Expanding a Real Estate Investment Trust into Turkey

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Spring 2008

General University Honors

EXECUTIVE SUMMARY

Simon Property Group is currently expanding into international markets and it should include Izmir Turkey as one of its development projects. Turkey has a strong economy which has grown over 7% a year since 2002 and is continued to maintain its growth by 5% per year until 2012. Our competition, GGP has already entered Turkey but has not yet moved into Izmir which means we could get a first mover advantage. We should open a regional mall in Izmir because it is Turkey's third largest city, has five student universities with a student population of over 150,000 and has social trends that would suit our business. We would pursue our normal operating procedures in Izmir using leases to maintain our business and partnering with a prestigious local company to help us bridge the cultural gap. This project, adjusted for an appropriate amount of risk, returns a healthy Net Present Value and gives us the option to continue into this growing market. Simon Property should enter into Izmir Turkey because of Turkeys growing economic power and the substantial benefits to our FFO which will lead to gains fro our shareholders.

PROPOSAL

I propose that Simon Properties build and manage a half million square foot regional mall in downtown Izmir Turkey. This project will help our company diversify, prevent our competition from solidifying their dominance in this country, and allow us to invest in a growing economy with a large upside of potential while providing our shareholders with increased value. Our company is currently expanding through many new international developments and Turkey is a country where we should be introducing our presence for future long term operations. Simons approach to international expansion is to seek opportunistic risk adjusted returns through new development and redevelopment activities. Simon finds local partners to utilize their knowledge of local markets, practices and customs while we add value to the venture with our development, leasing and management expertise. Opening a region mall in Turkey meets the approach to international property developments since it will benefit our company's profitability and our shareholders returns.

COMPANY OVERVIEW

Simon Property Group, Inc. is an S&P 500 company and is the largest public U.S. real estate company with a market cap of 49 billion dollars. Simon operates from five retail real estate platforms: regional malls, Premium Outlet Centers, The Mills, community/lifestyle centers and international properties. When we enter Turkey we will be classified as an international regional mall. Simon currently owns or has an interest in 380 properties comprising 258 million square feet of gross leasable area in North America, Europe and Asia. The Company is headquartered in Indianapolis, Indiana and employs more than 5,000 people worldwide.

Internationally, Simon has an interest in 51 European shopping centers in France, Italy and Poland; six Premium Outlet centers in Japan; and one Premium Outlet center in both South Korea and Mexico. Simon Properties has a total of 33 projects that are scheduled to open sometime between 2008 and 2010. The Company also has seven international development projects under construction: three in Italy and four in China.

These projects range from expansions of current regional malls to the construction of new malls. The median size of a Simon mall is around one million square feet with about 700,000 square feet of gross leasable area.

Simon owns and operates most of the property in its portfolio. In some cases Simon is only hired to manage the property which is owned by someone else, and in other cases it is a part owner in the real asset. Simon has leasing, management, and marketing professionals established to ensure that the property and the businesses that lease our space are well-maintained and highly visible within the community. These are essential for Simon's business operations because they are what allow us to attract and retain tenants, which is how we make our money.

Simon pursues a leasing strategy which seeks to maintain and increase occupancy levels through marketing strategies, renewing existing leases and new leases at a higher base rent per square foot, and negotiating to shift the risk of operating, tax and promotion expenditures onto the tenants. In addition we execute leases that provide for percentage or overage rents and periodic fixed contractual increases in base rents. The leases that Simon enters into are relatively short in time with a preferred maximum of 5 years for our normal tenants and a 10 year maximum for our anchor tenants.

Simon offers many different leasing options for each of its properties so it is hard to generalize about their leasing process as a whole. It is customized and tailored to each individual tenant. Simon is able to attract people who want to lease because we have strong anchors at our regional shopping malls. Some of our main anchors domestically are JC penny, Macy's, Dillard's, Sears, Neiman Marcus and Nordstrom's. These anchors provide stability and foot traffic which will increase the value of leasing property around these main players.

We believe we have the best leasing professionals in the industry available to explore an option that works for businesses interested in leasing space at our property centers. Our property management team has primary responsibility for maintaining Simon's industry leading position by providing the customers a quality shopping experience. This includes focus on such diverse elements as quality of service, safety, convenience, visual appeal, cleanliness and comfort. Property Management fulfills all day to day operational responsibilities. In addition, Property Management assures that Simon is a strong corporate citizen contributing to the betterment of the communities in which we operate. An example of this is our dedication to reduce our energy costs by investing in energy efficiency. We recently won an award for the best energy efficiency and cleanliness in the real estate industry.

The Simon Development Team is engaged in creating the best, most innovative retail and mixed-use real estate in the country. Beginning with site selection, and continuing through occupancy and opening, Simon continues to find ways to maximize each project's potential. In addition to new developments, Simon is committed to enhancing its current assets with redevelopment projects.

Considering Simon's geographic size, quality of assets, stable balance sheet, and continued quarterly earnings growth, analyst feel that SPG has the potential to outperform its sector. Analyst expect a continued 10% plus rent increases on new and renewal leases over the next few years as well as earnings contributions from domestic and international developments, plenty of free cash flows from operations, and future dividend increases throughout 2008. Analyst's main concern on the company is the possibility that retail spending will suffer if the housing slump continues. While our stocks have declined due to recent market conditions, our dividends have increased. We are not affected directly by the housing slump because we operate in a different class of assets. However we are affected if people do not have enough money to spend at our stores. Of greater concern from the recent market slump is that our tenants will default and that we won't be able to attract new tenants to replace them. This will lead to vacancies which is the greatest risk to our company.

Our company is the leader in REITs. We were one of the first company's to expand internationally and we have a very large international presence. While other companies have begun to expand internationally, Simon believes that the long run profitability of our business rests on our ability to expand into emerging and developed markets internationally. We continue to shift a major amount of our effort to develop our international profile and opening a mall in turkey will continue our march towards a truly internationally diverse profile. While investors have seen our stock decline recently, the core concepts of our business have not changed which can be seen by our increased dividends. Establishing ourselves in Turkey will let us continue to expand, diversify and use our competitive advantages to leverage our business into new areas.

