SIMON® | PROPERTY GROUP, INC.

Annual Report 2005

REGIONAL MALLS

PREMIUM OUTLET® CENTERS

COMMUNITY/LIFESTYLE CENTERS

INTERNATIONAL PROPERTIES

CORPORATE PROFILE

SIMON PROPERTY GROUP, INC. (NYSE: SPG), headquartered in Indianapolis, Indiana, is the largest public U.S. real estate company. We operate from four major platforms – regional malls, Premium Outlet® centers, community/lifestyle centers and international properties. Through its subsidiary partnership, as of December 31, 2005, the Company owned or had an interest in 286 properties comprising 200 million square feet in 39 states plus Puerto Rico. We also held interests in 51 European shopping centers in France, Italy and Poland; five Premium Outlet centers in Japan; and one Premium Outlet center in Mexico. Simon Property Group is an S&P 500 Company.

Additional Simon Property Group information is available at www.simon.com.

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This Annual Report contains a number of forward-looking statements. For more information, please see page 18.

FINANCIAL HIGHLIGHTS

	2005	2004	Percent Change 2005 vs. 2004
OPERATING DATA (in millions)			
Consolidated Revenue	**$ 3,167**	$ 2,585	22.5%
Funds from Operations (FFO)*	**1,411**	1,182	19.4%
PER COMMON SHARE DATA			
FFO* (Diluted)	**$ 4.96**	$ 4.39	13.0%
Net Income (Diluted)	**1.82**	1.44	26.4%
Cash Dividends	**2.80**	2.60	7.7%
Common Stock Price at December 31	**76.63**	64.67	18.5%
STOCK AND LIMITED PARTNER UNITS OUTSTANDING AT YEAR END			
Shares of Common Stock (in thousands)	**220,361**	220,307	
Limited Partner Units in the Operating Partnership (in thousands)	**58,523**	60,943	
Market Value of Common Stock and Limited Partner Units (in millions)	**$ 21,371**	$ 18,188	
Total Market Capitalization** (in millions)	**$ 40,347**	$ 37,166	
OTHER DATA			
Total Number of Properties in the U.S.	**286**	297	
U.S. Gross Leasable Area (in thousands)	**200,412**	202,933	
Total Number of European Shopping Centers	**51**	51	
European Gross Leasable Area (in thousands)	**11,078**	10,877	
Total Number of International Premium Outlet Centers	**6**	5	
International Premium Outlet Center Gross Leasable Area (in thousands)	**1,537**	1,359	
Number of employees	**4,700**	4,600	

* FFO is a non-GAAP financial measure commonly used in the real estate industry that we believe provides useful information to investors. Please refer to Management's Discussion & Analysis of Financial Condition and Results of Operations for a definition of FFO, and to pages 32-33 for a reconciliation of net income to funds from operations and of diluted net income per share to diluted FFO per share.

** Includes total consolidated debt and our share of joint venture debt.

FROM THE CEO

2005 was an outstanding year for our Company. We reported a strong 13% growth in FFO per share and delivered a total return to our stockholders of 23%, significantly outperforming the S&P 500 Index for the sixth straight year. Over the course of the past five years our common stock price has increased by 219% and we have delivered a total shareholder return (including dividends) of 327%.

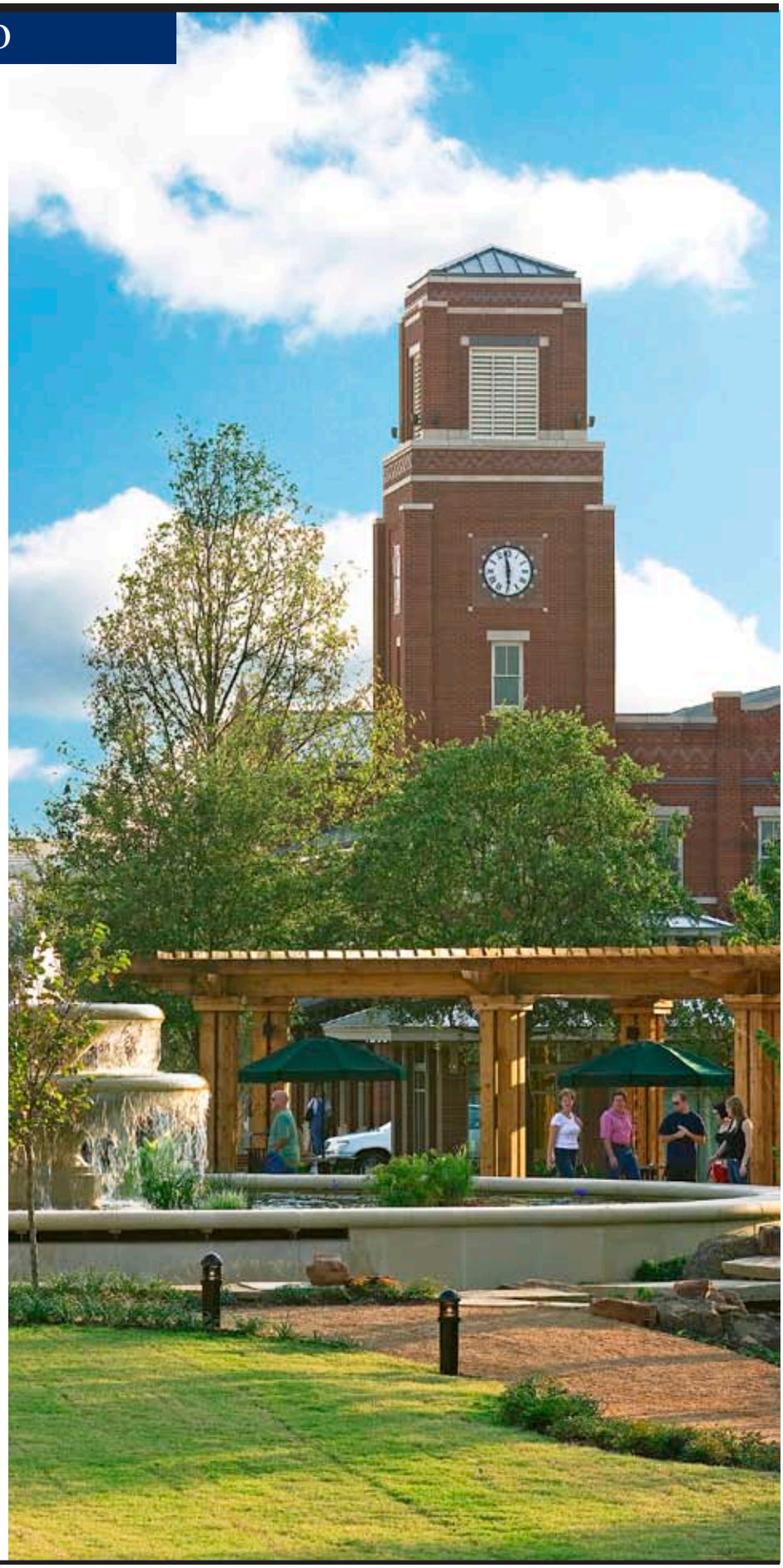
Simon Property Group is not the same company that it was when we went public 12 years ago. Today, we are the largest public real estate organization in the U.S. with a total equity market capitalization that ranks us as one of the 150 largest companies in the country.

