

## RealMoney Investment & Trading Ideas



### Simon Property Group Reports an Excellent Quarter

By Scott Rothbort  
RealMoney Contributor

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**Simon Property Group** (SPG) is doing excellent, and while the company is cautious, it did not sound any alarms as to the state of the consumer or its tenants. If you can look out into the future, then you will see the company expanding overseas, including China, as well as building up the Mills portfolio of properties. Simon Property has a great credit rating, the dividend is safe, and it is one of the best managed REITs, particularly in the retail segment of the industry.

The company reported third-quarter 2007 EPS of \$1.46.

Of greater importance (and something that I neglected to discuss in the preview) was the company's funds from operations (FFO), which is a non-GAAP metric that is important for the REIT industry. Simon Property's FFO for the quarter rose 13.3% year over year, to \$418.7 million. FFO is a primary determinant of dividends to the extent that a REIT has to conform to particular aspects of the tax code. The excellent FFO growth came even considering \$7.8 less of land sale gains in the year ago period and \$5 million more of credit losses this year. In addition, in 3q06 SPG recognized a one time \$3.7 million gain on the sale of a technology holding. Comparable sales were up 3.6%, to \$491 per square foot in domestic regional malls, and increased 8.0%, to \$499 in the outlet portfolio. The general economic health of the company's tenants remains strong. Only 53 square feet of occupancy was lost in the first nine months of 2007, which was less than was lost in the same period of 2006.

Three new international centers were opened during the quarter. Construction continues on six new U.S. projects plus two shopping centers in Italy and five in China. On July 5, the company sold non-core assets in Poland, of which \$121 million was repatriated to the U.S.

The company's discussion on the conference call was very short and to the point. The bulk of the conference call was Q&A with analysts. Here are some takeaways from the Q&A:

- The impact from the Mills asset acquisition will have a marginal impact in 2007, with benefits starting to impact in 2008 and beyond.
- Management reiterated what it said on the last call -- that the company is cautious on the economic uncertainty.
- The company's properties are well-positioned with high-quality tenants.
- Percentage rents (leases which have a sales performance clause) are not a huge part of the company's business.
- Simon Property sees a closing of the occupancy gap between the Mills properties and the rest of the portfolio.
- The company bought back shares at an average price of \$86.25 -- I do not

have the share quantity -- and has not repurchased any shares since the beginning of the quarter.

- The stock closed at \$98.48 on Friday.
- The vast majority of retailers have not changed their store opening plans for 2008.
- In Florida towns such as Miami, Boca Raton, etc., the tourist malls are seeing sales increases but the local business is flat.

### Simon Property Group Preview: A Great Track Record

**Simon Property Group** (SPG) is scheduled to release third-quarter 2007 results before the market opens on Monday and conduct its quarterly conference call later that morning. Analysts expect EPS of 47 cents. The company has an excellent track record of delivering better-than-expected results.

The REIT segment has sustained collateral damage from the protracted mortgage problems and concerns (which so far have been disproved) that consumer spending is going to contract. This has caused Simon Property to go on a roller-coaster ride this year. Despite this volatility, the stock is about flat on the year. This becomes more apparent from the chart below.

#### SPG 252 Days (NYSE)

Simon Property Group



Source: CTS Trend

The Simon Property quarterly dividend of 84 cents, equating to a yield of nearly 3.5%, appears to be quite safe. I expect that dividend to be boosted in 2008 by about 7% to 10%.

This week, Simon Property Group, which is still primarily under the control of the Simon family, announced that David Simon will assume the role of chairman of the board, succeeding Melvin and Herbert Simon, who will now be chairmen emeriti and will concentrate on international expansion efforts.

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*Scott Rothbort has over 20 years of experience in the financial services industry. In 2002, Rothbort founded LakeView Asset Management, LLC, a registered investment advisor based in Millburn, N.J., which offers customized individually managed*

*separate accounts, including proprietary long/short strategies to its high net worth clientele.*

*Immediately prior to that, Rothbort worked at Merrill Lynch for 10 years, where he was instrumental in building the global equity derivative business and managed the global equity swap business from its inception. Rothbort previously held international assignments in Tokyo, Hong Kong and London while working for Morgan Stanley and County NatWest Securities.*

*Rothbort holds an MBA in finance and international business from the Stern School of Business of New York University and a BS in economics and accounting from the Wharton School of Business of the University of Pennsylvania. He is a Professor of Finance and the Chief Market Strategist for the Stillman School of Business of Seton Hall University.*

*For more information about Scott Rothbort and LakeView Asset Management, LLC, visit the company's Web site at [www.lakeviewasset.com](http://www.lakeviewasset.com). Scott appreciates your feedback; [click here](#) to send him an email.*

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