WHAT IS A REAL ESTATE INVESTMENT TRUST?

A Real Estate Investment Trust (REIT) is a "company that mainly owns, and in most cases, operates income-producing real estate such as apartments, shopping centers, offices, hotels and warehouses." (NAREIT) Currently there are around 170 REITs registered with the SEC with a combined market cap at an estimated $350 billion. REITs allow investors to gain diversification through real estate by buying a portion of ownership in a company that operates property instead of purchasing real estate themselves. This makes investing in different types of real estate easy while maintaining less risk then a direct investment.

In order for a REIT to be registered with the SEC, it is required to adhere to a variety of strict requirements. REITs must have a minimum of 100 shareholders, where no more than five owners hold more than 50 percent of the company. REITs must invest at least 75 percent of its total assets in real estate assets and derive at least 75 percent of its gross income from these assets. The most restrictive requirement of REITs is that they have to pay 90 percent of its taxable income out as dividends to its shareholders. This makes them attractive to investors who are looking to receive regular dividend payments such as the elderly or other investors looking for steady streams of cash flow. This dividend payout requirement also reduces the long term growth capacity of REITs because they can only reinvest at most 10 percent of their earnings. While this may hamper the growth of REITs, studies have shown that they grow relatively well over a long period of time and have less volatility of returns.

REITs can be classified into 3 types; Equity, Mortgage and Hybrid. Equity REITs make up 91% of current registered REITs. "Equity REITs mostly own and operate income-producing real estate. They increasingly have become real estate operating companies engaged in a wide range of real estate activities, including leasing, maintenance and development of real property and tenant services." (NAREIT) The income that is generated from operating the real estate assets is given out as dividends and reinvested into the company's projects. Since Equity REITs make money from the income that the property generates, most have become experts in not only owning the property but also managing it so that they have little vacancy, high cash flows, and a productive business.

A Mortgage REIT "lends money directly to real estate owners and operators or extends credit indirectly through the acquisition of loans or mortgage-backed securities. Many mortgage REITs also manage their interest rate and credit risks using securitized mortgage investments, dynamic hedging techniques and other accepted derivative strategies." (NAREIT) Mortgage REITs get money through the markets by selling stock, then they lend that money to real estate owners or purchase mortgage backed securities and with the returns on these, they pay out dividends to their shareholders. This type of REIT is not very popular since they make up only 7% and a continually decreasing portion of the registered REITs. They have become less attractive because of the recent housing crisis in the US and people's skepticism towards mortgage backed securities.

The third type of REIT is the Hybrid REIT which is essentially a combination of Equity and Mortgage REITs because they use both types of strategies. Only 2% of REITs are hybrid REITs.

Most REITs specialize in one type of property. Their specialization allows them to carry over their expertise into new projects and gain economies of scale. REITs often depend on their relationship with customers or tenants and so having a specific area of operations allows these types of relationships to grow. Some of these specializations are in shopping centers, regional malls, storage, hotels, hospitals, apartments and office buildings. A REIT can focus on any type of real estate it wants to. The largest REITs in terms of profitability and market capitalization by far are the Regional malls. Some of the largest types of REITs by percentage of existing REITs are Retail 20.1%, Residential 21.0% and Industrial/Office 33.1%.(reitnet.com)

Simon is the largest REIT in the world and operates as an equity REIT in different asset classes. Our largest and most profitable is our regional malls asset class. We have a huge market capitalization and almost 20 billion invested in real assets. While the market index of composite REITs has declined in the last year, over the course of the last 10 years it has outperformed other asset classes giving a higher return at less volatility. Many smart investors, including Warren Buffet, claim that the recent fall in the stock market has underpriced REITs and that REITs will rebound quickly.

MAJOR RISKS FOR SIMON

Simon has many risks which effect its operations and need to be managed. Simon has a substantial debt burden that could affect future operations. It has $15.3 billion in debt of which $1.7 billion matures in 2008. Simon must have sufficient cash liquidity to pay off these debts or else they will have to sell properties at a loss or borrow at a high cost of funds. Simon depends on external financing for growth and debt service requirements which is subject to regulations so Simon cannot be assured that it will be able to get financing. Simon is also at risk for interest rates which could make equity securities less attractive and make debt service costs rise in relation to their financing since they are leveraged. The nature of Simon's operations put them at risk from the risk of acquiring and developing real estate, the illiquidity of property, and environmental contamination risk. The market is a risk that affects Simon's ability to lease and renew its existing properties, tenant bankruptcies and consumer spending. Simon also relies heavily on anchor stores which if closed would adversely affect the property value. A form of risk management is through property insurance. However there are types of losses that are not covered by insurance such a lease and contract claims. Simon has purchased terrorist insurance on all of its properties but this adds to their costs. For Simon to stay successful it must be able to manage all of these risks and their negative effects on their operations.

As a result of the continued decline in the dollar value Americans are expected to spend less at regional malls this year. This factor has spurred mall operating companies to aggressively recruit international customers. The fall in the dollar also affects Simon because of their long term lease contracts which cannot be renegotiated.

Simon also believes that a continued rise in the popularity of internet retailers will affect its profits especially in the future. Since more people are purchasing online, there will be less of an incentive to go to the mall to buy things. The decreased foot traffic will force businesses to focus more on online retailing which will increase vacancy at Simons malls. These vacancies will hurt Simon's profitability.

Since Simon is highly leveraged, increase in the inflation rate or changes in the exchange rate expose us to high risk because their debt can become more expensive at a faster rate than their ability to pay them. The current credit crunch's affect on these companies is hard to judge. Since they have expertise in the industry, they should be able to find good properties that are underpriced since other investors will be hesitant to be a player in the current market. It is also harder to get anchors or to lease the property because most people will have less money and less optimism about the current market.