We have assembled a retail real estate portfolio of the highest quality that would be difficult, if not impossible, to duplicate. Our 61 million square feet of mall stores generate sales of $450 per square foot. Twelve of our regional malls generate sales in excess of $700 per square foot. A total of 20 of our malls produce sales in excess of $600 per square foot and the number increases to 36 when you look at sales in excess of $500 per square foot - the largest collection of highly-productive malls in the country. Within our Premium Outlet® portfolio we have 14 centers with sales in excess of $500 per square foot.

We have a strong balance sheet and we have consistently delivered growth in earnings and cash flow. We pay a healthy and established dividend that has grown from $2.08 per share in 2001 to an annualized $3.04 per share for 2006, an increase of 46% or nearly $1 per share.

FINANCIAL HIGHLIGHTS FOR 2005 INCLUDE:

- Consolidated revenue increased 22.5% to $3.167 billion from $2.585 billion in 2004.
- Funds from operations of the Simon portfolio increased 19.4% to $1.411 billion from $1.182 billion in 2004. On a diluted per share basis, FFO increased 13.0% to $4.96 per share from $4.39 per share in 2004.
- Net income available to common stockholders increased 33.7% to $401.9 million from $300.6 million in 2004. On a diluted per share basis, it increased 26.4% to $1.82 per share from $1.44 per share in 2004.



These results were achieved even with our disposition of 18 non-core assets in 2005 that were dilutive to earnings, and a rising interest rate environment. Key factors contributing to our growth in 2005 were the October 2004 acquisition of Chelsea Property Group ("Chelsea"), strong portfolio operating performance by all of our retail real estate platforms and continued solid performance of our retailers.

CHELSEA

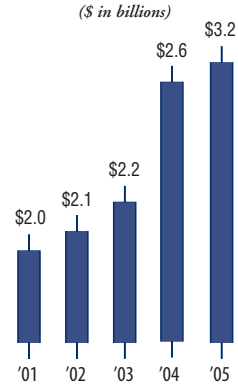
October 14, 2005, marked the first anniversary of our acquisition of Chelsea, the leading owner, developer and manager of Premium Outlet centers in the U.S. and Asia. In this $5.2 billion transaction, we assumed the market-leading position in the Premium Outlet business with a portfolio of more than 30 U.S. Premium Outlet centers in major metropolitan markets and tourist destinations and five Premium Outlet centers in Japan. We acquired an organization with great people, strong growth prospects and a full development pipeline, both domestically and internationally.

Financial results since the acquisition have exceeded our original underwriting, retailer sales in the Premium Outlet portfolio are robust, the talented Chelsea team has blended well into the Simon organization and our access to development sites has provided Chelsea with several additional development opportunities. In a short time Chelsea has proven to be a wonderful strategic complement to our retail real estate franchise, has produced solid returns and we believe offers significant future growth opportunities.

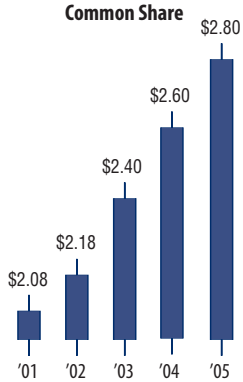
STRONG OPERATING PERFORMANCE

Our retail real estate assets continue to demonstrate strength. Nearly every operational performance measure for our retail real estate platforms increased in 2005 as compared to 2004. Occupancy in our regional mall portfolio increased 40 basis points to 93.1% and occupancy in our Premium Outlet portfolio increased 30 basis points to 99.6%. Comparable sales increased 5.4% to $450 per square foot in our regional malls; 7.8% to $444 in our Premium Outlet centers; and 2.3% to $220 per square foot in our community/lifestyle centers. Rental rates continued to climb as well – leasing spreads were a healthy 20.7% in the regional malls; 20.9% in the Premium Outlet centers; and 38.9% in our community/lifestyle centers. Comparable property growth of net operating income in 2005 was 4.0% in our regional mall portfolio and 9.3% in our Premium Outlet center portfolio.

