

STRATUS PROPERTIES INC
Form 10-Q
November 09, 2016

UNITED STATES
SECURITIES AND
EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY
REPORT
PURSUANT
TO SECTION
13 OR 15(d)
OF THE
SECURITIES
EXCHANGE
ACT OF 1934
For the
quarterly
period ended
September 30,
2016
or
TRANSITION
REPORT
PURSUANT
TO SECTION
13 OR 15(d)
OF THE
SECURITIES
EXCHANGE
ACT OF 1934
For the
transition
period from to
Commission
File Number:
001-37716

Stratus Properties Inc.

(Exact name of registrant as specified in its charter)

Delaware 72-1211572

(State or other jurisdiction of
incorporation or organization) (I.R.S. Employer Identification No.)

212 Lavaca St., Suite 300

Austin, Texas 78701

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(Address of principal executive offices) (Zip Code)

(512) 478-5788

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

On October 31, 2016, there were issued and outstanding 8,098,140 shares of the registrant's common stock, par value \$0.01 per share.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

STRATUS PROPERTIES INC.
CONSOLIDATED BALANCE SHEETS (Unaudited)
(In Thousands)

	September 30, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	\$ 16,240	\$ 17,036
Restricted cash	10,682	8,731
Real estate held for sale	21,526	25,944
Real estate under development	111,491	139,171
Land available for development	13,733	23,397
Real estate held for investment, net	240,614	186,626
Deferred tax assets	28,156	15,329
Other assets	15,407	13,871
Total assets	\$ 457,849	\$ 430,105
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable	\$ 7,930	\$ 14,182
Accrued liabilities, including taxes	23,088	10,356
Debt	285,358	260,592
Other liabilities	10,247	8,301
Total liabilities	326,623	293,431
Commitments and contingencies		
Equity:		
Stockholders' equity:		
Common stock	92	91
Capital in excess of par value of common stock	192,788	192,122
Accumulated deficit	(40,969) (35,144)
Common stock held in treasury	(20,760) (20,470)
Total stockholders' equity	131,151	136,599
Noncontrolling interests in subsidiaries	75	75
Total equity	131,226	136,674
Total liabilities and equity	\$ 457,849	\$ 430,105

The accompanying Notes to Consolidated Financial Statements (Unaudited) are an integral part of these consolidated financial statements.

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STRATUS PROPERTIES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In Thousands, Except Per Share Amounts)

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	2015	2016	2015	2016
Revenues:				
Hotel	\$8,268	\$8,521	\$29,501	\$31,194
Entertainment	4,190	4,159	13,236	13,463
Commercial leasing	2,567	787	6,761	4,311
Real estate operations	6,155	6,210	9,858	10,920
Total revenues	21,180	19,677	59,356	59,888
Cost of sales:				
Hotel	6,891	6,782	22,248	23,159
Entertainment	3,713	3,423	10,532	10,514
Commercial leasing	1,390	516	3,295	2,216
Real estate operations	4,075	4,459	8,173	8,580
Depreciation	2,189	2,063	5,854	6,713
Total cost of sales	18,258	17,243	50,102	51,182
General and administrative expenses	2,497	2,187	9,718	6,308
Gain on sales of assets	—	(20,729)	—	(20,729)
Total	20,755	(1,299)	59,820	36,761
Operating income (loss)	425	20,976	(464)	23,127
Interest expense, net	(2,579)	(855)	(6,894)	(2,736)
Gain (loss) on interest rate derivative instruments	174	(918)	(301)	(986)
Loss on early extinguishment of debt	—	—	(837)	—
Other income, net	6	15	14	304
(Loss) income before income taxes and equity in unconsolidated affiliates' (loss) income	(1,974)	19,218	(8,482)	19,709
Equity in unconsolidated affiliates' (loss) income	(3)	(280)	70	(398)
Benefit from (provision for) income taxes	318	(5,197)	2,587	(5,244)
(Loss) income from continuing operations	(1,659)	13,741	(5,825)	14,067
Income from discontinued operations, net of taxes	—	—	—	3,218
Net (loss) income	(1,659)	13,741	(5,825)	17,285
Net income attributable to noncontrolling interests in subsidiaries	—	(3,493)	—	(5,414)
Net (loss) income attributable to common stockholders	\$(1,659)	\$10,248	\$(5,825)	\$11,871
Basic and diluted net (loss) income per share attributable to common stockholders:				
Continuing operations	\$(0.20)	\$1.27	\$(0.72)	\$1.07
Discontinued operations	—	—	—	0.40
	\$(0.20)	\$1.27	\$(0.72)	\$1.47
Weighted-average shares of common stock outstanding:				
Basic	8,094	8,063	8,086	8,055
Diluted	8,094	8,094	8,086	8,085

The accompanying Notes to Consolidated Financial Statements (Unaudited) are an integral part of these consolidated financial statements.

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STRATUS PROPERTIES INC.
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (Unaudited)
 (In Thousands)

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	2015	2015	2015	2015
Net (loss) income	\$(1,659)	\$13,741	\$(5,825)	\$17,285
Other comprehensive income, net of taxes:				
Gain on interest rate swap agreement	—	438	—	457
Other comprehensive income	—	438	—	457
Total comprehensive (loss) income	(1,659)	14,179	(5,825)	17,742
Total comprehensive income attributable to noncontrolling interests	—	(3,666)	—	(5,592)
Total comprehensive (loss) income attributable to common stockholders	\$(1,659)	\$10,513	\$(5,825)	\$12,150

The accompanying Notes to Consolidated Financial Statements (Unaudited) are an integral part of these consolidated financial statements.