While these are all important risks that Simon faces, we have faced similar risks ever since we started business and we have learned how to deal with them. When we enter Turkey the biggest risks we will face are interest rate risks since Turkey has high interest rate fluctuations. We will also be at risk for the larger economic risk because if there is a downturn, many of our tenants will probably have to restrict their operations which will lead to vacancies. If we are able to have as little vacancy as possible, our business in Turkey will be highly profitable. We will also be highly exposed to exchange rate risks especially since the New Turkish Lira is highly volatile. However, the US dollar has been declining and we believe that we will be able to use Swaps and other derivative instruments to manage this risk and diversify our domestic currency risk.

INTRODUCTION OF ANALYSIS

I propose that Simon properties expand into Turkey by owning and managing a regional mall in the city of Izmir. This will provide Simon with an opportunity to expand in a rapidly growing economy that has the potential to continue to grow. This will also offset the actions from our largest competitor, GGP. It will help us reduce our currency risk and smooth out our business cycles. One of our main focuses at Simon is to increase our international presence and a mall in Turkey meets the goals of increasing the diversity and profitability of our international portfolio.

The reason that all of these benefits will accrue to our business will be discussed below. I will first give a macro economic analysis of Turkey including the social changes, economic environment, political situation and the future of the country. I will the focus on the city of Izmir and point out the reasons this would be the best place for Simon to invest in Turkey. After this I will discuss the operations that we will undertake, how we will market ourselves, the human element of our business, the different strategies we will follow and the financial responsibilities and benefits our company can expect to have.

TURKEY

Turkey is a country that is often overlooked by investors who wish to expand into regions that are rapidly growing. However Turkey has a unique set of circumstances which make it an ideal place for our business to enter. Turkey is developing at a rapid pace and its future holds potential to be an economic powerhouse. While India, China and other developing nations might be growing at a fast rate, Turkey's risks are ones that we at Simon are much more able to handle. Turkey's social make up also makes investing a REIT here much more profitable than in other nations. Investing in Turkey will increase the profitability of our international portfolio and continue our company's focus on long term growth.

Simon has the capacity to begin operations in almost any nation of the world which begs the question, why Turkey? Simon has already expanded into Europe and will be able to expand here by expanding its current operations. The same is true for Japan where we have already established ourselves as an industry leader. Because of our successes here, it will be easy to maintain our advantage when we attempt to expand. In today's REIT environment, it is important to get a first or second mover advantage in nations because once a REIT is established it is hard for others to enter. Our company has already expanded into China and South Korea and we are expanding our influences in these countries. I believe that Turkey is the place where we should enter next because it has a strong consumer base, has many social trends that hold promise for our future, and it has the potential to become an economic powerhouse. Other countries such as India rely on a traditional economy and the concept of a mall is not established yet. Russia and other eastern European countries suffer from corruption and don't fit well with the type of tenets that we bring with us to our malls. I believe that Turkey is an untapped market which will give Simon a huge opportunity to expand. We have almost no competition except for GGP and establishing ourselves in this type of culture and environment will give us competency to expand into Greece and other Mediterranean countries. In addition we will also gain competency working with Muslims and in a Middle Eastern country. These will give us intangible but invaluable experience which opens many future projects for us which our competitors have not investigated.

I will now give a broader analysis of turkey focusing on its economic, social, and political trends including a segment dedicated to Turkeys EU bid. These examples will reiterate the importance that Turkey poses to our company's economic future.

Economic Environment

Turkey's real GDP growth in 2007 was 3.9% but it is expected to grow to around 5.5% by 2009 and maintain that growth rate until 2012. Since 2002 the economy has grown around 7.5% in real terms. Although this is not as high as other countries, Turkey is starting off from a more developed position and this growth rate is high and stable and there is less of a chance that Turkey will overheat. It is also important that these growth rates are in real terms because of turkeys past problems with inflation. Turkey's Per Capita GDP purchasing power parity is around 10,000 USD. However because of Turkey's income disparity geographically, our investment in Izmir will be around a community with a much higher GDP.

Turkey had a series of banking crisis at the end of the century and was forced to resort to the IMF for relief. One of the main things the IMF wanted was for Turkey to control its inflation. Turkey started to do this by controlling inflation around 4% and then it revalued the Turkish Lira into the New Turkish Lira (TRY). Since it has done this, the inflation rate has gone up to around 8% but it is expected to fall back around 4% in two years and maintain this level.

The New Turkish Lira is appreciating against other world currencies. When the TRY was introduced in 2005, the exchange rate was 1.35 per USD. Since it was a new currency and there was hesitance in investing in turkey at the time, the currency depreciated for a year but has steadily been appreciating. It is currently 1.35 TRY per USD. One unique aspect of Turkey is that is nearing its introduction into the European Union (discussed in greater depth below). In the future when Turkey joins the EU, they will no longer use the TRY and use the Euro which would make our cash flows more stable and be able to hedge our currency risk more easily.

Turkey relies heavily on foreign investment to finance its large current-account deficit while also relying on short-term capital inflows which leaves the economy vulnerable to sharp changes in investor sentiment. The equity markets are not as strong in Turkey as the debt markets. Because of this, many investors put their money into the stock market and take it out often which causes high volatility in returns. Turkey has many laws in place and policies that it is trying to pass in order to make foreign investment more attractive. This makes our investment more appealing because the country is looking for companies like us, who have a long term perspective, to directly invest. An example is that the basic rate of corporation tax was lowered from 30% to 20% in 2006. Another reason that a REIT would do well in Turkey is that Turkish investors like to have a steady dividend payment from their stock which we are required to do by the SEC. It is unlikely that we would list on the Istanbul Exchange but Turkish investors could invest in our company on the NYSE.