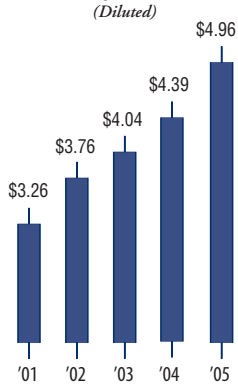
Consolidated Revenue
($ in billions)



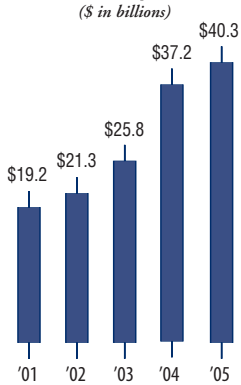
Dividends per Common Share



FFO per Share
(Diluted)



Total Market Capitalization
($ in billions)



SOLID PERFORMANCE OF OUR RETAILERS

The third key factor influencing financial results for 2005 was the solid performance of our retailers. As previously mentioned, retailer sales increased in all platforms and most of our retailers' balance sheets are as strong as they have ever been. As a result, we experienced lower tenant workout and tenant bankruptcy activity in 2005 than in prior years. Only 294,000 square feet of occupancy was lost to bankruptcy in our regional mall portfolio in 2005 as compared to approximately 500,000 square feet lost in 2004. Our retailers continue to have robust store opening programs for 2006 and many of the best retailers are adding new concepts to their already successful brands.

DIVIDENDS AND STOCKHOLDER RETURNS

As a result of our strong financial performance and a positive outlook, the Company's Board of Directors increased the annual common stock dividend in February of 2005 from $2.60 to $2.80, a 7.7% increase, and to an annual rate of $3.04, an 8.6% increase, in February of 2006.

Our common stock closed at $76.63 at year-end 2005, 18.5% higher than at year-end 2004, outperforming the S&P 500 Index (increased 3.0%) and the Morgan Stanley REIT Index (increased 8.9%). As I write this letter, our stock price has appreciated another 15.9%, closing at $86.89 on March 16, 2006.

OTHER ACCOMPLISHMENTS

- We successfully completed and opened 5 new properties – Toki Premium Outlets, serving the greater Nagoya, Japan market; St. Johns Town Center in Jacksonville, Florida; Seattle Premium Outlets located 30 minutes north of Seattle, Washington; Wolf Ranch

located north of Austin, Texas; and Firewheel Town Center located 15 miles northeast of downtown Dallas in Garland, Texas.

- We continued to add to our development pipeline, which has never been more robust, with 5 domestic and 6 international projects currently under construction. Our share of the estimated net costs of these projects is approximately $590 million.
- We successfully launched an asset intensification effort, adding non-retail uses such as hotel, office, residential and self-storage to our properties, and currently have three projects under construction and 12 additional projects in predevelopment.
- We are the nation's largest marketer of gift cards and increased sales of the bank-issued, co-branded Simon Giftcard™ by 14% to $465 million.
- We disposed of 18 non-core assets, generating gross proceeds of approximately $480 million.
- We completed two unsecured debt offerings totaling $2.1 billion at a weighted average interest rate of 5.26% and weighted average term of 8 years. Proceeds from these offerings were used to reduce the amount of floating rate debt incurred in connection with the acquisition of Chelsea and to pay down our corporate credit facility.
- We obtained favorable modifications to the Company's corporate credit facility in December of 2005, resulting in a reduction in interest rate, an increase in facility size and an extension of term.

BOARD OF DIRECTORS

We are pleased with the addition of Reuben Leibowitz to our Board of Directors in 2005. He is the Managing Director of JEN Partners and Advisor to Warburg Pincus (Managing Director from 1984-2005), both private equity firms. Mr. Leibowitz was a director of Chelsea Property Group, Inc. from 1993 until we acquired it in 2004.

CORPORATE GOVERNANCE

According to Institutional Shareholder Services' ("ISS") corporate governance rating system, as of March 16, 2006, Simon Property Group outperformed 94.8% of the companies in the real estate industry and 62.2% of the companies comprising the S&P 500 Index. We will continue to seek ways to improve our governance for the benefit of our stockholders.

MOST ADMIRED REAL ESTATE COMPANY

In February of 2006, our Company was recognized as the top ranked real estate company in Fortune's 2006 List of America's Most Admired Companies. These rankings were based upon 10,000 survey responses from executives, directors, and analysts who were asked to rate companies in their own industry according to eight criteria: Innovation; People Management; Financial Soundness; Quality of Management; Use of Corporate Assets; Social Responsibility; Long-term Investment; and Quality of Products/Services. We are very pleased and honored to receive this designation for the second time in four years.

NEW SIMON HEADQUARTERS

In October of 2004 we broke ground on a new Simon Property Group headquarters building in downtown Indianapolis, Indiana. Because of our rapid growth over the past 12 years, we currently have employees operating from four separate buildings. To streamline operations and improve efficiency, we determined that it was in the best interests of our employees and our stockholders to construct our own building and consolidate all Indianapolis operations into one location.

I am pleased to report that our negotiations for development and construction, as well as a favorable interest rate environment, resulted in our ability to construct and operate this new building at an annual cash outlay comparable to the office rent currently being paid. We plan to begin the move into our new state-of-the-art office building in July of 2006.

OUTLOOK

Even as the U.S. economy continues to move forward, many economists point to some troubling clouds on the horizon including increasing deficits, rising interest rates and signs of inflation. Despite this increasing level of uncertainty, real estate values have remained at an historically high level, and at this point there seems to be no imminent decline in pricing. This has had a direct impact on our ability to justify many acquisitions of properties and/or companies.

Since our IPO over 12 years ago, our merger and acquisition activity has led to many growth opportunities, and even with our caution today due to pricing, we strongly believe our internal growth prospects enable us to continue to grow our earnings and dividends. This remains our number one priority. We expect our Chelsea division and our development and redevelopment pipelines to be particularly strong drivers of growth over the next several years, and we will continue to focus on enhancing our existing platforms and striving to improve our efficiency.

