Simon Property Group (SPG) Enduring the COVID-19 Pandemic

Simon Property Group, Inc. (NYSE: SPG) is a real estate investment trust ("REIT"). The trust develops, manages and acts as a landlord for numerous premier shopping, dining, entertainment and mixed-use destinations. These places mostly consist of malls, premium outlets, "The Mills," and some international properties as well. As of June 30, 2020, SPG owned or had interest in 235 properties, totalling 191 million square feet in North America, Asia and Europe. SPG's claim in North America stretches all the way from Anchorage, Alaska to Miami, Florida and hits many states in between. The portfolio held by the property group is massive, and knights SPG as the biggest mall owner in the United States. Internationally, SPG holds an impressive portfolio of property in Austria, Canada, France, Malaysia, South Korea and so many more. The trust also gained a 22.4% ownership interest in Klépierre, a publicly traded Parisian real estate company, which has property in 15 European countries.

Such an impressive array of assets leads to a heavy stream of revenue for Simon Property Group. The main source of income for the trust is income made on lease agreements (mainly retail) to other businesses. At the end of 2019, SPG had a total combined revenue of $5.7 billion dollars. The main expense SPG faces year after year is the depreciation and amortization of their properties, totalling $1.3 billion in 2019. At the end of the year, SPG had a consolidated net income of $2.5 billion. This is impressive, but 2020's reality paints a darker picture.

2020 marked the beginning of the COVID-19 pandemic, social-distancing and a fundamental change in the way humans interact with the world around them and receive their basic necessities. The spread of the virus and the necessary slowing protocols left the retail industry in shambles because many retailers had to close their doors for a sizable portion of the year. SPG leases its property to these retailers, and Simon Property Group, as well as many

REIT's had to face the closing of their properties' doors as well. Additionally, the pandemic has created a boom in e-commerce, and online retailers like Amazon are seeing unprecedented revenue in the year 2020. As the retail industry rapidly changes, Simon Property Group has had to make adjustments to keep up with the times and stay afloat.

As with most publicly traded companies, the stock of SPG has depreciated since the onset of COVID-19. The trust saw its highest stock price on December 6, 2018 at $190.59 per stock. SPG sees regular fluctuations in their stock price, and had followed a generally slow decline after this valuation until the pandemic began. On February 21, SPG was trading for $142.25 per stock, but just one month later it had fallen to $44.92, the lowest it had seen since over a decade earlier in 2009. The decline continued and SPG bottomed out at $44.01 on April 2. At this point, SPG began seeing a slow recovery throughout April, May and June, having to make decisive moves in order to safeguard their future. June 8 showed promise for SPG, as it had a peak on the market at $95.50, the highest it would reach throughout the pandemic through the present day. Following this, the stock dropped and varied little between $60.00 and $70.00. As of Friday, November 6, 2020's close, SPG is trading at $63.91 per stock.

According to Yahoo Finance, Simon Property Group is currently facing short, mid and long term bearish trends, meaning that there is currently no increasing outlook for SPG's stock price. Despite this, Wall Street analysts in November are overwhelmingly recommending that speculators buy stock in SPG. Of 22 analysts, 17 advise that SPG is a strong buy or buy. The other 5 recommend holding the stock for now. These recommendations are promising compared to the past two months, where the recommendations to buy were drastically lower. The strong response from Wall Street toward Simon Property Group goes to show the successful effects of SPG's COVID-19 response plans.

SPG took swift measures at the beginning of the pandemic to proactively adjust to the financial difficulties they would face during the COVID-19 pandemic. SPG was included in discussions with federal, state and local officials in the cities where they owned retail square footage, and made the decision to close all of their locations across the United States. This decision was made on March 18, and quickly afterward on March 31, SPG made the announcement that they would be furloughing 30% of their workforce to reduce overhead expenses moving into the coming months. This move was extremely well informed as between the months of April and July, many of their lessees deferred rent because income had stalled at in-person retailer locations. Retail locations began opening again on May 1 in accordance with state and local guidelines, and all retail location lessees of SPG were open and operating as of July 10. Across all of Simon Property Group's international portfolio of real estate, approximately 10.5 thousand shopping days were lost in the second quarter alone.