Probably the biggest economic problem facing turkey is the distribution of incomes amongst its citizens. Incomes in the far east of turkey are closer to 2000-3000 per year while incomes in the larger cities such as Ankara, Istanbul and Izmir are in the high 40,000 to 50,000 range. Economic projects in the eastern regions have been undertaken and the new AK ruling party in turkey was elected on a mandate for economic progress in this part of the country. Since our project is in Izmir, western Turkey, the citizens around us will have a very high purchasing power which will increase the amount of business that we can attract and retain.

Social Environment

Turkey is a country that has a young population that is becoming more westernized while at the same time settling many of its social problems that have plagued it in the past. Turkey has the largest population in Europe with 74.3 million people growing at a rate of 1.5%. 24.9% of the population is under the age of 14, in comparison to China which only has 20.4% under this level, which means that Turkey will continue to grow at a rapid rate. This is important for our business because malls are a place where teenagers and university students hang out. It is where most of the younger population does its shopping. With this segment of society growing, we will also have a growth in foot traffic in our property.

Turkey is 99.9% Muslim which has raised concerns about the stability of this country especially with a rise in fundamental Islamic groups within its borders. However, Turkey is staunchly secular and the western parts of the country are westernized. Turkey has close links to Germany and other European neighbors. Turkey prides itself as being both in Europe and in the Middle East and bridges that gap culturally. Turkey is made up as 80% ethnic Turks and 20% ethnic Kurds. These two distinct cultural groups have been at conflict ever since the founding of the modern republic and even before, but the new political environment in turkey is lessening the tension between these two ethnicities. Although most Kurds live in the far east of turkey, they make up a large percent of the population in big cities and we will encounter them in Izmir.

Turkey also has many foreign visitors. It has more Greek and Roman ruins that Greece or Italy! Our business of regional malls also includes many people who come to travel and attend our malls. We actually promote a tourist shopping aspect of our marketing to get people into our stores. Izmir is a huge arrival place for foreign tourists because of the many ruins near it. In addition, many international people, especially Germans, move to Izmir in their retirement. This is another segment of society who would be interested in attending our shopping mall.

Political Environment

Turkey has had a history full of political instability. There have been three military coups, allegations of genocide, ruthless treatment of ethnic minorities, and frequent rebel and terrorist attacks. Their political system often kept political parties out that had religious influences and other types of political restrictions that were put in place to maintain the republic cohesive.

Although Turkey has had an instable past, their actions in the last ten years have given Turkey political stability and a bright future. They have changed many of their policies which now allow Kurds to speak their native language, have political parties and have other freedoms of culture which has made many Kurds identify themselves as Turkish first and Kurdish second. There has been an increased amount of public infrastructure projects being undertaken in regions that have been ignored in an attempt to lessen the impacts of Kurdish separatist. The current war in Iraq and Turkeys dealing with the KGR in Iraq has been fruitful in limiting PKK operations. Most of the Kurds in turkey are opposed to the PKK since it has done just as much harm to their community has it has to the Turkish Republic.

The biggest development has been the election of the AK party as the political party in power. The AK party is different from past Turkish ruling parties because of their religious ties, their Kurdish support, their modernization policies, and their focus on Turkey's economy. In the most recent election, the AK party won even more support due to their economic progress in their previous term. Although there were protests in large cities, there were just as large of support rallies all across Turkey. The AK party is dedicated to economic progress and integration with the EU.

European Union

One of the most important potential economic factors that Turkey presents Simon is their entry into the European Union. Turkey began its march to join the EU, then the European community, in 1987 and has been successful in implementing all of the necessary economic and political mandates. However due to differing reasons, Turkey has yet to be formally accepted as a member. There are concerns of Turkey's economic strength, its human rights offenses against the Kurds and its stance on Cyprus. Turkey has grown frustrated with their progress because they are continually given more mandates that they need to comply to. They feel that this comes from the EU's racist sentiments against Turk's and Muslims. However, the EU members claim that they are concerned that the sheer size of Turkey and its population calls for extra precaution to be take. The earliest date that Turkey could join the EU is in 2013.

I believe that Turkey is destined to join the EU because of its continual success of implementing EU mandates and the length of time that Turkey has been trying to join the union. Other countries that were in similar positions to turkey have already been accepted into the union and it not a matter of if they join the union but instead is a question of when. Once Turkey joins the EU, Simon's position in Turkey, more specifically Izmir, will become more beneficial because instead of the TRY, we will now have cash flows in Euros which makes it easier to finance our operations, perform swaps, and diversify our foreign exchange risk. In addition, the whole economy of Turkey will grow which will mean that the people visiting our malls will have more purchasing power. Turkey's membership into the EU has a large enough pay off that we should undertake this project now while we have the chance. Once Turkey enters the EU, other REITs will try to expand into Turkey to take advantage of the changing situation. If we are able to get in today and establish ourselves, once this event happens we will be able to keep the competition out and to benefit immensely.

COUNTRY RISKS

Although Turkey is a country that has a lot of economic potential, it also has some risks that we must be aware of. The major risk is that Turkey will not be able to maintain its current economic performance and resort to its state in the mid 90's. This would involve rising inflation, irresponsible monetary policies, expensive capital markets and less purchasing power for its people. With the new developments in the political situation in turkey, it is unlikely that this will happen. There is also the risk of another military coup which could nationalize most industries. This is not very likely since another military coup would be opposed by Turkey's citizens and the international community. The issue with the Kurds could flare up and Turkey could re-enter a civil war but this would most likely happen in the east and not directly affect our operations in Izmir. Other international risks could be that Turkey never enters the EU which is something that we want to happen so we can have cash flows in Euros and it would strengthen Turkey's economy. Turkey also borders 8 countries including Iran, Iraq and Syria which means there is a potential for war from these countries. Turkey has the fourth largest army in the world and has strong diplomatic relations with these countries so the possibility of war is low. Of greater risk are confrontations with Greece and the issue of Cyprus. While these are all risks that we must be aware of, we do not feel that any of the have a large enough possibility that we should be worried of them occurring. If they do occur, our operations will be effected, but we will still be able to carry on and make profit in the future after the risk has passed.