Our balance sheet, track record in large-scale transactions and talented management team enable us to remain poised to be aggressive and opportunistic as situations arise. Undoubtedly, over time, there will be many to choose from as the world becomes more complex and competitive.

I am very proud of the organization we have created at Simon Property Group, and I believe that the successful execution of our business plan will once again deliver solid results for our stockholders in the year ahead.

In closing, I would like to thank my colleagues at Simon Property Group for their many contributions during the past year, our Board of Directors for their continued guidance and our stockholders for their confidence in Simon Property Group.

David Simon
Chief Executive Officer
March 17, 2006

REGIONAL MALLS

Simon Property Group is more than a regional mall company. It is a retail real estate company that operates from four major platforms – regional malls, Premium Outlet centers, community/lifestyle centers and international properties. All of these retail distribution channels appeal to our retailers and to our shoppers.

Our regional mall portfolio comprises more than 75% of our total portfolio gross leasable area and contributed in excess of 75% of our net operating income and FFO in 2005. Our focus, each and every day, is to improve the profitability and market share of our malls through the effective leasing of space, the control of operating costs, the addition of impact retailers and restaurants, opportunistic renovations and effective marketing.

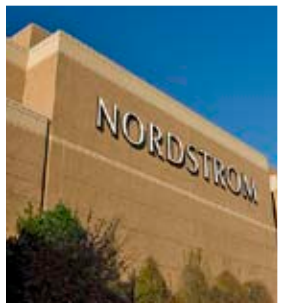
We are firmly committed to improving the overall quality and productivity of our market-leading regional mall portfolio. We accomplish this by:

- Investing capital to increase cash flow and improve asset quality through expansion and renovation activities
- Adding hotel, office, residential and self-storage elements to existing assets
- Developing new high quality regional malls
- Selectively acquiring high quality regional malls
- Increasing marketing revenues by expanding the reach of the mall as a marketing medium

REDEVELOPMENT

To upgrade and enhance the quality of our mall assets, we have invested more than $700 million during the past three years in expansion and renovation activities.

We expect this pace to continue and currently have numerous redevelopment activities underway. The most significant include:



- Phase II of the ongoing redevelopment of SouthPark in Charlotte, North Carolina was completed in 2005 and included the addition of Dick's Sporting Goods, Joseph Beth Booksellers, McCormick & Schmick and Morton's restaurants and small shops. In October 2006, Neiman Marcus will open at the center with additional small shops.
- At Town Center at Aurora in Aurora (Denver), Colorado we consolidated two Foley's stores into one, added a food court and completed a mall renovation in 2005. A new Dillard's store will open in September 2006.
- Barneys New York opened a flagship store at Copley Place in Boston, Massachusetts in March 2006.
- A mall renovation and the addition of a lifestyle component are scheduled to be completed at Smith Haven Mall in Lake Grove (Long Island), New York in November 2006. New retailers will include Dick's Sporting Goods, Barnes & Noble, Macy's Furniture and Cheesecake Factory, as well as small shops.
- At Northgate Mall in Seattle, Washington, we are adding Barnes & Noble, Panera Bread, Macaroni Grill, Starbucks and Gene Juarez Spa in a lifestyle component. Completion is targeted for June 2007.
- In October 2007 we will complete the expansion of Neiman Marcus and the addition of small shops at Lenox Square in Atlanta, Georgia.
- In early 2007 we will complete a renovation and the addition of small shops and Nordstrom at Aventura Mall in Miami Beach.

REGIONAL MALL PORTFOLIO STATISTICS

As of December 31	2005	2004
Number of properties	171	172
Gross Leasable Area (in millions of square feet)	166.4	167.7
Occupancy [1]	93.1%	92.7%
Comparable Sales per Square Foot [2]	$ 450	$ 427
Average Base Rent per Square Foot [1]	$ 34.49	$ 33.50

(1) For mall and freestanding stores.
(2) For mall and freestanding stores with less than 10,000 square feet.

- We recently announced the planned addition of Nordstrom to three of our Boston assets – Burlington Mall, Northshore Mall and South Shore Plaza.
- We continue to add leasable exterior space to our malls to enhance their attractiveness to certain retailers and shoppers.

ASSET INTENSIFICATION

We have embarked on a strategy to add non-retail components at specific centers (new developments as well as existing assets) in order to maximize the value of the land and create more integrated and compelling projects. These non-retail components include hotel, office, residential and self-storage elements.

Non-retail elements at new development projects recently completed or under construction include office space and residential units at Coconut Point in Estero/Bonita Springs, Florida and The Domain in Austin, Texas; office space at Firewheel Town Center in Garland, Texas; and hotel and residential components at St. Johns Town Center in Jacksonville, Florida.

The Village at SouthPark is currently under construction at our highly productive SouthPark in Charlotte, North Carolina. The project will consist of a retail component, including Crate & Barrel and small shops, as well as 150 luxury apartments. The project is expected to be completed in May 2007.

We are in the predevelopment and planning phase for residential and self-storage components at 10 additional malls, one Premium Outlet center, and one community/lifestyle center.

Left: **Firewheel Town Center is a 785,000 square foot open-air center in Garland, Texas (15 miles northeast of Dallas). The center opened on October 7, 2005 and includes retail, office and entertainment components. Firewheel is 95% leased.**

DEVELOPMENT

We are very pleased with the size and diversity of our regional mall development pipeline, but its value is determined by more than just quantity. It is a pipeline filled with quality assets that meet our stringent risk-adjusted return requirements. We are extremely selective with our new developments to ensure that we build only quality projects in growing markets that are complementary to our existing highly productive portfolio. Most of our current projects are open-air, allowing us to accommodate a broader spectrum of retailers, restaurants, residential, office and hotel uses.

