends decreased \$22.6 million as a result of the redemption of the Series G preferred stock in the fourth quarter of 2007 and the Series F preferred stock in the fourth quarter of 2006.

Liquidity and Capital Resources

Because we generate revenues primarily from long-term leases, our financing strategy relies primarily on long-term fixed rate debt. We manage our floating rate debt to be at or below 15-25% of total outstanding indebtedness by negotiating interest rates for each financing or refinancing based on current market conditions. Floating rate debt currently comprises approximately 15% of our total consolidated debt. We also enter into interest rate protection agreements as appropriate to assist in managing our interest rate risk. We derive most of our liquidity from leases that generate positive net cash flow from operations and distributions of capital from unconsolidated entities that totaled \$1.9 billion during 2008. In addition, the Credit Facility provides an alternative source of liquidity as our cash needs vary from time to time. Also, we recently declared a dividend for the first quarter of 2009 that will be paid in cash and shares of common stock, with the cash component limited to 10% on an aggregate basis. Paying 90% of the 2009 dividend in shares of common stock allows us to satisfy our REIT taxable income distribution requirement while enhancing financial flexibility and balance sheet strength.

Our balance of cash and cash equivalents increased \$271.6 million during 2008 to \$773.5 million as of December 31, 2008. December 31, 2008 and 2007 balances include \$29.8 million and \$41.3 million, respectively, related to our co-branded gift card programs, which we do not consider available for general working capital purposes.

On December 31, 2008, we had available borrowing capacity of approximately \$2.4 billion under the Credit Facility, net of outstanding borrowings of \$1.0 billion and letters of credit of \$15.7 million. During 2008, the maximum amount outstanding under the Credit Facility was \$2.6 billion and the weighted average amount outstanding was \$1.4 billion. The weighted average interest rate was 3.49% for the year ended December 31, 2008. The Credit Facility is scheduled to mature on January 11, 2010, which we can extend for another year at our option.

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

Our business model requires us to regularly access the debt and equity capital markets to raise funds for some of our acquisition activity, development and redevelopment capital, as well as to refinance many of our existing debt maturities. We are currently seeing significant turmoil in the capital markets. This has impacted access to debt and equity capital for many organizations, including ours. As demonstrated by recent financing activities (both secured and unsecured), we were able to successfully access capital in the third and fourth quarters of 2008; however, there is no assurance we will be able to do so on similar terms or conditions in future periods. We believe we have sufficient cash on hand and availability under the Credit Facility to address our debt maturities and capital needs through 2009.

Acquisition of The Mills Corporation by SPG-FCM

On February 16, 2007, SPG-FCM, a 50/50 joint venture between an affiliate of the Operating Partnership and funds managed by Farallon Capital Management, L.L.C., or Farallon, entered into a definitive merger agreement to acquire all of the outstanding common stock of Mills for \$25.25 per common share in cash. The acquisition of Mills and its interests in the 36 properties that remain at December 31, 2008 was completed in April 2007. As of December 31, 2008, we and Farallon had each funded \$650.0 million into SPG-FCM to acquire all of the common stock of Mills. As part of the transaction, the Operating Partnership also made loans to SPG-FCM and Mills primarily at rates of LIBOR plus 270-275 basis points. These funds were used by SPG-FCM and Mills to repay loans and other obligations of Mills, including the redemption of preferred stock, during 2007. As of December 31, 2008, the outstanding balance of our loan to SPG-FCM was \$520.7 million, and the average outstanding balance during the twelve month period ended December 31, 2008 of all loans made to SPG-FCM and Mills was approximately \$534.1 million. During 2008 and 2007, we recorded approximately \$15.3 million and \$39.1 million in interest income (net of inter-entity eliminations) related to these loans, respectively. We also recorded fee income, including fee income amortization related to up-front fees on loans made to SPG-FCM and Mills, during 2008 and 2007 of

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approximately \$3.1 million and \$17.4 million (net of inter-entity eliminations), respectively, for providing refinancing services to Mills' properties and SPG-FCM. The existing loan facility to SPG-FCM bears a rate of LIBOR plus 275 basis points and matures on June 7, 2009, with three available one-year extensions. Fees charged on loans made to SPG-FCM and Mills are amortized on a straight-line basis over the life of the loan.

The Mills acquisition involved the purchase of all Mills' outstanding shares of common stock and common units for approximately \$1.7 billion (at \$25.25 per share or unit), the assumption of \$954.9 million of preferred stock, the assumption of a proportionate share of property-level mortgage debt, of which SPG-FCM's share approximated \$3.8 billion, the assumption of \$1.2 billion in unsecured loans provided by us, costs to effect the acquisition, and certain liabilities and contingencies, including an ongoing investigation by the Securities and Exchange Commission, for an aggregate purchase price of approximately \$8 billion. SPG-FCM has completed its purchase price allocations for the Mills acquisition using valuations developed with the assistance of a third-party professional appraisal firm.

In conjunction with the Mills acquisition, we acquired a majority interest in two properties in which we previously held a 50% ownership interest (Town Center at Cobb and Gwinnett Place) and as a result we have consolidated these two properties at the date of acquisition.

In addition to the loans provided to SPG-FCM, we also provide management services to substantially all of the properties in which SPG-FCM holds an interest.

Cash Flows

Our net cash flow from operating activities and distributions of capital from unconsolidated entities totaled \$1.9 billion during 2008. In addition, we received net proceeds from our debt financing and repayment activities in 2008 of \$764.8 million. These activities are further discussed below in "Financing and Debt". We also:

repurchased preferred stock and limited partner units amounting to \$17.9 million,

paid stockholder dividends and unitholder distributions totaling \$1.0 billion,

paid preferred stock dividends and preferred unit distributions totaling \$58.7 million,

funded consolidated capital expenditures of \$874.3 million. These capital expenditures include development and other costs of \$327.7 million, renovation and expansion costs of \$431.9 million, and tenant costs and other operational capital expenditures of \$114.7 million and

funded investments in unconsolidated entities of \$137.5 million.

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

excess cash generated from operating performance and working capital reserves,

borrowings on our Credit Facility,

additional secured or unsecured debt financing, or

additional equity raised in the public or private markets.

We expect to generate positive cash flow from operations in 2009, and we consider these projected cash flows in our sources and uses of cash. These cash flows are principally derived from retail tenants, many of whom are experiencing considerable financial distress. A significant deterioration in projected cash flows from operations could cause us to increase our reliance on available funds from the Credit Facility, curtail planned capital expenditures, or seek other additional sources of financing as discussed above.

Financing and Debt

Unsecured Debt

Our unsecured debt currently consists of \$10.7 billion of senior unsecured notes of the Operating Partnership and the Credit Facility. The Credit Facility bears interest at LIBOR plus 37.5 basis points and an additional facility fee of 12.5 basis points. The Credit Facility matures January 11, 2010 and may be extended one year at our option.

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On May 19, 2008, we issued two tranches of senior unsecured notes totaling \$1.5 billion at a weighted average fixed interest rate of 5.74% consisting of a \$700.0 million tranche with a fixed interest rate of 5.30% due May 30, 2013 and a second \$800.0 million tranche with a fixed interest rate of 6.125% due May 30, 2018. We used proceeds from the offering to reduce borrowings on the Credit Facility and for general working capital purposes.

On June 16, 2008, the Operating Partnership completed the redemption of the \$200.0 million outstanding principal amount of its 7% Mandatory Par Put Remarketed Securities, or MOPPRS. The redemption was accounted for as an extinguishment and resulted in a charge in the second quarter of 2008 of approximately \$20.3 million.

On August 28, 2008, the Operating Partnership repaid a \$150.0 million unsecured note, which had a fixed rate of 5.38%.

During the year ended December 31, 2008, we drew amounts from the Credit Facility to fund the redemption of the remarketable debt securities and the repayment of the \$150.0 million unsecured note. Other amounts drawn on the Credit Facility during the period were primarily for general working capital purposes. We repaid a total of \$2.7 billion on the Credit Facility during the year ended December 31, 2008. The total outstanding balance of the Credit Facility as of December 31, 2008 was \$1.0 billion, and the maximum amount outstanding during the year was approximately \$2.6 billion. During the year ended December 31, 2008, the weighted average outstanding balance was approximately \$1.4 billion. The amount outstanding as of December 31, 2008 includes \$446.3 million in Euro and Yen-denominated borrowings. In addition, subsequent to December 31, 2008, we repaid \$600 million in unsecured notes, consisting of two \$300 million tranches that bore rates of 3.75% and 7.13%, respectively, using proceeds from the Credit Facility.

Secured Debt

Total secured indebtedness was \$6.3 billion and \$5.3 billion at December 31, 2008 and 2007, respectively. During the twelve-month period ended December 31, 2008, we repaid \$274.0 million in mortgage loans, unencumbering five properties.

On January 15, 2008, we entered into a swap transaction that effectively converted \$300.0 million of variable rate debt to fixed rate debt at a rate of 3.21%.

On March 6, 2008, we borrowed \$705 million on a term loan that matures March 5, 2012 and bears a rate of LIBOR plus 70 basis points. On May 27, 2008, the loan was increased to \$735 million. This loan is secured by the cash flow distributed from six properties and has additional availability of \$115 million through the maturity date.

On July 30, 2008, we borrowed \$190.0 million on a loan secured by Philadelphia Premium Outlets, which matures on July 30, 2014 and bears interest at a variable rate of LIBOR plus 185 basis points. On January 2, 2009, we executed a swap agreement that fixes the interest rate on this loan at 4.19%.

On September 23, 2008, we borrowed \$170.0 million on a term loan that matures September 23, 2013 and bears interest at a rate of LIBOR plus 195 basis points. On November 4, 2008, the loan was increased to \$220 million and on December 17, 2008, the loan was increased to its maximum availability of \$260 million. This is a cross-collateralized loan that is secured by The Domain, Shops at Arbor Walk, and Palms Crossing. On January 2, 2009, we executed a swap agreement that fixes the interest rate on \$200.0 million of this loan at 4.35%.

Summary of Financing

Our consolidated debt, adjusted to reflect one fair value derivative outstanding at December 31, 2007 and the effect of fixing variable rate debt with interest rate swaps, and the effective weighted average interest rates for the years then ended consisted of the following (dollars in thousands):

	Adjusted Balance as of December 31, 2008	Effective Weighted Average Interest Rate	Adjusted Balance as of December 31, 2007	Effective Weighted Average Interest Rate
Debt Subject to				
Fixed Rate	\$ 15,424,318	5.76%	\$ 14,056,008	5.88%
Variable Rate	2,618,214	1.31%	3,162,666	4.73%
	\$ 18,042,532	5.12%	\$ 17,218,674	5.67%

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As of December 31, 2008, we had interest rate cap protection agreements on \$281.8 million of consolidated variable rate debt. We also hold \$505.0 million of notional amount variable rate swap agreements that have a weighted average fixed pay rate of 3.29% and a weighted average variable receive rate of 2.75%. As of December 31, 2008, the net effect of these agreements effectively converted \$505.0 million of variable rate debt to fixed rate debt.

Contractual Obligations and Off-balance Sheet Arrangements: The following table summarizes the material aspects of our future obligations as of December 31, 2008 (dollars in thousands):

	2009	2010 to 2011	2012 to 2014	After 2014	Total
Long Term Debt					
Consolidated (1)	\$ 1,475,510	\$ 5,352,250	\$ 6,333,770	\$ 4,863,803	\$ 18,025,333
Pro Rata Share Of Long Term Debt:					
Consolidated (2)	\$ 1,464,866	\$ 5,304,346	\$ 6,164,777	\$ 4,815,638	\$ 17,749,627
Joint Ventures (2)	437,040	1,391,663	2,568,964	2,223,629	6,621,296
Total Pro Rata Share Of Long Term Debt					
Consolidated Capital Expenditure Commitments (3)	1,901,906	6,696,009	8,733,741	7,039,267	24,370,923
Joint Venture Capital Expenditure Commitments (3)	133,512	48,987			182,499
Consolidated Ground Lease Commitments(4)	8,536	609			9,145
	16,530	32,626	49,821	653,052	752,029
Total	\$ 2,060,484	\$ 6,778,231	\$ 8,783,562	\$ 7,692,319	\$ 25,314,596

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- (1) Represents principal maturities only and therefore, excludes net premiums and discounts of \$17,199 and all required interest payments. We incurred interest expense during 2008 of \$947.1 million, net of capitalized interest of \$27.8 million.
- (2) Represents our pro rata share of principal maturities and excludes net premiums and discounts.
- (3) Represents our pro rata share of capital expenditure commitments.
- (4) Represents only the minimum non-cancellable lease period, excluding applicable lease extension and renewal options.

Capital expenditure commitments presented in the table above represent new developments, redevelopments or renovation/expansions that we have committed to the completion of construction. The timing of these expenditures may vary due to delays in construction or acceleration of the opening date of a particular project. In addition, the amount includes our share of committed costs for joint venture developments.

Our off-balance sheet arrangements consist primarily of our investments in real estate joint ventures which are common in the real estate industry and are described in Note 7 of the notes to the accompanying financial statements. Joint venture debt is the liability of the joint venture, is typically secured by the joint venture property, and is non-recourse to us. As of December 31, 2008, the Operating Partnership had loan guarantees and other guarantee obligations to support \$71.9 million and \$6.6 million, respectively, to support our total \$6.6 billion share of joint venture mortgage and other indebtedness presented in the table above.

Preferred Stock Activity

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During 2008, we issued a total of 22,400 shares of Series I 6% Preferred Stock for an equal number of Series I preferred units and we issued 5,151,776 shares of common stock to holders of Series I preferred stock who exercised their conversion rights.

Table of Contents**Acquisitions and Dispositions**

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

Acquisitions. The acquisition of high quality individual properties or portfolios of properties remains an integral component of our growth strategy. Effective January 1, 2008 we acquired an additional 1.8% interest in Oxford Valley Mall and Lincoln Plaza (which gives us a combined ownership interest in each of 64.99%). On September 12, 2008 we acquired an additional 3.2% interest in White Oaks Mall (which gives us an ownership interest of 80.68%). On December 31, 2008 we acquired an additional 5% interest in Gateway Shopping Center for \$2.6 million (which gives us 100% interest in the asset).

Dispositions. We continue to pursue the sale of properties that no longer meet our strategic criteria or that are not the primary retail venue within their trade area. On December 30, 2008, the joint venture partnership in which we own a 50% interest sold Cincinnati Mills for \$8.3 million. No material gain or loss was recorded on this disposition. There were no other dispositions of properties during the year ended December 31, 2008.

Development Activity

New Domestic Developments. Given the significant downturn in the economy, we have substantially reduced our development spending. We expect to complete construction on Cincinnati Premium Outlets, a 400,000 square foot upscale manufacturers' outlet center located in Monroe, OH, during the third quarter of 2009. The estimated total cost of this project is \$92 million, and the carrying amount of the construction in progress as of December 31, 2008 was \$43 million. We expect to fund this project with available cash flow from operations and borrowings from the Credit Facility.

Strategic Domestic Expansions and Renovations. In addition to new development, we also incur costs to renovate and/or expand selected properties. Current projects include a 600,000 square foot Phase II expansion at The Domain, a 220,000 square foot expansion of Camarillo Premium Outlets The Promenade at, and the addition of Nordstrom and small shops at South Shore Plaza. We expect to fund these capital projects with available cash flow from operations and borrowings from the Credit Facility. We expect to invest a total of approximately \$300 million (our share) on expansion and renovation activities in 2009.

Capital Expenditures on Consolidated Properties.

The following table summarizes total capital expenditures on consolidated properties on a cash basis:

	2008	2007	2006
New Developments and Other	\$ 327	\$ 432	\$ 317
Renovations and Expansions	432	349	307
Tenant Allowances	72	106	52
Operational Capital Expenditures	43	130	92
Total	\$ 874	\$ 1,017	\$ 768

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International Development Activity. We typically reinvest net cash flow from our international investments to fund future international development activity. We believe this strategy mitigates some of the risk of our initial investment and our exposure to changes in foreign currencies. We have also funded our European investments with Euro-denominated borrowings that act as a natural hedge against local currency fluctuations. This has also been the case with our Premium Outlet Centers in Japan and Mexico where we use Yen and Peso denominated financing, respectively. We expect our share of international development costs for 2009 will be approximately \$140 million. We expect international development and redevelopment/expansion activity for 2009 to include:

continuing construction by Gallerie Commerciali Italia, or GCI, on two shopping centers: one in Naples, and one in Sicily with a total gross leasable area, or GLA, of 942,000 square feet.

completing and opening of Ami Premium Outlets Phase 1, a 227,000 square foot Premium Outlet Center located in Japan. We hold a 40% ownership interest in this property.

completing and opening three additional Wal-Mart anchored shopping centers, all located in China. We hold a 32.5% ownership interest in these centers.

Currently, our consolidated net income exposure to changes in the volatility of the Euro, Yen, Peso and other foreign currencies is not material. In addition, since cash flows from international operations are currently being reinvested in other development projects, we do not expect to repatriate foreign denominated earnings in the near term.

The carrying amount of our total combined investment in Simon Ivanhoe and GCI, as of December 31, 2008, including all related components of other comprehensive income, was \$224.2 million. Our investments in Simon Ivanhoe and GCI are accounted for using the equity method of accounting. Currently two European developments are under construction which will add approximately 942,000 square feet of GLA for a total net cost of approximately €221 million, of which our share is approximately €53 million, or \$74.8 million based on current Euro:USD exchange rates.

On October 20, 2005, Ivanhoe Cambridge, Inc., or Ivanhoe, an affiliate of Caisse de dépôt et placement du Québec, effectively acquired our former partner's 39.5% ownership interest in Simon Ivanhoe. On February 13, 2006, we sold a 10.5% interest in this joint venture to Ivanhoe for €45.2 million, or \$53.9 million and recorded a gain on the disposition of \$34.4 million. This gain is reported in "gain on sales of interests in unconsolidated entities" in the 2006 consolidated statements of operations. We then settled all remaining share purchase commitments from the company's founders, including the early settlement of some commitments by purchasing an additional 25.8% interest for €55.1 million, or \$65.5 million. As a result of these transactions, we and Ivanhoe each own a 50% interest in Simon Ivanhoe at December 31, 2007 and 2008.

As of December 31, 2008, the carrying amount of our 40% joint venture investment in the seven Japanese Premium Outlet Centers including all related components of other comprehensive income was \$312.6 million. Currently, Ami Premium Outlets, a 227,000 square foot Premium Outlet Center, is under construction in Ami, Japan. The project's total projected net cost is JPY 15.5 billion, of which our share is approximately JPY 6.2 billion, or \$68.5 million based on applicable Yen:USD exchange rates.

As of December 31, 2008, the carrying amount of our 32.5% joint venture investment in GMI including all related components of other comprehensive income was \$53.9 million. Currently, one center is open in Changshu, China and three additional centers are under development. The three centers under development will add approximately 1.5 million square feet of GLA for a total net cost of approximately CNY 1.6 billion, of which our share is approximately CNY 523 million, or \$76.8 million based on applicable CNY:USD exchange rates.

During 2008, we acquired shares of stock of Liberty International, PLC, or Liberty. Liberty operates regional shopping centers and is the owner of other prime retail assets throughout the U.K. Liberty is a U.K. FTSE 100 listed company, with shareholders' funds of £4.7 billion and property investments of £8.6 billion, of which its U.K. regional shopping centers comprise 75%. Assets of the group under control or joint control amount to £11.0 billion. Liberty converted into a U.K. Real Estate Investment Trust (REIT) on January 1, 2007. Our interest in Liberty is less than 5% of their shares and is adjusted to their quoted market price, including a related foreign exchange component.

Distributions and Stock Repurchase Program

On January 30, 2009, our Board of Directors approved a quarterly common stock dividend of \$0.90 per share, to be paid in a combination of cash and shares of our common stock. While our stockholders will have the right to elect to receive their dividend in either cash or common stock, we have announced that the aggregate cash component of the

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dividend will not exceed 10% of the total dividend, or \$0.09 per share. If the number of stockholders electing to receive cash would result in our payment of cash in excess of this 10% limitation, we will allocate the cash payment on a pro rata basis among those stockholders making the cash election. We have reserved the right to elect to pay this dividend all in cash. Our Board of Directors reviews and approves dividends on a quarterly basis, and no determination has been made about whether our remaining 2009 dividends will be paid in a similar combination of cash and common stock. Paying all or a portion of the 2009 dividend in a combination of cash and shares of our common stock allows us to satisfy our REIT taxable income distribution requirement under existing IRS revenue procedures, while enhancing our financial flexibility and balance sheet strength.

Dividends during 2008 aggregated \$3.60 per share and dividends during 2007 aggregated \$3.36 per share all paid in cash. We must pay a minimum amount of dividends to maintain our status as a REIT. Our dividends typically exceed our consolidated net income generated in any given year primarily because of depreciation, which is a "non-cash" expense. Future dividends and distributions of Simon Property and the Operating Partnership will be determined by the Board of Directors based on actual results of operations, cash available for dividends and limited partner distributions, and what may be required to maintain our status as a REIT.

Our Board of Directors has authorized the repurchase of up to \$1.0 billion of common stock through July 2009. We may repurchase the shares in the open market or in privately negotiated transactions. During 2008, no purchases were made as part of this program. The program had remaining availability of approximately \$950.7 million at December 31, 2008.