IZMIR

Izmir is Turkey's third largest city with a population of around three million people. Its workforce and its rising class of young professionals is concentrated in the city or in its immediate vicinity. Izmir is widely regarded as one of the most liberal Turkish cities in terms of values, ideology, lifestyle, dynamism and gender roles. Izmir is an extremely modern and metropolis city with palm lined avenues along the Izmir bay, backed by graceful boulevards and attractive terraces rising up the hills of the surrounding mountains. It has a new metro rail system which operates one line currently but is expanding 3 more lines in the four years.

Izmir attracts many tourists because of its close proximity to Holiday resorts such as Cesme, Kusadasi and historical sites such as Ephesus, Pammukale and the Mother Mary's house. There are numerous opportunities for excursions out of the city.n Just a 1 hour drive away to the west is the beautiful Cesme Peninsula with its many sandy beaches where visitors can enjoy water sports or take a boat trip along the bays around. Various local operators offer day trips into the surrounding countryside, taking in a variety of interesting destinations from thermal baths and fishing villages to the famous Roman ruins of Ephesus.

One of the Main reasons that we should go to Izmir is because of their large student population. There are 5 universities in Izmir which include, Ege University with 43,000 students, Dokuz Eylul University with 45,000 students, Izmir institute of Technology which is Turkey's largest campus, Izmir University of economics and Yasar University. There are plans to open two more universities within the next 5 years. This huge student body is an important segment of the market that we are trying to reach. These young Turks are more open to western ideas, and going to the mall is a social event. Since there are no large malls in Izmir currently, our mall will be one of a kind which will attract most of these students.

COMPETITION IN TURKEY

Our move into Turkey is important because our largest competitor, General Growth Properties is already established in Turkey. They have malls in Ankara, Eskisehir, Istanbul and Antalya. They would be our largest competitor in Turkey but since we know that they have been successful, our move into Turkey will be less risky. We believe that we can take what they have done in Turkey and use our capabilities to make our malls better than our competitions. Another source of competition will be the local bazaars and traditional shops which make up a large portion of Turkeys economic structure. Although these old bazaars have sentimental value, we feel that the younger generation of Turks will go to the malls. We also know that Turkish businesses would enjoy the services that we offer to our lessees and will move into our property. This is especially true in Izmir where the more western culture, the young population, and the large amount of foreigners make the concept of a mall more acceptable. While GGP is in other areas of turkey, they are not in Izmir and so we will be able to grab a first mover advantage within this city.

STATEGY IMPLEMENTATION

Now that I have given an overview of our company, the ways our company is run, and most importantly why Izmir Turkey is an ideal place for us to expand, I will now describe how Simon should implement our business strategy. In this section I will cover different functional areas and the way that we will use these areas to implement our business strategy.

MISSION STATEMENT

Our goal is to become the premier shopping mall in turkey by offering the most extensive range of shopping options, the best leasing services, and the most attractive features for our customers. We want to make the Simon brand the county's top retail brand in the nation which gives us the opportunity to expand over the next ten years. Expanding into Turkey will provide valuable economic benefits to Turkish citizens, Businesses and our Shareholders.

ENTERING TURKEY

The first thing we need to do when we enter Turkey is to select an area to build and to contract out the construction of the building. We will build a half million square foot mall in the Hatay district of Izmir. This area is on the metro rail and is near the universities. In addition to being downtown, it is easily accessible and near the gulf of Izmir. It is in the district where many foreign tourists visit and where hotels for traveling business people are.

Part of the reason we chose the Hatay district is because it has some open space for development compared to Cankaya or other districts. We have found an open space where we will be able to build our 4 floor mall but we will need to buy out enough extra space so that we have enough parking spaces for our customers. Since it is near the light rail and using taxi's and buses is common in turkey, we will not need as much parking space here as we do in the United States.

Simon is a company that invests and manages real estate. We do not construct our own malls and so we will need to get a Turkish construction company to work with our design and management teams to complete the structure. We have received many bids but we have decided to go with Gama holding because of their prestige, reliability and their multicultural experience. They have worked in the United States, Turkey, Iraq, Ireland and other countries. Since Turkey is a new market for us, Gama's background will fit will with ours since they will be able to give us insights on the Turkish social environment and Turkey governmental regulations. Gama is also a socially responsible company and we believe that we will be able to work well with each other. Gama will take care of all of the aspects of construction while working with us on design and inclusion of special features. The whole time frame from today, until finish including permits, negotiations and construction is 2 years. The total cost in US dollars is 60 million.

While this is a lot of money, last year Simon spent 1.017 billion dollars on new development projects. Looking at historical costs, this project is cheaper for it's per square foot than the average. The gross leasable area is around 350,000 square feet which will be large enough to hold around 100 stores of differing sizes. Since we are in the process of designing our construction, we have contacted a few anchor stores which we are also bringing into the designing process to see how much space these important tenants need.

We will attempt to open certain areas of our mall before the full completion of the project to get early foot traffic into our property. This will allow us to handle the leasing over a length of time which will give us a better opportunity to find and retain valuable tenants. It will also give our mall time to become visible in the community before operating at full capacity.

LEASING

Leasing is the most important part of our business because it is how we make money. It is important to attract valuable tenants and to retain their business by providing services which make their business profitable. We believe the best for our business is to have a symbiotic with our tenants where both of our goals and needs can be met.

The first step in attracting tenants is to establish some anchor stores. We usually do this by giving them preferential rates over an extended lease period, up to 10 years. These anchors are meant to create a steady stream of foot traffic which will make other business want to locate near the same area. In the United States, our anchors include Macy's, Dillards, and JC Penny amongst others. At our mall in Turkey we will try to get Migros, a Movie theater, Mudo City, Koton, TeknoSA and CarrefourSA. Migros is the largest grocery chain in Turkey and is the anchor for almost any major mall within Turkey. The Movie Theater is an essential part of a mall in turkey which will create foot traffic especially amongst the university students that we are trying to attract. Mudo City is similar to an Urban Outfitters, Koton is an upscale fashion store similar to Nordstrom's and TeknoSA is a Turkish equivalent of Best Buy. Finally CarrefourSA is a shopping mall owned by CarrefourSA, a joint venture of French retail giant Carrefour with the Turkish Sabanci Holding. If we are able to attract and retain these popular Turkish stores, we will be able to lease the other available area at better rates because of the foot traffic these anchors will attract.