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STRATUS PROPERTIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In Thousands)

	Nine Months Ended September 30,	
	2016	2015
Cash flow from operating activities:		
Net (loss) income	\$(5,825)	\$17,285
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	5,854	6,713
Cost of real estate sold	4,546	4,935
Loss on early extinguishment of debt	837	—
Gain on sales of assets	—	(20,729)
Loss on interest rate derivative contracts	301	986
Debt issuance cost amortization and stock-based compensation	1,233	1,177
Gain on sale of 7500 Rialto, net of tax	—	(3,218)
Equity in unconsolidated affiliates' (income) loss	(70)	398
Deposits	1,054	1,267
Deferred income taxes	(12,827)	1,470
Purchases and development of real estate properties	(10,919)	(20,591)
Municipal utility district reimbursement	12,302	5,307
Increase in other assets	(2,675)	(3,519)
Increase in accounts payable, accrued liabilities and other	7,071	11,863
Net cash provided by operating activities	882	3,344
Cash flow from investing activities:		
Capital expenditures	(24,820)	(37,383)
Net proceeds from sales of assets	—	43,266
Other, net	(19)	6
Net cash (used in) provided by investing activities	(24,839)	5,889
Cash flow from financing activities:		
Borrowings from credit facility	24,000	55,826
Payments on credit facility	(19,120)	(20,857)
Borrowings from project loans	174,342	60,202
Payments on project and term loans	(154,584)	(36,081)
Purchase of noncontrolling interest	—	(61,991)
Stock-based awards net (payments) proceeds, including excess tax benefit	(146)	1,722
Noncontrolling interests distributions	—	(4,244)
Financing costs	(1,331)	(265)
Net cash provided by (used in) financing activities	23,161	(5,688)
Net (decrease) increase in cash and cash equivalents	(796)	3,545
Cash and cash equivalents at beginning of year	17,036	29,645
Cash and cash equivalents at end of period	\$16,240	\$33,190

The accompanying Notes to Consolidated Financial Statements (Unaudited), which include information regarding noncash transactions, are an integral part of these consolidated financial statements.

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STRATUS PROPERTIES INC.
CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)
(In Thousands)

	Stockholders' Equity									
	Common Stock Number of Shares	At Par Value	Capital in Excess of Par Value	Accum- ulated Deficit	Accum- ulated Other Com- prensive Loss	Common Stock Held in Treasury Number of Shares	At Cost	Total Stockholders' Equity	Noncontrolling Interests in Subsidiaries	Total Equity
Balance at December 31, 2015	9,160	\$ 91	\$ 192,122	\$(35,144)	\$ —	1,093	\$(20,470)	\$ 136,599	\$ 75	\$ 136,674
Exercised and issued stock-based awards	43	1	(1)	—	—	—	—	—	—	—
Stock-based compensation	—	—	523	—	—	—	—	523	—	523
Tax benefit for stock-based awards	—	—	144	—	—	—	—	144	—	144
Tender of shares for stock-based awards	—	—	—	—	—	12	(290)	(290)	—	(290)
Total comprehensive loss	—	—	—	(5,825)	—	—	—	(5,825)	—	(5,825)
Balance at September 30, 2016	9,203	\$ 92	\$ 192,788	\$(40,969)	\$ —	1,105	\$(20,760)	\$ 131,151	\$ 75	\$ 131,226
Balance at December 31, 2014	9,116	\$ 91	\$ 204,269	\$(47,321)	\$(279)	1,081	\$(20,317)	\$ 136,443	\$ 38,643	\$ 175,086
Exercised and issued stock-based awards	42	—	—	—	—	—	—	—	—	—
Stock-based compensation	2	—	421	—	—	—	—	421	—	421
Tax benefit for stock-based awards	—	—	1,866	—	—	—	—	1,866	—	1,866
Tender of shares for stock-based awards	—	—	—	—	—	12	(153)	(153)	—	(153)
Noncontrolling interests distributions	—	—	—	—	—	—	—	—	(4,244)	(4,244)
Purchase of noncontrolling interest in consolidated subsidiary, net of taxes	—	—	(14,453)	—	—	—	—	(14,453)	(39,920)	(54,373)
Total comprehensive income	—	—	—	11,871	279	—	—	12,150	5,592	17,742
Balance at September 30, 2015	9,160	\$ 91	\$ 192,103	\$(35,450)	\$ —	1,093	\$(20,470)	\$ 136,274	\$ 71	\$ 136,345

The accompanying Notes to Consolidated Financial Statements (Unaudited) are an integral part of these consolidated financial statements.

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STRATUS PROPERTIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. GENERAL

The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2015, included in Stratus Properties Inc.'s (Stratus) Annual Report on Form 10-K (Stratus 2015 Form 10-K) filed with the United States Securities and Exchange Commission. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments (consisting only of normal recurring items) considered necessary for a fair statement of the results for the interim periods reported. Operating results for the three-month and nine-month periods ended September 30, 2016, are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

2. EARNINGS PER SHARE

Stratus' basic net (loss) income per share of common stock was calculated by dividing the net (loss) income attributable to common stockholders by the weighted-average shares of common stock outstanding during the period. A reconciliation of net (loss) income and weighted-average shares of common stock outstanding for purposes of calculating diluted net (loss) income per share (in thousands, except per share amounts) follows:

	Three Months Ended		Nine Months Ended		
	September 30, 2016	2015	September 30, 2016	2015	
Net (loss) income	\$(1,659)	\$13,741	\$(5,825)	\$17,285	
Net income attributable to noncontrolling interests in subsidiaries	—	(3,493)	—	(5,414)	
Net (loss) income attributable to Stratus common stockholders	\$(1,659)	\$10,248	\$(5,825)	\$11,871	
Basic weighted-average shares of common stock outstanding	8,094	8,063	8,086	8,055	
Add shares issuable upon exercise or vesting of dilutive stock options and restricted stock units (RSUs)	—	a 31	b —	a 30	b
Diluted weighted-average shares of common stock outstanding	8,094	8,094	8,086	8,085	
Basic and diluted net (loss) income per share attributable to common stockholders	\$(0.20)	\$1.27	\$(0.72)	\$1.47	

a. Excludes approximately 124 thousand shares of common stock for both the third quarter and first nine months of 2016 associated with outstanding stock options with exercise prices less than the average market price of Stratus' common stock and RSUs that were anti-dilutive.

b. Excludes approximately 22 thousand shares of common stock for third-quarter 2015 and 28 thousand shares of common stock for the first nine months of 2015 associated with RSUs that were anti-dilutive.

3. FAIR VALUE MEASUREMENTS

Fair value accounting guidance includes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

The carrying value for certain Stratus financial instruments (i.e., cash and cash equivalents, restricted cash, accounts payable and accrued liabilities) approximates fair value because of their short-term nature and generally negligible credit losses.