Forward-Looking Statements

Certain statements made in this section or elsewhere in this report may be deemed "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Although we believe the expectations reflected in any forward-looking statements are based on reasonable assumptions, we can give no assurance that our expectations will be attained, and it is possible that our actual results may differ materially from those indicated by these forward-looking statements due to a variety of risks, uncertainties and other factors. Such factors include, but are not limited to: the impact of a prolonged recession, our ability to meet debt service requirements, the availability and terms of financing, changes in our credit rating, changes in market rates of interest and foreign exchange rates for foreign currencies, the ability to hedge interest rate risk, risks associated with the acquisition, development and expansion of properties, general risks related to retail real estate, the liquidity of real estate investments, environmental liabilities, changes in market rental rates, trends in the retail industry, relationships with anchor tenants, the inability to collect rent due to the bankruptcy or insolvency of tenants or otherwise, risks relating to joint venture properties, competitive market forces, risks related to international activities, insurance costs and coverage, terrorist activities, and maintenance of our status as a real estate investment trust. We discuss these and other risks and uncertainties under the heading "Risk Factors" in our most recent Annual Report on Form 10-K. We may update that discussion in subsequent Quarterly Reports on Form 10-Q, but otherwise we undertake no duty or obligation to update or revise these forward-looking statements, whether as a result of new information, future developments, or otherwise.

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Non-GAAP Financial Measure Funds from Operations

Industry practice is to evaluate real estate properties in part based on funds from operations, or FFO. We consider FFO to be a key measure of our operating performance that is not specifically defined by accounting principles generally accepted in the United States, or GAAP. We believe that FFO is helpful to investors because it is a widely recognized measure of the performance of REITs and provides a relevant basis for comparison among REITs. We also use this measure internally to measure the operating performance of our portfolio.

We determine FFO based on the definition set forth by the National Association of Real Estate Investment Trusts, or NAREIT, as consolidated net income computed in accordance with GAAP:

excluding real estate related depreciation and amortization,

excluding gains and losses from extraordinary items and cumulative effects of accounting changes,

excluding gains and losses from the sales of previously depreciated operating properties,

plus the allocable portion of FFO of unconsolidated entities accounted for under the equity method of accounting based upon economic ownership interest, and

all determined on a consistent basis in accordance with GAAP.

We have adopted NAREIT's clarification of the definition of FFO that requires us to include the effects of nonrecurring items not classified as extraordinary, cumulative effect of accounting changes, or a gain or loss resulting from the sale of previously depreciated operating properties. We include in FFO gains and losses realized from the sale of land, outlot buildings, marketable and non-marketable securities, and investment holdings of non-retail real estate. However, you should understand that our computation of FFO might not be comparable to FFO reported by other REITs and that FFO:

does not represent cash flow from operations as defined by GAAP,

should not be considered as an alternative to consolidated net income determined in accordance with GAAP as a measure of operating performance, and

is not an alternative to cash flows as a measure of liquidity.

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

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	For the Year Ended December 31,		
	2008	2007	2006
	(in thousands)		
Funds from Operations	\$ 1,852,331	\$ 1,691,887	\$ 1,537,223
Increase in FFO from prior period	9.5%	10.1%	8.9%
Consolidated Net Income	\$ 599,535	\$ 639,236	\$ 730,229
Adjustments to Arrive at FFO:			
Depreciation and amortization from consolidated properties and discontinued operations	954,494	892,488	854,394
Simon's share of depreciation and amortization from unconsolidated entities	376,670	315,159	209,428
Gain on sales of assets and interests in unconsolidated entities and discontinued operations		(56,792)	(132,871)
Net income attributable to noncontrolling interest holders in properties	(11,091)	(12,903)	(10,644)
Depreciation and amortization attributable to noncontrolling interest holders in properties	(8,559)	(8,646)	(8,639)
Preferred distributions and dividends	(58,718)	(76,655)	(104,674)
Funds from Operations	\$ 1,852,331	\$ 1,691,887	\$ 1,537,223
FFO Allocable to Simon Property	\$ 1,477,446	\$ 1,342,496	\$ 1,215,319
Diluted net income per share to diluted FFO per share reconciliation:			
Diluted net income per share	\$ 1.87	\$ 1.95	\$ 2.19
Depreciation and amortization from consolidated properties and beneficial interests, and our share of depreciation and amortization from unconsolidated affiliates, net of noncontrolling interests portion of depreciation and amortization	4.69	4.27	3.78
Gain on sales of assets and interests in unconsolidated entities and discontinued operations, net of limited partners' interest		(0.20)	(0.47)
Impact of additional dilutive securities for FFO per share	(0.14)	(0.12)	(0.11)
Diluted FFO per share	\$ 6.42	\$ 5.90	\$ 5.39
Basic weighted average shares outstanding	225,333	222,998	221,024
Adjustments for dilution calculation:			
Effect of stock options	551	778	903
Impact of Series C cumulative preferred 7% convertible units	75	122	912
Impact of Series I preferred stock	10,773	11,065	10,816
Impact of Series I preferred units	1,531	2,485	3,230
Diluted weighted average shares outstanding	238,263	237,448	236,885
Weighted average limited partnership units outstanding	57,175	58,036	58,543
Diluted weighted average shares and units outstanding	295,438	295,484	295,428

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Management's Report On Internal Control Over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and disposition of assets;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based on that assessment, we believe that, as of December 31, 2008, our internal control over financial reporting is effective based on those criteria.

Our independent registered public accounting firm has issued an audit report on their assessment of our internal control over financial reporting. Their report appears on page 27 of this Annual Report.

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Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
Simon Property Group, Inc.:

We have audited Simon Property Group, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2008 based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Simon Property Group, Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Simon Property Group, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Simon Property Group, Inc. and Subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations and comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2008 of Simon Property Group, Inc. and Subsidiaries, and our report dated February 25, 2009, except for the retrospective adjustments described in Notes 3 and 10, as to which the date is April 29, 2009, expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Indianapolis, Indiana
February 25, 2009

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
Simon Property Group, Inc.:

We have audited the accompanying consolidated balance sheets of Simon Property Group, Inc. and Subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations and comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Simon Property Group, Inc. and Subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Simon Property Group, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2009, expressed an unqualified opinion thereon.

As discussed in Notes 3 and 10 to the financial statements, Simon Property Group Inc. and Subsidiaries have retrospectively applied certain reclassification adjustments upon adoption of a new accounting pronouncement for noncontrolling interests.

/s/ ERNST & YOUNG LLP

Indianapolis, Indiana
February 25, 2009,
except for the retrospective adjustments
described in Notes 3 and 10, as to which the date is
April 29, 2009

Table of Contents**Simon Property Group, Inc. and Subsidiaries***Consolidated Balance Sheets**(Dollars in thousands, except share amounts)*

	December 31, 2008	December 31, 2007
ASSETS:		
Investment properties, at cost	\$ 25,205,715	\$ 24,415,025
Less accumulated depreciation	6,184,285	5,312,095
	19,021,430	19,102,930
Cash and cash equivalents	773,544	501,982
Tenant receivables and accrued revenue, net	414,856	447,224
Investment in unconsolidated entities, at equity	1,663,886	1,886,891
Deferred costs and other assets	1,028,333	955,439
Note receivable from related party	520,700	548,000
Total assets	\$ 23,422,749	\$ 23,442,466
LIABILITIES:		
Mortgages and other indebtedness	\$ 18,042,532	\$ 17,218,674
Accounts payable, accrued expenses, intangibles, and deferred revenues	1,086,248	1,251,044
Cash distributions and losses in partnerships and joint ventures, at equity	380,730	352,798
Other liabilities and accrued dividends	155,151	155,937
Total liabilities	19,664,661	18,978,453
Commitments and contingencies		
Limited partners' preferred interest in the Operating Partnership and noncontrolling redeemable interests in properties	276,608	349,154
Series I 6% convertible perpetual preferred stock, 19,000,000 shares authorized, 7,590,264 and 14,004,936 issued and outstanding, respectively, at liquidation value	379,513	700,247
EQUITY:		
Stockholders' equity		
Capital stock (750,000,000 total shares authorized, \$.0001 par value, 237,996,000 shares of excess common stock, 100,000,000 authorized shares of preferred stock):		
Series J 8 ³ / ₈ % cumulative redeemable preferred stock, 1,000,000 shares authorized, 796,948 issued and outstanding, with a liquidation value of \$39,847	46,032	46,361
Common stock, \$.0001 par value, 400,004,000 shares authorized, 235,691,040 and 227,719,614 issued and outstanding, respectively	24	23
Class B common stock, \$.0001 par value, 12,000,000 shares authorized, 8,000 issued and outstanding		
Class C common stock, \$.0001 par value, 4,000 shares authorized, issued and outstanding at 2007		
Capital in excess of par value	5,410,147	5,067,718
Accumulated deficit	(2,491,929)	(2,096,949)
Accumulated other comprehensive income (loss)	(165,066)	18,087

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Common stock held in treasury at cost, 4,379,396 and 4,697,332 shares, respectively	(186,210)	(213,606)
Total stockholders' equity	2,612,998	2,821,634
Noncontrolling interests	488,969	592,978
Total equity	3,101,967	3,414,612
Total liabilities and equity	\$ 23,422,749	\$ 23,442,466

The accompanying notes are an integral part of these statements.

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Simon Property Group, Inc. and Subsidiaries
Consolidated Statements of Operations and Comprehensive Income
(Dollars in thousands, except per share amounts)

	For the Twelve Months Ended December 31,		
	2008	2007	2006
REVENUE:			
Minimum rent	\$ 2,291,919	\$ 2,154,713	\$ 2,020,856
Overage rent	100,222	110,003	95,767
Tenant reimbursements	1,065,957	1,023,164	946,554
Management fees and other revenues	132,471	113,740	82,288
Other income	192,586	249,179	186,689
Total revenue	3,783,155	3,650,799	3,332,154
EXPENSES:			
Property operating	455,874	454,510	441,203
Depreciation and amortization	969,477	905,636	856,202
Real estate taxes	334,657	313,311	300,174
Repairs and maintenance	107,879	120,224	105,983
Advertising and promotion	96,783	94,340	88,480
Provision for credit losses	24,035	9,562	9,500
Home and regional office costs	144,865	136,610	129,334
General and administrative	20,987	19,587	16,652
Other	69,061	62,987	65,277
Total operating expenses	2,223,618	2,116,767	2,012,805
OPERATING INCOME	1,559,537	1,534,032	1,319,349
Interest expense	(947,140)	(945,852)	(821,858)
Loss on extinguishment of debt	(20,330)		
Income tax (expense) benefit of taxable REIT subsidiaries	(3,581)	11,322	(11,370)
Income from unconsolidated entities	32,246	38,120	110,819
Impairment charge	(21,172)	(55,061)	
Gain on sale of assets and interests in unconsolidated entities		92,044	132,787
Consolidated income from continuing operations	599,560	674,605	729,727
Discontinued operations	(25)	(117)	418
Loss on sale of discontinued operations		(35,252)	84
CONSOLIDATED NET INCOME	599,535	639,236	730,229
Net income attributable to noncontrolling interests	135,899	147,997	166,389
Preferred dividends	41,119	55,075	77,695
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ 422,517	\$ 436,164	\$ 486,145
BASIC EARNINGS PER COMMON SHARE:			
Income from continuing operations	\$ 1.88	\$ 2.09	\$ 2.20
Discontinued operations		(0.13)	
Net income attributable to common stockholders	\$ 1.88	\$ 1.96	\$ 2.20
DILUTED EARNINGS PER COMMON SHARE:			
Income from continuing operations	\$ 1.87	\$ 2.08	\$ 2.19
Discontinued operations		(0.13)	
Net income attributable to common stockholders	\$ 1.87	\$ 1.95	\$ 2.19

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Consolidated Net Income	\$ 599,535	\$ 639,236	\$ 730,229
Unrealized (loss) gain on interest rate hedge agreements	(50,973)	(10,760)	6,518
Net income (loss) on derivative instruments reclassified from accumulated other comprehensive income into interest expense	(3,205)	902	2,263
Currency translation adjustments	(6,953)	6,297	1,706
Changes in available-for-sale securities and other	(168,619)	2,020	1,404
Comprehensive income	369,785	637,695	742,120
Comprehensive income attributable to noncontrolling interests	89,302	147,608	168,834
Comprehensive income attributable to common stockholders	\$ 280,483	\$ 490,087	\$ 573,286

The accompanying notes are an integral part of these statements.

Table of Contents**Simon Property Group, Inc. and Subsidiaries***Consolidated Statements of Cash Flows**(Dollars in thousands)*

	For the Twelve Months Ended December 31,		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Consolidated Net income	\$ 599,535	\$ 639,236	\$ 730,229
Adjustments to reconcile consolidated net income to net cash provided by operating activities			
Depreciation and amortization	956,827	875,284	812,718
Gain on sale of assets and interests in unconsolidated entities		(92,044)	(132,787)
Impairment charge	21,172	55,061	
Loss (gain) on disposal or sale of discontinued operations		35,252	(84)
Straight-line rent	(33,672)	(20,907)	(17,020)
Equity in income of unconsolidated entities	(32,246)	(38,120)	(110,819)
Distributions of income from unconsolidated entities	118,665	101,998	94,605
Changes in assets and liabilities			
Tenant receivables and accrued revenue, net	(14,312)	(40,976)	(3,799)
Deferred costs and other assets	(22,698)	(70,138)	(126,989)
Accounts payable, accrued expenses, intangibles, deferred revenues and other liabilities	41,213	114,786	70,094
Net cash provided by operating activities	1,634,484	1,559,432	1,316,148
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions		(263,098)	(158,394)
Funding of loans to related parties	(8,000)	(2,752,400)	
Repayments on loans to related parties	35,300	2,204,400	
Capital expenditures, net	(874,286)	(1,017,472)	(767,710)
Cash impact from the consolidation and de-consolidation of properties		6,117	8,762
Net proceeds from sale of partnership interests, other assets and discontinued operations		56,374	209,039
Investments in unconsolidated entities	(137,509)	(687,327)	(157,309)
Purchase of marketable and non-marketable securities	(345,594)	(12,655)	(5,581)
Distributions of capital from unconsolidated entities and other	309,217	416,485	263,761
Net cash used in investing activities	(1,020,872)	(2,049,576)	(607,432)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sales of common and preferred stock and other	11,106	156,710	217,237
Purchase of limited partner units	(16,009)	(83,993)	(16,150)
Preferred stock redemptions	(1,845)	(300,468)	(393,558)
Distributions to noncontrolling interest holders in properties	(28,251)	(91,032)	(37,200)
Contributions from noncontrolling interest holders in properties	4,005	2,903	2,023
Preferred distributions of the Operating Partnership	(17,599)	(21,580)	(26,979)
Preferred dividends and distributions to stockholders	(852,446)	(804,271)	(749,507)

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Distributions to limited partners	(205,850)	(194,823)	(177,673)
Mortgage and other indebtedness proceeds, net of transaction costs	4,456,975	5,577,083	5,507,735
Mortgage and other indebtedness principal payments	(3,692,136)	(4,177,763)	(4,442,332)
Net cash (used in) provided by financing activities	(342,050)	62,766	(116,404)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	271,562	(427,378)	592,312
CASH AND CASH EQUIVALENTS, beginning of year	501,982	929,360	337,048
CASH AND CASH EQUIVALENTS, end of year	\$ 773,544	\$ 501,982	\$ 929,360

The accompanying notes are an integral part of these statements.

Table of Contents**Simon Property Group, Inc. and Subsidiaries***Consolidated Statements of Equity**(Dollars in thousands)*

	Preferred Stock	Common Stock	Accumulated Other Comprehensive Income (Loss)	Capital in Excess of Par Value	Accumulated Deficit	Common Stock Held in Treasury	Non- controlling interests	Total Equity
Balance at December 31, 2005	\$ 388,263	\$ 23	\$ 9,793	\$ 4,998,723	\$ (1,582,859)	\$ (230,086)	\$ 860,370	\$ 4,444,227
Conversion of limited partner units (86,800 common shares, Note 10)				1,247			(1,247)	
Stock options exercised (414,659 common shares)				14,906				14,906
Series I preferred stock conversion to common stock (283,907 preferred shares to 222,933 common shares)				14,195				14,195
Series J preferred stock premium amortization	(329)							(329)
Series F preferred stock redemption (8,000,000 shares)	(192,989)							(192,989)
Series G preferred stock accretion	587							587
Series K preferred stock issuance (8,000,000 shares)	200,000							200,000
Series K preferred stock redemption (8,000,000 shares)	(200,000)							(200,000)
Stock incentive program (415,098 common shares, net)				(36,487)		36,487		
Common stock retired (70,000 Shares)				(2,354)	(4,051)			(6,405)
Amortization of stock incentive				23,369				23,369
Other				608	1,096		(10,501)	(8,797)
Adjustment to limited partners' interest from increased ownership in the Operating Partnership				(3,951)			3,951	
Distributions to common shareholders and limited partners, excluding Operating Partnership preferred interests					(749,507)		(177,673)	(927,180)
Distributions to other noncontrolling interest partners							(36,049)	(36,049)
Other comprehensive income			9,446				2,445	11,891
Net income, excluding \$26,979 attributable to preferred interests in the Operating Partnership					563,840		139,410	703,250
Balance at December 31, 2006	\$ 195,532	\$ 23	\$ 19,239	\$ 5,010,256	\$ (1,771,481)	\$ (193,599)	\$ 780,706	\$ 4,040,676
Conversion of limited partner units (1,692,474 common shares, Note 10)				22,781			(22,781)	
Stock options exercised (231,025 common shares)				7,604				7,604
Series I preferred stock conversion to common stock (65,907 preferred shares to 51,987 common shares)				3,296				3,296
Series I preferred unit conversion to limited partner units							30,320	30,320
Series J preferred stock premium amortization	(328)							(328)
Treasury stock purchase (572,000 Shares)						(49,269)		(49,269)
Series G preferred stock accretion	1,157							1,157
Series G preferred stock redemption (3,000,000 shares)	(150,000)							(150,000)
Series L preferred stock issuance (6,000,000 shares)	150,000							150,000
Series L preferred stock redemption (6,000,000 shares)	(150,000)							(150,000)
Stock incentive program (222,725 common shares, net)				(29,262)		29,262		
Common stock retired (23,000 shares)				(773)	(1,518)			(2,291)

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Amortization of stock incentive				26,779				26,779
Other				571	(10,918)		(17,996)	(28,343)
Adjustment to limited partners' interest from increased ownership in the Operating Partnership				26,466			(26,466)	
Distributions to common shareholders and limited partners, excluding Operating Partnership preferred interests					(804,271)		(194,823)	(999,094)
Distributions to other noncontrolling interest partners							(82,010)	(82,010)
Other comprehensive income				(1,152)			(389)	(1,541)
Net income, excluding \$21,580 attributable to preferred interests in the Operating Partnership					491,239		126,417	617,656
Balance at December 31, 2007	\$	46,361	\$	23	\$	18,087	\$	5,067,718
								\$ (2,096,949)
								\$ (213,606)
								\$ 592,978
								\$ 3,414,612
Conversion of limited partner units (2,574,608 common shares, Note 10)			1		31,350		(31,351)	
Conversion of Class C stock (4,000 shares)								
Issuance of common shares upon conversion of Class C shares (4,000 common shares)								
Stock options exercised (282,106 common shares)					11,886			11,886
Series I preferred stock conversion to common stock (6,437,072 preferred shares to 5,151,776 common shares)					321,854			321,854
Series I preferred unit conversion to limited partner units							74,695	74,695
Series J preferred stock premium amortization	(329)							(329)
Stock incentive program (276,872 common shares, net)					(27,396)		27,396	
Amortization of stock incentive					28,640			28,640
Other					(450)	(6,170)	(10,908)	(17,528)
Adjustment to limited partners' interest from increased ownership in the Operating Partnership					(23,455)		23,455	
Distributions to common shareholders and limited partners, excluding Operating Partnership preferred interests						(852,446)	(205,850)	(1,058,296)
Distributions to other noncontrolling interest partners							(25,753)	(25,753)
Other comprehensive income (loss)					(183,153)		(46,597)	(229,750)
Net income, excluding \$17,599 attributable to preferred interests in the Operating Partnership						463,636	118,300	581,936
Balance at December 31, 2008	\$	46,032	\$	24	\$	(165,066)	\$	5,410,147
								\$ (2,491,929)
								\$ (186,210)
								\$ 488,969
								\$ 3,101,967

The accompanying notes are an integral part of these statements.

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Simon Property Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

**(Dollars in thousands, except share and per share amounts and
where indicated as 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. Simon Property Group, L.P., or the Operating Partnership, is our majority-owned partnership subsidiary that owns all of our real estate properties. In these notes to consolidated financial statements, the terms "we", "us" and "our" refer to Simon Property, the Operating Partnership, and their subsidiaries.

We own, develop, and manage retail real estate in five retail real estate platforms: regional malls, Premium Outlet Centers®, The Mills®, community/lifestyle centers, and international properties. As of December 31, 2008, we owned or held an interest in 324 income-producing properties in the United States, which consisted of 164 regional malls, 16 additional regional malls and four additional community centers acquired as a result of the 2007 acquisition of The Mills Corporation, or the Mills acquisition, 70 community/lifestyle centers, 16 The Mills, 40 Premium Outlet Centers, and 14 other shopping centers or outlet centers in 41 states and Puerto Rico. We also own interests in four parcels of land held in the United States for future development. Internationally, we have ownership interests in 52 European shopping centers (France, Italy, and Poland); seven Premium Outlet Centers in Japan; one Premium Outlet Center in Mexico; one Premium Outlet Center in Korea; and one shopping center in China. Also, through joint venture arrangements we have ownership interests in the following properties under development internationally: a 24% interest in two shopping centers in Italy, a 40% interest in a Premium Outlet Center in Japan, and a 32.5% interests in three additional shopping centers under construction in China.

