Howard Hughes Corp
Form 10-Q
November 08, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

Commission file number 001-34856

THE HOWARD HUGHES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	36-4673192
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)

13355 Noel Road, 22nd Floor, Dallas, Texas 75240

(Address of principal executive offices, including zip code)

(214) 741-7744

(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	(Do not check if a smaller reporting company)	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

The number of shares of common stock, $0.01 par value, outstanding as of November 8, 2016 was 39,838,975.

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THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

UNAUDITED

(In thousands, except share amounts)	September 30, 2016	December 31, 2015
Assets:		
Investment in real estate:		
Master Planned Community assets	$ 1,660,523	$ 1,642,842
Land	314,400	322,462
Buildings and equipment	1,900,172	1,772,401
Less: accumulated depreciation	(242,034)	(232,969)
Developments	976,209	1,036,927
Net property and equipment	4,609,270	4,541,663
Investment in Real Estate and Other Affiliates	78,890	57,811
Net investment in real estate	4,688,160	4,599,474
Cash and cash equivalents	653,041	445,301
Accounts receivable, net	38,241	32,203
Municipal Utility District receivables, net	171,691	139,946
Notes receivable, net	69	1,664
Deferred expenses, net	64,053	61,804
Prepaid expenses and other assets, net	820,240	441,190
Property held for sale	34,888	—
Total assets	$ 6,470,383	$ 5,721,582
Liabilities:		
Mortgages, notes and loans payable	$ 2,847,002	$ 2,443,962
Deferred tax liabilities	156,882	89,221
Warrant liabilities	329,390	307,760
Uncertain tax position liability	19,987	1,396
Accounts payable and accrued expenses	603,237	515,354
Total liabilities	3,956,498	3,357,693
Commitments and Contingencies (see Note 15)		
Equity:		
Preferred stock: $.01 par value; 50,000,000 shares authorized, none issued	—	—
Common stock: $.01 par value; 150,000,000 shares authorized, 39,851,036 shares issued and 39,838,975 outstanding as of September 30, 2016 and 39,714,838 shares issued and outstanding as of December 31, 2015	398	398
Additional paid-in capital	2,856,335	2,847,823
Accumulated deficit	(321,507)	(480,215)
Accumulated other comprehensive loss	(23,818)	(7,889)
	(1,295)	—

Treasury stock, at cost, 12,061 and 0 shares as of September 30, 2016 and December 31, 2015, respectively		
Total stockholders' equity	2,510,113	2,360,117
Noncontrolling interests	3,772	3,772
Total equity	2,513,885	2,363,889
Total liabilities and equity	$ 6,470,383	$ 5,721,582

See Notes to Condensed Consolidated Financial Statements.

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THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

UNAUDITED

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share amounts)	2016	2015	2016	2015
Revenues:				
Condominium rights and unit sales	$ 115,407	$ 78,992	$ 362,613	$ 200,362
Master Planned Community land sales	44,128	45,423	147,168	138,937
Minimum rents	44,910	37,814	128,255	109,997
Builder price participation	4,483	6,680	15,631	20,285
Tenant recoveries	11,657	10,706	33,108	31,074
Hospitality revenues	14,088	11,772	46,126	35,256
Other land revenues	2,595	4,617	8,387	11,055
Other rental and property revenues	3,538	7,438	11,335	20,729
Total revenues	240,806	203,442	752,623	567,695
Expenses and other income:				
Condominium rights and unit cost of sales	83,218	47,573	237,759	126,747
Master Planned Community cost of sales	21,432	19,674	66,128	67,806
Master Planned Community operations	9,216	10,349	26,616	32,295
Other property operating costs	16,535	16,680	47,513	54,459
Rental property real estate taxes	7,033	6,908	21,110	19,676
Rental property maintenance costs	3,332	3,094	9,217	8,738
Hospitality costs	12,662	8,767	37,379	26,738
Provision for doubtful accounts	1,940	1,007	4,629	3,082
Demolition costs	256	1,024	1,218	2,637
Development-related marketing costs	4,716	7,639	15,586	19,476
General and administrative	21,128	18,526	61,505	57,095
Other (income) expense, net	(432)	659	(9,858)	(1,204)
Gain on sale of 80 South Street Assemblage	(70)	—	(140,549)	—
Depreciation and amortization	23,322	24,998	71,246	71,577
Provision for impairment	35,734	—	35,734	—
Total expenses, net of other income	240,022	166,898	485,233	489,122
Operating income	784	36,544	267,390	78,573
Interest income	196	109	900	516
Interest expense	(16,102)	(15,212)	(48,628)	(43,143)
Warrant liability (loss) gain	(7,300)	123,640	(21,630)	57,450
Gain on acquisition of joint venture partner's interest	27,087	—	27,087	—