Other tenants that we will try to attract will be other clothing stores, restaurants and specialty stores. We also want to attract international stores, especially from Europe, that are looking to expand or continue their expansion in Turkey. Clients that we are working to attract include: Zara, Mango, Diesel, Marks & Spencer, C&A, Fenerbache, Clube, Mango, Miss Sixty/Energy, Benetton, Mavi Jeans, Nike, Addidas, Stefanel, Yves Rocher, Pierre Cardin, Dorothy Perkins, Evans, Jack&Jones, Vero Moda, Peacocks, Topshop, Top Man, Miss Selfridge, River Island, Benetton, Mothercare, Etam-123, Esprit, Massimo Dutti, La Senza, BSB, Dockers, Levi's, Kappa, Fornarina, Reebok, Converse, Best Mountain, Lotto, Guess World, Guiseppo, Nine West, Bata, Divarese, Starbucks, Gloria Jean's, Burger King, McDonalds, KFC, and Pizza Hut. Although there are many more European and international stores than Turkish ones, most malls in Turkey have these stores as tenants. The extra lease space will be given to local Turkish companies.

We structure our leases for our anchors on a square footage rate at a lower rate than our other tenants. On average we charge anywhere from 25-45 dollars per square foot. Our anchors have longer leasing agreements of up to 10 years. Our other stores have leasing agreements around five years. We also stagger our leasing agreements so that there are not a large portion of leases expiring at the same time. We want to give our anchors a longer leasing period to ensure that they stay at our mall which makes it easy to attract and retain other tenants. Also, these anchors are looking for long term stability and wouldn't agree to our terms unless they had a long period. With our other tenants we can charge higher rates and have a shorter leasing period. Having a shorter leasing period is beneficial to us because if there is a change in current rates, we will be able to renegotiate more often and therefore reduce our risk. We stagger the expiration of our leases because if many leases expire in an economic downturn we will have many vacancies which are the greatest risk to our business.

In our leasing agreements, each tenant is charged a common area maintenance change based on their square footage lease. Our company takes care of the common area maintenance, usually by partnering with a local company. The costs of keeping the common areas clean and in order would be charged on a pro rata basis because the larger the store, the more foot traffic it creates, and more foot traffic means more contribution to common area problems. This is a common feature of any retail mall.

The last main aspect of our lease agreement is overage rent. While most of our income comes from the lease payments by our tenants, we also have agreements which say that if a store makes over a certain level, our company gains a percentage of every dollar of income after that level. For example, we would negotiate that any dollar amounts of net income over 1 million dollars we would receive 5% of that. 5% is a high number in our agreements.

We believe that our competitive advantage will come from our knowledge of how to structure our leases to trade off risk onto our tenants and to ensure that they are happy with the arrangement. We know how to operate a mall and with our expertise, tenants will want to lease our space because it will be good for their business.

HUMAN RELATIONS

Simon is a great company when it comes to Human Relations in the United States. However, we have never operated before in Turkey and we do not believe that we have enough experience to over come many of the obstacles associated working with our Turkish Tenants, employees and customers. We believe that we have the operational capability and experience to make the large scale project profitable, but when it comes to employees and human relations, we do not believe our competitive advantage we posses in the United States will be able to translate into the Turkish context. In order to solve this problem we will partner with one of Europe's most acclaimed company's in Human Relations, Sabanci Holding

Sabanci is turkey's second largest business after Koc. It is a family owned businesses which operates in many different business areas in Turkey and Europe. They often do Human relations for other companies and we would greatly benefit from using their HR services. Sabanci would consult and work with our top management to structure and implement programs for hiring employees to take care of the common area maintenance and work with our tenants on day to day matters. They would also act as an intermediary between our tenets and us because of their cross cultural ability.

MARKETING

Our business marketing is dynamic because we must market on two fronts. We must market our services to other businesses so that they want to come and lease space from us. It is important that we make businesses aware of the opportunities that we offer and the support that we give to our tenants. On another front, we must attract customers into our mall so that businesses want to lease space from us. Marketing is the drive behind our business and is will be especially important for us when we move into Turkey because it is a new area of our business.

Our marketing capability is an aspect of our company that we believe will be able to cross cultures and be a competitive advantage for our company. The shopping center has been growing as a favorite place for modern urban Turkish citizens to shop. Shoppers not only expect to find what they want at the mall, they also know there is always something exciting happening there. Malls are an engaging hub of activity in any community, and are the places where shoppers go when they are ready to explore, be entertained and spend money. Simon believes that its malls are about an experience, not only a place where one goes to shop.

Simon will contact potential anchors directly so that we will be able to get stores which create a large amount of foot traffic. Once our building is complete, the features and location of it will essentially sell itself because businesses will want to be a part of what we are trying to accomplish in Izmir. We will contact our tenants in Europe and the United States who we have close relationships with to see if they are interested in expanding. We will also contact other Turkish businesses which we believe would enhance the prestige of our mall and let them know about what our business has to offer them. This is the most important aspect of our marketing program because if we get the right tenants the customers will come. Many of our tenants have their own advertising programs and when we get these highly visible tenants, their marketing is essentially our marketing.

A key to Simon's success is creating memorable experiences for its customers. Our ability to deliver a customer show is engaged in more than just shopping—one who is also receptive to new ideas, brands, and experiences for their particular life stage—will differentiate our brands and the brands that choose to partner with us.