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

Base minimum rents,

Overage and percentage rents based on tenants' sales volume, and

Recoveries of substantially all of our recoverable expenditures, which consist of property operating, real estate tax, repairs and maintenance, and advertising and promotional expenditures.

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 (including handling fees relating to the sales of bank-issued prepaid cards), national marketing alliances, static and digital media initiatives, business development, sponsorship, and events,

Offering property operating services to our tenants and others, including: waste handling and facility services, as well as major capital expenditures such as roofing, parking lots and energy systems,

Selling or leasing land adjacent to our shopping center properties, commonly referred to as "outlots" or "outparcels," and

Generating interest income on cash deposits and loans made to related entities.

2. Basis of Presentation and Consolidation

The accompanying consolidated financial statements include the accounts of all majority-owned subsidiaries, and all significant intercompany amounts have been eliminated.

We consolidate properties that are wholly owned or properties that we own less than 100% but we control. Control of a property is demonstrated by, among other factors, our ability to:

manage day-to-day operations,

Table of Contents**Simon Property Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

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

2. Basis of Presentation and Consolidation (Continued)

refinance debt and sell the property without the consent of any other partner or owner, and

the inability of any other partner or owner to replace us.

We also consolidate all variable interest entities, or VIE, when we are determined to be the primary beneficiary. Our determination of the primary beneficiary of a VIE considers all relationships between us and the VIE, including management agreements and other contractual arrangements, when determining the party obligated to absorb the majority of the expected losses, as defined in FASB Interpretation No. 46 (revised), Consolidation of Variable Interest Entities (FIN 46(R)). There have been no changes during 2008 in conclusions about whether an entity qualifies as a VIE or whether we are the primary beneficiary of any previously identified VIE. During 2008, we have not provided financial or other support to a previously identified VIE that we were not previously contractually obligated to provide.

Investments in partnerships and joint ventures represent our noncontrolling ownership interests in properties. We account for these investments using the equity method of accounting. We initially record these investments at cost and we subsequently adjust for net equity in income or loss, which we allocate in accordance with the provisions of the applicable partnership or joint venture agreement, and cash contributions and distributions. The allocation provisions in the partnership or joint venture agreements are not always consistent with the legal ownership interests held by each general or limited partner or joint venture investee primarily due to partner preferences.

As of December 31, 2008, we consolidated 203 wholly-owned properties and consolidated 18 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 165 properties using the equity method of accounting (joint venture properties). We manage the day-to-day operations of 93 of the 165 joint venture properties but have determined that our partner or partners have substantive participating rights in regards to the assets and operations of these joint venture properties. Additionally, we account for our investment in SPG-FCM Ventures, LLC, or SPG-FCM, which acquired The Mills Corporation and its majority-owned subsidiary, The Mills Limited Partnership, or collectively Mills, in April 2007, using the equity method of accounting. We have determined that SPG-FCM is not a VIE and that Farallon Capital Management, L.L.C., or Farallon, our joint venture partner, has substantive participating rights with respect to the assets and operations of SPG-FCM pursuant to the applicable partnership agreements.

We allocate net operating results of the Operating Partnership after preferred distributions to third parties and to us based on the partners' respective weighted average ownership interests in the Operating Partnership. Net operating results of the Operating Partnership attributable to third parties are reflected in net income attributable to noncontrolling interests.

Our weighted average ownership interest in the Operating Partnership was as follows:

	For the Year Ended December 31,		
	2008	2007	2006
Weighted average ownership interest	79.8%	79.4%	79.1%

As of December 31, 2008 and 2007, our ownership interest in the Operating Partnership was 80.4% and 79.4%, respectively. We adjust the limited partners' interest in the Operating Partnership at the end of each period to reflect their interest in the Operating Partnership.

Reclassifications

We made certain reclassifications of prior period amounts in the consolidated financial statements to conform to the 2008 presentation. The reclassifications included the retrospective adoption of Statement of Financial Accounting Standard (SFAS) No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment

Table of Contents**Simon Property Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

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

2. Basis of Presentation and Consolidation (Continued)

to ARB 51" (SFAS 160), and the application of of EITF Topic D-98, "Classification and Measurement of Redeemable Securities" (EITF D-98), to certain redeemable securities, as further described in Note 3. The reclassifications had no impact on previously reported net income available to common stockholders or earnings per share.

3. Summary of Significant Accounting Policies***Investment Properties***

We record investment properties at cost. Investment properties include costs of acquisitions; development, predevelopment, and construction (including allocable salaries and related benefits); tenant allowances and improvements; and interest and real estate taxes incurred related to construction. We capitalize improvements and replacements from repair and maintenance when the repair and maintenance extend the useful life, increase capacity, or improve the efficiency of the asset. All other repair and maintenance items are expensed as incurred. We capitalize interest on projects during periods of construction until the projects are ready for their intended purpose based on interest rates in place during the construction period. The amount of interest capitalized during each year is as follows:

	For the Year Ended December 31,		
	2008	2007	2006
Capitalized interest	\$ 27,847	\$ 35,793	\$ 30,115

We record depreciation on buildings and improvements utilizing the straight-line method over an estimated original useful life, which is generally 10 to 40 years. We review depreciable lives of investment properties periodically and we make adjustments when necessary to reflect a shorter economic life. We record depreciation on tenant allowances, tenant inducements and tenant improvements utilizing the straight-line method over the term of the related lease or occupancy term of the tenant, if shorter. We record depreciation on equipment and fixtures utilizing the straight-line method over seven to ten years.

We review investment properties for impairment on a property-by-property basis whenever events or changes in circumstances indicate that the carrying value of investment properties may not be recoverable. These circumstances include, but are not limited to, declines in cash flows, occupancy and comparable sales per square foot at the property. We recognize an impairment of investment property when the estimated undiscounted operating income before depreciation and amortization plus its residual value is less than the carrying value of the property. To the extent impairment has occurred, we charge to income the excess of carrying value of the property over its estimated fair value. We may decide to sell properties that are held for use and the sale prices of these properties may differ from their carrying values.

Certain of our real estate assets contain asbestos. The asbestos is appropriately contained, in accordance with current environmental regulations, and we have no current plans to remove the asbestos. If these properties were demolished, certain environmental regulations are in place which specify the manner in which the asbestos must be handled and disposed. Because the obligation to remove the asbestos has an indeterminable settlement date, we are not able to reasonably estimate the fair value of this asset retirement obligation.

Purchase Accounting Allocation

We allocate the purchase price of acquisitions to the various components of the acquisition based upon the relative value of each component in accordance with SFAS No. 141 "Business Combinations" (SFAS 141). These components typically include buildings, land and intangibles related to in-place leases and we estimate:

the fair value of the buildings on an as-if-vacant basis. The value allocated to land and related improvements is determined either by real estate tax assessments, a third party valuation specialist, or other relevant data.

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Simon Property Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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

3. Summary of Significant Accounting Policies (Continued)

the market value of in-place leases based upon our best estimate of current market rents and amortize the resulting market rent adjustment into revenues.

the value of costs to obtain tenants, including tenant allowances and improvements and leasing commissions.

the value of revenue and recovery of costs foregone during a reasonable lease-up period, as if the space was vacant.

Amounts allocated to building are depreciated over the estimated remaining life of the acquired building or related improvements. We amortize amounts allocated to tenant improvements, in-place lease assets and other lease-related intangibles over the remaining life of the underlying leases. We also estimate the value of other acquired intangible assets, if any, which are amortized over the remaining life of the underlying related leases or intangibles.

Discontinued Operations

SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144) provides a framework for the evaluation of impairment of long-lived assets, the treatment of assets held for sale or to be otherwise disposed of, and the reporting of discontinued operations. SFAS 144 requires us to reclassify any material operations related to consolidated properties sold during the period to discontinued operations. During 2007, we reported the net loss upon sale on our five consolidated assets sold in "loss on sale of discontinued operations" in the consolidated statements of operations and comprehensive income. The operating results of the assets disposed of in 2007 were not significant to our consolidated results of operations. There were no consolidated assets sold during 2008.

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 markets. Our gift card programs are administered by banks. We collect gift card funds at the point of sale and then remit those funds to the banks for further processing. As a result, cash and cash equivalents, as of December 31, 2008 and 2007, includes a balance of \$29.8 million and \$41.3 million, respectively, related to these gift card programs which we do not consider available for general working capital purposes. 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 with high credit quality. However, at certain times, such cash and cash equivalents may be in excess of FDIC and SIPC insurance limits. See Notes 4, 8, and 10 for disclosures about non-cash investing and financing transactions.

Marketable and Non-Marketable Securities

Marketable securities consist primarily of the investments of our captive insurance subsidiaries, our investment in shares of stock of Liberty International PLC, or Liberty, our deferred compensation plan investments, and certain investments held to fund the debt service requirements of debt previously secured by investment properties that have been sold. Non-marketable securities includes an investment that we acquired in 2008.

The types of securities included in the investment portfolio of our captive insurance subsidiaries typically include U.S. Treasury or other U.S. government securities as well as corporate debt securities with maturities ranging from 1 to 10 years. These securities are classified as available-for-sale and are valued based upon quoted market prices or using discounted cash flows when quoted market prices are not available. The amortized cost of debt securities, which approximates fair value, held by our captive insurance subsidiaries is adjusted for amortization of

premiums and

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Simon Property Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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

3. Summary of Significant Accounting Policies (Continued)

accretion of discounts to maturity. Our investment in Liberty is also accounted for as an available-for-sale security. Liberty operates regional shopping centers and is owner of other retail assets throughout the U.K. Liberty is a U.K. FTSE 100 listed company. Liberty converted into a U.K. Real Estate Investment Trust (REIT) on January 1, 2007. Our interest in Liberty is less than 5% of their shares and is adjusted to their quoted market price, including a related foreign exchange component. Changes in the values of these securities are recognized in accumulated other comprehensive income (loss) until the gain or loss is realized and recorded in other income, and includes the effect of changes in foreign exchange rates on foreign currency denominated investments. However, if we determine a decline in value is other than temporary, then we recognize the unrealized loss in earnings to write down the investments to their net realizable value.

Our insurance subsidiaries are required to maintain statutory minimum capital and surplus as well as maintain a minimum liquidity ratio. Therefore, our access to these securities may be limited. Our deferred compensation plan investments are classified as trading securities and are valued based upon quoted market prices. The investments have a matching liability recorded as the amounts are fully payable to the employees that earned the compensation. Changes in the values of these securities are recognized in earnings, but because of the matching liability the impact to consolidated net income is zero. As of December 31, 2008 and 2007, we have investments of \$53.4 million and \$55.9 million, respectively, which must be used to fund the debt service requirements of debt related to investment properties sold. These investments are classified as held-to-maturity and are recorded at amortized cost as we have the ability and intent to hold these investments to maturity. During 2008, we made an investment of \$70 million in a non-marketable security that we account for under the cost method. To the extent an other-than-temporary decline in fair value is deemed to have occurred, we would adjust this investment to its fair value.

Fair Value Measurements

We hold marketable securities that total \$316.7 million and \$260.4 million at December 31, 2008 and 2007, respectively, and are considered to have Level 1 fair value inputs. The underlying aggregate unrealized loss on our marketable securities as of December 31, 2008 was \$165.3 million. In addition, we have derivative instruments, primarily interest rate swap agreements, with a gross liability balance of \$19.4 million and \$6.8 million, at December 31, 2008 and 2007, respectively, which are classified as having Level 2 inputs. As defined by SFAS No. 157, "Fair Value Measurements" (SFAS 157), Level 1 fair value inputs are quoted prices for identical items in active, liquid and visible markets such as stock exchanges, and Level 2 fair value inputs include observable information for similar items in active or inactive markets. We appropriately consider counterparty creditworthiness in the valuations.

Accounting for Beneficial Interests in Mall of America

In January 2006, an entity controlled by the Simon family assigned to us its right to receive cash flow, capital distributions, and related profits and losses with respect to a portion of its ownership interest in the Mall of America through Mall of America Associates, or MOAA. This beneficial interest was transferred subject to a credit facility repayable from MOAA's distributions from the property. As a result of this assignment, we began recognizing our share of MOAA's income during the first quarter of 2006, including the proportionate share of earnings of MOAA since August 2004 through the first quarter of 2006 of \$10.2 million. This income is included with "income from unconsolidated entities" in our consolidated statement of operations. We accounted for our beneficial interests in MOAA under the equity method of accounting. On November 2, 2006, the Simon family entity sold its partnership interest to an affiliate of another partner in MOAA and settled all pending litigation, terminating our beneficial interests. As a result of this sale, we ceased recording income from this property's operations, and recorded a gain of approximately \$86.5 million as a result of the receipt of \$102.2 million of capital transaction proceeds assigned to us from this arrangement which is included in "gain on sale of assets and interests in unconsolidated entities" in the consolidated statements of operations and comprehensive income.

Table of Contents**Simon Property Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

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

3. Summary of Significant Accounting Policies (Continued)*Use of Estimates*

We prepared the accompanying consolidated financial statements in accordance with accounting principles generally accepted in the United States, or GAAP. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reported period. Our actual results could differ from these estimates.

Segment Disclosure

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131) requires disclosure of certain operating and financial data with respect to separate business activities within an enterprise. Our primary business is the ownership, development, and management of retail real estate. We have aggregated our retail operations, including regional malls, Premium Outlet Centers, The Mills, and community/lifestyle centers, into one reportable segment because they have similar economic characteristics and we provide similar products and services to similar types of tenants. Further, all material operations are within the United States and no customer or tenant comprises more than 10% of consolidated revenues.

Deferred Costs and Other Assets

Deferred costs and other assets include the following as of December 31:

	2008	2007
Deferred financing and lease costs, net	\$ 237,619	\$ 221,433
In-place lease intangibles, net	33,280	66,426
Acquired above market lease intangibles, net	32,812	49,741
Marketable securities of our captive insurance companies	105,860	116,260
Goodwill	20,098	20,098
Other marketable securities	210,867	144,188
Prepays, notes receivable and other assets, net	387,797	337,293
	\$ 1,028,333	\$ 955,439

Deferred Financing and Lease Costs. Our deferred costs consist primarily of financing fees we incurred in order to obtain long-term financing and internal and external leasing commissions and related costs. We record amortization of deferred financing costs on a straight-line basis over the terms of the respective loans or agreements. Our deferred leasing costs consist primarily of capitalized salaries and related benefits in connection with lease originations. We record amortization of deferred leasing costs on a straight-line basis over the terms of the related leases. Details of these deferred costs as of December 31 are as follows:

	2008	2007
Deferred financing and lease costs	\$ 444,220	\$ 401,153
Accumulated amortization	(206,601)	(179,720)
Deferred financing and lease costs, net	\$ 237,619	\$ 221,433

We report amortization of deferred financing costs, amortization of premiums, and accretion of discounts as part of interest expense. Amortization of deferred leasing costs are a component of depreciation and amortization expense. We amortize debt premiums and discounts, which are included in mortgages and other indebtedness, over the

Table of Contents**Simon Property Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

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

3. Summary of Significant Accounting Policies (Continued)

remaining terms of the related debt instruments. These debt premiums or discounts arise either at the debt issuance or as part of the purchase price allocation of the fair value of debt assumed in acquisitions. The accompanying statements of operations and comprehensive income includes amortization as follows:

	For the Year Ended December 31,		
	2008	2007	2006
Amortization of deferred financing costs	\$ 17,044	\$ 15,467	\$ 18,716
Amortization of debt premiums net of discounts	(14,701)	(23,000)	(28,163)
Amortization of deferred leasing costs	31,674	26,033	22,259

Intangible Assets. The average life of in-place lease intangibles is approximately 5.5 years and is amortized over the remaining life of the leases of the related property on the straight-line basis and is included with depreciation and amortization in the consolidated statements of operations and comprehensive income. The fair market value of above and below market leases are amortized into revenue over the remaining lease life as a component of reported minimum rents. The weighted average remaining life of these intangibles approximates 2 years. The unamortized amounts of below market leases are included in accounts payable, accrued expenses, intangibles and deferred revenues on the consolidated balance sheets were \$94.3 million and \$146.7 million as of December 31, 2008 and 2007, respectively. The amount of amortization of above and below market leases, net for the year ended December 31, 2008, 2007, and 2006 was \$35.4 million, \$44.6 million, and \$53.3 million, respectively. If a lease is terminated prior to the original lease termination, any remaining unamortized intangible is charged to the income statement.

Details of intangible assets as of December 31 are as follows:

	2008	2007
In-place lease intangibles	\$ 160,125	\$ 190,151
Accumulated amortization	(126,845)	(123,725)
In-place lease intangibles, net	\$ 33,280	\$ 66,426
Acquired above market lease intangibles	\$ 144,224	\$ 144,224
Accumulated amortization	(111,412)	(94,483)
Acquired above market lease intangibles, net	\$ 32,812	\$ 49,741

Estimated future amortization, and the increasing (decreasing) effect on minimum rents for our above and below market leases recorded as of December 31, 2008 are as follows:

	Below Market Leases	Above Market Leases	Increase to Minimum Rent, Net
2009	\$ 33,590	\$ (13,388)	\$ 20,202
2010	22,702	(6,958)	15,744
2011	17,228	(4,909)	12,319
2012	12,297	(3,703)	8,594
2013	5,105	(2,592)	2,513

Thereafter	3,372	(1,262)	2,110
	\$ 94,294	\$ (32,812)	\$ 61,482

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Simon Property Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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

3. Summary of Significant Accounting Policies (Continued)

Derivative Financial Instruments

We account for our derivative financial instruments pursuant to SFAS 133 "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 138, "Accounting for Derivative Instruments and Hedging Activities." We use a variety of derivative financial instruments in the normal course of business to manage or hedge the risks associated with our indebtedness and interest payments as described in Note 8 and record all derivatives on our balance sheets at fair value. 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 adjust our balance sheets on an ongoing basis to reflect the current fair market value of our derivatives. We record changes in the fair value of these derivatives each period in earnings or other comprehensive income, as appropriate. The ineffective portion of the hedge is immediately recognized in earnings to the extent that the change in value of a derivative does not perfectly offset the change in value of the instrument being hedged. The unrealized gains and losses held in accumulated other comprehensive income will be reclassified to earnings over time as the hedged items are recognized in earnings. We have a policy of only entering into contracts with major financial institutions based upon their credit ratings and other factors.

We use standard market conventions to determine the fair values of derivative instruments, and techniques such as discounted cash flow analysis, option pricing models, and termination cost to determine fair value at each balance sheet date. All methods of assessing fair value result in a general approximation of value and such value may never actually be realized.

Retrospective Adjustments Related to Noncontrolling Interests and Temporary Equity

Effective January 1, 2009, we adopted the provisions of SFAS 160, which requires a noncontrolling interest in a subsidiary to be reported as equity and the amount of consolidated net income specifically attributable to the noncontrolling interest to be included within consolidated net income. SFAS 160 also requires consistency in the manner of reporting changes in the parent's ownership interest and requires fair value measurement of any noncontrolling equity investment retained in a deconsolidation. In connection with our retrospective adoption of SFAS 160, we also performed a concurrent review and retrospectively adopted the measurement provisions of EITF D-98. Upon adoption, we adjusted the carrying amounts of noncontrolling redeemable interests held by third parties in certain of our properties to redemption values at each reporting date. Because holders of the noncontrolling redeemable interests in properties can require us to redeem these interests for cash, we have classified these noncontrolling redeemable interests outside of permanent equity upon the adoption of SFAS 160. These adjustments increased the December 31, 2005 carrying value of these noncontrolling redeemable interests by \$31.7 million, with a corresponding increase to accumulated deficit in consolidated equity. Subsequent adjustments to the carrying amounts of these noncontrolling redeemable interests in properties, to reflect the change in their redemption value at the end of each reporting period, were recorded to accumulated deficit. Additionally, due to certain cash redemption features that may be deemed outside of our control, we have retained temporary equity classification for certain limited partners' preferred interest in the Operating Partnership upon adoption of SFAS 160.

Our reassessment of EITF D-98 also resulted in the reclassification of our Series I 6% Convertible Perpetual Preferred Stock (Series I Preferred Stock) from permanent equity to temporary equity due to the possibility that we could be required to redeem the security for cash upon the occurrence of a change in control event, which would include a change in the majority of our directors that occurs over a two year period. The carrying amount of the Series I Preferred Stock is equal to its liquidation value, which is the amount payable upon the occurrence of such event. Lastly, the adoption of SFAS 160 also resulted in the reclassification to equity as noncontrolling nonredeemable

Table of Contents**Simon Property Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Dollars in thousands, except share and per share amounts and where indicated as in millions or billions)****3. Summary of Significant Accounting Policies (Continued)**

interests the limited partners' common interests in the Operating Partnership and noncontrolling interests in properties.

Details of the carrying amount of our noncontrolling interests that have been reclassified to permanent equity are as follows as of December 31:

	2008	2007
Limited partners' common and preferred interest in the Operating Partnership	\$ 639,779	\$ 734,229
Nonredeemable noncontrolling deficit interests in properties, net	(150,810)	(141,251)
Total noncontrolling interests reflected in equity	\$ 488,969	\$ 592,978

As a result of these reclassifications, total equity at December 31, 2008 and 2007 increased by \$61.8 million and decreased by \$148.8 million from the \$3.0 billion and \$3.6 billion amounts previously reported, respectively.

Further, as a result of the adoption of SFAS 160, net income attributable to noncontrolling interests (which includes nonredeemable noncontrolling interests in consolidated properties, limited partners' interests in the Operating Partnership and preferred distributions of the Operating Partnership) is now excluded from the determination of consolidated net income. In addition, the individual components of other comprehensive income are now presented in the aggregate, with the portion attributable to noncontrolling interests deducted from comprehensive income attributable to common stockholders. Corresponding changes have also been made to the accompanying consolidated statements of cash flows. Such changes result in a net increase to cash flows provided by operating activities with an offsetting increase to cash flows used in financing activities related to distributions to noncontrolling interest holders in properties.