A summary of the carrying amount and fair value of Stratus' other financial instruments follows (in thousands):

	September 30, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Interest rate cap agreement	\$ —	\$ —	\$ 1	\$ 1
Liabilities:				
Interest rate swap agreement	946	946	646	646
Debt	285,358	288,059	260,592	263,303

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Interest Rate Cap Agreement. On September 30, 2013, Stratus' joint venture with Canyon-Johnson Urban Fund II, L.P. (the Block 21 Joint Venture) paid \$0.5 million to enter into an interest rate cap agreement that expired on September 29, 2016 (see Note 5 of the 2015 Form 10-K for further discussion).

Interest Rate Swap Agreement. On December 13, 2013, Stratus' joint venture with LCHM Holdings, LLC, formerly Moffett Holdings, LLC, for the development of Parkside Village (the Parkside Village Joint Venture), entered into a 10-year interest rate swap agreement with Comerica Bank that Stratus had designated as a cash flow hedge with changes in fair value of the instrument recorded in other comprehensive income (loss). The instrument effectively converted the variable rate portion of the Parkside Village Joint Venture's loan from Comerica Bank (the Parkside Village loan) from the one-month London Interbank Offered Rate (LIBOR) to a fixed rate of 2.3 percent. In connection with the sale of the Parkside Village property on July 2, 2015, Stratus fully repaid the amount outstanding under the Parkside Village loan. Stratus assumed the interest rate swap agreement and, as a result, the instrument no longer qualifies for hedge accounting. Accordingly, the accumulated other comprehensive loss balance of \$0.6 million on July 2, 2015, was reclassified to the Consolidated Statement of Operations as a loss on interest rate derivative instruments, and changes in the fair value of the instrument are being recorded in the Consolidated Statement of Operations (including a gain of \$0.2 million in third-quarter 2016 and a loss of \$0.3 million for the first nine months of 2016). Stratus also evaluated the counterparty credit risk associated with the interest rate swap agreement, which is considered a Level 3 input, but did not consider such risk to be significant. Therefore, the interest rate swap agreement is classified within Level 2 of the fair value hierarchy.

Debt. Stratus' debt is recorded at cost and is not actively traded. Fair value is estimated based on discounted future expected cash flows at estimated current market interest rates. Accordingly, Stratus' debt is classified within Level 2 of the fair value hierarchy. The fair value of debt does not represent the amounts that will ultimately be paid upon the maturities of the loans.

4. DEBT

The components of Stratus' debt are as follows:

	September 30, 2016	December 31, 2015
Goldman Sachs loan	\$ 147,490	\$—
Bank of America loan (BoA loan)	—	128,230
Lakeway construction loan	53,556	45,931
Comerica credit facility	38,029	53,149
Santal construction loan	30,012	15,874
Diversified Real Asset Income Fund (DRAIF) term loan	7,998	7,993
Barton Creek Village term loan	5,590	5,689
Amarra Drive credit facility	2,683	—
Magnolia loan	—	^a 3,726
Total debt ^b	\$ 285,358	\$ 260,592

a. The term loan with Holliday Fenoglio Fowler, L.P. was paid during third-quarter 2016.

b. Includes net reductions for unamortized debt issuance costs of \$2.4 million at September 30, 2016, and \$2.5 million at December 31, 2015. See Note 7 for a discussion of a change in presentation of debt issuance costs.

On January 5, 2016, Stratus completed the refinancing of the W Austin Hotel & Residences. Goldman Sachs Mortgage Company provided a \$150.0 million, ten-year, non-recourse term loan (the Goldman Sachs loan) with a fixed interest rate of 5.58 percent per annum and payable monthly based on a 30-year amortization. Stratus used the proceeds from the Goldman Sachs loan to fully repay its existing obligations under the BoA loan and the \$20.0 million Comerica term loan included as part of the Comerica credit facility. In connection with prepayment of the

BoA loan, Stratus recorded a loss on early extinguishment of debt totaling \$0.8 million.

The obligations of Stratus Block 21, LLC (Block 21), a wholly-owned subsidiary of Stratus and borrower under the Goldman Sachs loan, are secured by all assets owned from time to time by Block 21. Additionally, certain obligations of Block 21 under the Goldman Sachs loan are guaranteed by Stratus, including environmental indemnification and other customary carve-out obligations. In connection with any acceleration of the Goldman Sachs loan, Block 21 must pay a yield maintenance premium in the amount of at least three percent of the amount of indebtedness prepaid. Prepayment of the Goldman Sachs loan is not permitted except (1) for certain prepayments resulting from casualty or condemnation and (2) in whole within 90 days of the maturity date.

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On July 12, 2016, a Stratus subsidiary entered into an \$8.0 million stand-alone revolving credit facility with Comerica Bank (the Amarra Drive credit facility). The proceeds of the Amarra Drive credit facility will be used for the construction of single family townhomes and related improvements at the Amarra Villas. Interest on the loan is variable at LIBOR plus 3.0 percent. The Amarra Drive credit facility matures on July 12, 2019, and is secured by assets at Stratus' 20-unit Villas at Amarra Drive townhome project (the Amarra Villas), which had a net book value of \$8.2 million at September 30, 2016. The Amarra Drive credit facility is guaranteed by Stratus and contains financial covenants including a requirement that Stratus maintain a minimum total stockholders' equity balance of \$110.0 million. Principal paydowns will be made as townhomes sell, and additional amounts will be borrowed as additional townhomes are constructed. As of October 31, 2016, Stratus had \$2.9 million outstanding under the Amarra Drive credit facility.

On August 5, 2016, a Stratus subsidiary entered into a \$9.9 million construction loan agreement with Southside Bank (the West Killeen Market loan). The proceeds of the West Killeen Market loan will be used for the construction of the West Killeen Market project. Stratus will make an initial draw on the West Killeen Market loan after certain site improvements have been completed. Interest on the loan will be variable at one-month LIBOR plus 2.75 percent, with a minimum interest rate of 3.0 percent. Payments of interest only will be made monthly during the initial 42 months of the 72-month term, followed by 30 months of monthly principal and interest payments based on a 30-year amortization. Borrowings on the West Killeen Market loan will be secured by assets at Stratus' West Killeen Market retail project in Killeen, Texas, which had a net book value of \$4.1 million at September 30, 2016, and will be guaranteed by Stratus until construction is completed and certain debt service coverage ratios are met.