2005 Openings

Phase I of **St. Johns Town Center**, a 1.5 million square foot open-air retail center comprised of a town center with a mainstreet design and a community center, opened on March 18th in Jacksonville, Florida. St. Johns features Dillard's, Barnes & Noble, Dick's Sporting Goods, Target, Ashley Furniture, Designer Shoe Warehouse, JoAnn Fabrics, Old Navy, PetsMart, Pier One Imports, Ross Dress for Less and Staples. Restaurants complementing the retail offerings include The Cheesecake Factory, Maggiano's and P.F. Chang's.

More than one-third of the retailers at St. Johns made their initial Jacksonville appearance at this project, providing an innovative mix of new choices for the Jacksonville shopper. Retailers new to the market include Apple Computer, Brighton Collectibles, Coldwater Creek, Hollister Co., J. Jill, Lucky Brand Jeans, Sephora, Sigrid Olsen, The Sharper Image and White House|Black Market. The project also includes a Homewood Suites hotel and three multifamily residential projects scheduled to open in 2006.

Phase I of St. Johns is 100% leased, is already producing sales in excess of $500 per square foot, and has been so successful that the planning of a Phase II expansion is already underway. The Company owns 50% of this project.

Firewheel Town Center, located 15 miles northeast of downtown Dallas in Garland, Texas, opened on October 7th. Firewheel is a 785,000 square foot open-air regional shopping center featuring Foley's, Dillard's, AMC Theater, Barnes & Noble, Circuit City, Designer Shoe Warehouse, Linens 'n Things, Old Navy and Pier One Imports. The center offers attractive streetscape amenities and a compelling mixture of retail, office and entertainment uses. Firewheel is 95% leased, and an expansion with additional anchors and specialty stores is under construction. The Company owns 100% of this project.

Projects under Construction

We currently have two open-air regional mall projects under construction in the U.S.:

- Coconut Point – a 1.2 million square foot open-air shopping complex with village and community center components in Estero/Bonita Springs (Naples-Ft. Myers corridor), Florida. The community center component is expected to open in April 2006, followed by the remainder of the project in November 2006. The Coconut Point development also includes office and residential components. The Company owns a 50% interest in this asset, anchored by Dillard's, Barnes & Noble and a Muvico Theatre.

Left: **St. Johns Town Center is a 1.5 million square foot open-air retail center in Jacksonville, Florida. The center opened on March 18, 2005 and contains a town center with a mainstreet design and a community center, as well as a hotel and three multifamily projects which will open in 2006. St. Johns is 100% leased.**

- The Domain – a 700,000 square foot open-air luxury center in Austin, Texas, anchored by Neiman Marcus and Macy's. The project also includes office and residential components. The Domain is scheduled to open in March 2007. The Company owns a 100% interest in this asset.

We also have an exciting pipeline of future projects planned including centers in Noblesville (Indianapolis), Indiana, Cranberry Township (Pittsburgh), Pennsylvania, and Houston, Texas.

Based upon the numerous projects already under construction and in our development pipeline, we believe that our development spending will continue to add to our net asset value.

ACQUISITIONS

Our growth as a public company has been largely fueled by acquisitions, with over $21 billion in acquisitions since our IPO in 1993. Our acquisition strategy is well-disciplined. We execute only transactions that meet our return objectives, enhance net asset value of the Company, and where we

Below: **The Company completed a very successful digital network pilot program at Roosevelt Field in 2005. 28 plasma screen stations were deployed in the food court, mall corridors, and entrance ways displaying advertising, fashion/ lifestyle programming, and Simon content. A national roll-out is currently underway.**

Above: Simon Super Chefs Live! **is a coast-to-coast mall tour that invites eager food fans across the country to get up close and personal with today's most popular TV chefs. In addition to being a popular event for our shoppers, Super Chefs is an ideal venue for our retailer, restaurant, and sponsor partners to engage motivated and attentive audiences in a shopping environment.**

believe we can increase cash flow. The current acquisition environment for regional malls in the U.S. is a challenging one, and in 2005 there were few opportunities that met our underwriting criteria.

We did acquire interests in two regional malls during 2005 – Springfield Mall in Philadelphia, Pennsylvania, and Coddingtown Mall in Santa Rosa, California.

On November 18, 2005, the Company and Pennsylvania Real Estate Investment Trust ("PREIT") announced the acquisition of **Springfield Mall** in Springfield, Pennsylvania for approximately $103.5 million. Springfield Mall is a 590,000 square foot regional mall located approximately 10 miles southwest of Philadelphia. PREIT and an affiliate of Kravco Simon Investments, L.P. each own a 50% interest in the property. The mall is currently anchored by Macy's and Strawbridge's and has more than 70 in-line retailers.

On November 22, 2005, the Company announced its acquisition of a 50% interest in **Coddingtown Mall** for $37 million, including the assumption of approximately $10.5 million of existing mortgage debt. Coddingtown Mall is an 857,000 square foot center located in Santa Rosa, California, approximately 1.5 miles from the Company's Santa Rosa Plaza. The mall is anchored by JCPenney, Macy's and Gottschalk's.

MARKETING REVENUES

Simon Brand Ventures (SBV), the Company's business-to-consumer arm, has pioneered the transformation of shopping malls into a medium where consumer brands can build one-on-one relationships with the shoppers who visit Simon malls each year. Our franchise of market-leading shopping centers nationwide provides SBV the foundation to monetize the distribution system through numerous consumer ventures. SBV has engaged in a number of consumer business initiatives, including the launch of Simon platform programs such as Simon Kidgits Club™, Simon Dtour Live™ and *Simon Super Chefs Live*, a national media delivery channel including experiential marketing methods, and multiple national and local marketing alliances with Coca-Cola™, VISA U.S.A. and Cingular Wireless, among others.