A progression of noncontrolling interests for the years ending December 31 is as follows:

	2008	2007	2006
Noncontrolling interests at January 1	\$ 592,978	\$ 780,706	\$ 860,370
Net income attributable to noncontrolling interests	118,300	126,417	139,410
Distributions to noncontrolling interest holders	(205,850)	(194,823)	(177,673)
Other Comprehensive income allocable to noncontrolling interests:			
Unrealized loss on interest rate hedging agreements	(10,380)	(2,295)	1,307
Net (loss) gain on derivative instruments reclassified from accumulated other comprehensive income into interest expense	(649)	186	474
Currency translation adjustments	(1,426)	1,306	370
Changes in available-for-sale securities and other	(34,142)	414	294
	(46,597)	(389)	2,445
Adjustment to limited partners' interest from increased ownership in the Operating Partnership	23,455	(26,466)	3,951
Units issued to limited partners	74,695	30,320	
Units exchanged for shares of common stock	(31,351)	(22,781)	(1,247)
Other	(10,908)	(17,996)	(10,501)

Total noncontrolling interests as of December 31	\$ 488,969	\$ 592,978	\$ 780,706
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Table of Contents**Simon Property Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

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

3. Summary of Significant Accounting Policies (Continued)***Accumulated Other Comprehensive Income (Loss)***

The components of our accumulated other comprehensive income (loss) consisted of the following as of December 31:

	2008	2007
Cumulative translation adjustments	\$ (2,524)	\$ 4,429
Accumulated derivative (losses) gains, net	(39,100)	15,078
Net unrealized (losses) gains on marketable securities, net	(165,336)	3,283
	(206,960)	22,790
Less: Accumulated other comprehensive income attributable to noncontrolling interest	(41,894)	4,703
Total accumulated other comprehensive (loss) income	\$ (165,066)	\$ 18,087

Included in cumulative translation adjustment is the gain related to the impact of exchange rate fluctuations on foreign currency denominated debt of \$46.9 million and \$35.4 million at December 31, 2008 and 2007, respectively that hedges the currency exposure related to certain of our foreign investments. The net unrealized losses as of December 31, 2008 of \$165.3 million represents the valuation and related currency adjustments for our marketable securities, primarily related to our investment in Liberty. We do not consider the decline in value of any of our marketable securities to be an other-than-temporary decline in value as these market value declines have existed for a short period of time, and we have the ability and intent to hold these securities. Further, as it relates to Liberty, we believe their underlying operating fundamentals remain substantially unchanged.

Revenue Recognition

We, as a lessor, retain substantially all of the risks and benefits of ownership of the investment properties and account for our leases as operating leases. We accrue minimum rents on a straight-line basis over the terms of their respective leases. Substantially all of our retail tenants are also required to pay overage rents based on sales over a stated base amount during the lease year. We recognize overage rents only when each tenant's sales exceed the applicable sales threshold.

We structure our leases to allow us to recover a significant portion of our property operating, real estate taxes, repairs and maintenance, and advertising and promotion expenses from our tenants. A substantial portion of our leases, other than those for anchor stores, require the tenant to reimburse us for a substantial portion of our operating expenses, including common area maintenance, or CAM, real estate taxes and insurance. This significantly reduces our exposure to increases in costs and operating expenses resulting from inflation. Such property operating expenses typically include utility, insurance, security, janitorial, landscaping, food court and other administrative expenses. We accrue reimbursements from tenants for recoverable portions of all these expenses as revenue in the period the applicable expenditures are incurred. For approximately 75% of our leases in the U.S. regional mall portfolio, we receive a fixed payment from the tenant for the CAM component. We are continually working towards converting the remainder of our leases to the fixed payment methodology. Without the fixed-CAM component, CAM expense reimbursements are based on the tenant's proportionate share of the allocable operating expenses and CAM capital expenditures for the property. We also receive escrow payments for these reimbursements from substantially all our non-fixed CAM tenants and monthly fixed CAM payments throughout the year. We recognize differences between estimated recoveries and the final billed amounts in the subsequent year. These differences were not material in any period presented. Our advertising and promotional costs are expensed as incurred.

Table of Contents**Simon Property Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Dollars in thousands, except share and per share amounts and where indicated as in millions or billions)****3. Summary of Significant Accounting Policies (Continued)*****Management Fees and Other Revenues***

Management fees and other revenues are generally received from our unconsolidated joint venture properties as well as third parties. Management fee revenue is earned based on a contractual percentage of joint venture property revenue. Development fee revenue is earned on a contractual percentage of hard costs to develop a property. Leasing fee revenue is earned on a contractual per square foot charge based on the square footage of current year leasing activity. We recognize revenue for these services provided when earned based on the underlying activity.

Insurance premiums written and ceded are recognized on a pro-rata basis over the terms of the policies. Insurance losses are reflected in property operating expenses in the accompanying statements of operations and comprehensive income and include estimates for losses incurred but not reported as well as losses pending settlement. Estimates for losses are based on evaluations by third-party actuaries and management's best estimates. Total insurance reserves for our insurance subsidiaries and other self-insurance programs as of December 31, 2008 and 2007 approximated \$116.5 million and \$121.4 million, respectively.

We recognize fee revenues from our co-branded gift card programs when the fees are earned under the related arrangements with the card issuer. Generally, these revenues are recorded at the issuance of the gift card for handling fees.

Allowance for Credit Losses

We record a provision for credit losses based on our judgment of a tenant's creditworthiness, ability to pay and probability of collection. In addition, we also consider the retail sector in which the tenant operates and our historical collection experience in cases of bankruptcy, if applicable. Accounts are written off when they are deemed to be no longer collectible. Presented below is the activity in the allowance for credit losses and includes the activities related to discontinued operations during the following years:

	For the Year Ended December 31,		
	2008	2007	2006
Balance at Beginning of Year	\$ 33,810	\$ 32,817	\$ 35,239
Consolidation of previously unconsolidated entities		495	321
Provision for Credit Losses	24,037	9,672	9,730
Accounts Written Off	(13,197)	(9,174)	(12,473)
Balance at End of Year	\$ 44,650	\$ 33,810	\$ 32,817

Income Taxes

We and a subsidiary of the Operating Partnership have elected to be taxed as REITs under Sections 856 through 860 of the Internal Revenue Code and applicable Treasury regulations relating to REIT qualification. In order to maintain this REIT status, the regulations require us to distribute at least 90% of our taxable income to stockholders and meet certain other asset and income tests as well as other requirements. We intend to continue to adhere to these requirements and maintain our REIT status and that of the REIT subsidiaries. As REITs, these entities will generally not be liable for federal corporate income taxes as long as they continue to distribute in excess of 100% of their taxable income. Thus, we made no provision for federal income taxes for these entities in the accompanying consolidated financial statements. If Simon Property or the REIT subsidiaries fail to qualify as a REIT, we or that entity will be subject to tax at regular corporate rates for the years in which it failed to qualify. If we lose our REIT status we could not elect to be taxed as a REIT for four years unless our failure to qualify was due to reasonable cause and certain other conditions were satisfied.

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Simon Property Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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

3. Summary of Significant Accounting Policies (Continued)

We have also elected taxable REIT subsidiary, or TRS, status for some of our subsidiaries. This enables us to provide services that would otherwise be considered impermissible for REITs and participate in activities that don't qualify as "rents from real property". For these entities, deferred tax assets and liabilities are established for temporary differences between the financial reporting basis and the tax basis of assets and liabilities at the enacted tax rates expected to be in effect when the temporary differences reverse. A valuation allowance for deferred tax assets is provided if we believe all or some portion of the deferred tax asset may not be realized. An increase or decrease in the valuation allowance that results from the change in circumstances that causes a change in our judgment about the realizability of the related deferred tax asset is included in income.

As of December 31, 2008 and 2007, we had a net deferred tax asset of \$8.9 million and \$19.8 million, respectively, related to our TRS subsidiaries. The net deferred tax asset is included in deferred costs and other assets in the accompanying consolidated balance sheets and consists primarily of operating losses and other carryforwards for federal income tax purposes as well as the timing of the deductibility of losses or reserves from insurance subsidiaries. No valuation allowance has been recorded as we believe these amounts will be realized. State income, franchise or other taxes were not significant in any of the periods presented. The income tax benefit in 2007 results primarily from the tax deductibility of a \$55.1 million impairment charge.

4. Real Estate Acquisitions, Disposals, and Impairment

We acquire properties to generate both current income and long-term appreciation in value. We acquire individual properties or portfolios of other retail real estate companies that meet our investment criteria. We sell properties which no longer meet our strategic criteria. Our consolidated acquisition and disposal activity for the periods presented are highlighted as follows:

2008 Acquisitions

Effective January 1, 2008, we acquired additional interests in three existing consolidated properties of between 1.8% and 5%, for an aggregate \$6.2 million in cash. Two of the properties continue to have a noncontrolling interest holder. We now own 100% of the third property.

2007 Acquisitions

As a result of the Mills acquisition which is more fully discussed in Note 7, we consolidated two regional mall properties, Town Center at Cobb and Gwinnett Place. In addition to the Mills acquisition, on March 1, 2007, we acquired the remaining 40% interest in both University Park Mall and University Center located in Mishawaka, Indiana from our partner and as a result, we now own 100% of these properties. On March 28, 2007, we acquired The Maine Outlet, a 112,000 square foot outlet center located in Kittery, Maine, adjacent to our Kittery Premium Outlets property. On August 23, 2007, we acquired Las Americas Premium Outlets, a 560,000 square foot upscale outlet center located in San Diego, California. We also purchased an additional 1% interest in Bangor Mall on July 13, 2007, and an additional 6.5% interest in Montgomery Mall on November 1, 2007. The aggregate purchase price of the consolidated assets acquired during 2007, excluding Town Center and Cobb and Gwinnett Place, was approximately \$394.2 million, including the assumption of our share of debt of the properties acquired.

2006 Acquisitions

On November 1, 2006, we acquired the remaining 50% interest in Mall of Georgia, a regional mall property for \$252.6 million, including the assumption of our \$96.0 million share of debt. As a result, we now own 100% of Mall of Georgia and the property was consolidated as of the acquisition date.

Table of Contents**Simon Property Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Dollars in thousands, except share and per share amounts and where indicated as in millions or billions)****4. Real Estate Acquisitions, Disposals, and Impairment (Continued)*****2008 Dispositions***

We had no consolidated property dispositions during the year ended December 31, 2008.

2007 Dispositions

During the year ended December 31, 2007, we sold five consolidated properties for which we received net proceeds of \$56.4 million and recorded our share of a loss on the disposals (net) totaling \$35.2 million.

2006 Dispositions

During the year ended December 31, 2006, we sold three consolidated properties and one property in which we held a 50% interest and accounted for under the equity method. We received net proceeds of \$52.7 million and recorded our share of a gain on the dispositions totaling \$12.2 million.

Impairment. In 2008, we recorded an impairment charge of \$21.2 million. This resulted primarily from a \$10.5 million reduction in the carrying value of a regional mall to its estimated net realizable value and the write-off of predevelopment costs related to various projects that we no longer plan to pursue development.

5. Per Share Data

We determine basic earnings per share based on the weighted average number of shares of common stock outstanding during the period. We determine diluted earnings per share based on the weighted average number of shares of common stock outstanding combined with the incremental weighted average shares that would have been outstanding assuming all dilutive potential common shares were converted into shares at the earliest date possible. The following table sets forth the computation of our basic and diluted earnings per share.

		For the Year Ended December 31,		
		2008	2007	2006
Net Income available to Common Stockholders	Basic	\$ 422,517	\$ 436,164	\$ 486,145
Effect of dilutive securities:				
Impact to General Partner's interest in Operating Partnership from all dilutive securities and options		209	313	415
Net Income available to Common Stockholders				
Diluted		\$ 422,726	\$ 436,477	\$ 486,560
Weighted Average Shares Outstanding	Basic	225,332,593	222,998,313	221,024,096
Effect of stock options		551,057	778,471	903,255
Weighted Average Shares Outstanding	Diluted	225,883,650	223,776,784	221,927,351

For the year ending December 31, 2008, potentially dilutive securities include stock options, convertible preferred stock and common units of limited partnership interest, or Units, in the Operating Partnership which are exchangeable for common stock and certain preferred units of limited partnership interest of the Operating Partnership. The only security that had a dilutive effect for the years ended December 31, 2008, 2007 and 2006 were stock options.

Table of Contents**Simon Property Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

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

5. Per Share Data (Continued)

We accrue distributions when they are declared. The taxable nature of the dividends declared for each of the years ended as indicated is summarized as follows:

	For the Year Ended December 31,		
	2008	2007	2006
Total dividends paid per common share	\$ 3.60	\$ 3.36	\$ 3.04
Percent taxable as ordinary income	84.7%	92.9%	81.4%
Percent taxable as long-term capital gains	1.2%	7.1%	18.6%
Percent nontaxable as return of capital	14.1%		
	100.0%	100.0%	100.0%

6. Investment Properties

Investment properties consist of the following as of December 31:

	2008	2007
Land	\$ 2,795,026	\$ 2,798,452
Buildings and improvements	22,112,944	21,364,915
Total land, buildings and improvements	24,907,970	24,163,367
Furniture, fixtures and equipment	297,745	251,658
Investment properties at cost	25,205,715	24,415,025
Less accumulated depreciation	6,184,285	5,312,095
Investment properties at cost, net	\$ 19,021,430	\$ 19,102,930
Construction in progress included above	\$ 358,254	\$ 647,303

7. Investments in Unconsolidated Entities

Joint ventures are common in the real estate industry. We use joint ventures, primarily with institutional investors, to finance properties, develop new properties, and diversify our risk in a particular property or portfolio. We held joint venture ownership interests in 103 properties in the U.S. as of December 31, 2008 and December 31, 2007. We also held interests in two joint ventures which owned 52 European shopping centers as of December 31, 2008 and 51 as of December 31, 2007. We also held an interest in seven joint venture properties under operation in Japan, one joint venture property in Mexico, one joint venture property in Korea, and one joint venture property in China. We account for these joint venture properties using the equity method of accounting.

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

Acquisition of The Mills Corporation by SPG-FCM

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On February 16, 2007, SPG-FCM, a 50/50 joint venture between an affiliate of the Operating Partnership and funds managed by Farallon Capital Management, L.L.C., or Farallon, entered into a definitive merger agreement to acquire all of the outstanding common stock of Mills for \$25.25 per common share in cash. The acquisition of Mills and its interests in the 36 properties that remain at December 31, 2008 was completed in April 2007. As of

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Simon Property Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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

7. Investments in Unconsolidated Entities (Continued)

December 31, 2008, we and Farallon had each funded \$650.0 million into SPG-FCM to acquire all of the common stock of Mills. As part of the transaction, the Operating Partnership also made loans to SPG-FCM and Mills at rates of LIBOR plus 270-275 basis points. These funds were used by SPG-FCM and Mills to repay loans and other obligations of Mills, including the redemption of preferred stock, during 2007. As of December 31, 2008, the outstanding balance of our loan to SPG-FCM was \$520.7 million, and the average outstanding balance during the year ended December 31, 2008 of all loans made to SPG-FCM and Mills was approximately \$534.1 million. During 2008 and 2007, we recorded approximately \$15.3 million and \$39.1 million in interest income (net of inter-entity eliminations) related to these loans, respectively. We also recorded fee income, including fee income amortization related to up-front fees on loans made to SPG-FCM and Mills, during 2008 and 2007 of approximately \$3.1 million and \$17.4 million (net of inter-entity eliminations), respectively, for providing refinancing services to Mills' properties and SPG-FCM. The existing loan facility to SPG-FCM bears a rate of LIBOR plus 275 basis points and matures on June 7, 2009, with three available one-year extensions. Fees charged on loans made to SPG-FCM and Mills are amortized on a straight-line basis over the life of the loan.

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

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

Effective July 1, 2007, we or an affiliate of ours began serving as the manager for substantially all of the properties in which SPG-FCM holds an interest. In conjunction with the Mills acquisition, we acquired a majority interest in two properties in which we previously held a 50% ownership interest (Town Center at Cobb and Gwinnett Place) and as a result we have consolidated these two properties at the date of acquisition. We have reclassified the results of these properties in the Joint Venture Statement of Operations into "Income from consolidated joint venture interests."

The Mills acquisition involved the purchase of all of Mills' outstanding shares of common stock and common units for approximately \$1.7 billion (at \$25.25 per share or unit), the assumption of \$954.9 million of preferred stock, the assumption of a proportionate share of property-level mortgage debt, of which SPG-FCM's share approximated \$3.8 billion, the assumption of \$1.2 billion in unsecured loans provided by us, costs to effect the acquisition, and certain liabilities and contingencies, including an ongoing investigation by the Securities and Exchange Commission, for an aggregate purchase price of approximately \$8 billion. SPG-FCM has finalized its purchase price allocations for the Mills acquisition. The valuations were developed with the assistance of a third-party professional appraisal firm.

In addition we sold our interest in Cincinnati Mills and Broward and Westland Malls, which we acquired through the Mills acquisition, and recognized no gain or loss on these dispositions.

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Simon Property Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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

7. Investments in Unconsolidated Entities (Continued)

Joint Venture Property Refinancing Activity

The following joint venture property refinancing activity occurred during the period, some of which resulted in our receiving significant excess refinancing proceeds or making contributions:

On December 5, 2008, we refinanced Ontario Mills, a joint venture property in which we own a 25% interest, with a \$75.0 million, LIBOR plus 296 basis points variable-rate mortgage that matures December 5, 2013. We subsequently entered into a swap agreement that essentially fixes the interest rate at 5.13%. The balances of the previous mortgages were \$135.6 million and required a contribution by the partners to retire the loan. Our net share of the contribution was \$15.7 million.

During 2008, we refinanced Fashion Valley Mall, a joint venture property in which we own a 50% interest, with a \$200.0 million, LIBOR plus 200 bps variable-rate mortgage that matures October 9, 2013. The balances of the two previous mortgages, which were repaid, were \$153.6 million and \$29.1 million and bore interest at a fixed rate of 6.49% and 6.58%, respectively. We received our share of the excess refinancing proceeds of approximately \$7.1 million on the closing of the new mortgage loan.

On October 1, 2008, we refinanced Mall of New Hampshire, a joint venture property in which we own a 49.14% interest, with a \$136.7 million, 6.23% fixed-rate mortgage that matures October 5, 2015. The balances of the two previous mortgages, which were repaid, were \$93.5 million and \$7.8 million and bore interest at a fixed rate of 6.96% and 8.53%, respectively. We received our share of the excess refinancing proceeds of approximately \$18.7 million on the closing of the new mortgage loan.

On November 15, 2007, we refinanced Aventura Mall, a joint venture property in which we own a 33.3% interest, with a \$430.0 million, 5.905% fixed-rate mortgage that matures on December 11, 2017. The balance of the previous \$200.0 million 6.61% fixed-rate mortgage was repaid, and we received our share of the excess refinancing proceeds of approximately \$71.4 million.

On November 1, 2007, we refinanced West Town Mall, a joint venture property in which we own a 50% interest, with a \$210.0 million, 6.3375% fixed-rate mortgage that matures on December 1, 2017. The balance of the previous \$76.0 million 6.90% fixed-rate mortgage was repaid, and we received our share of the excess refinancing proceeds of approximately \$66.4 million.

Table of Contents**Simon Property Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

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

7. Investments in Unconsolidated Entities (Continued)**Summary Financial Information**

A summary of our investments in joint ventures and share of income from such joint ventures follow. We condensed into separate line items major captions of the statements of operations for joint venture interests sold or consolidated. Consolidation occurs when we acquire an additional interest in the joint venture and as a result, gain control of the property or become the primary beneficiary of a VIE. We reclassified these line items into "Income from discontinued joint venture interests" and "Income from consolidated joint venture interests" so that we may present comparative results of operations for those joint venture interests held as of December 31, 2008. Balance sheet information for the joint ventures is as follows:

	December 31, 2008	December 31, 2007
BALANCE SHEETS		
Assets:		
Investment properties, at cost	\$ 21,472,490	\$ 21,009,416
Less accumulated depreciation	3,892,956	3,217,446
	17,579,534	17,791,970
Cash and cash equivalents	805,411	747,575
Tenant receivables and accrued revenue, net	428,322	435,093
Investment in unconsolidated entities, at equity	230,497	258,633
Deferred costs and other assets	594,578	713,180
Total assets	\$ 19,638,342	\$ 19,946,451
Liabilities and Partners' Equity:		
Mortgages and other indebtedness	\$ 16,686,701	\$ 16,507,076
Accounts payable, accrued expenses, intangibles, and deferred revenue	1,070,958	972,699
Other liabilities	982,254	825,279
Total liabilities	18,739,913	18,305,054
Preferred units	67,450	67,450
Partners' equity	830,979	1,573,947
Total liabilities and partners' equity	\$ 19,638,342	\$ 19,946,451
Our Share of:		
Total assets	\$ 8,056,873	\$ 8,040,987
Partners' equity	\$ 533,929	\$ 776,857
Add: Excess Investment	749,227	757,236
Our net Investment in Joint Ventures	\$ 1,283,156	\$ 1,534,093
Mortgages and other indebtedness	\$ 6,632,419	\$ 6,568,403

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

Table of Contents**Simon Property Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

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

7. Investments in Unconsolidated Entities (Continued)

As of December 31, 2008, scheduled principal repayments on joint venture properties' mortgages and other indebtedness are as follows:

2009	\$ 1,511,663
2010	1,694,633
2011	1,630,437
2012	2,538,381
2013	1,563,591
Thereafter	7,724,784
Total principal maturities	16,663,489
Net unamortized debt premiums and discounts	23,212
Total mortgages and other indebtedness	\$16,686,701

This debt becomes due in installments over various terms extending through 2036 with interest rates ranging from 1.00% to 10.61% and a weighted average rate of 4.99% at December 31, 2008.