The Retailer Marketing team ensures that our retailers are aware of all relevant marketing support programs and communication opportunities designed for our retailers to build awareness and drive store traffic. We provide assistance to our retailers in leveraging the Simon marketing infrastructure at a National, Regional, and Local level. A specific marketing contact is assigned to all Simon retailers. This will make businesses want to lease with us because they know that we will support their business operations.

Our marketing programs and services are continually being improved to provide our Simon retailers more choices in building consumer connectivity and developing engaging, integrated marketing campaigns. Our goal is to facilitate the design, and streamline the implementation, of our retailers marketing programs at Simon Malls.

Our marketing that is directed at the citizens of Izmir will be directed at the large university population. The considerable purchasing power that teens bring to the mall makes the decision for teen-centric programming a natural choice. Simon research has determined that teen's visit Simon malls an average of five times a month. And considering they spend an average of $37 per visit, enticing teens to come back pays off. Teens are savvy consumers and not easily influenced by traditional marketing strategies, so it is important that Simon team with the hippest, coolest brands to provide teens with one-of-a-kind experiences at the mall. In addition to having the best stores, we will advertise on the internet, the television and sponsor clubs on University campuses. These will all create visibility and awareness of our mall and the experience that shoppers will get when they visit our mall.

FINANCE

There are really two aspects when it comes to financing this project. The first is the initial financing needed to pay for the estates and how much we are planning to charge our tenants so we can calculate our return and breakeven point. The second aspect is financing the upkeep, improvements, employees and other potential investments to the asset later down the road. We have found that it is best if we allow each mall to manage its own investments and operations while referring the larger development projects to the top management team. We will rely heavily on the management team in Turkey to make the day to day financial decisions.

To summarize the relevant financial data, our mall is a half million square feet with 350,000 square feet of leaseable space. We are currently in negotiations with Gama who we gave the bid to for a total cost of 60 million dollars. It will take two years of construction to complete but we will be able to open up some shops in year one while we wait for the rest of the mall to be complete. We estimate there will be a total of 100 shops in our mall which means each store will have an average of 3,500 square feet of leaseable space but our anchors will take up much more leaseable space than our other tenants. Judging from historical data and our other malls, we believe that we will be able to charge our tenants anywhere from 25 to 45 dollars per square foot per year. The larger anchor stores would pay less while the smaller specialty stores would pay a higher amount. We believe that on average, we will be able to charge 35 dollars per square foot of leasable space. Our relevant time horizon is 10 years of operation plus the 2 years on construction.

Using this data we calculate that our total revenue from payments made by our tenants would be around 13.125 million dollars per year. The average store would pay 131,250 dollars per year which is less than our American tenants. If we are not able to open any of our stores until 2010, then our pay back period from today is, a little under 7 years. If we can open all of our stores at the beginning of the 2nd year, 2010 and operate at full capacity for 10 years until 2022, using a required rate of return of 12.5%, our NPV will be a little over 4 million. There are three things to note here, one is that it is highly unlikely that we will be operating at full capacity for the whole 10 years. However, we should also note that a twelve year time horizon from the beginning of the opening of our mall is a very small time horizon to judge the value of a regional mall which usually operates for at least 30 years. Our estimates of leasable space and the amount we will be able to receive per square foot are also conservative estimates. In addition we have not taken into account any real options where we will be able to alter our prices, redevelop and expand the property. We also have not taken into account any overage charges. The lease prices include the CAM and marketing payments.

Simon properties usually operate at a 90% or higher capacity. Doing a sensitivity analysis and extending the horizon period we can see that this project is still highly profitable. Keeping the construction period 2 years but extending the time horizon to 15 operational years with a 90% capacity and an substantial increase in the required rate of return to 14%, the NPV for the project is 3.5 million and the IRR is 15%.

For the initial 60 million we will use 20% equity and 80% debt which is our usual financial leverage. Debt is cheap for us since we are the highest rated commercial REIT and of our extensive market capitalization. We can borrow at LIBOR and are confident, which history verifies, that this type of financing is appropriate for our business. Since one of our company's main objectives is to expand internationally, we might sacrifice one of our domestic projects and use the funds that would be dedicated for that project to invest in our Turkish project. 60 million dollars is a tiny investment for us and this mall is very small in scale so there is not a huge risk faced by our company if the mall is not as successful as we believe it will be. If the market responds well to our presence we will be able to expand and redevelop the mall while starting operations in other cities in Turkey.

The financing needed for the day to day operations and investments fewer than 10,000 dollars will be left up to the management team that we assign to the project. We believe that they have a better understanding of the issues that they need to deal with in order to make the mall more profitable. Since we structure our incentives plans in a way that creates goal congruence, leaving this type of freedom to our managers will help the company's overall profitability. Even though we restrict the managements' restrictions past 10,000 dollars, if they feel the need to make an investment of this magnitude, they will work with the head of our international department and our CFO to determine the investment is appropriate or not.

CONCLUSION

Simon is looking to expand its operations internationally and introducing a regional mall in Izmir Turkey will help our company diversify and enhance its profitability. Turkey is a country which has been growing at a high rate and is expected to have high steady growth in the future. It has the potential to join the EU and the purchasing power of the country is rising which means that our business will be able to attract tenants more easily. Izmir is the third largest city in Turkey, has almost no competition, and is one of the richest cities in Turkey. Opening a half million square foot mall here has a NPV of around 4 million over a 10 year period. We have already been in negotiations with a Turkish construction company who will build the 4 story complex. We also would partner with Sabaci holding to help us bridge the cultural gap, give us insights in the Turkish market and help us run our Human Resources division.

Simon's international expansion would benefit greatly from an investment in Turkey because it represents high potential gain at very little risk. It will help us diversify our international portfolio and sustain long term growth in our profitability.