On August 12, 2016, the Comerica credit facility was amended to allow Stratus and certain of its wholly owned subsidiaries to use the \$7.5 million letters of credit tranche to fund Stratus' working capital needs, including land acquisitions; however, without prior approval from Comerica, individual land acquisitions may not exceed \$3.0 million. All amounts borrowed under the letters of credit tranche to fund working capital needs pursuant to the amendment must be repaid in full by March 31, 2017, at which point the amendment will terminate.

For a description of Stratus' other loans, refer to Note 7 in the Stratus 2015 Form 10-K.

Interest Expense and Capitalization. Interest expense (before capitalized interest) totaled \$4.1 million for third-quarter 2016, \$2.2 million for third-quarter 2015, \$11.7 million for the first nine months of 2016 and \$6.8 million for the first nine months of 2015. Stratus' capitalized interest costs totaled \$1.5 million for third-quarter 2016, \$1.4 million for third-quarter 2015, \$4.8 million for the first nine months of 2016 and \$4.1 million for the first nine months of 2015. Capitalized interest costs for the 2016 and 2015 periods primarily related to development activities at Barton Creek and The Oaks at Lakeway.

5. INCOME TAXES

Stratus' accounting policy for and other information regarding its income taxes is further described in Notes 1 and 8 in the Stratus 2015 Form 10-K.

Stratus had deferred tax assets (net of deferred tax liabilities) totaling \$28.2 million at September 30, 2016, and \$15.3 million at December 31, 2015. The increase in deferred tax assets of \$12.8 million in 2016 is primarily associated with the anticipated closing of the sale of The Oaks at Lakeway in fourth-quarter 2016, which is expected to result in a current taxable gain which would be deferred under generally accepted accounting principles in the United States. Stratus' income tax benefit for the third quarter of 2016 includes current income tax expense of \$12.5 million offset by a deferred tax benefit of \$12.8 million. Stratus' future results of operations may be negatively impacted by an inability to realize a tax benefit for future tax losses or for items that will generate additional deferred tax assets.

The difference between Stratus' consolidated effective income tax rate for the first nine months of 2016, and the U.S. Federal statutory income tax rate of 35 percent, was primarily attributable to the state margin tax. The difference between Stratus' consolidated effective income tax rate for the first nine months of 2015, and the U.S. Federal statutory income tax rate of 35 percent, was primarily attributable to the state margin tax partially offset by the tax effect of income attributable to noncontrolling interests.

6. BUSINESS SEGMENTS

Stratus currently has four operating segments: Hotel, Entertainment, Commercial Leasing and Real Estate Operations.

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The Hotel segment includes the W Austin Hotel located at the W Austin Hotel & Residences.

The Entertainment segment includes ACL Live, a live music and entertainment venue and production studio at the W Austin Hotel & Residences. In addition to hosting concerts and private events, this venue is the home of Austin City Limits, a television program showcasing popular music legends. The Entertainment segment also includes revenues and costs associated with events hosted at other venues, including the recently opened 3TEN ACL Live, which opened in March 2016 on the site of the W Austin Hotel & Residences, and the results of the Stageside Productions joint venture with Pedernales Entertainment LLC (see Note 2 in the Stratus 2015 Form 10-K for further discussion).

The Commercial Leasing segment includes the office and retail space at the W Austin Hotel & Residences, a retail building and a bank building in Barton Creek Village, a retail property at The Oaks at Lakeway and the Santal multi-family project. On July 2, 2015, Stratus completed the sales of the Parkside Village and 5700 Slaughter properties, which were included in the Commercial Leasing segment.

The Real Estate Operations segment is comprised of Stratus' real estate assets (developed, under development and available for development), which consists of its properties in Austin, Texas (the Barton Creek community, the Circle C community, Lantana and the condominium units at the W Austin Hotel & Residences); in Lakeway, Texas (The Oaks at Lakeway) located in the greater Austin area; in Magnolia, Texas located in the greater Houston area; and in Killeen, Texas (The West Killeen Market).

Stratus uses operating income or loss to measure the performance of each segment. General and administrative expenses primarily consist of employee salaries, wages and other costs, and beginning January 1, 2016, are managed on a consolidated basis and are not allocated to Stratus' operating segments. The segment disclosures for the 2015 periods have been recast to be consistent with the presentation of general and administrative expenses in the 2016 periods. The following segment information reflects management determinations that may not be indicative of what the actual financial performance of each segment would be if it were an independent entity.

Segment data presented below were prepared on the same basis as Stratus' consolidated financial statements (in thousands).

	Hotel	Entertainment	Commercial Leasing ^a	Real Estate Operations ^b	Corporate, Eliminations and Other ^c	Total
Three Months Ended September 30, 2016:						
Revenues:						
Unaffiliated customers	\$ 8,268	\$ 4,190	\$ 2,567	\$ 6,155	\$ —	\$ 21,180
Intersegment	60	6	203	8	(277)	—
Cost of sales, excluding depreciation	6,893	3,837	1,398	4,076	(135)	16,069
Depreciation	873	378	920	55	(37)	2,189
General and administrative expenses	—	—	—	—	2,497	^d 2,497
Operating income (loss)	\$ 562	\$ (19)	\$ 452	\$ 2,032	\$ (2,602)	\$ 425
Capital expenditures ^e	\$ 16	\$ (16)	\$ 2,385	\$ 3,290	\$ —	\$ 5,675
Municipal utility district (MUD) reimbursements	—	—	—	12,302	—	12,302
Total assets at September 30, 2016	104,674	38,240	119,968	171,465	23,502	457,849
Three Months Ended September 30, 2015:						
Revenues:						
Unaffiliated customers	\$ 8,521	\$ 4,159	\$ 787	\$ 6,210	\$ —	\$ 19,677
Intersegment	76	22	134	8	(240)	—