	For the Year Ended December 31,		
	2008	2007	2006
STATEMENTS OF OPERATIONS			
Revenue:			
Minimum rent	\$ 1,956,129	\$ 1,682,671	\$ 1,060,896
Overage rent	130,549	119,134	89,968
Tenant reimbursements	1,005,638	852,312	540,560
Other income	199,774	201,075	147,549
Total revenue	3,292,090	2,855,192	1,838,973
Operating Expenses:			
Property operating	671,268	580,910	366,122
Depreciation and amortization	775,887	627,929	318,589
Real estate taxes	263,054	220,474	131,359
Repairs and maintenance	124,272	113,517	83,331
Advertising and promotion	70,425	62,182	42,096
Provision for credit losses	24,053	22,448	4,620
Other	177,298	162,570	125,976
Total operating expenses	2,106,257	1,790,030	1,072,093
Operating Income	1,185,833	1,065,162	766,880
Interest expense	(969,420)	(853,307)	(415,425)
(Loss) income from unconsolidated entities	(5,123)	665	1,204
Loss on sale of asset		(6,399)	(6)
Income from Continuing Operations	211,290	206,121	352,653
Income from consolidated joint venture interests		2,562	14,070
Income from discontinued joint venture interests	47	202	736
Gain on disposal or sale of discontinued operations, net		198,956	20,375

Net Income	\$ 211,337	\$ 407,841	\$ 387,834
Third-Party Investors' Share of Net Income	\$ 132,111	\$ 232,586	\$ 232,499
Our Share of Net Income	79,226	175,255	155,335
Amortization of Excess Investment	(46,980)	(46,503)	(49,546)
Income from Beneficial Interests and Other, net			15,605
Write-off of Investment Related to Properties Sold			(2,846)
Our Share of Net Gain Related to Properties/Assets Sold		(90,632)	(7,729)
Income from Unconsolidated Entities, Net	\$ 32,246	\$ 38,120	\$ 110,819

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Simon Property Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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

7. Investments in Unconsolidated Entities (Continued)

2006 Acquisition and Disposition Activity

On November 1, 2006, we acquired the remaining 50% interest in Mall of Georgia, a regional mall property for \$252.6 million, which includes our \$96.0 million share of debt. As a result, we now own 100% of Mall of Georgia and the property was consolidated as of the acquisition date. We have reclassified the results of this property in the Joint Venture Statement of Operations into "Income from consolidated joint venture interests."

Impairment Charge. On December 28, 2005, we invested \$50.0 million of equity for a 40% interest in a joint venture with Toll Brothers, Inc. and Meritage Homes Corp. to purchase a 5,485-acre land parcel in northwest Phoenix from DaimlerChrysler Corporation for \$312 million. The principal use of the land upon attaining entitled status is to develop single-family homesites by our partners. As a result of the downturn in the residential market, during the fourth quarter of 2007, we recorded an impairment charge of \$55.1 million, \$36.5 million net of tax benefit, representing our entire equity investment in this joint venture, including interest capitalized on our invested equity.

International Joint Venture Investments

European Joint Ventures. We conduct our international operations in Europe through our two European joint venture investment entities; Simon Ivanhoe S.à.r.l., or Simon Ivanhoe, and Gallerie Commerciali Italia, or GCI. The carrying amount of our total combined investment in these two joint venture investments is \$224.2 million and \$361.3 million as of December 31, 2008 and 2007, respectively, including all related components of other comprehensive income. The Operating Partnership has a 50% ownership in Simon Ivanhoe and a 49% ownership in GCI as of December 31, 2008.

On October 20, 2005, Ivanhoe Cambridge, Inc., or Ivanhoe, an affiliate of Caisse de dépôt et placement du Québec, effectively acquired our former partner's 39.5% ownership interest in Simon Ivanhoe. On February 13, 2006, pursuant to the terms of our October 20, 2005 transaction with Ivanhoe, we sold a 10.5% interest in this joint venture to Ivanhoe for €45.2 million, or \$53.9 million, and recorded a gain on the disposition of \$34.4 million. This gain is reported in "gain (loss) on sales of assets and interests in unconsolidated entities, net" in the 2006 consolidated statement of operations and comprehensive income (loss). We then settled all remaining share purchase commitments from the company's founders, including the early settlement of some commitments by purchasing an additional 25.8% interest in Simon Ivanhoe for €55.1 million, or \$65.5 million. As a result of these transactions, we and Ivanhoe each own a 50% interest in Simon Ivanhoe at December 31, 2007 and 2008.

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

Asian Joint Ventures. We conduct our international Premium Outlet operations in Japan through joint ventures with Mitsubishi Estate Co., Ltd. and Sojitz Corporation. The carrying amount of our investment in these Premium Outlet joint ventures in Japan is \$312.6 million and \$273.0 million as of December 31, 2008 and 2007, respectively, including all related components of other comprehensive income. We have a 40% ownership in these Japan Premium Outlet Centers through a joint venture arrangement. During 2007, we also completed construction and opened our first Premium Outlet in Korea. As of December 31, 2008 and 2007 respectively, our investment in our Premium Outlet in Korea, for which we hold a 50% ownership interest, approximated \$18.0 million and \$23.1 million including all related components of other comprehensive income.

During 2006, we finalized the formation of joint venture arrangements to develop and operate shopping centers in China. The shopping centers will be anchored by Wal-Mart stores and we own a 32.5% interest in the joint venture entities, and a 32.5% ownership in the management operation overseeing these projects, collectively referred to as Great Mall Investments, Ltd., or GMI. During 2008, we completed construction and opened our first center in China, and have three additional centers under construction and due for completion in 2009. As of December 31, 2008 and

Table of Contents**Simon Property Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

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

7. Investments in Unconsolidated Entities (Continued)

2007 respectively, our investment in our centers in China approximated \$53.9 million and \$33.7 million including all related components of other comprehensive income. Our projected total equity commitment upon completion for all four centers in China is \$53.7 million.

8. Indebtedness and Derivative Financial Instruments

Our mortgages and other indebtedness, excluding the impact of derivative instruments except for our fair value interest rate swaps, consist of the following as of December 31:

	2008	2007
Fixed-Rate Debt:		
Mortgages and other notes, including \$15,312 and \$24,845 net premiums, respectively. Weighted average interest and maturity of 6.11% and 4.1 years at December 31, 2008.	\$ 4,192,430	\$ 4,836,761
Unsecured notes, including \$1,887 and \$9,680 net premiums, respectively. Weighted average interest and maturity of 5.69% and 4.7 years at December 31, 2008.	10,726,887	9,384,680
7% Mandatory Par Put Remarketed Securities, including \$4,568 premiums in 2007 that were redeemed in June 2008.		204,568
Total Fixed-Rate Debt	14,919,317	14,426,009
Variable-Rate Debt:		
Mortgages and other notes, at face value, respectively. Weighted average interest and maturity of 2.00% and 3.3 years.	2,076,927	441,143
Credit Facility (see below)	1,046,288	2,351,612
Total Variable-Rate Debt	3,123,215	2,792,755
Fair value interest rate swaps		(90)
Total Mortgages and Other Indebtedness, Net	\$ 18,042,532	\$ 17,218,674

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Simon Property Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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

8. Indebtedness and Derivative Financial Instruments (Continued)

General. At December 31, 2008, we have pledged 76 properties as collateral to secure related mortgage notes including 7 pools of cross-defaulted and cross-collateralized mortgages encumbering a total of 39 properties. Under these cross-default provisions, a default under any mortgage included in the cross-defaulted package may constitute a default under all such mortgages and may lead to acceleration of the indebtedness due on each property within the collateral package. Of our 76 encumbered properties, indebtedness on 18 of these encumbered properties and our unsecured notes are subject to various financial performance covenants relating to leverage ratios, annual real property appraisal requirements, debt service coverage ratios, minimum net worth ratios, debt-to-market capitalization, and/or minimum equity values. Our mortgages and other indebtedness may be prepaid but are generally subject to payment of a yield-maintenance premium or defeasance. As of December 31, 2008, we are in compliance with all our debt covenants.

Some of the limited partners guarantee a portion of our consolidated debt through foreclosure guarantees. In total, 53 limited partners provide guarantees of foreclosure of \$285.3 million of our consolidated debt at three consolidated properties. In each case, the loans were made by unrelated third party institutional lenders and the guarantees are for the benefit of each lender. In the event of foreclosure of the mortgaged property, the proceeds from the sale of the property are first applied against the amount of the guarantee and also reduce the amount payable under the guarantee. To the extent the sale proceeds from the disposal of the property do not cover the amount of the guarantee, then the limited partner is liable to pay the difference between the sale proceeds and the amount of the guarantee so that the entire amount guaranteed to the lender is satisfied. The debt is non-recourse to us and our affiliates.

Unsecured Debt

Our unsecured debt currently consists of \$10.7 billion of senior unsecured notes issued by the Operating Partnership and \$1.0 billion outstanding under the Operating Partnership's \$3.5 billion Credit Facility, or the Credit Facility. The Credit Facility bears interest at LIBOR plus 37.5 basis points and an additional facility fee of 12.5 basis points. The Credit Facility is scheduled to mature on January 11, 2010, which we can extend for another year at our option.

On May 19, 2008, we issued two tranches of senior unsecured notes totaling \$1.5 billion at a weighted average fixed interest rate of 5.74% consisting of a \$700.0 million tranche with a fixed interest rate of 5.30% due May 30, 2013 and a second \$800.0 million tranche with a fixed interest rate of 6.125% due May 30, 2018. We used proceeds from the offering to reduce borrowings on the Credit Facility and for general working capital purposes.

On June 16, 2008, the Operating Partnership completed redemption of the \$200.0 million outstanding principal amount of its 7% Mandatory Par Put Remarketed Securities, or MOPPRS. The redemption was accounted for as an extinguishment and resulted in a charge in the second quarter of 2008 of approximately \$20.3 million.

On August 28, 2008, the Operating Partnership repaid a \$150.0 million unsecured note, which had a fixed rate of 5.38%.

During the year ended December 31, 2008, we drew amounts from the Credit Facility to fund the redemption of the remarketable debt securities and the repayment of the \$150.0 million unsecured note. Other amounts drawn on the Credit Facility were primarily for general working capital purposes. We repaid a total of \$2.7 billion on the Credit Facility during the year ended December 31, 2008. The total outstanding balance of the Credit Facility as of December 31, 2008 was \$1.0 billion, and the maximum amount outstanding during the year was approximately \$2.6 billion. During the year ended December 31, 2008, the weighted average outstanding balance of the Credit Facility was approximately \$1.4 billion. The amount outstanding as of December 31, 2008 includes \$446.3 million in Euro and Yen-denominated borrowings. In addition, subsequent to December 31, 2008, we repaid \$600 million in unsecured notes, consisting of two \$300 million tranches that bore rates of 3.75% and 7.13%, respectively, using proceeds from the Credit Facility.

Table of Contents**Simon Property Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

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

8. Indebtedness and Derivative Financial Instruments (Continued)***Secured Debt***

The balance of fixed and variable rate mortgage notes was \$6.3 billion and \$5.3 billion as of December 31, 2008 and 2007, respectively. Of the 2008 amount, \$5.3 billion is nonrecourse to us. The fixed-rate mortgages generally require monthly payments of principal and/or interest. The interest rates of variable-rate mortgages are typically based on LIBOR. During the twelve-month period ended December 31, 2008, we repaid \$274.0 million in mortgage loans, unencumbering five properties.

On January 15, 2008, we entered into a swap transaction that effectively converted \$300.0 million of variable rate debt to fixed rate debt at a net rate of 3.21%.

On March 6, 2008, we borrowed \$705 million on a term loan that matures March 5, 2012 and bears interest at a rate of LIBOR plus 70 basis points. On May 27, 2008, the loan was increased to \$735 million. This loan is secured by the cash flow distributed from six properties and has additional availability of \$115 million through the maturity date.

On July 30, 2008, we borrowed \$190.0 million on a loan secured by Philadelphia Premium Outlets, which matures on July 30, 2014 and bears interest at a variable rate of LIBOR plus 185 basis points. On January 2, 2009, we executed a swap agreement that fixes the interest rate of this loan at 4.19%.

On September 23, 2008, we borrowed \$170.0 million on a term loan that matures September 23, 2013 and bears interest at a rate of LIBOR plus 195 basis points. On November 4, 2008, the loan was increased to \$220 million and on December 17, 2008, the loan was increased to its maximum availability of \$260 million. This is a cross-collateralized loan that is secured by The Domain, Shops at Arbor Walk, and Palms Crossing. On January 2, 2009, we executed a swap agreement that fixes the interest rate on \$200.0 million of this loan at 4.35%.

Debt Maturity and Other

Our scheduled principal repayments on indebtedness as of December 31, 2008 are as follows:

2009	\$ 1,475,510
2010	2,301,674
2011	3,050,576
2012	2,938,395
2013	2,034,735
Thereafter	6,224,443
Total principal maturities	18,025,333
Net unamortized debt premium and other	17,199
Total mortgages and other indebtedness	\$ 18,042,532

Our cash paid for interest in each period, net of any amounts capitalized, was as follows:

	For the Year Ended December 31,		
	2008	2007	2006
Cash paid for interest	\$ 1,001,718	\$ 983,219	\$ 845,964

Derivative Financial Instruments

Our exposure to market risk due to changes in interest rates primarily relates to our long-term debt obligations. We manage exposure to interest rate market risk through our risk management strategy by a combination of interest rate protection agreements to effectively fix or cap a portion of variable rate debt, or in the case of a fair value hedge, effectively convert fixed rate debt to variable rate debt. We are also exposed to foreign currency risk on financings of certain foreign operations. Our intent is to offset gains and losses that occur on the underlying exposures, with gains

Table of Contents**Simon Property Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Dollars in thousands, except share and per share amounts and where indicated as in millions or billions)****8. Indebtedness and Derivative Financial Instruments (Continued)**

and losses on the derivative contracts hedging these exposures. We do not enter into either interest rate protection or foreign currency rate protection agreements for speculative purposes.

We may enter into treasury lock agreements as part of an anticipated debt issuance. If the anticipated transaction does not occur, the cost is charged to consolidated net income. Upon completion of the debt issuance, the cost of these instruments is recorded as part of accumulated other comprehensive income and is amortized to interest expense over the life of the debt agreement.

As of December 31, 2008, we reflected the fair value of outstanding consolidated derivatives in other liabilities for \$19.4 million. In addition, we recorded the benefits from our treasury lock and interest rate hedge agreements in accumulated other comprehensive loss and the unamortized balance of these agreements is \$3.3 million as of December 31, 2008. The net deficit from terminated swap agreements is also recorded in accumulated other comprehensive loss and the unamortized balance is \$3.4 million as of December 31, 2008. As of December 31, 2008, our outstanding LIBOR based derivative contracts consisted of:

interest rate cap protection agreements with a notional amount of \$281.8 million that mature in May 2009 and July 2010, and

fixed rate swap agreements with a notional amount of \$505.0 million have a weighted average pay rate of 3.29% and a weighted average receive rate of 2.75%.

Within the next year, we expect to reclassify to earnings approximately \$10.9 million of loss of the current balance held in accumulated other comprehensive loss. The amount of ineffectiveness relating to fair value and cash flow hedges recognized in income during the periods presented was not material.

Our joint ventures may also enter into interest rate swaps or caps, which are recorded at fair value on the joint ventures' balance sheet. Included in our accumulated other comprehensive income (loss) as of December 31, 2008 and 2007 is our share of the joint ventures accumulated derivative gains or (losses) of \$(19.6) million and \$(5.8) million, respectively.

Fair Value of Financial Instruments

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. The fair values of financial instruments and our related discount rate assumptions used in the estimation of fair value for our consolidated fixed-rate mortgages and other indebtedness as of December 31 is summarized as follows:

	2008	2007
Fair value of fixed-rate mortgages and other indebtedness (in millions)	\$ 12,385	\$ 14,742
Average discount rates assumed in calculation of fair value of fixed-rate mortgages	6.33%	5.23%

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.

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

9. Rentals under Operating Leases

Future minimum rentals to be received under noncancelable tenant operating leases for each of the next five years and thereafter, excluding tenant reimbursements of operating expenses and percentage rent based on tenant sales volume as of December 31, 2008 are as follows:

2009	\$ 1,898,110
2010	1,762,658
2011	1,584,012
2012	1,402,718
2013	1,209,345
Thereafter	3,731,109
	\$ 11,587,952

Approximately 0.6% of future minimum rents to be received are attributable to leases with an affiliate of a limited partner in the Operating Partnership.

10. Equity

Our Board of Directors is authorized to reclassify excess common stock into one or more additional classes and series of capital stock, to establish the number of shares in each class or series and to fix the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, and qualifications and terms and conditions of redemption of such class or series, without any further vote or action by the stockholders. The issuance of additional classes or series of capital stock may have the effect of delaying, deferring or preventing a change in control of Simon Property without further action of the stockholders. The ability to issue additional classes or series of capital stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from acquiring, a majority of our outstanding voting stock.

Holders of our common stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders, other than for the election of directors. At the time of the initial public offering of our predecessor in 1993, the charter of the predecessor gave Melvin Simon, Herbert Simon, David Simon and certain of their affiliates, or the Simons, the right to elect four of the members of the Board of Directors, conditioned upon the Simons, or entities they control, maintaining specified levels of equity ownership in Simon Property's predecessor, the Operating Partnership and all of their subsidiaries. In addition, at that time, Melvin Simon & Associates, Inc., or MSA, acquired 3,200,000 shares of Class B common stock. MSA placed the Class B common stock into a voting trust under which the Simons were the sole trustees. These voting trustees had the authority to elect the four members of the Board of Directors. These same arrangements were incorporated into Simon Property's Charter in 1998 during the combination of its predecessor and Corporate Property Investors, Inc. Shares of Class B common stock convert automatically into an equal number of shares of common stock upon the sale or transfer thereof to a person not affiliated with Melvin Simon, Herbert Simon or David Simon. The Class B shares can be converted into shares of common stock at the option of the holders. At the initial offering we reserved 3,200,000 shares of common stock for the possible conversion of the outstanding Class B shares. During 2008, the previously outstanding 4,000 Class C shares were converted to 4,000 shares of common stock and the Class C shares were retired.

Common Stock Issuances and Repurchases

In 2008, we issued 2,574,608 shares of common stock to eight limited partners in exchange for an equal number of Units.

We issued 282,106 shares of common stock related to employee and director stock options exercised during 2008. We used the net proceeds from the option exercises of approximately \$11.9 million to acquire additional Units. The Operating Partnership used the net proceeds for general working capital purposes.

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Simon Property Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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

10. Equity (Continued)

On July 26, 2007, our Board of Directors authorized us to repurchase up to \$1.0 billion of common stock over the next twenty-four months as market conditions warrant. We may repurchase the shares in the open market or in privately negotiated transactions. During 2008, no purchases were made as part of this program. The program had remaining availability of approximately \$950.7 million at December 31, 2008.

Temporary Equity

As discussed in Note 3, as a result of the retrospective adoption of SFAS 160 and the application of EITF D-98, we classify as temporary equity those securities for which there is the possibility that we could be required to redeem the security for cash irrespective of the probability of such a possibility. As a result, we reclassified one series of preferred stock from permanent equity, and we maintained in temporary equity several series of preferred units of the Operating Partnership. Each of these securities that are classified in temporary equity are discussed below.

Series I 6% Convertible Perpetual Preferred Stock. This series of preferred stock was issued in connection with our acquisition of Chelsea Property Group in 2004. The terms of this series of preferred stock are substantially identical to those of the related series of 6% Series I Convertible Perpetual Preferred Units described below. During 2008, holders exchanged 22,400 preferred units for an equal number of shares of preferred stock. In prior years, 1,093,042 preferred units had been exchanged for an equal number of shares of preferred stock. Dividends accrue quarterly at an annual rate of 6% per share. On or after October 14, 2009, we can redeem the preferred stock, in whole or in part, for cash only equal to the liquidation preference (\$50.00 per share) plus accumulated and unpaid dividends. However, if the redemption date falls between the record date and the preferred stock dividend payment date, the redemption price will be the liquidation preference only. The redemption may occur only if, for 20 trading days within a period of 30 consecutive trading days ending on the trading day before notice of redemption is issued, the closing price per share of the common stock exceeds 130% of the applicable redemption price. This series of preferred stock is also convertible into common stock by the holder upon the occurrence of a conversion triggering event. A conversion triggering event includes the following: (a) if we call the preferred stock for redemption; or, (b) if we are a party to a consolidation, merger, share exchange, or sale of all or substantially all of our assets; or, (c) if during any fiscal quarter after the fiscal quarter ending December 31, 2004, the closing sale price of the common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter exceeds 125% of the applicable conversion price. If the closing trigger price condition is not met at the end of any quarter, then conversions are not permitted in the following quarter. This series of preferred stock can also be put to us for cash upon the occurrence of a change of control event, which would include a change in the majority of our directors that occurs over a two year period. As a result, this series of preferred stock is classified outside permanent equity because such a change in Board composition could be deemed outside our control. The carrying amount of the Series I Preferred Stock of \$379,513 and \$700,247 as of December 31, 2008 and 2007, respectively, is equal to its liquidation value, which is the amount payable upon the occurrence of such event.