Gain on sale of The Club at Carlton Woods	—	29,073	—	29,073
Equity in earnings from Real Estate and Other Affiliates	13,493	295	35,700	3,164
Income before taxes	18,158	174,449	260,819	125,633
Provision for income taxes	10,162	18,237	102,088	24,795
Net income	7,996	156,212	158,731	100,838
Net (income) loss attributable to noncontrolling interests	(23)	12	(23)	—
Net income attributable to common stockholders	$ 7,973	$ 156,224	$ 158,708	$ 100,838
Basic income per share:	$ 0.20	$ 3.96	$ 4.02	$ 2.55
Diluted income per share:	$ 0.19	$ 0.76	$ 3.72	$ 1.01

See Notes to Condensed Consolidated Financial Statements.

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THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

UNAUDITED

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2016	2015	2016	2015
Net income	$ 7,996	$ 156,212	$ 158,731	$ 100,838
Other comprehensive income (loss):				
Interest rate swaps (a)	497	(411)	(14,876)	297
Capitalized swap interest expense (b)	154	(42)	(163)	(154)
Pension adjustment (c)	(317)	—	(890)	—
Other comprehensive income (loss)	334	(453)	(15,929)	143
Comprehensive income	8,330	155,759	142,802	100,981
Comprehensive (income) loss attributable to noncontrolling interests	(23)	12	(23)	—
Comprehensive income attributable to common stockholders	$ 8,307	$ 155,771	$ 142,779	$ 100,981

(a) Amounts are shown net of deferred tax expense of $0.2 million and deferred tax benefit of $8.1 million for the three and nine months ended September 30, 2016, respectively. For the three and nine months ended September 30, 2015, amounts are shown net of deferred tax expense of $0.2 million and $0.8 million, respectively.

(b) Net of deferred tax expense of $0 and deferred tax benefit of $0.1 million for the three and nine months ended September 30, 2016, respectively. For both the three and nine months ended September 30, 2015, amounts shown net of deferred tax benefit of $0.1 million, respectively.

(c) Net of deferred tax benefit of $0.1 million and $0.5 million for the three and nine months ended September 30, 2016, respectively. For both the three and nine months ended September 30, 2015, amounts shown net of deferred tax benefit of $0, respectively.

See Notes to Condensed Consolidated Financial Statements.

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THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

UNAUDITED

	Common stock		Additional paid-in	Accumulated	Accumulated other comprehensive	Treasury stock		Nonc
(In thousands, except share amounts)	Shares	Amount	capital	deficit	income (loss)	Shares	Amount	intere
Balance, December 31, 2014	39,638,094	$ 396	$ 2,838,013	$ (606,934)	$ (7,712)	—	$ —	$ 3,7
Net income		—	—	100,838	—		—	—
Adjustment to noncontrolling interest		—	—	—	—		—	29
Interest rate swaps, net of tax of $800		—	—	—	297		—	—
Capitalized swap interest, net of tax benefit of $83		—	—	—	(154)		—	—
Stock plan activity	76,744	2	7,008	—	—		—	—
Balance, September 30, 2015	39,714,838	$ 398	$ 2,845,021	$ (506,096)	$ (7,569)	—	$ —	$ 3,7
Balance, December 31, 2015	39,714,838	$ 398	$ 2,847,823	$ (480,215)	$ (7,889)	—	$ —	$ 3,7
Net income		—	—	158,708	—		—	23
Preferred dividend payment on behalf of subsidiary								(23
Interest rate swaps, net of tax of $8,120		—	—	—	(14,876)		—	—
Pension adjustment, net of tax of $543		—	—	—	(890)		—	—
Capitalized swap interest, net of tax benefit of $88		—	—	—	(163)		—	—
Stock plan activity	136,198	—	8,512	—	—		—	—
Treasury stock activity		—	—	—	—	(12,061)	(1,295)	—