Key Economic Indicator Projections of Turkey

Key indicators	2007	2008	2009	2010	2011	2012
Real GDP growth (%)	3.9	3.7	5.4	5.3	5.3	5.5
Consumer price inflation (%)	8.9	8.2	4.5	4.4	4.0	4.0
Budget balance (% of GDP)	-2.2	-2.9	-2.5	-2.0	-1.6	-1.4
Current-account balance (% of GDP)	-7.5	-7.4	-7.3	-6.8	-6.8	-6.8
3-month interbank money market interest rate (av; %)	17.5	13.0	10.5	10.0	10.0	10.0
Exchange rate YTL:US$ (av)	1.30	1.32	1.40	1.41	1.40	1.40
Exchange rate US$:€(av)	1.37	1.46	1.33	1.28	1.26	1.25

Historical Economic of Turkey

	2003(a)	2004(a)	2005(a)	2006(a)	2007(b)
GDP at market prices YTL m	359,763	430,511	487,202	576,322	653,114
GDP US$ m	239,700	302,000	362,614	403,459	490,031
Real GDP growth (%)	5.8	8.9	7.4	6.1	5.2
Consumer price inflation (av; %)	25.3	10.6	10.1	10.5	8.5
Population (m)	71.3(b)	72.3(b)	73.3(b)	74.3(b)	75.2
Exports of goods fob (US$ m)	51,206	67,047	76,949	91,889	105,861
Imports of goods fob (US$ m)	-65,216	-90,925	-110,479	-132,075	-151,303
Current-account balance (US$ m)	-8,036	-15,601	-22,603	-31,764	-35,545
Foreign-exchange reserves excl gold (US$ m)	33,991	35,669	50,579	61,074	68,066
Total external debt (US$ bn)	145.1	162.4	171.1	207.4(c)	218.0
Debt-service ratio, paid (%)	39.2	35.9	38.7	33.9(b)	37.1
Exchange rate (av) YTL:US$	1.50	1.43	1.34	1.43	1.33

Population Data of TUrkey

Annual data	2006(a)	Historical averages (%)	2002-06
Population (m)	74.3	Population growth	1.4
GDP (US$ bn; market exchange rate)	403.5(b)	Real GDP growth	7.2
GDP (US$ bn; purchasing power parity)	614.1	Real domestic demand growth	9.4
GDP per head (US$; market exchange rate)	5,433	Inflation	19.6
GDP per head (US$; purchasing power parity)	8,270.0	Current-account balance (% of GDP)	-4.7
Exchange rate (av) YTL:US$	1.43(b)	FDI inflows (% of GDP)	2.0

(a) Economist Intelligence Unit estimates. (b) Actual.

Economic Make Up of TUrkey

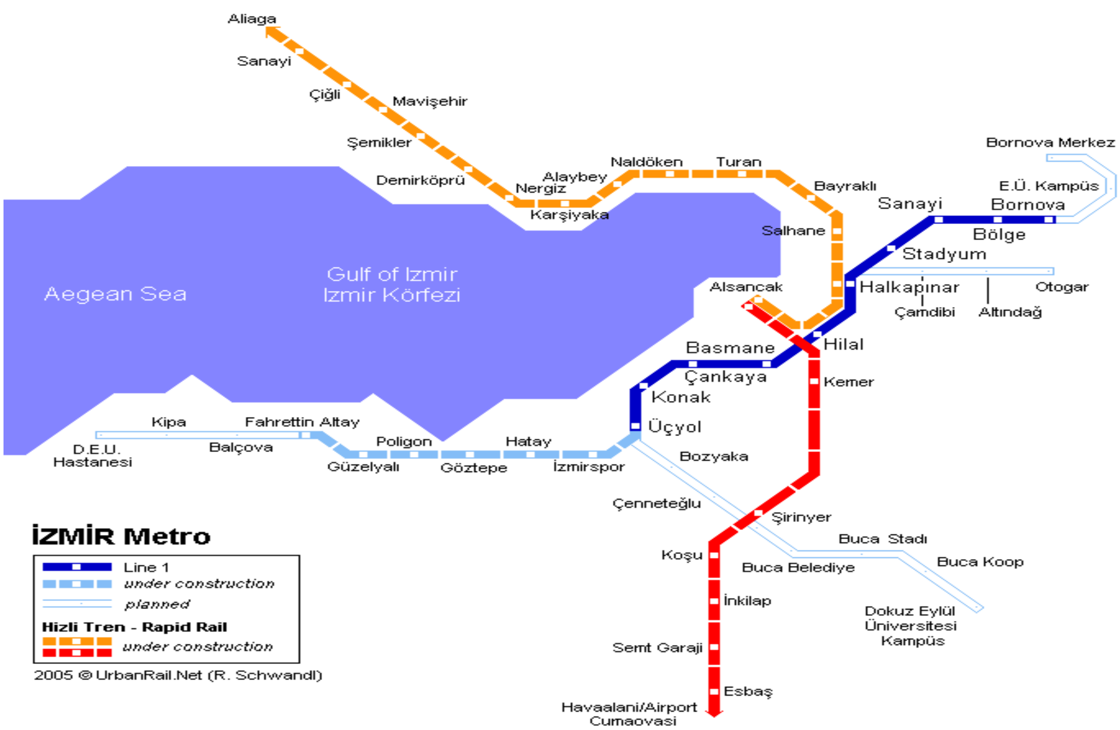
Major exports 2006	% of total	Major imports 2006	% of total
Clothing&textiles	21.3	Mineral fuels&oil	20.5

Road vehicles	14.0	Mechanical machinery&parts	13.6
Iron&steel	7.4	Road vehicles	8.2
Electrical machinery	7.4	Iron&steel	8.2
Leading markets 2006	% of total	Leading suppliers 2006	% of total
Germany	11.3	Russia	12.5
UK	8.0	Germany	10.4
Italy	7.9	China	6.8
US	5.9	Italy	6.1
EU25	51.6	EU25	39.3

Photo of Izmir

Photo of Izmir at Night

Metro Rail of Izmir



Sample Advertisements

Map of Turkey

Historical Stock Price (5 years)

Exchange Rate of YTL against USD