As of December 31, 2008, the conversion trigger price of \$77.88 was not met and as a result conversion of each share of this series of preferred stock into shares of common stock is not permitted through March 31, 2009. However, holders of Series I 6% Convertible Perpetual Preferred Stock had the right to convert their shares into shares of common stock during the year ended December 31, 2008. A total of 6,437,072 shares of Series I preferred stock were converted into 5,151,776 shares of common stock for the year then ended.

Limited Partners' Preferred Interests in the Operating Partnership and Other Noncontrolling Redeemable Interests in Properties. The following table summarizes each series of preferred units of the Operating Partnership and the amount of the noncontrolling redeemable interests in properties as of December 31. The noncontrolling redeemable interests in properties are more fully discussed in Note 3. The redemption features of each of these series of preferred units of the Operating Partnership contain provisions which could require us to settle the redemption in cash. As a

Table of Contents**Simon Property Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Dollars in thousands, except share and per share amounts and where indicated as in millions or billions)****10. Equity (Continued)**

result, these series of preferred units in the Operating Partnership, along with the noncontrolling redeemable interests in properties, remain classified outside permanent equity.

	2008	2007
6% Series I Convertible Perpetual Preferred Units, 19,000,000 units authorized, 1,518,371 and 3,034,675 issued and outstanding	\$ 75,919	\$ 151,734
7.75% / 8.00% Cumulative Redeemable Preferred Units, 900,000 shares authorized, 850,698 issued and outstanding	85,070	85,070
7.50% Cumulative Redeemable Preferred Units, 260,000 units authorized, 255,373 issued and outstanding	25,537	25,537
8.00% Cumulative Redeemable Preferred Units, 2,700,000 units authorized, 1,356,814 and 1,418,307 issued and outstanding	40,704	42,549
	227,230	304,890
Other noncontrolling redeemable interests in properties	49,378	44,264
Limited partners' preferred interest in the Operating Partnership and other noncontrolling redeemable interests in properties	\$ 276,608	\$ 349,154

6% Series I Convertible Perpetual Preferred Units. This series of preferred units accrues cumulative quarterly distributions at \$3.00 per unit. The preferred units are exchangeable for shares of Series I preferred stock on a one for one basis or, at Simon's option, may be settled in cash. In 2008, holders exchanged 22,400 preferred units of this series for an equal number of shares of Series I preferred stock. Additionally, 1,493,904 preferred units were converted into 1,187,238 common units. The preferred units have terms that are substantially identical to the Series I preferred stock.

7.75%/8.00% Cumulative Redeemable Preferred Units. This series of preferred units accrues cumulative quarterly distributions at a rate of 8.00% of the liquidation value through December 31, 2009, 10.00% of the liquidation value for the period beginning January 1, 2010 and ending December 31, 2010, and 12% of the liquidation value thereafter. A holder may require the Operating Partnership to repurchase the preferred units on or after January 1, 2009, or any time that the aggregate liquidation value of the outstanding preferred units exceeds 10% of the book value of partners' equity of the Operating Partnership. The Operating Partnership may redeem the preferred units on or after January 1, 2011, or earlier upon the occurrence of certain tax triggering events. The Operating Partnership intends to redeem these units after January 1, 2009, upon the occurrence of a tax triggering event. The redemption price is the liquidation value (\$100.00 per preferred unit) plus accrued and unpaid distributions, payable in cash or an interest in one or more properties mutually agreed upon.

7.50% Cumulative Redeemable Preferred Units. This series of preferred units accrues cumulative quarterly distributions at a rate of \$7.50 annually. The Operating Partnership may redeem the preferred units on or after November 10, 2013, unless there is the occurrence of certain tax triggering events such as death of the initial holder, or the transfer of any units to any person or entity other than the persons or entities entitled to the benefits of the original holder. The redemption price is the liquidation value (\$100.00 per preferred unit) plus accrued and unpaid distributions, payable either in cash or fully registered shares of our common stock at our election. In the event of the death of a holder of the preferred units, the occurrence of certain tax triggering events applicable to the holder, or on or after November 10, 2006, the holder may require the Operating Partnership to redeem the preferred units at the same redemption price payable at the option of the Operating Partnership in either cash or shares of common stock.

8.00% Cumulative Redeemable Preferred Units. This series of preferred units accrues cumulative quarterly distributions at a rate of \$2.40 annually. The preferred units are paired with one 7.00% preferred unit or with the number of Units into which the 7.00% preferred units may be converted. The Operating Partnership may redeem the preferred units at their liquidation value (\$30.00 per preferred unit) plus accrued

and unpaid distributions on or after August 27, 2009, payable in either a new series of preferred units having the same terms as the preferred units, except that the distribution rate would be reset to a then determined market rate, or in Units. The preferred units are

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Simon Property Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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

10. Equity (Continued)

convertible at the holders' option on or after August 27, 2004, into shares of Series D preferred stock or Units. In the event of the death of a holder of the preferred units, or the occurrence of certain tax triggering events applicable to a holder, the Operating Partnership may be required to redeem the preferred units owned by such holder at their liquidation value payable at the option of the Operating Partnership in either cash or fully registered shares of our common stock. During 2008, 61,493 of the preferred units were redeemed for \$1.8 million in cash.

Permanent Equity

Preferred Stock. We have the following series of preferred stock that were previously issued, but had no shares outstanding at the end of 2008 and 2007: Series B 6.5% Convertible Preferred Stock (5,000,000 shares); Series C 7.00% Cumulative Convertible Preferred Stock (2,700,000 shares); Series D 8.00% Cumulative Redeemable Preferred Stock (2,700,000 shares); Series E 8.00% Cumulative Redeemable Preferred Stock (1,000,000 shares); Series F 8.75% Cumulative Redeemable Preferred Stock (8,000,000 shares); Series G 7.89% Cumulative Step-Up Premium Rate Preferred Stock (3,000,000 shares); Series H Variable Rate Preferred Stock (4,530,000 shares); Series K Variable Rate Redeemable Preferred Stock (8,000,000 shares); and Series L Variable Rate Redeemable Preferred Stock (6,000,000 shares).

Dividends on all series of preferred stock are calculated based upon the preferred stock's preferred return multiplied by the preferred stock's corresponding liquidation value. The Operating Partnership pays preferred distributions to us equal to the dividends we pay on the preferred stock issued.

Series C 7.00% Cumulative Convertible Preferred Stock and Series D 8.00% Cumulative Redeemable Preferred Stock. We issued these two series of preferred stock in 1999 to facilitate the possible conversion of two related series of preferred units: 7.00% Cumulative Convertible Preferred Units (classified as noncontrolling interests) and the 8.00% Cumulative Redeemable Preferred Units (classified as temporary equity). Each of these series of preferred stock has terms that are substantially identical to the related series of preferred units. There are no shares of either series currently outstanding.

Series J 8³/₈% Cumulative Redeemable Preferred Stock. We issued this series of preferred stock in 2004 to replace a series of Chelsea preferred stock. Dividends accrue quarterly at an annual rate of 8³/₈% per share. We can redeem this series, in whole or in part, on and after October 15, 2027 at a redemption price of \$50.00 per share, plus accumulated and unpaid dividends. This preferred stock was issued at a premium of \$7,553 as of the date of our acquisition of Chelsea. The unamortized premium included in the carrying value of the preferred stock at December 2008 and 2007 was \$6,185 and \$6,514, respectively.

Noncontrolling Interests

The following series of preferred units are included in noncontrolling interests due to the ability for the Operating Partnership to settle the redemption in either cash or units at its election. The noncontrolling interests in the consolidated balance sheets also include the third parties' nonredeemable minority holdings in properties that we consolidate but do not wholly-own and the limited partners' common interest in the Operating Partnership due to our ability to settle any redemption in cash or common stock at our election. These noncontrolling interests are classified as permanent equity in connection with our adoption of SFAS 160 as discussed in Note 3.

7.00% Cumulative Convertible Preferred Units. This series of preferred units accrues cumulative quarterly distributions at a rate of \$1.96 annually. The preferred units are convertible at the holders' option on or after August 27, 2004, into either an equal number of shares of Series C preferred stock or Units of the Operating Partnership at a ratio of 0.75676 Units to each preferred unit provided that the closing stock price of the common stock exceeds \$37.00 for any three consecutive trading days prior to the conversion date. The Operating Partnership may redeem the preferred units at their liquidation value (\$28.00 per unit) plus accrued and unpaid distributions on or after August 27, 2009, by issuing Units. In the event of the death of a holder of the preferred units, or the occurrence of certain tax triggering events applicable to a holder, the Operating Partnership may be required to redeem the preferred units at the liquidation value payable at the option of the Operating Partnership in either cash or shares of common stock. During 2008, holders converted 6,583 preferred units into 4,981 Units. The balance of

noncontrolling

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Simon Property Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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

10. Equity (Continued)

interests related to this series of preferred units totalled \$2,639 and \$2,823 at December 31, 2008 and 2007, respectively.

Other Equity Activity

Notes Receivable from Former CPI Stockholders. Notes receivable of \$17,199 from stockholders of an entity are reflected as a deduction from capital in excess of par value in the consolidated statements of equity in the accompanying financial statements. The notes do not bear interest and become due at the time the underlying shares are sold.

The Simon Property Group 1998 Stock Incentive Plan. This plan, or the 1998 plan, provides for the grant of equity-based awards in the form of options to purchase shares, stock appreciation rights, restricted stock grants and performance unit awards. Options may be granted which are qualified as "incentive stock options" within the meaning of Section 422 of the Code and options which are not so qualified. An aggregate of 11,300,000 shares of common stock have been reserved for issuance under the 1998 plan. Additionally, the partnership agreement requires us to sell shares of common stock to the Operating Partnership, at fair value, sufficient to satisfy the exercising of any stock options, and for us to purchase Units for cash in an amount equal to the fair market value of such shares.

Administration. The 1998 plan is administered by the Compensation Committee of the Board of Directors. The committee determines which eligible individuals may participate and the type, extent and terms of the awards to be granted to them. In addition, the committee interprets the 1998 plan and makes all other determinations deemed advisable for its administration. Options granted to employees become exercisable over the period determined by the committee. The exercise price of an employee option may not be less than the fair market value of the shares on the date of grant. Employee options generally vest over a three-year period and expire ten years from the date of grant. Since 2001, we have not granted any options to employees, except for a series of reload options we assumed as part of a prior business combination.

Automatic Awards For Eligible Directors. Directors who are not also our employees or employees of our affiliates receive automatic awards under the 1998 plan. Until 2003, these awards took the form of stock options. Since then, the awards have been shares of restricted stock. Currently, each eligible director receives on the first day of the first calendar month following his or her initial election an award of restricted stock with a value of \$82,500 (pro-rated for partial years of service). Thereafter, as of the date of each annual meeting of stockholders, eligible directors who are re-elected receive an award of restricted stock having a value of \$82,500. In addition, eligible directors who serve as chairpersons of the standing committees (excluding the Executive Committee) receive an additional annual award of restricted stock having a value of \$10,000 (in the case of the Audit Committee) or \$7,500 (in the case of all other standing committees). The Lead Director also receives an annual restricted stock award having a value of \$12,500. The restricted stock vests in full after one year.

Once vested, the delivery of the shares of restricted stock (including reinvested dividends) is deferred under our Director Deferred Compensation Plan until the director retires, dies or becomes disabled or otherwise no longer serves as a director. The directors may vote and are entitled to receive dividends on the underlying shares; however, any dividends on the shares of restricted stock must be reinvested in shares of common stock and held in the deferred compensation plan until the shares of restricted stock are delivered to the former director.

In addition to automatic awards, eligible directors may be granted discretionary awards under the 1998 plan.

Restricted Stock. The 1998 plan also provides for shares of restricted stock to be granted to certain employees at no cost to those employees, subject to achievement of certain financial and return-based performance measures established by the committee related to the most recent year's performance. Once granted, the shares of restricted stock then vest annually over a four-year period (25% each year) beginning on January 1 of each year. The cost of restricted stock grants, which is based upon the stock's fair market value on the grant date, is charged to earnings ratably over the vesting period. Through December 31, 2008 a total of 4,738,409 shares of restricted stock, net of

Table of Contents**Simon Property Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

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

10. Equity (Continued)

forfeitures, have been awarded under the plan. Information regarding restricted stock awards are summarized in the following table for each of the years presented:

	For the Year Ended December 31,		
	2008	2007	2006
Restricted stock shares awarded during the year, net of forfeitures	276,872	222,725	415,098
Weighted average fair value of shares granted during the year	\$ 85.77	\$ 120.55	\$ 84.33
Amortization expense	\$ 28,640	\$ 26,779	\$ 23,369

The weighted average life of our outstanding options as of December 31, 2008 is 2.3 years. Information relating to Director Options and Employee Options from December 31, 2005 through December 31, 2008 is as follows:

	Director Options Weighted Average Exercise Price Per Share		Employee Options Weighted Average Exercise Price Per Share	
	Options		Options	
Shares under option at December 31, 2005	37,500	\$ 27.80	1,527,922	\$ 30.39
Granted		N/A	70,000	90.87
Exercised	(18,000)	27.68	(396,659)	36.02
Forfeited	(3,000)	24.25	(3,000)	24.47
Shares under option at December 31, 2006	16,500	\$ 28.57	1,198,263	\$ 32.07
Granted		N/A	23,000	99.03
Exercised, none were forfeited during the period	(16,500)	28.57	(214,525)	32.62
Shares under option at December 31, 2007		\$	1,006,738	\$ 33.48
Granted				
Exercised, none were forfeited during the period			(282,106)	41.96
Shares under option at December 31, 2008		\$	724,632	\$ 30.18

Employee Options:**Range of Exercise Prices**

Outstanding and Exercisable		
Options	Weighted Average Remaining Contractual	Weighted Average Exercise Price Per Share

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		Life in Years		
\$22.36 - \$30.38	615,583	1.96	\$	25.13
\$30.39 - \$46.97	59,749	5.09		46.97
\$46.98 - \$63.51	26,300	5.17		50.17
\$63.52 - \$99.03	23,000	0.24		99.03
Total	724,632		\$	30.18

We also maintain a tax-qualified retirement 401(k) savings plan and offer no other postretirement or post employment benefits to our employees.

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Simon Property Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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

10. Equity (Continued)

Exchange Rights

Limited partners in the Operating Partnership have the right to exchange all or any portion of their Units for shares of common stock on a one-for-one basis or cash, as determined by the Board of Directors. The amount of cash to be paid if the exchange right is exercised and the cash option is selected will be based on the trading price of our common stock at that time. At December 31, 2008, we had reserved 68,190,138 shares of common stock for possible issuance upon the exchange of Units, options, and Class B common stock and certain convertible preferred stock.

Common Stock Dividends

On January 30, 2009, our Board of Directors approved a quarterly common stock dividend of \$0.90 per share, to be paid in a combination of cash and shares of our common stock. While our stockholders will have the right to elect to receive their dividend in either cash or common stock, we have announced that the aggregate cash component of the dividend will not exceed 10% of the total dividend, or \$0.09 per share. If the number of stockholders electing to receive cash would result in our payment of cash in excess of this 10% limitation, we will allocate the cash payment on a pro rata basis among those stockholders making the cash election. We have reserved the right to elect to pay this dividend all in cash. Our Board of Directors reviews and approves dividends on a quarterly basis, and no determination has been made about whether our remaining 2009 dividends will be paid in a similar combination of cash and common stock. Paying all or a portion of the 2009 dividend in a combination of cash and shares of our common stock allows us to satisfy our REIT taxable income distribution requirement under existing IRS revenue procedures, while enhancing our financial flexibility and balance sheet strength.

11. Commitments and Contingencies

Litigation

As previously disclosed, for several years we have been defending actions brought by the Attorneys General of Massachusetts, New Hampshire and Connecticut in their respective state courts and similar litigation brought by other parties alleging that the sale of co-branded, bank-issued gift cards by our affiliate, SPGGC, Inc., at certain of our properties, violated state gift certificate and consumer protection laws. We previously reported the dismissal of the New Hampshire litigation. During the fourth quarter of 2008, the complaint in the Massachusetts litigation was dismissed and we settled the Connecticut litigation. The only remaining legal proceedings involving gift card sales are two purported class actions brought by private parties in New York. With the resolution of the remaining Attorneys General's actions in 2008, we no longer believe that the ultimate outcome of these related actions would have a material adverse effect on our financial position, results of operations or cash flows and, accordingly, we do not expect to report further developments in these actions.

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

Lease Commitments

As of December 31, 2008, a total of 29 of the consolidated properties are subject to ground leases. The termination dates of these ground leases range from 2009 to 2090. These ground leases generally require us to make fixed annual rental payments, or a fixed annual rental plus a percentage rent component based upon the revenues or

Table of Contents**Simon Property Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

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

11. Commitments and Contingencies (Continued)

total sales of the property. Some of these leases also include escalation clauses and renewal options. We incurred ground lease expense included in other expense as follows:

	For the Year Ended December 31,		
	2008	2007	2006
Ground lease expense	\$ 30,681	\$ 30,499	\$ 29,301

Future minimum lease payments due under these ground leases for years ending December 31, excluding applicable extension options, are as follows:

2009	\$ 16,530
2010	16,288
2011	16,338
2012	16,451
2013	16,699
Thereafter	669,723
	\$ 752,029

Insurance

We maintain commercial general liability, fire, flood, extended coverage and rental loss insurance on all of our properties in the United States through wholly-owned captive insurance entities and other self-insurance mechanisms. Rosewood Indemnity, Ltd. and Bridgewood Insurance Company, Ltd. are our wholly-owned captive insurance subsidiaries, and have agreed to indemnify our general liability carrier for a specific layer of losses for the properties that are covered under these arrangements. The carrier has, in turn, agreed to provide evidence of coverage for this layer of losses under the terms and conditions of the carrier's policy. A similar policy written through these captive insurance entities also provides initial coverage for property insurance and certain windstorm risks at the properties located in coastal windstorm locations.

We currently maintain insurance coverage against acts of terrorism on all of our properties in the United States on an "all risk" basis in the amount of up to \$1 billion per occurrence for certified foreign acts of terrorism and \$500 million per occurrence for non-certified domestic acts of terrorism. The current federal laws which provide this coverage are expected to operate through 2014. Despite the existence of this insurance coverage, any threatened or actual terrorist attacks in high profile markets could adversely affect our property values, revenues, consumer traffic and tenant sales.

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 December 31, 2008, the Operating Partnership has loan guarantees and other guarantee obligations of \$71.9 million and \$6.6 million, respectively, to support our total \$6.6 billion share of joint venture mortgage and other indebtedness in the event the joint venture partnership defaults under the terms of the underlying arrangement. Mortgages which are guaranteed by us are secured by the property of the joint venture and that property could be sold in order to satisfy the outstanding obligation.

Table of Contents**Simon Property Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Dollars in thousands, except share and per share amounts and where indicated as in millions or billions)****11. Commitments and Contingencies (Continued)*****Concentration of Credit Risk***

We are subject to risks incidental to the ownership and operation of commercial real estate. These risks include, among others, the risks normally associated with changes in the general economic climate, trends in the retail industry, creditworthiness of tenants, competition for tenants and customers, changes in tax laws, interest rate and foreign currency levels, the availability of financing, and potential liability under environmental and other laws. Our regional malls, Premium Outlet Centers, The Mills, and community/lifestyle centers rely heavily upon anchor tenants like most retail properties. Four retailers occupied 532 of the approximately 1,376 anchor stores in the properties as of December 31, 2008. An affiliate of one of these retailers is a limited partner in the Operating Partnership.

Limited Life Partnerships

FASB Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" (SFAS 150) establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability. The effective date of a portion of the Statement has been indefinitely postponed by the FASB. We have certain transactions, arrangements, or financial instruments that have been identified that appear to meet the criteria for liability recognition in accordance with paragraphs 9 and 10 under SFAS 150 due to the finite life of certain joint venture arrangements. However, SFAS 150 requires disclosure of the estimated settlement value of these non-controlling interests. As of December 31, 2008 and 2007, the estimated settlement value of these non-controlling interests was approximately \$130 million and \$145 million, respectively. The noncontrolling interest amount recognized as a liability on the consolidated balance sheets related to these noncontrolling interests was approximately \$23 million as of December 31, 2008 and 2007.

12. Related Party Transactions

Our management company provides management, insurance, and other services to Melvin Simon & Associates, Inc., a related party, and other non-owned properties. Amounts for services provided by our management company and its affiliates to our unconsolidated joint ventures and other related parties were as follows:

	For the Year Ended December 31,		
	2008	2007	2006
Amounts charged to unconsolidated joint ventures	\$ 125,663	\$ 95,564	\$ 62,879
Amounts charged to properties owned by related parties	4,980	5,049	9,494

During 2008 and 2007, we recorded interest income of \$15.3 million and \$39.1 million, respectively, and financing fee income of \$3.1 million and \$17.4 million, respectively, net of inter-entity eliminations, related to the loans that we have provided to Mills and SPG-FCM and lending financing services to those entities and the properties in which they hold an ownership interest.

13. Recently Issued Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" which requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired, and that costs of acquisition be expensed as incurred. SFAS 141(R) is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. We do not expect the adoption of SFAS 141(R) to have a significant impact on our results of operations or financial position.

Table of Contents**Simon Property Group, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

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

13. Recently Issued Accounting Pronouncements (Continued)

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" an amendment of FASB Statement No. 133." This statement amends and expands the disclosure requirements of SFAS 133. This statement is effective for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. We are in the process of determining the impact of adopting this statement.