Balance, September 30, 2016	39,851,036	$ 398	$ 2,856,335	$ (321,507)	$ (23,818)	(12,061)	$ (1,295)	$ 3,7

See Notes to Condensed Consolidated Financial Statements.

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THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

	Nine Months Ended September 30,	
(In thousands)	2016	2015
Cash Flows from Operating Activities:		
Net income (loss)	$ 158,731	$ 100,838
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Depreciation	60,834	58,257
Amortization	10,412	13,320
Amortization of deferred financing costs	5,385	4,104
Amortization of intangibles other than in-place leases	(1,333)	679
Straight-line rent amortization	(6,668)	(3,255)
Deferred income taxes	102,088	23,065
Restricted stock and stock option amortization	6,324	5,269
Gain on disposition of assets	(140,549)	(29,073)
Gain on acquisition of partner's interest in Millennium Six Pines Apartments	(27,087)	—
Warrant liability loss (gain)	21,630	(57,450)
Equity in earnings from Real Estate and Other Affiliates, net of distributions	(21,952)	1,426
Provision for doubtful accounts	4,629	3,082
Master Planned Community land acquisitions	(69)	(6,028)
Master Planned Community development expenditures	(106,501)	(129,298)
Master Planned Community cost of sales	60,600	65,692
Condominium development expenditures	(245,547)	(137,369)
Condominium rights and unit cost of sales	237,759	126,747
Provision for impairment	35,734	—
Deferred rental income	—	37,472
Percentage of completion revenue recognition from sale of condominium rights and unit sales	(362,613)	(200,362)
Net changes:		
Accounts and notes receivable	(33)	(1,192)
Prepaid expenses and other assets	(753)	(9,838)
Condominium deposits received	440,076	52,001
Deferred expenses	(3,349)	(5,562)
Accounts payable and accrued expenses	(19,019)	39,065
Condominium deposits held in escrow	(440,076)	(52,001)
Condominium deposits released from escrow	17,574	132,086
Other, net	(4,533)	969
Cash provided by (used in) operating activities	(218,306)	32,644

Cash Flows from Investing Activities:		
Property and equipment expenditures	(8,649)	(9,505)
Operating property improvements	(12,184)	(5,856)
Property developments and redevelopments	(301,843)	(488,713)
Proceeds from grant to reimburse development costs	4,945	—
Proceeds from dispositions	378,257	25,139
Proceeds from insurance claims	3,107	—
Investment in KR Holdings, LLC	—	9,121
Acquisition of partner's interest in Millennium Six Pines Apartments (net of cash acquired)	(3,105)	—
Distributions from Real Estate and Other Affiliates	16,550	—
Note issued to Real Estate Affiliate	(25,000)	—
Proceeds from repayment of note to Real Estate Affiliate	25,000	—
Investments in Real Estate and Other Affiliates, net	(10,947)	(635)
Change in restricted cash	(215)	(1,568)
Other	—	1,263
Cash provided by (used in) investing activities	65,916	(470,754)
Cash Flows from Financing Activities:		
Proceeds from mortgages, notes and loans payable	422,661	370,342
Principal payments on mortgages, notes and loans payable	(62,996)	(40,066)
Special Improvement District bond funds held in escrow	6,258	—
Deferred financing costs	(4,678)	(1,970)
Taxes paid on vested restricted stock	(1,295)	—
Stock Options Exercised	180	—
Cash provided by financing activities	360,130	328,306
Net change in cash and cash equivalents	207,740	(109,804)
Cash and cash equivalents at beginning of period	445,301	560,451
Cash and cash equivalents at end of period	$ 653,041	$ 450,647