We are also the nation's largest marketer of bank-issued, co-branded gift cards, which are becoming an increasingly important component of holiday shopping. Simon Giftcard™ sales increased 14% in 2005 to $465 million.

PREMIUM OUTLET CENTERS

Our $5.2 billion acquisition in 2004 of Chelsea Property Group gave us the market-leading position in the Premium Outlet business. Our 33 domestic Premium Outlet centers are located in major metropolitan markets such as New York, Los Angeles, Chicago and Boston, and tourist destinations such as Orlando, Las Vegas and Palm Springs. Our domestic Premium Outlet portfolio comprises nearly 6% of our total portfolio gross leasable area and contributed over 12% of our net operating income and FFO in 2005.

Our Premium Outlet assets performed exceptionally well in 2005. The portfolio was 99.6% leased at year-end, up 30 basis points from the prior year. Sales increased by 7.8% to $444 per square foot. Rental rates increased significantly, as the average initial base rent for new leases signed during 2005 was $26.48 per square foot, versus average rent of $21.91 for those tenants who closed or whose leases expired, for a spread of $4.57, or 20.9%.

When we announced the acquisition of Chelsea, we stated our view that it would be a significant opportunity for us as it represented quality assets with strong growth prospects. We believed that the combination of our organizations would accelerate Chelsea's industry-leading growth rate and enable Simon Property Group to offer a truly global, multi-faceted retail real estate platform.

Nearly one and a half years later, our assumptions and expectations regarding the acquisition have been validated. Financial results since the acquisition have exceeded our original underwriting and retailer sales in the Premium Outlet portfolio continue to increase. We believe there is significant room to grow rental revenues at the Premium Outlets, based upon the low cost of occupancy of the retailers (8%) and the high productivity of the properties. We are just beginning to see leasing synergies, and we have increased the development pipeline of the Chelsea product. One development site in Austin, Texas formerly earmarked for the development of a regional mall was reevaluated and found to be more suitable for the Premium Outlet concept.

Chelsea has expanded our already industry-leading franchise with another quality retail real estate platform.

PREMIUM OUTLET CENTER PORTFOLIO STATISTICS

As of December 31	2005	2004
Number of properties	33	31
Gross Leasable Area (in millions of square feet)	12.6	11.6
Occupancy [1]	99.6%	99.3%
Comparable Sales per Square Foot [2]	$ 444	$ 412
Average Base Rent per Square Foot [1]	$ 23.16	$ 21.85

(1) For all owned gross leasable area.
(2) For all retail stores with less than 50,000 square feet.

DEVELOPMENT

Some of our highest-yielding development opportunities are in the Premium Outlet sector. The Chelsea team has consistently demonstrated the ability to open new projects at initial yields of 13% return on cost or higher.

2005 Opening

On May 5th, the Company opened Phase I of **Seattle Premium Outlets**, a 381,000 square foot upscale outlet center in Tulalip, Washington, 35 miles north of Seattle. Retailers include Adidas, Adrienne Vittadini, Ann Taylor,

Top: **On May 5, 2005, Seattle Premium Outlets opened in Tulalip, Washington, 35 miles north of Seattle. The center is 99% leased.**
Right: **Round Rock Premium Outlets is a 433,000 square foot upscale outlet center scheduled to open in August of 2006 in Round Rock (Austin), Texas.**

Banana Republic, Brooks Brothers, Burberry, Calvin Klein, Crabtree & Evelyn, Coach, Gap, Guess, J.Crew, Le Creuset, Lucky Brand Blue Jeans, Movado, Nike, Polo Ralph Lauren, Restoration Hardware, Sony, Tommy Hilfiger and Tumi. Seattle Premium Outlets is 99% leased and generating sales in excess of $500 per square foot. The 22,000 square foot Phase II expansion is under construction and projected to open in May of 2006. Simon owns 100% of this project.

Projects under Construction
We currently have two Premium Outlet projects under construction in the U.S.:

- Round Rock Premium Outlets – a 433,000 square foot upscale outlet center in Round Rock (Austin), Texas. The project is scheduled to open in August 2006.
- Rio Grande Valley Premium Outlets – a 404,000 square foot upscale outlet center in Mercedes, Texas. The project is scheduled to open in November 2006.

The Company owns 100% of the above projects.

We also have three Premium Outlet projects that are in the planning and approval phase of predevelopment – Jersey Shore Premium Outlets in Tinton Falls, New Jersey; Merrimack Premium Outlets in Merrimack (North Boston-Nashua), New Hampshire; and Philadelphia Premium Outlets in Limerick Township (Philadelphia), Pennsylvania.

COMMUNITY/LIFESTYLE CENTERS

Our presence in the community/lifestyle center business is significant and meaningful. We believe that there are several compelling reasons to operate and develop in this growing platform:

- The community/lifestyle center format is the preferred location for a number of significant national retailers. In addition, certain traditional regional mall tenants are looking to these centers as an alternative format because the number of new developments presents an easier means of opening new stores, given the lack of development of new enclosed regional malls. We want to be the retail real estate owner of choice for our retailers and, therefore, need to continue to provide retail space across the retail real estate spectrum.
- Many of our community/lifestyle centers are located near or adjacent to our regional malls, resulting in the creation of a Simon retail hub.
- We have a demonstrated core competency in the development of successful community/lifestyle centers, and our ability to add net asset value through development of this product is significant.

DEVELOPMENT

2005 Opening

Wolf Ranch, a 670,000 square foot community center located north of Austin, Texas in Georgetown, opened in July. It is an open-air, mixed-use shopping center containing a mix of anchor stores, specialty retail stores and unique restaurants. Wolf Ranch is anchored by Target, Kohl's, Best Buy, Designer Shoe Warehouse, Linens 'n Things, Michaels, Office Depot, Old Navy, Pier One Imports, PetsMart and T.J. Maxx. The Company owns 100% of this asset.