14. Quarterly Financial Data (Unaudited)

Quarterly 2008 and 2007 data is summarized in the table below and, as disclosed in Note 3, the amounts have been reclassified from previously disclosed amounts in accordance with the discontinued operations provisions of SFAS No. 144 and reflect dispositions through December 31, 2008. Income from continuing operations, income from continuing operations per share Basic, and income from continuing operations per share Diluted as previously reported in the September 30, 2007 Form 10-Q were \$179,253, \$0.74, and \$0.74, respectively, and are presented below as \$186,345, \$0.77, and \$0.77, respectively. All other amounts previously reported are equal to the amounts reported below. Quarterly amounts may not equal annual amounts due to rounding.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2008				
Total revenue	\$ 895,298	\$ 922,947	\$ 935,594	\$ 1,029,316
Operating income	351,775	379,038	383,351	445,373
Consolidated income from continuing operations	129,022	114,353	159,736	196,449
Net income available to common stockholders	87,933	76,572	112,809	145,203
Income from continuing operations per share Basic	\$ 0.39	\$ 0.34	\$ 0.50	\$ 0.64
Net income per share Basic	\$ 0.39	\$ 0.34	\$ 0.50	\$ 0.64
Income from continuing operations per share Diluted	\$ 0.39	\$ 0.34	\$ 0.50	\$ 0.64
Net income per share Diluted	\$ 0.39	\$ 0.34	\$ 0.50	\$ 0.64
Weighted average shares outstanding	223,455,345	224,982,539	225,356,074	227,512,179
Diluted weighted average shares outstanding	224,071,920	225,571,345	225,925,532	227,909,356
2007				
Total revenue	\$ 852,141	\$ 855,932	\$ 907,145	\$ 1,035,581
Operating income	348,809	333,343	378,446	473,434
Consolidated income from continuing operations	146,819	98,176	239,269	190,341
Net income available to common stockholders	98,381	59,917	164,937	112,929
Income from continuing operations per share Basic	\$ 0.44	\$ 0.27	\$ 0.77	\$ 0.60
Net income per share Basic	\$ 0.44	\$ 0.27	\$ 0.74	\$ 0.51
Income from continuing operations per share Diluted	\$ 0.44	\$ 0.27	\$ 0.77	\$ 0.60
Net income per share Diluted	\$ 0.44	\$ 0.27	\$ 0.74	\$ 0.51
Weighted average shares outstanding	222,443,434	223,399,287	223,103,314	223,015,421
Diluted weighted average shares outstanding	223,300,903	224,236,142	223,848,882	223,688,665

Table of Contents**Part IV****Item 15. Exhibits and Financial Statement Schedules**

	Page No.
(1) <u>Consolidated Financial Statements</u>	
Simon Property Group, Inc. and Subsidiaries' consolidated financial statements and independent registered public accounting firm's report are set forth in Item 8 of this Annual Report on Form 10-K/A and are incorporated herein by reference.	
(2) <u>Financial Statement Schedule</u>	
Simon Property Group, Inc. and Subsidiaries Schedule III Schedule of Real Estate and Accumulated Depreciation	68
Notes to Schedule III	75
(3) <u>Exhibits</u>	
The Exhibit Index attached hereto is hereby incorporated by reference to this Item. The following exhibits listed on the Exhibit Index are filed with this Annual Report on Form 10-K/A.	76
Exhibit No.	
12.1 Statement regarding computation of ratios.	
23.1 Consent of Ernst & Young LLP.	
31.1 Certification by the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	
31.2 Certification by the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	
32 Certification by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	

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SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SIMON PROPERTY GROUP, INC.

By /s/ STEPHEN E. STERRETT

Stephen E. Sterrett
Executive Vice President and Chief Financial Officer

May 1, 2009

Table of Contents**SCHEDULE III****Simon Property Group, Inc. and Subsidiaries***Real Estate and Accumulated Depreciation**December 31, 2008**(Dollars in thousands)*

Name, Location	Encumbrances	Initial Cost (Note 3)		Cost Capitalized Subsequent to Acquisition (Note 3)		Gross Amounts At Which Carried At December 31, 2008				Accumulated Depreciation (2)	Date of Construction or Acquisition
		Land	Buildings and Improvements	Land	Buildings and Improvements	Land	Buildings and Improvements	Total (1)			
Regional Malls											
Anderson Mall, Anderson, SC	\$ 27,755	\$ 1,712	\$ 15,227	\$ 1,363	\$ 19,920	\$ 3,075	\$ 35,147	\$ 38,222	\$ 13,173	1972	
Arsenal Mall, Watertown, MA	1,090	15,505	47,680		9,642	15,505	57,322	72,827	14,268	1999 (Note 4)	
Bangor Mall, Bangor, ME	80,000	5,478	59,740		8,336	5,478	68,076	73,554	16,533	2004 (Note 5)	
Barton Creek Square, Austin, TX		2,903	20,929	7,983	59,959	10,886	80,888	91,774	37,244	1981	
Battlefield Mall, Springfield, MO	94,530	3,919	27,231	3,225	61,405	7,144	88,636	95,780	44,137	1970	
Bay Park Square, Green Bay, WI		6,358	25,623	4,133	23,438	10,491	49,061	59,552	18,164	1980	
Bowie Town Center, Bowie, MD		2,710	65,044	235	5,206	2,945	70,250	73,195	20,419	2001	
Boynton Beach Mall, Boynton Beach, FL		22,240	78,804	4,666	25,616	26,906	104,420	131,326	33,023	1985	
Brea Mall, Brea, CA		39,500	209,202		25,119	39,500	234,321	273,821	68,588	1998 (Note 4)	
Broadway Square, Tyler, TX		11,470	32,431		21,590	11,470	54,021	65,491	19,376	1994 (Note 4)	
Brunswick Square, East Brunswick, NJ	83,452	8,436	55,838		27,827	8,436	83,665	92,101	31,304	1973	
Burlington Mall, Burlington, MA		46,600	303,618	19,600	87,961	66,200	391,579	457,779	96,968	1998 (Note 4)	
Castleton Square, Indianapolis, IN		26,250	98,287	7,434	69,346	33,684	167,633	201,317	51,133	1972	
Century III Mall, West Mifflin, PA	81,930	17,380	102,364	10	8,437	17,390	110,801	128,191	61,726	1979	
Charlottesville Fashion Square, Charlottesville, VA			54,738		13,580		68,318	68,318	22,858	1997 (Note 4)	
Chautauqua Mall, Lakewood, NY		3,257	9,641		16,214	3,257	25,855	29,112	10,859	1971	
Chesapeake Square, Chesapeake, VA	70,841	11,534	70,461		7,445	11,534	77,906	89,440	35,341	1989	
Cielo Vista Mall, El Paso, TX		1,005	15,262	608	43,508	1,613	58,770	60,383	30,773	1974	
College Mall, Bloomington, IN		1,003	16,245	720	43,130	1,723	59,375	61,098	25,054	1965	
Columbia Center, Kennewick, WA		17,441	66,580		21,461	17,441	88,041	105,482	28,211	1987	
Copley Place, Boston, MA	200,000		378,045		78,878		456,923	456,923	83,023	2002 (Note 4)	
Coral Square, Coral Springs, FL	83,134	13,556	93,630		13,987	13,556	107,617	121,173	44,897	1984	
Cordova Mall, Pensacola, FL		18,626	73,091	7,321	43,797	25,947	116,888	142,835	29,187	1998 (Note 4)	
Cottonwood Mall, Albuquerque, NM		10,122	69,958		3,316	10,122	73,274	83,396	30,708	1996	
Crossroads Mall, Omaha, NE	41,150	639	30,658	409	35,783	1,048	66,441	67,489	26,719	1994 (Note 4)	
Crystal River Mall, Crystal River, FL	14,916	5,393	20,241		4,857	5,393	25,098	30,491	9,077	1990	
DeSoto Square, Bradenton, FL	64,153	9,011	52,675		8,107	9,011	60,782	69,793	22,276	1973	
Domain, The, Austin, TX (Note 6)		45,152	197,010		52,560	45,152	249,570	294,722	15,462	2005	

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Edison Mall, Fort Myers, FL	11,529	107,350	28,267	11,529	135,617	147,146	40,169	1997 (Note 4)	
Fashion Mall at Keystone, Indianapolis, IN		120,579	48,162		168,741	168,741	49,510	1997 (Note 4)	
Firewheel Town Center, Garland, TX	8,636	82,716	23,617	8,636	106,333	114,969	14,381	2004	
Forest Mall, Fond Du Lac, WI	16,478	721	4,491	8,792	721	13,283	14,004	7,180	1973
Forum Shops at Caesars, The, Las Vegas, NV	524,657	276,567	204,235		480,802	480,802	108,579	1992	
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Table of Contents**SCHEDULE III****Simon Property Group, Inc. and Subsidiaries***Real Estate and Accumulated Depreciation**December 31, 2008**(Dollars in thousands)*

Name, Location	Encumbrances	Initial Cost (Note 3)		Cost Capitalized Subsequent to Acquisition (Note 3)		Gross Amounts At Which Carried At December 31, 2008				Accumulated Depreciation (2)	Date of Construction or Acquisition
		Land	Buildings and Improvements	Land	Buildings and Improvements	Land	Buildings and Improvements	Total (1)			
Great Lakes Mall, Mentor, OH		12,302	100,362		10,656	12,302	111,018	123,320		41,141	1961
Greenwood Park Mall, Greenwood, IN		2,423	23,445	5,275	114,688	7,698	138,133	145,831		44,094	1979
Gulf View Square, Port Richey, FL		13,690	39,991	2,023	20,097	15,713	60,088	75,801		22,595	1980
Gwinnett Place, Duluth, GA	115,000	17,051	141,191		4,210	17,051	145,401	162,452		38,335	1998 (Note 5)
Haywood Mall, Greenville, SC		11,585	133,893	6	18,976	11,591	152,869	164,460		56,637	1998 (Note 4)
Independence Center, Independence, MO	200,000	5,042	45,798		32,209	5,042	78,007	83,049		30,951	1994 (Note 4)
Ingram Park Mall, San Antonio, TX	77,180	733	17,163	73	19,934	806	37,097	37,903		19,914	1979
Irving Mall, Irving, TX		6,737	17,479	2,533	41,225	9,270	58,704	67,974		31,356	1971
Jefferson Valley Mall, Yorktown Heights, NY		4,868	30,304		24,516	4,868	54,820	59,688		26,133	1983
Knoxville Center, Knoxville, TN	58,446	5,006	21,617	3,712	35,324	8,718	56,941	65,659		27,153	1984
La Plaza Mall, McAllen, TX		1,375	9,828	6,569	38,146	7,944	47,974	55,918		20,715	1976
Laguna Hills Mall, Laguna Hills, CA		27,928	55,446		16,694	27,928	72,140	100,068		21,952	1997 (Note 4)
Lakeline Mall, Austin, TX		10,088	81,568	14	15,742	10,102	97,310	107,412		34,197	1995
Lenox Square, Atlanta, GA		38,213	492,411		58,481	38,213	550,892	589,105		154,881	1998 (Note 4)
Lima Mall, Lima, OH		7,662	35,338		9,611	7,662	44,949	52,611		18,738	1965
Lincolnwood Town Center, Lincolnwood, IL		7,907	63,480	28	7,435	7,935	70,915	78,850		34,674	1990
Livingston Mall, Livingston, NJ		22,214	105,250		36,557	22,214	141,807	164,021		37,760	1998 (Note 4)
Longview Mall, Longview, TX	30,839	259	3,567	124	7,931	383	11,498	11,881		5,461	1978
Mall of Georgia, Mill Creek, GA	185,238	47,492	326,633		3,826	47,492	330,459	377,951		63,130	1999 (Note 5)
Maplewood Mall, Minneapolis, MN		17,119	80,758		11,225	17,119	91,983	109,102		20,774	2002 (Note 4)
Markland Mall, Kokomo, IN	21,818		7,568		10,056		17,624	17,624		8,852	1968
McCain Mall, N. Little Rock, AR			9,515	10,530	12,180	10,530	21,695	32,225		15,541	1973
Melbourne Square, Melbourne, FL		15,762	55,891	4,160	27,929	19,922	83,820	103,742		25,959	1982
Menlo Park Mall, Edison, NJ		65,684	223,252		33,429	65,684	256,681	322,365		84,104	1997 (Note 4)
Midland Park Mall, Midland, TX	31,852	687	9,213		12,459	687	21,672	22,359		12,438	1980
Miller Hill Mall, Duluth, MN		2,998	18,092		27,471	2,998	45,563	48,561		26,800	1973
Montgomery Mall, Montgomeryville, PA	89,460	27,105	86,915		25,243	27,105	112,158	139,263		23,114	2004 (Note 5)
Muncie Mall, Muncie, IN	7,381	172	5,776	52	27,118	224	32,894	33,118		15,399	1970
North East Mall, Hurst, TX		128	12,966	19,010	148,611	19,138	161,577	180,715		59,473	1971
Northfield Square Mall, Bourbonnais, IL	29,067	362	53,396		1,240	362	54,636	54,998		30,675	2004 (Note 5)
Northgate Mall, Seattle, WA		24,369	115,992		93,581	24,369	209,573	233,942		51,408	1987
Northlake Mall, Atlanta, GA	67,423	33,400	98,035		4,324	33,400	102,359	135,759		45,679	1998 (Note 4)
Northwoods Mall, Peoria, IL		1,185	12,779	2,451	37,093	3,636	49,872	53,508		27,003	1983
Oak Court Mall, Memphis, TN		15,673	57,304		8,756	15,673	66,060	81,733		22,571	1997 (Note 4)

Ocean County Mall, Toms River, NJ	20,404	124,945	23,684	20,404	148,629	169,033	42,213	1998 (Note 4)
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Name, Location	Encumbrances	Initial Cost (Note 3)		Cost Capitalized Subsequent to Acquisition (Note 3)		Gross Amounts At Which Carried At December 31, 2008			Accumulated Depreciation (2)	Date of Construction or Acquisition
		Land	Buildings and Improvements	Land	Buildings and Improvements	Land	Buildings and Improvements	Total (1)		
Orange Park Mall, Orange Park, FL		12,998	65,121		40,115	12,998	105,236	118,234	38,028	1994 (Note 4)
Orland Square, Orland Park, IL		35,514	129,906		21,808	35,514	151,714	187,228	50,348	1997 (Note 4)
Oxford Valley Mall, Langhorne, PA	74,805	24,544	100,287		7,881	24,544	108,168	132,712	44,939	2003 (Note 4)
Paddock Mall, Ocala, FL		11,198	39,727		16,180	11,198	55,907	67,105	16,770	1980
Penn Square Mall, Oklahoma City, OK	65,828	2,043	155,958		27,936	2,043	183,894	185,937	53,104	2002 (Note 4)
Pheasant Lane Mall, Nashua, NH		3,902	155,068	550	14,786	4,452	169,854	174,306	48,112	2004 (Note 5)
Phipps Plaza, Atlanta, GA		19,200	210,610		21,669	19,200	232,279	251,479	69,196	1998 (Note 4)
Plaza Carolina, Carolina, PR	236,901	15,493	279,560		11,798	15,493	291,358	306,851	45,077	2004 (Note 4)
Port Charlotte Town Center, Port Charlotte, FL	50,998	5,471	58,570		15,396	5,471	73,966	79,437	28,559	1989
Prien Lake Mall, Lake Charles, LA		1,842	2,813	3,091	36,807	4,933	39,620	44,553	17,982	1972
Richmond Town Square, Richmond Heights, OH	44,739	2,600	12,112		59,924	2,600	72,036	74,636	39,566	1966
River Oaks Center, Calumet City, IL		30,884	101,224		10,726	30,884	111,950	142,834	35,903	1997 (Note 4)
Rockaway Townsquare, Rockaway, NJ		44,116	212,257	27	31,359	44,143	243,616	287,759	67,050	1998 (Note 4)
Rolling Oaks Mall, San Antonio, TX		1,929	38,609		14,027	1,929	52,636	54,565	24,504	1988
Roosevelt Field, Garden City, NY		164,058	702,008	2,117	39,064	166,175	741,072	907,247	214,402	1998 (Note 4)
Ross Park Mall, Pittsburgh, PA		23,541	90,203		71,846	23,541	162,049	185,590	52,602	1986
Santa Rosa Plaza, Santa Rosa, CA		10,400	87,864		10,039	10,400	97,903	108,303	29,416	1998 (Note 4)
Shops at Mission Viejo, The, Mission Viejo, CA		9,139	54,445	7,491	145,967	16,630	200,412	217,042	74,101	1979
South Hills Village, Pittsburgh, PA		23,445	125,840		16,698	23,445	142,538	165,983	45,546	1997 (Note 4)
South Shore Plaza, Braintree, MA		101,200	301,495		68,214	101,200	369,709	470,909	94,453	1998 (Note 4)
Southern Park Mall, Boardman, OH		16,982	77,767	97	23,786	17,079	101,553	118,632	38,609	1970
SouthPark, Charlotte, NC		42,092	188,055	100	165,073	42,192	353,128	395,320	76,472	2002 (Note 4)
St. Charles Towne Center, Waldorf, MD		7,710	52,934	1,180	26,829	8,890	79,763	88,653	35,872	1990
Stanford Shopping Center, Palo Alto, CA	240,000		339,537		5,914		345,451	345,451	59,939	2003 (Note 4)
Summit Mall, Akron, OH	65,000	15,374	51,137		37,647	15,374	88,784	104,158	27,201	1965
Sunland Park Mall, El Paso, TX	33,734	2,896	28,900		7,120	2,896	36,020	38,916	19,949	1988
Tacoma Mall, Tacoma, WA	122,687	37,803	125,826		73,353	37,803	199,179	236,982	55,789	1987
Tippecanoe Mall, Lafayette, IN		2,897	8,439	5,517	44,478	8,414	52,917	61,331	32,228	1973
Town Center at Aurora, Aurora, CO		9,959	56,832	6	56,463	9,965	113,295	123,260	34,436	1998 (Note 4)

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Town Center at Boca Raton, Boca Raton, FL	64,200	307,317		151,838	64,200	459,155	523,355	121,435	1998 (Note 4)
Town Center at Cobb, Kennesaw, GA	280,000	32,585	158,225	10,577	32,585	168,802	201,387	42,921	1998 (Note 5)
Towne East Square, Wichita, KS	8,525	18,479	1,429	39,772	9,954	58,251	68,205	30,712	1975
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Name, Location	Encumbrances	Initial Cost (Note 3)		Cost Capitalized Subsequent to Acquisition (Note 3)		Gross Amounts At Which Carried At December 31, 2008				Accumulated Depreciation (1)(2)	Date of Construction or Acquisition
		Land	Buildings and Improvements	Land	Buildings and Improvements	Land	Buildings and Improvements	Total			
Towne West Square, Wichita, KS	50,520	972	21,203	61	11,960	1,033	33,163	34,196		17,703	1980
Treasure Coast Square, Jensen Beach, FL		11,124	72,990	3,067	34,067	14,191	107,057	121,248		36,073	1987
Tyrone Square, St. Petersburg, FL		15,638	120,962		28,764	15,638	149,726	165,364		51,781	1972
University Park Mall, Mishawaka, IN	100,000	16,768	112,158	7,000	47,833	23,768	159,991	183,759		79,097	1996 (Note 4)
Upper Valley Mall, Springfield, OH	47,904	8,421	38,745		10,739	8,421	49,484	57,905		17,660	1979
Valle Vista Mall, Harlingen, TX	40,000	1,398	17,159	372	20,659	1,770	37,818	39,588		18,165	1983
Virginia Center Commons, Glen Allen, VA		9,764	50,547	4,149	9,454	13,913	60,001	73,914		24,645	1991
Walt Whitman Mall, Huntington Station, NY		51,700	111,258	3,789	43,113	55,489	154,371	209,860		56,032	1998 (Note 4)
Washington Square, Indianapolis, IN	30,194	16,800	36,495	462	27,599	17,262	64,094	81,356		36,259	1974
West Ridge Mall, Topeka, KS	68,711	5,453	34,132	1,168	22,444	6,621	56,576	63,197		22,658	1988
Westminster Mall, Westminster, CA		43,464	84,709		29,676	43,464	114,385	157,849		31,882	1998 (Note 4)
White Oaks Mall, Springfield, IL	50,000	3,024	35,692	2,102	40,247	5,126	75,939	81,065		28,355	1977
Wolfchase Galleria, Memphis, TN	225,000	15,881	128,276		9,358	15,881	137,634	153,515		45,898	2002 (Note 4)
Woodland Hills Mall, Tulsa, OK	78,612	34,211	187,123		12,898	34,211	200,021	234,232		50,452	2004 (Note 5)
Premium Outlet Centers											
Albertville Premium Outlets, Albertville, MN		3,900	97,059		3,318	3,900	100,377	104,277		20,303	2004 (Note 4)
Allen Premium Outlets, Allen, TX		13,855	43,687	97	22,194	13,952	65,881	79,833		13,097	2004 (Note 4)
Aurora Farms Premium Outlets, Aurora, OH		2,370	24,326		2,285	2,370	26,611	28,981		11,525	2004 (Note 4)
Camarillo Premium Outlets, Camarillo, CA		16,670	224,721	558	42,303	17,228	267,024	284,252		36,705	2004 (Note 4)
Carlsbad Premium Outlets, Carlsbad, CA		12,890	184,990	96	1,679	12,986	186,669	199,655		28,057	2004 (Note 4)
Carolina Premium Outlets, Smithfield, NC	19,696	3,170	59,863		2,038	3,170	61,901	65,071		15,197	2004 (Note 4)
Chicago Premium Outlets, Aurora, IL		659	118,005	4,940	11,407	5,599	129,412	135,011		24,875	2004 (Note 4)
Clinton Crossings Premium Outlets, Clinton, CT		2,060	107,556	472	1,855	2,532	109,411	111,943		20,326	2004 (Note 4)
Columbia Gorge Premium Outlets, Troutdale, OR		7,900	16,492		785	7,900	17,277	25,177		6,402	2004 (Note 4)
Desert Hills Premium Outlets, Cabazon, CA		3,440	338,679		3,522	3,440	342,201	345,641		48,475	2004 (Note 4)
Edinburgh Premium Outlets, Edinburgh, IN		2,857	47,309		11,006	2,857	58,315	61,172		13,726	2004 (Note 4)