It became clear to Simon Property Group in mid-June that the way they utilized their property spaces would have to adapt to the current situation in the world. Some of SPG's biggest clients are anchor department stores such as J.C. Penney and Sears. Businesses such as these have been floundering for years in the midst of the e-commerce boom, and J.C. Penney was quick to declare bankruptcy in the early months of the pandemic. As J.C. Penney struggled throughout the middle of 2020, SPG began to consider ways in which to continue profiting from these properties. Amazon posed the biggest threat to J.C. Penney and other department stores, but it also was explored as a saving grace for SPG's investment in their retail spaces. In early August, SPG was in talks with Amazon to convert their leased retail space to J.C. Penney and Sears into Amazon distribution hubs. Both chains by this point had filed for chapter 11 bankruptcy protection and had closed dozens of stores across the country. SPG has a combined

74 locations of the two department stores scattered throughout their properties, so their stake in the matter was sizable. The deal eventually fell through with Amazon, but the urgency to ensure revenue from these locations was still crucial. SPG joined forces with Brookfield Property Partners (NASDAQ: BPY), another REIT to purchase the J.C. Penney retail operations. As of November 5, 2020, the deal is close to being finalized to the relief of all three parties involved. SPG and BPY are together investing $300 million into J.C. Penney, which is still a fraction of what they estimated they would spend trying to replace the retail giant in their portfolios. Of course, this is operating under the assumption that the retailer does turn profitable in the future, which is unclear at this point. What is clear, however, is that the decision was made in the best interest of SPG's short term economic outlook.

Another major issue that Simon Property Group dealt with in the midst of the pandemic was their impending merger with Taubman Centers, Inc. (NYSE: TCO). The deal was initially announced in February and SPG planned on taking a controlling stake in the fellow retail real estate REIT. The deal was valued at $3.6 billion. The merger crumbled in June--as things tend to do during a pandemic. SPG took Taubman to court under the argument that TCO had suffered a "material adverse event under the merger agreement and has breached the covenants in the agreement governing the operation of its business." SPG was claiming that TCO had been disproportionately affected by the COVID-19 pandemic due to negligent steps taken to mitigate the impact of the pandemic on their finances. The Simon Property Group and other retail REIT's had obviously been impacted, but not to the extent that TCO had been. The court date is set for November 16, 2020.

Looking forward, the COVID-19 pandemic leaves a lot of businesses with uncertainty in their outlook. SPG reports a positive outlook in the future based on reasonable assumptions, but they say "the Company can give no assurance that its expectations will be attainted, and it is possible that the Company's actual results may differ materially from those indicated by these forward-looking statements due to a variety of risks, uncertainties and other factors." The risks they discuss are things such as the future of COVID-19, the inability to collect rent due to the bankruptcy or insolvency of tenants or changes in economic or market conditions that could impact the retail environment. This short list is not exhaustive, and the challenges facing retail REIT's such as SPG are immense, but not insurmountable. SPG is hoping for a recovery as soon as possible.

The recent economic activity of Simon Property Group Inc. has been incredibly turbulent. The REIT has seen persistent ups and downs and has faced incredible challenges throughout the course of the pandemic. However, their quick and decisive moves to sustain operations throughout 2020 have kept them afloat, and Wall Street has responded positively toward their outlook. Moody's recently gave SPG a grade of Baa, a medium risk rating that shows promise toward their recovery. With the election of Joe Biden and Kamala Harris into the White House just this morning, 2021's outlook will look drastically different. The stock market has already begun adjusting with everyone looking toward President-elect Biden's economic plan for the country. Only time will tell the future of SPG and other publicly traded companies.

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