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Cost of sales, excluding depreciation	6,792	3,493	524	4,458	(87)	15,180
Depreciation	1,494	323	222	58	(34)	2,063
General and administrative expenses	—	—	—	—	2,187	2,187
Gain on sales of assets	—	—	(20,729)	—	—	(20,729)
Operating income (loss)	\$ 311	\$ 365	\$ 20,904	\$ 1,702	\$(2,306)	\$ 20,976
Capital expenditures ^e	\$ 241	\$ 52	\$ 20,350	\$ 4,888	\$—	\$ 25,531
MUD reimbursements	—	—	—	5,307	—	5,307
Total assets at September 30, 2015	108,877	49,039	26,522	231,228	11,704	427,370

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	Hotel	Entertainment	Commercial Leasing ^a	Real Estate Operations ^b	Eliminations and Other ^c	Total
Nine Months Ended September 30, 2016:						
Revenues:						
Unaffiliated customers	\$29,501	\$ 13,236	\$ 6,761	\$ 9,858	\$ —	\$59,356
Intersegment	220	90	564	24	(898)	—
Cost of sales, excluding depreciation	22,322	10,869	3,319	8,174	(436)	44,248
Depreciation	2,570	1,084	2,162	169	(131)	5,854
General and administrative expenses	—	—	—	—	9,718	^d 9,718
Operating income (loss)	\$4,829	\$ 1,373	\$ 1,844	\$ 1,539	\$ (10,049)	\$(464)
Capital expenditures ^e	\$277	\$ 263	\$ 24,280	\$ 10,919	\$ —	\$35,739
MUD reimbursements	—	—	—	12,302	—	12,302

Nine Months Ended September 30, 2015:

Revenues:

Unaffiliated customers	\$31,194	\$13,463	\$4,311	\$10,920	\$—	\$59,888
Intersegment	217	124	386	58	(785)	—
Cost of sales, excluding depreciation	23,247	10,666	2,274	8,580	(298)	44,469
Depreciation	4,484	965	1,190	183	(109)	6,713
General and administrative expenses	—	—	—	—	6,308	6,308
Gain on sales of assets	—	—	(20,729)	—	—	(20,729)
Operating income (loss)	\$3,680	\$1,956	\$21,962	\$2,215	\$(6,686)	\$23,127
Income from discontinued operations ^f	\$—	\$—	\$3,218	\$—	\$—	\$3,218
Capital expenditures ^e	689	121	36,573	20,591	—	57,974
MUD reimbursements	—	—	—	5,307	—	5,307

a. Includes the results of the Parkside Village and 5700 Slaughter commercial properties through July 2, 2015.

b. Includes sales commissions and other revenues together with related expenses.

c. Includes consolidated general and administrative expenses and eliminations of intersegment amounts.

d. General and administrative costs were higher in the third quarter and first nine months of 2016, compared with the third quarter and first nine months of 2015, primarily reflecting higher legal and consulting fees mainly due to \$0.3 million in third-quarter 2016 and \$2.8 million for the first nine months of 2016 associated with Stratus' successful proxy contest.

e. Also includes purchases and development of residential real estate held for sale.

f. Represents a deferred gain, net of taxes, associated with the 2012 sale of 7500 Rialto that was recognized in first-quarter 2015.

7. NEW ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board (FASB) issued an Accounting Standard Update (ASU) that provides a single comprehensive revenue recognition model, which will replace most existing revenue recognition guidance, and also requires expanded disclosures. The core principle of the model is that revenue is recognized when control of goods or services has been transferred to customers at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. For public entities, this ASU is effective for annual reporting periods beginning after December 15, 2017 (following the FASB's August 2015 ASU providing for a one-year deferral of the effective date), and interim reporting periods within that reporting period. Early adoption is permitted for annual reporting periods beginning after December 15, 2016, and interim reporting periods within that reporting period. This ASU may be applied either retrospectively to each period presented or prospectively as a cumulative-effect adjustment as of the date of adoption. Stratus is currently evaluating the impact of the new guidance

on its financial reporting and disclosures, but at this time does not expect the adoption of this ASU to have a material impact on its financial statements.

In April and August 2015, the FASB issued ASUs to simplify the presentation of debt issuance costs. These ASUs require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Stratus adopted these ASUs on January 1, 2016, and retrospectively adjusted its previously issued financial statements. Upon adoption, Stratus adjusted its December 31, 2015, balance sheet by decreasing other assets and long-term debt by \$2.5 million for debt issuance costs related to corresponding debt balances. Stratus elected to continue presenting debt issuance

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costs for its revolving credit facility as a deferred charge (asset) because of the volatility of its borrowings and repayments under the facility.

In January 2016, the FASB issued an ASU that amends the current guidance on the classification and measurement of financial instruments. This ASU makes limited changes to existing guidance and amends certain disclosure requirements. For public entities, this ASU is effective for interim and annual periods beginning after December 15, 2017. Early adoption is not permitted, except for the provision on recording fair value changes for financial liabilities under the fair value option. Stratus is currently evaluating the impact this ASU will have on its financial reporting and disclosures, but at this time does not expect the adoption of this ASU will have a material impact on its financial statements.

In February 2016, the FASB issued an ASU that will require lessees to recognize most leases on the balance sheet. This ASU allows lessees to make an accounting policy election to not recognize a lease asset and liability for leases with a term of 12 months or less and that do not have a purchase option that is expected to be exercised. For public entities, this ASU is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. This ASU must be applied using the modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. Stratus is currently evaluating the impact this guidance will have on its financial statements.

In March 2016, the FASB issued an ASU that simplifies various aspects of the accounting for share-based payment transactions, including the income tax consequences, statutory tax withholding requirements, an accounting policy election for forfeitures and the classification on the statement of cash flows. For public entities, this ASU is effective for interim and annual periods beginning after December 15, 2016, with early adoption permitted. Each of the amendments in this ASU provides specific transition requirements. Stratus is currently evaluating the impact this guidance will have on its financial statements.