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Folsom Premium Outlets, Folsom, CA	9,060	50,281		2,717	9,060	52,998	62,058	13,571 2004 (Note 4)
Gilroy Premium Outlets, Gilroy, CA	9,630	194,122		4,358	9,630	198,480	208,110	36,472 2004 (Note 4)
Houston Premium Outlets, Cypress, TX	21,159	69,350		28,755	21,159	98,105	119,264	3,335 2007
Jackson Premium Outlets, Jackson, NJ	6,413	104,013	3	2,778	6,416	106,791	113,207	16,211 2004 (Note 4)
Jersey Shore Premium Outlets, Tinton Falls, NJ	16,141	50,979		73,424	16,141	124,403	140,544	858 2007
Johnson Creek Premium Outlets, Johnson Creek, WI	2,800	39,546		4,458	2,800	44,004	46,804	6,986 2004 (Note 4)
Kittery Premium Outlets, Kittery, ME	43,556	11,832		94,994	4,557	11,832	99,551	111,383 12,049 2004 (Note 4)
Las Americas Premium Outlets, San Diego, CA	180,000	45,168		251,878	1,252	45,168	253,130	298,298 10,166 2007 (Note 4)
Las Vegas Outlet Center, Las Vegas, NV	13,085	160,777		4,144	13,085	164,921	178,006	21,023 2004 (Note 4)
Las Vegas Premium Outlets, Las Vegas, NV	25,435	134,973		58,647	25,435	193,620	219,055	28,121 2004 (Note 4)

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		Land	Buildings and Improvements	Land	Buildings and Improvements	Land	Buildings and Improvements	Total (1)		
Leesburg Corner Premium Outlets, Leesburg, VA		7,190	162,023		2,930	7,190	164,953	172,143	32,161	2004 (Note 4)
Liberty Village Premium Outlets, Flemington, NJ		5,670	28,904		1,712	5,670	30,616	36,286	9,240	2004 (Note 4)
Lighthouse Place Premium Outlets, Michigan City, IN	88,623	6,630	94,138		4,019	6,630	98,157	104,787	23,683	2004 (Note 4)
Napa Premium Outlets, Napa, CA		11,400	45,023		1,349	11,400	46,372	57,772	9,239	2004 (Note 4)
North Georgia Premium Outlets, Dawsonville, GA		4,300	132,325		1,709	4,300	134,034	138,334	25,352	2004 (Note 4)
Orlando Premium Outlets, Orlando, FL		14,040	304,410	16,100	45,228	30,140	349,638	379,778	42,526	2004 (Note 4)
Osage Beach Premium Outlets, Osage Beach, MO		9,460	85,804	3	3,417	9,463	89,221	98,684	18,910	2004 (Note 4)
Petaluma Village Premium Outlets, Petaluma, CA		13,322	14,067		2,918	13,322	16,985	30,307	5,619	2004 (Note 4)
Philadelphia Premium Outlets, Limerick, PA	190,000	16,676	105,249		15,481	16,676	120,730	137,406	6,310	2006
Rio Grande Valley Premium Outlets, Mercedes, TX		12,693	41,547	1	34,874	12,694	76,421	89,115	6,576	2005
Round Rock Premium Outlets, Round Rock, TX		21,977	82,252		2,796	21,977	85,048	107,025	10,897	2005
Seattle Premium Outlets, Seattle, WA		13,557	103,722	12	3,181	13,569	106,903	120,472	16,207	2004 (Note 4)
St. Augustine Premium Outlets, St. Augustine, FL		6,090	57,670	2	6,825	6,092	64,495	70,587	14,436	2004 (Note 4)
The Crossings Premium Outlets, Tannersville, PA	53,992	7,720	172,931		8,821	7,720	181,752	189,472	28,388	2004 (Note 4)
Vacaville Premium Outlets, Vacaville, CA		9,420	84,850		4,540	9,420	89,390	98,810	21,354	2004 (Note 4)
Waialele Premium Outlets, Waipahu, HI		22,630	77,316		872	22,630	78,188	100,818	15,658	2004 (Note 4)
Waterloo Premium Outlets, Waterloo, NY	72,822	3,230	75,277		5,701	3,230	80,978	84,208	18,137	2004 (Note 4)
Woodbury Common Premium Outlets, Central Valley, NY		11,110	862,559	1,658	3,182	12,768	865,741	878,509	125,123	2004 (Note 4)
Wrentham Village Premium Outlets, Wrentham, MA		4,900	282,031		3,124	4,900	285,155	290,055	47,852	2004 (Note 4)
Community/Lifestyle Centers										
Arboretum at Great Hills, Austin, TX		7,640	36,774	71	8,248	7,711	45,022	52,733	13,249	1998 (Note 4)

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Bloomington Court, Bloomington, IL	26,592	8,748	26,184	9,684	8,748	35,868	44,616	16,295	1987	
Brightwood Plaza, Indianapolis, IN		65	128	337	65	465	530	311	1965	
Charles Towne Square, Charleston, SC			1,768	370	10,636	370	12,404	12,774	6,225	1976
Chesapeake Center, Chesapeake, VA		5,352	12,279	532	5,352	12,811	18,163	4,523	1989	

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Countryside Plaza, Countryside, IL		332	8,507	2,554	9,002	2,886	17,509	20,395	7,031	1977
Dare Centre, Kill Devil Hills, NC	1,640		5,702		189		5,891	5,891	747	2004 (Note 4)
DeKalb Plaza, King of Prussia, PA	3,071	1,955	3,405		1,105	1,955	4,510	6,465	1,518	2003 (Note 4)
Eastland Plaza, Tulsa, OK		651	3,680		80	651	3,760	4,411	3,280	1986
Forest Plaza, Rockford, IL	14,585	4,132	16,818	453	9,689	4,585	26,507	31,092	8,573	1985
Gateway Shopping Centers, Austin, TX	87,000	24,549	81,437		7,719	24,549	89,156	113,705	17,706	2004 (Note 4)
Great Lakes Plaza, Mentor, OH		1,028	2,025		3,680	1,028	5,705	6,733	2,842	1976
Greenwood Plus, Greenwood, IN		1,131	1,792		3,735	1,131	5,527	6,658	2,678	1979
Henderson Square, King of Prussia, PA	14,616	4,223	15,124		147	4,223	15,271	19,494	2,705	2003 (Note 4)
Highland Lakes Center, Orlando, FL	15,189	7,138	25,284		1,217	7,138	26,501	33,639	12,026	1991
Ingram Plaza, San Antonio, TX		421	1,802	4	59	425	1,861	2,286	1,183	1980
Keystone Shoppes, Indianapolis, IN			4,232		974		5,206	5,206	1,730	1997 (Note 4)
Knoxville Commons, Knoxville, TN		3,731	5,345		1,738	3,731	7,083	10,814	4,819	1987
Lake Plaza, Waukegan, IL		2,487	6,420		1,059	2,487	7,479	9,966	3,325	1986
Lake View Plaza, Orland Park, IL	19,388	4,702	17,543		13,062	4,702	30,605	35,307	12,767	1986
Lakeline Plaza, Austin, TX	21,256	5,822	30,875		6,984	5,822	37,859	43,681	13,634	1998
Lima Center, Lima, OH		1,808	5,151		6,788	1,808	11,939	13,747	4,176	1978
Lincoln Crossing, O'Fallon, IL	2,935	674	2,192		630	674	2,822	3,496	1,169	1990
Lincoln Plaza, King of Prussia, PA			21,299		1,942		23,241	23,241	8,204	2003 (Note 4)
MacGregor Village, Cary, NC	6,596	502	8,897		183	502	9,080	9,582	1,150	2004 (Note 4)
Mall of Georgia Crossing, Mill Creek, GA		9,506	32,892		260	9,506	33,152	42,658	10,703	2004 (Note 5)
Markland Plaza, Kokomo, IN		206	738		6,234	206	6,972	7,178	2,513	1974
Martinsville Plaza, Martinsville, VA			584		408		992	992	720	1967
Matteson Plaza, Matteson, IL	8,537	1,771	9,737		2,685	1,771	12,422	14,193	6,044	1988
Muncie Plaza, Muncie, IN		267	10,509	87	1,350	354	11,859	12,213	3,959	1998
New Castle Plaza, New Castle, IN		128	1,621		1,417	128	3,038	3,166	1,893	1966
North Ridge Plaza, Joliet, IL		2,831	7,699		3,231	2,831	10,930	13,761	4,450	1985
North Ridge Shopping Center, Raleigh, NC	8,056	385	12,838		406	385	13,244	13,629	1,768	2004 (Note 4)
Northwood Plaza, Fort Wayne, IN		148	1,414		1,543	148	2,957	3,105	1,695	1974
Palms Crossing, McAllen, TX (Note 6)		13,923	45,925		5,837	13,923	51,762	65,685	2,802	2006
Park Plaza, Hopkinsville, KY		300	1,572		217	300	1,789	2,089	1,750	1968
Pier Park, Panama City Beach, FL		25,992	73,158		41,120	25,992	114,278	140,270	3,404	2006
Regency Plaza, St. Charles, MO	4,003	616	4,963		569	616	5,532	6,148	2,296	1988

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Richardson Square Mall, Richardson, TX	6,285	1,268	15,506	7,553	15,506	23,059	322 1977
Rockaway Convenience Center, Rockaway, NJ	5,149	26,435	6,543	5,149	32,978	38,127	7,673 1998 (Note 4)
Rockaway Town Plaza, Rockaway, NJ		18,698	1,765		20,463	20,463	2,335 2004
Shops at Arbor Walk, Austin, TX (Note 6)	930	42,546	5,210	930	47,756	48,686	4,026 2005

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Table of Contents**SCHEDULE III****Simon Property Group, Inc. and Subsidiaries***Real Estate and Accumulated Depreciation**December 31, 2008**(Dollars in thousands)*

Name, Location	Encumbrances	Initial Cost (Note 3)		Cost Capitalized Subsequent to Acquisition (Note 3)		Gross Amounts At Which Carried At December 31, 2008			Accumulated Depreciation (2)	Date of Construction or Acquisition
		Land	Buildings and Improvements	Land	Buildings and Improvements	Land	Buildings and Improvements	Total (1)		
Shops at North East Mall, The, Hurst, TX		12,541	28,177	402	5,782	12,943	33,959	46,902	13,879	1999
St. Charles Towne Plaza, Waldorf, MD	25,613	8,377	18,993		2,918	8,377	21,911	30,288	9,784	1987
Teal Plaza, Lafayette, IN		99	878		3,011	99	3,889	3,988	2,071	1962
Terrace at the Florida Mall, Orlando, FL		2,150	7,623		5,201	2,150	12,824	14,974	4,043	1989
Tippecanoe Plaza, Lafayette, IN			745	234	5,037	234	5,782	6,016	3,006	1974
University Center, Mishawaka, IN		3,071	7,413		3,095	3,071	10,508	13,579	7,115	1980
Washington Plaza, Indianapolis, IN		941	1,697		398	941	2,095	3,036	2,561	1976
Waterford Lakes Town Center, Orlando, FL		8,679	72,836		14,176	8,679	87,012	95,691	31,000	1999
West Ridge Plaza, Topeka, KS	5,158	1,376	4,560		1,770	1,376	6,330	7,706	2,866	1988
White Oaks Plaza, Springfield, IL	15,741	3,169	14,267		1,392	3,169	15,659	18,828	6,595	1986
Wolf Ranch, Georgetown, TX		22,118	51,547		5,489	22,118	57,036	79,154	7,695	2004
Other Properties										
Crossville Outlet Center, Crossville, TN		263	4,380		229	263	4,609	4,872	712	2004 (Note 4)
Factory Merchants Branson, Branson, MO		1,383	19,637	1	846	1,384	20,483	21,867	1,681	2004 (Note 4)
Factory Shoppes at Branson Meadows, Branson, MO	9,160		5,205		228		5,433	5,433	707	2004 (Note 4)
Factory Stores of America Boaz, AL	2,678		924		7		931	931	104	2004 (Note 4)
Factory Stores of America Georgetown, KY	6,349	148	3,610		47	148	3,657	3,805	461	2004 (Note 4)
Factory Stores of America Graceville, FL	1,886	12	408		60	12	468	480	55	2004 (Note 4)
Factory Stores of America Lebanon, MO	1,586	24	214			24	214	238	40	2004 (Note 4)
Factory Stores of America Nebraska City, NE	1,488	26	566		13	26	579	605	80	2004 (Note 4)
Factory Stores of America Story City, IA	1,841	7	526			7	526	533	64	2004 (Note 4)
Factory Stores of North Bend, North Bend, WA		2,143	36,197		1,901	2,143	38,098	40,241	5,498	2004 (Note 4)

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Nanuet Mall, Nanuet, NY	27,310	162,993		3,427	27,310	166,420	193,730	104,236	1998 (Note 4)
Palm Beach Mall, West Palm Beach, FL	50,953	11,962	112,437	35,542	11,962	147,979	159,941	94,848	1967
Raleigh Springs Mall, Memphis, TN		4,663	28,604	12,892	4,663	41,496	46,159	40,567	1971
University Mall, Pensacola, FL		4,256	26,657	3,908	4,256	30,565	34,821	13,258	1994
Development Projects									
Cincinnati Premium Outlets, Monroe, OH		14,117	32,157		14,117	32,157	46,274		2008
Other									
pre-development costs		31,890	26,844		31,890	26,844	58,734		
Other		3,304	3,818	665	344	3,969	4,162	8,131	3,363
	\$ 5,208,029	2,606,933	\$ 17,523,294	\$ 188,093	\$ 4,589,650	\$ 2,795,026	\$ 22,112,944	\$ 24,907,970	\$ 6,015,677

Table of Contents**Simon Property Group, Inc. and Subsidiaries****Notes to Schedule III as of December 31, 2008**

(Dollars in thousands)

(1) Reconciliation of Real Estate Properties:

The changes in real estate assets for the years ended December 31, 2008, 2007, and 2006 are as follows:

	2008	2007	2006
Balance, beginning of year	\$ 24,163,367	\$ 22,644,299	\$ 21,551,247
Acquisitions and consolidations	7,640	743,457	402,095
Improvements	797,717	1,057,663	772,806
Disposals and de-consolidations	(60,754)	(282,052)	(81,849)
Balance, close of year	\$ 24,907,970	\$ 24,163,367	\$ 22,644,299

The unaudited aggregate cost of real estate assets for federal income tax purposes as of December 31, 2008 was \$18,390,068.

(2) Reconciliation of Accumulated Depreciation:

The changes in accumulated depreciation and amortization for the years ended December 31, 2008, 2007, and 2006 are as follows:

	2008	2007	2006
Balance, beginning of year	\$ 5,168,565	\$ 4,479,198	\$ 3,694,807
Acquisitions and consolidations (5)		12,714	64,818
Depreciation expense	871,556	808,041	767,726
Disposals	(24,444)	(131,388)	(48,153)
Balance, close of year	\$ 6,015,677	\$ 5,168,565	\$ 4,479,198

Depreciation of our investment in buildings and improvements reflected in the consolidated statements of operations and comprehensive income is calculated over the estimated original lives of the assets as follows:

Buildings and Improvements typically 10-40 years for the structure, 15 years for landscaping and parking lot, and 10 years for HVAC equipment.

Tenant Allowances and Improvements shorter of lease term or useful life.

- (3) Initial cost generally represents net book value at December 20, 1993, except for acquired properties and new developments after December 20, 1993. Initial cost also includes any new developments that are opened during the current year. Costs of disposals of property are first reflected as a reduction to cost capitalized subsequent to acquisition.
- (4) Not developed/constructed by us or our predecessors. The date of construction represents the acquisition date.
- (5) Property initial cost for these properties is the cost at the date of consolidation for properties previously accounted for under the equity method of accounting. Accumulated depreciation amounts for properties consolidated which were previously accounted for under the equity method of accounting include the minority interest holders' portion of accumulated depreciation.

(6)

Secured by a \$260,000 cross-collateralized and cross-defaulted mortgage loan facility.

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Exhibits

- 2 Agreement and Plan of Merger, dated as February 12, 2007, by and among SPG-FCM Ventures, LLC, SPG-FCM Acquisitions, Inc., SPG-FCM Acquisitions, L.P., The Mills Corporation, and The Mills Limited Partnership (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed February 23, 2007).
- 3.1 Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed on October 9, 1998).
- 3.2 Restated By-laws of the Registrant (incorporated by reference to Exhibit 3.2 of the Registrant's Current Report on Form 8-K filed July 30, 2008).
- 3.3 Certificate of Powers, Designations, Preferences and Rights of the 6% Series I Convertible Perpetual Preferred Stock, \$0.0001 Par Value (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed October 20, 2004).
- 3.4 Certificate of Powers, Designations, Preferences and Rights of the 8³/₈% Series J Cumulative Redeemable Preferred Stock, \$0.0001 Par Value (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed October 20, 2004).
- 9.1 Second Amended and Restated Voting Trust Agreement, Voting Agreement and Proxy dated as of March 1, 2004 between Melvin Simon & Associates, Inc., on the one hand and Melvin Simon, Herbert Simon, and David Simon on the other hand (incorporated by reference to Exhibit 9.1 of the Registrant's Quarterly Report on Form 10-Q filed on May 10, 2004).
- 9.2 Voting Trust Agreement, Voting Agreement and Proxy dated as of March 1, 2004 between David Simon, Melvin Simon and Herbert Simon (incorporated by reference to Exhibit 9.2 of the Registrant's Quarterly Report on Form 10-Q filed on May 10, 2004).
- 10.1 Eighth Amended and Restated Agreement of Limited Partnership of Simon Property Group, L.P. dated as of May 8, 2008 (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed May 9, 2008).
- 10.2 \$3,500,000,000 Credit Agreement, dated as of December 15, 2005, among Simon Property Group, L.P., the Institutions named therein as Lenders and the Institutions named therein as Co-Agents (incorporated by reference to Exhibit 99.2 of Simon Property Group, L.P.'s Current Report on Form 8-K filed on December 20, 2005).
- 10.3 Amendment to Credit Agreement among Simon Property Group, L.P., the Institutions named therein as Lenders and the Institutions named therein as Co-Agents, dated October 4, 2007 (incorporated by reference to Exhibit 10.3 of the Registrant's Form 10-K).
- 10.4 Form of the Indemnity Agreement between the Registrant and its directors and officers (incorporated by reference to Exhibit 10.7 of the Registrant's Form S-4 filed August 13, 1998 (Reg. No. 333-61399)).
- 10.5 Registration Rights Agreement, dated as of September 24, 1998, by and among the Registrant and the persons named therein. (incorporated by reference to Exhibit 4.4 of the Registrant's Current Report on Form 8-K filed October 9, 1998).
- 10.6 Registration Rights Agreement, dated as of August 27, 1999 by and among the Registrant and the persons named therein (incorporated by reference to Exhibit 4.4 to the Registration Statement on Form S-3 filed March 24, 2004 (Reg. No. 333-113884)).
- 10.7 Registration Rights Agreement, dated as of November 14, 1997, by and between O'Connor Retail Partners, L.P. and Simon DeBartolo Group, Inc. (incorporated by reference to Exhibit 4.8 to the Registration Statement on Form S-3 filed December 7, 2001 (Reg. No. 333-74722)).
- 10.8* Simon Property Group, L.P. 1998 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed May 9, 2008).
- 10.9* Form of Nonqualified Stock Option Award Agreement under the Simon Property Group, L.P. 1998 Stock Incentive Plan (incorporated by reference to Exhibit 10.8 of the Registrant's 2004 Form 10-K).
- 10.10* Form of Performance-Based Restricted Stock Award Agreement under the Simon Property Group, L.P. 1998 Stock Incentive Plan (incorporated by reference to Exhibit 10.9 of the Registrant's 2006 Form 10-K).
- 10.11* Form of Non-Employee Director Restricted Stock Award Agreement under the Simon Property Group, L.P. 1998 Stock Incentive Plan (incorporated by reference to Exhibit 10.10 of the Registrant's 2004 Form 10-K).
- 10.12* Employment Agreement among Richard S. Sokolov, the Registrant, and Simon Property Group Administrative Services Partnership, L.P. dated January 1, 2007.
- 10.13* Description of Director and Executive Compensation Agreements.
- 10.14 Credit and Guaranty Agreement, dated as of February 16, 2007, by and among The Mills Limited Partnership, as Borrower, The Mills Corporation, as Parent, certain of its subsidiaries, as Guarantors, the lenders party thereto, and Simon Property Group, L.P., as Administrative Agent and Collateral Agent (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed February 23, 2007).
- 10.15 Voting Agreement dated as of June 20, 2004 among the Registrant, Simon Property Group, L.P., and certain holders of shares of common stock of Chelsea Property Group, Inc. and/or common units of CPG Partners, L.P. (incorporated by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K filed June 22, 2004).
- 12.1 Statement regarding computation of ratios.
- 21.1 List of Subsidiaries of the Company (incorporated by reference to Exhibit 12.1 of the Registrant's 2008 Form 10-K).
- 23.1 Consent of Ernst & Young LLP.

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Exhibits

- 31.1 Certification by the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 31.2 Certification by the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 32 Certification by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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Represents a management contract, or compensatory plan, contract or arrangement required to be filed pursuant to Regulation S-K.

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