Projects under Construction

We currently have one community/lifestyle center under construction in the U.S. - The Shops at Arbor Walk – a 460,000 square foot community center in Austin, Texas. The project is scheduled to open in March 2007.

In addition, we have a significant pipeline of projects including:

- Pier Park in Panama City Beach, Florida
- The Domain Crossing in Austin, Texas
- Palms Crossing in McAllen, Texas
- West Grand Promenade in West Houston, Texas

COMMUNITY/LIFESTYLE CENTER PORTFOLIO STATISTICS

As of December 31	2005	2004
Number of properties	71	71
Gross Leasable Area (in millions of square feet)	19.4	18.7
Occupancy [1]	91.6%	91.9%
Comparable Sales per Square Foot [1]	$ 220	$ 215
Average Base Rent per Square Foot [1]	$ 11.41	$ 10.91

(1) For all owned gross leasable area.

Top and right: **Wolf Ranch comprises 670,000 square feet of anchor and specialty retail stores and restaurants. It opened in July of 2005 in Georgetown, Texas, north of Austin.** ***Above:*** **We continue to add exciting tenants to our properties. Orvis opened at Clay Terrace, a 497,000 square foot community/ lifestyle center in Carmel, Indiana (a suburb north of Indianapolis) during 2005.**

INTERNATIONAL PROPERTIES

Top: **A 1.0 million square foot center is under construction in Nola, a suburb of Napoli (Naples), Italy. The center will be anchored by an Auchan hypermarket, Media World, Cisalfa, The Zara Group and Holiday Inn. It is scheduled to open in late 2006-early 2007.**
Bottom: **Toki Premium Outlets, serving the Nagoya, Japan market, opened on March 4, 2005. The center's 178,000 square foot first phase is 100% leased.**

Our approach to international expansion is opportunistic. We partner with established real estate companies to utilize their knowledge of local markets, practices and customs, while we add value to the venture with our development, leasing and management expertise. We rely upon our partners' local presence for project management throughout all phases of the complex and lengthy approval and development process.

Given current pricing levels, we believe that the optimum way to create value for our stockholders in international operations is through new development projects and the redevelopment of existing assets, rather than the acquisition of existing assets.

EUROPE

Our assets in France and Poland are owned through our investment in European Retail Enterprises B.V. ("ERE") and the resultant ownership of Groupe B.E.G. ("BEG"). During 2005, Ivanhoe Cambridge, Inc. ("Ivanhoe Cambridge") acquired the ownership interest in ERE previously held by another institutional investor. Ivanhoe Cambridge is a preeminent Canadian property owner, manager, developer and investor, whose focus is on high-quality shopping centers located in urban areas. Ivanhoe Cambridge is a principal real estate subsidiary of the Caisse de dépôt et placement du Québec, a leading institutional fund manager in Canada.

In February of 2006, we equalized our ownership positions in ERE through the purchase of the remaining ownership interests from BEG's founders. SPG and Ivanhoe Cambridge now each own 50% of the venture, which has been renamed Simon Ivanhoe BV/SARL ("Simon Ivanhoe").

The Company's assets located in Italy are owned through our 49% interest in Gallerie Commerciali Italia ("GCI"). Our partner in this joint venture is Auchan, one of the world's largest retailers.

Our current European portfolio consists of 51 shopping centers in France, Italy and Poland. We also have six new projects under construction:

GCI PROJECTS

- Argine – Napoli (Naples), Italy – a 300,000 square foot center anchored by an Auchan hypermarket and approximately 75 shops; scheduled to open in the fall of 2007
- Cinisello – Milano (Milan), Italy – a 400,000 square foot center anchored by an Auchan hypermarket and Darty and approximately 100 shops; scheduled to open in late 2006
- Giugliano – Napoli (Naples), Italy – an 800,000 square foot center anchored by an Auchan hypermarket, Leroy Merlin, Conforma, The Zara Group and Decathlon; scheduled to open in the summer of 2006
- Nola – Napoli (Naples), Italy – a 1.0 million square foot center anchored by an Auchan hypermarket, Media World, Cisalfa, The Zara Group and Holiday Inn; scheduled to open in late 2006-early 2007
- Porta di Roma – Roma (Rome), Italy – a 1.3 million square foot center anchored by an Auchan hypermarket, Leroy Merlin, The Zara Group, UGC Theatres, Ikea (opened in June of 2005), Media World and Decathlon; scheduled to open in the spring of 2007

INTERNATIONAL PORTFOLIO STATISTICS

As of December 31	2005	2004
Japanese Premium Outlets		
Number of properties	5	4
Gross Leasable Area (in millions of square feet)	1.3	1.1
Occupancy	100%	100%
Comparable Sales per Square Foot [1]	$ 828	$ 821
Average Base Rent per Square Foot [1]	$ 40.56	$ 40.32
European Shopping Centers		
Number of properties	51	51
Gross Leasable Area (in millions of square feet)	11.1	10.9
Occupancy	98.4%	96.0%
Comparable Sales per Square Foot [2]	$ 450	$ 526
Average Base Rent per Square Foot [2]	$ 30.47	$ 34.11

(1) Based upon a conversion factor of 110.5 yen to 1 U.S. dollar at December 31, 2005 and 108.2 yen to 1 U.S. dollar at December 31, 2004.

(2) Based upon a conversion factor of 0.844 euros to 1 U.S. dollar at December 31, 2005 and 0.733 euros to 1 U.S. dollar at December 31, 2004.

