

# Mall Giant Simon Property Touts Resurrection of Brick-and-Mortar Retail

**REIT Reports Occupancy, Rents Rise in Third Quarter Despite Cloudy Economy**



Simon Property Groups portfolio includes the King of Prussia mall in Pennsylvania. (Ajay Suresh/Wikimedia Commons)

By [Linda Moss](#)  
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Simon Property Group, the nation's biggest mall owner, reported an increase in its occupancy and rents despite the rocky economic environment, with its CEO touting brick-and-mortar retail as "where the action is."

The [Indianapolis-based](#) real estate investment trust released its third-quarter earnings Tuesday, with funds from operations of \$1.11 billion, up about 1.4%, for the period ending Sept. 30. Net income was \$539 million, down from \$679.9 million in the prior-year period. The company raised its full-year 2022 guidance and quarterly dividend.

During a call with Wall Street analysts, Chairman and CEO David Simon cited the dip that online shopping has seen in the wake of the worst of the pandemic and pointed to the strength of physical retail despite high inflation and the threat of a recession.

"We have yet to see any pullback in opening new stores or [lease] renewals. ... It's been a difficult year for e-commerce, and bricks is where the action is," Simon said.

Retail real estate operators such as Simon were forced to temporarily close their locations in 2020 because of the COVID-19 outbreak, but the industry enjoyed a strong comeback last year. Analysts haven't expected retail to experience the same kind of gains this year, but Simon Property has had a solid performance by several standards. The holiday season, the most important sales period for retailers, is kicking off, and it remains to be seen whether or not shoppers cut back their spending. [A recent survey by JLL said they won't trim their gift lists](#), while the National Retail Federation will issue its holiday forecast Thursday.

"Simon's results were very solid, reflecting an ongoing recovery on occupancy rates and rents," Neil Saunders, managing director of research firm GlobalData, said in an email to CoStar News. "This generally reflects the good quality of Simon's malls. The future guidance is positive although keeping an eye on property operating costs and the valuation of the portfolio is important as we move into 2023 and inflationary pressures continue to weigh on the retail sector."

## Leasing Demand

Occupancy for Simon's malls and premium outlets was about 95% compared to 92.8% as of the same time last year, an increase of nearly 2%. Base minimum rent per square foot was \$54.80 compared to \$53.91 at of the same time a year ago, an increase of roughly 2%.

"Per the conference call, leasing demand remains solid though [the third quarter this year], despite macro concerns," Truist Securities said in a report on Tuesday. "Management cited opening rates on new leases increased 10% since last year's (over \$6 per share foot, not comparable), and 'wildly positive' comparable lease spreads."

In addition, retail sales momentum continued, according to David Simon.

"Our shopper remains resilient," he said. "We reported another record in the third quarter of \$749 per square foot for the malls and outlets, which was an increase of 14% year over year."

He discussed e-commerce's slowdown several times during the conference call.

"Many have tried to kill off physical retail real estate, and in particular enclosed malls," the CEO said. "And I need not remind you when physical retail was closed in COVID, all the naysayers saying that physical retail was gone forever. However, brick-and-mortar is strong, brick-and-mortar retailer is strong, and e-commerce is flatlining."

During this time period, the REIT has paid out \$39 billion in dividends as the company has "become stronger and more profitable," Simon said.

"And why do I bring this up constantly? ... You can't pay those dividends without a strong underlying business," he said.

Simon owns or has an interest in 230 properties totaling 184 million square feet in North America, Asia and Europe. It also has an 80% interest in Taubman Realty Group, which owns 24 regional, super-regional and outlet malls in the United States and Asia.

Despite David Simon's bullish comments, BMO Capital Markets expressed its doubts about the mall sector in a report Tuesday.

"We remain concerned about significant macro uncertainty focused on the U.S. consumer, particularly discretionary spending," BMO said. "Although brick-and-mortar has undoubtedly proved its importance for retailers and consumers, we favor more necessity-focused shopping centers within retail."

David Simon only briefly mentioned his company's [pending deal last month to acquire a 50% stake in Atlanta-based Jamestown](#), a specialist in premier mixed use developments. Like most mall landlords, Simon is looking to diversity its properties.

"The Jamestown team, our experienced, mixed-use operators, developers, property managers and asset managers were pleased to expand our investment platform with this best-in-class operator, and we expect to grow their asset management business and accelerate our densification opportunities," Simon said. "We anticipate this accretive transaction to close prior to the end of this year."

## Stakes in Retailers

He also referenced the REIT's stakes in a number of retailers, a group that includes J.C. Penney, Nautica, Brooks Brothers, Eddie Bauer and Aeropostale — so-called Other Platform Investments, or OPIs — either with Brookfield Asset Management or through its SPARC Group portfolio, a partnership with Authentic Brands Group.

"After cash distributions received, we have approximately \$475 million of net investment within our other platform investments," Simon said. "We expect to generate approximately \$300 million in [funds from operations] from OPI. That is, for those of you like math, is a 60% return on investment. We believe the value of our investments in OPI is over \$2 billion."

Regarding the impact of the macro economy and inflation on consumers, it is causing "volatility" with some retailers, according to Simon, who added, "I [said to you on the last call](#), the lower income consumer is tightening their belt, and we do have a few brands that are affected by that."

But brands such as Brooks Brothers, Lucky Jeans and Nautica are "really doing well," he said.