8. SUBSEQUENT EVENTS

On October 4, 2016, Stratus entered into an agreement to sell The Oaks at Lakeway to TA Realty, LLC (TA Realty) for \$114.0 million in cash. The sales agreement provides for a closing in fourth-quarter 2016, subject to the satisfaction or waiver of a number of significant conditions, in addition to customary closing conditions. As a condition to closing, the parties are required to enter into three master lease agreements: (1) one covering unleased in-line retail space, with a five-year term, (2) one covering four unleased pad sites, three of which have 10-year terms, and one of which has a 15-year term, and (3) one covering the hotel pad with a 99-year term. Stratus projects that, as of the closing, its master lease rent obligation will approximate \$190,000 per month and will decline over time until leasing is complete and all leases are assigned to the purchaser, which is projected to occur by December 2018. Stratus expects pre-tax net cash proceeds at closing to approximate \$50.0 million and expects to use these projected net cash proceeds to pay indebtedness outstanding under its revolving line of credit and its term loan with DRAIF, which would result in Stratus having substantially no debt outstanding except for other project-specific debt. Stratus has agreed to guarantee the obligations of its selling subsidiary under the purchase agreement, up to a liability cap of two percent of the purchase price. This cap does not apply to Stratus' obligation to satisfy the selling subsidiary's indemnity obligations for its broker commissions or similar compensation or Stratus' liability in guaranteeing the selling subsidiary's obligations under the master leases to be entered into with TA Realty at closing. To secure its obligations under the master leases, Stratus is required to provide a \$1.5 million irrevocable letter of credit with a three-year term.

The accompanying unaudited consolidated balance sheets include the following balances associated with The Oaks at Lakeway (in thousands):

	September	December
	30, 2016	31, 2015

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Real estate under development	\$ 19,953	\$ 28,839
Real estate held for investment, net	51,996	35,866
Other assets	3,671	1,782
Accrued liabilities, including taxes	5,644	549
Debt	53,556	45,931
Other liabilities	748	442

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

In Management's Discussion and Analysis of Financial Condition and Results of Operations, "we," "us," "our" and "Stratus" refer to Stratus Properties Inc. and all entities owned or controlled by Stratus Properties Inc. You should read the following discussion in conjunction with our financial statements, the related Management's Discussion and Analysis of Financial Condition and Results of Operations and the discussion of our business and properties included in our Annual Report on Form 10-K for the year ended December 31, 2015 (2015 Form 10-K) filed with the United States Securities and Exchange Commission (SEC). The results of operations reported and summarized below are not necessarily indicative of future operating results, and future results could differ materially from those anticipated in forward-looking statements (refer to "Cautionary Statement" for further discussion). All subsequent references to "Notes" refer to Notes to Consolidated Financial Statements (Unaudited) located in Part I, Item 1. "Financial Statements" of this Form 10-Q, unless otherwise stated.

We are a diversified real estate company engaged primarily in the acquisition, entitlement, development, management, operation and sale of commercial, hotel, entertainment, and multi- and single-family residential real estate properties, primarily located in the Austin, Texas area, but including projects in certain other select markets in Texas. We generate revenues from sales of developed properties, from our hotel and entertainment operations and from rental income from our commercial properties. See Note 6 for further discussion of our operating segments.

Sale of The Oaks at Lakeway. In October 2016, we entered into a sales agreement with TA Realty, LLC (TA Realty) to sell The Oaks at Lakeway for \$114.0 million in cash. The sale is in accordance with our five-year plan, and we believe it provides strong evidence of the value created by our five-year plan strategy, including our grocery-anchored retail development program. While we have a number of steps to complete before closing, we believe the sale remains on track to close in December 2016.

The Oaks at Lakeway is a HEB Grocery Company, L.P. (HEB)-anchored retail project planned for 236,739 square feet of commercial space and is located in Lakeway, Texas in the Lake Travis community. The project, the tracts for which we acquired between May 2013 and September 2014, is 100 percent owned by Stratus. The sale does not include approximately 34.7 acres of undeveloped property in the back portion of the development, which is zoned for residential, hotel and civic uses.

We expect pre-tax net cash proceeds at closing to approximate \$50.0 million, after payment of estimated transaction expenses, a net profits participation payment due to HEB, and payoff of the projected balance of the related construction loan. We expect to use these projected net cash proceeds to pay indebtedness outstanding under our Comerica credit facility and Diversified Real Asset Income Fund (DRAIF) term loan, which would result in Stratus having substantially no debt outstanding except for other project-specific debt.

We have agreed to guarantee the obligations of our selling subsidiary under the purchase agreement, up to a liability cap of two percent of the purchase price. This cap does not apply to our obligation to satisfy the selling subsidiary's indemnity obligations for its broker commissions or similar compensation or our liability in guaranteeing the selling subsidiary's obligations under master leases to be entered into with TA Realty at closing, which are described below.

The transaction is expected to close on December 15, 2016, subject to the satisfaction or waiver of closing conditions. The purchase agreement is subject to a 45-day inspection period (which expires on November 18, 2016) during which TA Realty can terminate the purchase agreement in its sole discretion, and is conditioned on HEB agreeing to a specified amendment to its lease, which HEB may grant in its sole discretion. The purchase agreement also contains

representations, warranties, covenants, closing conditions, and termination provisions customary for transactions of this type.

Additionally, as a condition to closing, our selling subsidiary is required to enter into three master lease agreements with TA Realty: (1) one covering unleased in-line retail space, with a five-year term, (2) one covering four unleased pad sites, three of which have 10-year terms, and one of which has a 15-year term, and (3) one covering the hotel pad with a 99-year term. The hotel pad is currently leased and the master hotel lease will become effective only if the current hotel lessee defaults prior to completion of the hotel. As specified conditions are met, primarily consisting of the tenant executing a lease, commencing payment of rent and taking occupancy, leases will be assigned to TA Realty and the corresponding property will be removed from the master lease, reducing our selling

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subsidiary's master lease payment obligation. We project that, as of the closing, our master lease payment obligation will approximate \$190,000 per month and will decline over time until leasing is complete and all leases are assigned to TA Realty, which is projected to occur by December 2018. To secure our obligations under the master leases, we are required to provide a \$1.5 million irrevocable letter of credit with a three-year term.

With respect to the master leases, if we are not successful in leasing unleased space as projected, or tenants currently paying rent default prior to their leases being assigned to TA Realty, our selling subsidiary would be responsible for the attributable lease payments to TA Realty through the earlier of (1) the time alternative lease arrangements can be made and the lease is assigned to TA Realty and (2) the end of the term of the applicable master lease.