SIMON IVANHOE PROJECT

- Gliwice, Poland – a 400,000 square foot center anchored by a Carrefour hypermarket and Leroy Merlin; scheduled to open in late 2006

JAPAN

Through our wholly-owned subsidiary, Chelsea Property Group, we own 40% of five Premium Outlet centers comprising 1.3 million square feet in Japan's largest markets. Our partners in these assets are Mitsubishi Estate Co. Ltd and Sojitz Corporation.

On March 4, 2005, Toki Premium Outlets, a new upscale outlet center serving the greater Nagoya, Japan market opened. Toki's 178,000 square foot first phase is 100% leased and includes more than 85 leading U.S. and international designer and upscale brands including Adidas, Bally, Bose, Brooks Brothers, Bruno Magli, Coach, Diesel, Furla, Lacoste, Nautica, Nike, Timberland and Versace. In January 2006, construction started on the 53,000 square foot second phase of Toki, which is projected to open in the fall of 2006.

The 91,000 square foot third phase of Sano Premium Outlets opened on March 4th, 2006. After the opening, Sano, located 40 miles north of Tokyo, now comprises 320,000 square feet.

The sixth Premium Outlet center to be developed in Japan will be Kobe Sanda Premium Outlets. The project is located in the Kobe/Osaka market, 22 miles north of downtown Kobe. Construction on the 185,000 square foot first phase is expected to commence in the fall of 2006 for a projected summer 2007 grand opening.

SOUTH KOREA

In April 2005, we signed an agreement with Seoul-based Shinsegae Co., Ltd. and Shinsegae International Co., Ltd. to jointly develop Premium Outlet centers in South Korea. The joint venture will adapt Chelsea's Premium Outlet concept to the development of upscale, fashion-oriented outlet centers in South Korea. Chelsea will contribute leasing, design, marketing and operations expertise to the venture and Shinsegae will manage the venture's entitlement, development and construction activities. The initial focus will be on the development of a Premium Outlet center to serve the greater Seoul market. We will own 50% of projects developed through this joint venture.

HONG KONG OFFICE

In May 2005, we opened a regional office in Hong Kong. Operating as Simon/Chelsea International Ltd., a newly formed subsidiary, the office is responsible for our retail real estate activities in Asia. From our base of operations in Hong Kong, we are now better positioned to pursue both full-price and outlet development opportunities in the expanding Asian markets. We continue to evaluate opportunities in several countries, including China.

BALANCE SHEET AND CAPITAL MARKETS

Above: **The addition of high-quality tenants to our properties increases market share and provides attractive returns on investment. In 2005, we opened 23 such retailers at 21 of our regional malls, including Neiman Marcus at Town Center at Boca Raton in Boca Raton, Florida.**

As we have grown our Company, we have taken great care to maintain the strength of our balance sheet. It is important for us to have access to all forms of capital, allowing us to tap the lowest-cost option when capital is needed to grow our business.

DECEMBER 31, 2005 HIGHLIGHTS:

- Our debt to total market cap was a low 42.8%.
- Borrowings on our $3.0 billion revolving corporate credit facility were $809 million.
- Our interest rate coverage ratio was 2.6 times.
- The weighted average maturity of our debt was 5.1 years and our weighted average cost of debt was 5.94%.
- We reduced our floating rate debt from 22% at the beginning of the year to 15.3% at year-end, primarily as a result of two bond offerings.
- We expect our FFO payout ratio for 2006 to remain below 60%.

RATING AGENCY ACTIONS

In September 2005, Moody's Investors Service upgraded the ratings of our senior unsecured debt to Baa1 from Baa2, with a stable outlook. In December 2004, Standard & Poor's upgraded its rating on our senior unsecured debt to BBB +from BBB, with a stable outlook.

2005 NOTE OFFERINGS

In June, we completed a $1.0 billion offering of senior notes. The offering consisted of $400 million of 4.60% notes due 2010 and $600 million of 5.1% notes due 2015. Proceeds were used to repay the first $600 million installment of the Company's $1.8 billion Chelsea acquisition term loan, with the remaining net proceeds utilized to pay down our corporate credit facility.

In November, we completed a $1.1 billion offering of senior notes. The offering consisted of $500 million of 5.375% notes due 2011 and $600 million of 5.750% notes due 2015. Proceeds were used to repay the second $600 million installment of the Chelsea acquisition term loan, with the remaining net proceeds utilized to pay down our corporate credit facility.

CORPORATE CREDIT FACILITY

In December 2005, we modified our unsecured corporate credit facility, increasing our revolving borrowing capacity from $2.0 to $3.0 billion. The facility, which can be increased to $3.5 billion during its term, will mature in January 2010 and contains a one-year extension at our option. The base interest rate on the new facility is LIBOR plus 42.5 basis points, 12.5 basis points lower than the previous credit facility, with the ability to hold auctions and obtain lower pricing for short-term borrowings of up to $1.5 billion. The facility also includes a $750 million multi-currency tranche for Euro, Yen or Sterling borrowings.

COMMON STOCK REPURCHASE PROGRAM

During the year, we repurchased 2.8 million common shares at a total cost of $182.4 million, or $65.14 per share. Volatility in our stock price during the second and third quarters of 2005 provided an opportunity to repurchase the stock at compelling pricing.

DISPOSITION OF NON-CORE ASSETS

During 2005, we made significant progress in the disposition of non-core assets and recycling of capital. We disposed of our interests in 18 assets – 6 regional malls, one community/lifestyle center, two office building complexes and 9 outlet centers. Gross proceeds from these dispositions were approximately $480 million and net gains of $146 million were recognized.

During the last three years, we have sold a total of 39 properties – 18 regional malls, 8 community centers, 2 office building complexes, 10 non-Premium Outlet centers and an interest in one hotel. Total gross proceeds for the three year period were approximately $800 million.

While dispositions are dilutive to short-term earnings, we firmly believe that continually pruning our portfolio of non-core assets is the correct long-term strategy for our Company. ■