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THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

	Nine Months Ended September 30,	
(In thousands)	2016	2015
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 77,666	$ 60,805
Interest capitalized	46,198	35,237
Income taxes paid	6,234	2,593
Non-Cash Transactions:		
Special Improvement District bond transfers associated with land sales	5,528	2,114
Property developments and redevelopments	—	(15,747)
Accrued interest on construction loan borrowing	3,748	1,616
MPC Land contributed to Real Estate Affiliates	—	15,234
Special Improvement District bond transfer to Real Estate Affiliate	—	(1,518)
Capitalized stock compensation	2,008	2,072
Acquisition of Millennium Six Pines Apartments		
Land	(11,225)	—
Building	(54,492)	—
Other assets	(1,261)	—
Mortgages, notes and loans payable	37,700	—
Other liabilities	(913)	—

See Notes to Condensed Consolidated Financial Statements.

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THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 1 BASIS OF PRESENTATION AND ORGANIZATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), with intercompany transactions between consolidated subsidiaries eliminated. In accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as issued by the Securities and Exchange Commission (the "SEC"), these condensed consolidated financial statements do not include all of the information and disclosures required by GAAP for complete financial statements. Readers of this Quarterly Report on Form 10-Q ("Quarterly Report") should refer to The Howard Hughes Corporation's ("HHC" or the "Company") audited Consolidated Financial Statements, which are included in the Company's Annual Report on Form 10-K (the "Annual Report") for the fiscal year ended December 31, 2015, filed on February 29, 2016 with the SEC. Certain amounts in 2015 have been reclassified to conform to 2016 presentation. In the opinion of management, all normal recurring adjustments necessary for a fair presentation of the financial position, results of operations, comprehensive income (loss), cash flows and equity for the interim periods have been included. The results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ended December 31, 2016.

Management has evaluated for disclosure or recognition all material events occurring subsequent to the date of the condensed consolidated financial statements up to the date and time this Quarterly Report was filed.

NOTE 2 RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments." The standard addresses how certain cash receipts and payments are presented and classified in the statement of cash flows. The effective date of this standard is for fiscal years, and interim periods within those years, beginning after December 15, 2017 with early adoption permitted. We do not expect the adoption of this ASU to have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses." The standard modifies the impairment model for most financial assets, including trade accounts receivables and loans, and will require the use of an "expected loss" model for instruments measured at amortized cost. Under this model, entities will be required to estimate the lifetime expected credit loss on such instruments and record an allowance to offset the amortized cost basis of the financial asset, resulting in a net presentation of the amount expected to be collected on the financial asset. The effective date of the standard is for fiscal years, and for interim periods within those years, beginning after December 15, 2019 with early adoption permitted. We are currently evaluating the impact of adopting ASU 2016-13 on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting.” The standard amends several aspects of accounting for share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new guidance will require entities to recognize all income tax effects of awards in the income statement when the awards vest or are settled. It also will allow an employer to repurchase more of an employee’s shares for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. The effective date of this standard is for fiscal years, and interim periods within those years, beginning after December 15, 2016 with early adoption permitted. We are currently evaluating the impact of adopting ASU 2016-09 on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases.” ASU 2016-02, codified in Accounting Standards Codification (“ASC”) 842, amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The effective date of this standard is for fiscal years, and interim periods within those years, beginning after December 15, 2018 with early adoption permitted. The new Leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application. We are currently evaluating the impact of adopting ASU 2016-02 on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810) - Amendments to the Consolidation Analysis." The standard modifies whether: (1) fees paid to a decision maker or service provider represent a variable interest; (2) a limited partnership or similar entity has the characteristics of a variable interest entity ("VIE") per consolidation guidance in ASC 810-10-65; and (3) a reporting entity is the primary beneficiary of a VIE. The effective date of the standard is for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 for public companies. We adopted the standard as of January 1, 2016, and there was no impact on our consolidated financial statements.