In the event of a default by TA Realty after the 45-day inspection period, earnest money of \$5.0 million would be delivered to us as liquidated damages in full satisfaction of our claims against TA Realty for the default.

General. Developed property sales can include an individual tract of land that has been developed and permitted for residential use, a developed lot with a home already built on it or condominium units at the W Austin Hotel & Residences. We may sell properties under development, undeveloped properties or commercial properties, if opportunities arise that we believe will maximize overall asset values as part of our business plan. See "Business Strategy and Related Risks" below.

The number of developed lots/units, acreage under development and undeveloped acreage as of September 30, 2016, that comprise our real estate development operations are presented in the following table.

	Developed Lots/Units	Acreage Under Development			Undeveloped			Total	Total Acreage
		Multi- family	Commercial	Total	Single family	Multi-family	Commercial		
Austin:									
Barton Creek	298	38	—	38	512	289	398	1,199	1,237
Circle C	13	—	—	—	—	36	216	252	252
Lantana	—	—	—	—	—	—	56	56	56
W Austin Residences	2	—	—	—	—	—	—	—	—
The Oaks at Lakeway	—	—	87	87	—	—	—	—	87
Magnolia	—	—	—	—	—	—	124	124	124
West Killeen Market	—	—	9	9	—	—	—	—	9
San Antonio:									
Camino Real	—	—	—	—	—	—	2	2	2
Total	313	38	96	134	512	325	796	1,633	1,767

Our residential holdings at September 30, 2016, are principally in southwest Austin, Texas, and include developed lots at Barton Creek and the Circle C community, and condominium units at the W Austin Hotel & Residences. See "Development Activities - Residential" for further discussion. Our commercial holdings at September 30, 2016, consist of the office and retail space at the W Austin Hotel & Residences, the first phase of Barton Creek Village, The Oaks at Lakeway and the first phase of the Santal multi-family project. See "Sale of The Oaks at Lakeway" above, and "Development Activities - Commercial" for further discussion.

The W Austin Hotel & Residences is located on a two-acre city block in downtown Austin and contains a 251-room luxury hotel, 159 residential condominium units (of which the remaining two unsold units were being marketed as of September 30, 2016), and office, retail and entertainment space. The hotel is managed by Starwood Hotels & Resorts Worldwide, Inc. The entertainment space, occupied by Austin City Limits Live at the Moody Theater (ACL Live),

includes a live music and entertainment venue and production studio. Our 3TEN ACL Live venue, which is located on the site of the W Austin Hotel & Residences, opened in March 2016. The 3TEN ACL Live venue has a capacity of approximately 350 people and is designed to be more intimate than ACL Live, which can accommodate approximately 3,000 people.

For third-quarter 2016, our revenues increased to \$21.2 million and our net loss attributable to common stockholders totaled \$1.7 million, compared with revenues of \$19.7 million and net income attributable to common stockholders of \$10.2 million for third-quarter 2015. The increase in revenues in third-quarter 2016 primarily reflects

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increased commercial leasing revenue relating to The Oaks at Lakeway and Santal, partially offset by lower room revenues from the W Austin Hotel. For the first nine months of 2016, our revenues were \$59.4 million and our net loss attributable to common stockholders totaled \$5.8 million, compared with revenues of \$59.9 million and net income attributable to common stockholders of \$11.9 million for the first nine months of 2015. The slight decrease in revenues for the first nine months of 2016, compared with the first nine months of 2015, primarily reflects decreased revenue from the W Austin Hotel and lower lot sales, partially offset by increased commercial leasing revenue relating to The Oaks at Lakeway and Santal. The results for the first nine months of 2016 also reflect an increase in general and administrative expenses primarily due to costs of \$2.8 million associated with our successful proxy contest, and higher interest expense. Higher interest expense reflects increased borrowings and higher interest rates associated with our refinancing of the W Austin Hotel & Residences and construction loans to support our development projects. In January 2016, we refinanced debt associated with our wholly owned W Austin Hotel & Residences with longer-term, fixed-rate debt, and reported a loss on early extinguishment of debt totaling \$0.8 million (\$0.5 million to net loss attributable to common stockholders) for the first nine months of 2016.

The results for the third quarter and first nine months of 2015 included a gain of \$20.7 million (\$10.8 million to net income attributable to common stockholders) on the sales of Parkside Village and 5700 Slaughter, and reductions of \$3.5 million and \$5.4 million, respectively, for net income attributable to noncontrolling interests in subsidiaries relating to our former joint venture partner's interest in the W Austin Hotel & Residences. The first nine months of 2015 also included the recognition of a deferred gain associated with the 2012 sale of 7500 Rialto totaling \$5.0 million (\$3.2 million to net income attributable to common stockholders).

For discussion of operating cash flows and debt transactions, including our refinancing of the W Austin Hotel & Residences, see "Capital Resources and Liquidity" below.

BUSINESS STRATEGY AND RELATED RISKS

Our overall strategy has been to enhance the value of our properties by securing and maintaining development entitlements and developing and building real estate projects on these properties for sale or investment. We have also pursued opportunities for new projects that offer the possibility of acceptable returns and risks. In March 2015, we announced that our board of directors had unanimously approved a five-year plan to create value for stockholders by methodically developing certain existing assets and strategically marketing other assets for sale at appropriate values. Under the plan, any future new projects will be complementary to existing operations and will be projected to be developed and sold within a five-year time frame. Consistent with our five-year plan, on July 2, 2015, we completed the sales of our Austin-area Parkside Village and 5700 Slaughter commercial properties, both located in the Circle C community, for \$32.5 million and \$12.5 million, respectively. As discussed above in "Overview - Sale of The Oaks at Lakeway," we have entered into an agreement to sell The Oaks at Lakeway for \$114.0 million in cash. In addition, we continue to market our completed single-family homesites, have more than 55 percent of the first phase of our Santal multi-family units leased, have secured permits for the second phase of the Santal multi-family project, and continue to progress our development projects and plans, including additional HEB-anchored projects.

In April 2016, we announced that our board of directors authorized management to explore a full range of strategic alternatives to enhance value for our stockholders, including, but not limited to, a sale of Stratus, a sale of certain of our core assets, a share repurchase program, and continuing our long-term plans to develop the value of our properties. After conducting a thorough process of evaluating several financial advisors, we engaged Hentschel & Company, a premier boutique investment banking advisory firm focused on the real estate industry, as financial advisor in connection with the review of strategic alternatives. The board of directors has not set a definitive timeline for completion of this review process and has not determined to enter into any transaction. There can be no assurance that this process will result in any change to the previously announced five-year plan, a sale transaction or any other

transaction. We do not intend to comment further or to disclose developments regarding the process until such time as our board of directors has determined the outcome of the process or otherwise determines that further disclosure is appropriate.

We believe that the Austin and surrounding sub-markets continue to be desirable. Many of our developments are in locations where development approvals have historically been subject to regulatory constraints, which has made it difficult to obtain entitlements. Our Austin assets, which are located in desirable areas with significant regulatory constraints, are highly entitled and now have utility capacity for full buildout. As a result, we believe that through strategic planning, development and marketing, as provided in our five-year plan, we can maximize and fully realize

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their value. Our development plans require significant additional capital, and may be pursued through joint ventures or other means. In addition, our strategy is subject to continued review by our board of directors and may change as a result of the outcome of our recently-announced review of strategic alternatives, market conditions or other factors deemed relevant by our board of directors.

In years past, economic conditions, including the constrained capital and credit markets, negatively affected the execution of our business plan, primarily by decreasing our pace of development to match economic and market conditions. We responded to these conditions by successfully restructuring our existing debt, including reducing interest rates and extending maturities, which enabled us to preserve our development opportunities until market conditions improved. Economic conditions have improved, and we believe we have the financial flexibility to fully exploit our development opportunities and resources in accordance with our five-year plan. During the first nine months of 2016, our operating cash flows reflect purchases and development of real estate properties totaling \$10.9 million, funded primarily from construction and term loans, to invest in new development opportunities to be executed over the next 24 months. As of September 30, 2016, we had \$12.2 million of availability under our credit facility with Comerica Bank, which matures in August 2017.

Although as of September 30, 2016, we have scheduled debt maturities of \$8.7 million occurring in fourth-quarter 2016 and \$40.6 million in 2017, and significant recurring costs, including property taxes, maintenance and marketing, we believe we will have sufficient sources of debt financing and cash from operations to address our cash requirements. See "Capital Resources and Liquidity" below regarding recent debt repayments and refinancing and "Risk Factors" included in Part 1, Item 1A. of our 2015 Form 10-K for further discussion.

DEVELOPMENT ACTIVITIES

Residential. As of September 30, 2016, the number of our residential developed lots/units, lots under development and lots for potential development by area are shown below:

	Residential Lots/Units			
	Developed	Under Development	Potential Development ^a	Total
Barton Creek:				
Amarra Drive:				
Phase II Lots	13	—	—	13
Phase III Lots	49	—	—	49
Townhomes	—	20	170	190
Section N Multi-family				
Santal Multi-family	236	—	—	236
Other Section N	—	—	1,624	1,624
Other Barton Creek sections	—	—	156	156
Circle C:				
Meridian	13	—	—	13
Tract 101 Multi-family	—	—	240	240
Tract 102 Multi-family	—	—	56	56
Flores Street	—	—	6	6
W Austin Residences:				
Condominium units	2	—	—	2
Total Residential Lots/Units	313	20	2,252	2,585

a. Our development of the properties identified under the heading "Potential Development" is dependent upon the approval of our development plans and permits by governmental agencies, including the City of Austin (the City). Those governmental agencies may not approve one or more development plans and permit applications related to such properties or may require us to modify our development plans. Accordingly, our development strategy with

respect to those properties may change in the future. While we may be proceeding with approved infrastructure projects on some of these properties, they are not considered to be “under development” for disclosure in this table unless other development activities necessary to fully realize the properties’ intended final use are in progress or scheduled to commence in the near term.

Amarra Drive. Amarra Drive Phase II, which consists of 35 lots on 51 acres, was substantially completed in October 2008. During the first nine months of 2016, we sold one Phase II lot for \$0.6 million and as of September 30, 2016, 13 Phase II lots remained available for sale.

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In first-quarter 2015, we substantially completed the development of Amarra Drive Phase III, which consists of 64 lots on 166 acres. During the first nine months of 2016, we sold five Phase III lots for \$3.9 million and as of September 30, 2016, 49 Phase III lots remained available for sale. As of October 31, 2016, four Phase III lots were under contract.

The Villas at Amarra Drive townhome project is a 20-unit development for which we completed site work in late 2015. Construction of the first five of 20 townhomes commenced in March 2016 and is expected to be completed in early 2017. As of October 31, 2016, we are marketing these townhomes for sale. The townhomes average approximately 4,400 square feet and are being marketed as “lock and leave” properties, with golf course access and cart garages.

Section N. The Santal multi-family project, a garden-style apartment complex, was substantially completed in August 2016 and includes 236 apartment units. We began recognizing rental revenue, which is included in the Commercial Leasing segment, in January 2016. As of October 31, 2016, 131 units were leased. Permits for the second 212-unit phase have been secured.

Circle C. We are developing the Circle C community based on the entitlements secured in our Circle C settlement with the City. Our Circle C settlement, as amended in 2004, permits development of 1.16 million square feet of commercial space, 504 multi-family units and 830 single-family residential lots. Meridian is an 800-lot residential development at the Circle C community. Development of the final phase of Meridian, which consisted of 57 one-acre lots, was completed in first-quarter 2014. During the first nine months of 2016, we sold 18 Meridian lots for \$5.0 million and as of September 30, 2016, 13 lots remained available for sale. During October 2016, we sold one additional Meridian lot and as of October 31, 2016, one Meridian lot was under contract.

W Austin Residences. As of September 30, 2016, two condominium units remained available for sale and are being marketed.

Commercial. As of September 30, 2016, the number of square feet of our commercial property developed, under development and our remaining entitlements for potential development (excluding property associated with our unconsolidated joint venture with Trammell Crow Central Texas Development, Inc. relating to Crestview Station in Austin (the Crestview Station Joint Venture)) are shown below:

Commercial Property			
Under Developed Development	Potential Development ^a		Total

Barton Creek:
Treaty Oak Bank