In May 2014, the FASB and International Accounting Standards Board ("IASB") issued ASU 2014-09 "Revenues from Contracts with Customers (Topic 606)." The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The effective date of this standard is for fiscal years, and interim periods within those years, beginning after December 15, 2017 with early adoption permitted. Entities have the option of using either a full retrospective or a modified approach. Preliminary assessments of our revenue streams indicate that after adoption we will not be able to recognize revenue for condominium projects on a percentage of completion basis and generally revenue will be recognized when the units close and the title has transferred to the buyer. We are continuing to evaluate the new guidance to determine any other impacts on our consolidated financial statements, and we expect to select the implementation methodology by the filing of our annual report on 2016 Form 10-K.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements — Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." This ASU requires management to assess an entity's ability to continue as a going concern. The effective date of this standard is for fiscal years, and interim periods within those years, beginning after December 15, 2016 with early adoption permitted. We do not expect the adoption of this ASU to have an impact on our consolidated financial statements.

NOTE 3 SPONSOR AND MANAGEMENT WARRANTS

On November 9, 2010, we issued warrants to purchase shares of our common stock to certain of our sponsors (the "Sponsor Warrants"). The exercise price for the warrants of $50.00 per share and the number of shares of common stock underlying each warrant are subject to adjustment for future stock dividends, splits or reverse splits of our common stock or certain other events. The 1,916,667 of Sponsor Warrants outstanding are exercisable at any time and expire on November 9, 2017.

In November 2010 and February 2011, we entered into certain agreements (the “Management Warrants”) with David R. Weinreb, our Chief Executive Officer, Grant Herlitz, our President, and Andrew C. Richardson, our former Chief Financial Officer, in each case prior to his appointment to such position to purchase shares of our common stock. The Management Warrants represent 2,862,687 underlying shares, which may be adjusted pursuant to a net settlement option, were issued pursuant to such agreements at fair value in exchange for a combined total of approximately $19.0 million in cash from such executives at the commencement of their respective employment. Mr. Weinreb and Mr. Herlitz’s warrants have exercise prices of $42.23 per share and Mr. Richardson’s warrants have an exercise price of $54.50 per share. Generally, the Management Warrants become exercisable in November 2016 and expire in February 2018.

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THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

As of September 30, 2016, the estimated $124.3 million fair value for the Sponsor Warrants representing warrants to purchase 1,916,667 shares and the estimated $205.1 million fair value for the Management Warrants representing warrants to purchase 2,862,687 shares have been recorded as liabilities because the holders of these warrants could require us to settle such warrants in cash upon a change of control. The estimated fair values for the outstanding Sponsor Warrants and Management Warrants were $123.1 million and $184.7 million, respectively, as of December 31, 2015. The fair values were estimated using an option pricing model and Level 3 inputs due to the unavailability of comparable market data, as further discussed in Note 7 – Fair Value of Financial Instruments. Decreases and increases in the fair value of the Sponsor Warrants and the Management Warrants are recognized as either warrant liability gains or losses, respectively, in the condensed consolidated statements of operations.

On October 7, 2016, we entered into a management warrant agreement with our new Chief Financial Officer, David R. O'Reilly, prior to his appointment to the position. This warrant represents 50,125 underlying shares with an exercise price of $112.08 per share and was issued at fair value in exchange for $1.0 million in cash.

NOTE 4 EARNINGS PER SHARE

Basic earnings (loss) per share ("EPS") is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding. Diluted EPS is computed after adjusting the numerator and denominator of the basic EPS computation for the effects of all potentially dilutive common shares. The dilutive effect of options and nonvested stock issued under stock based compensation plans is computed using the "treasury stock" method. The dilutive effect of the Sponsor Warrants and Management Warrants is computed using the if converted method. Gains associated with the changes in the fair value of the Sponsor Warrants and Management Warrants are excluded from the numerator in computing diluted earnings per share because inclusion of such gains in the computation would be anti dilutive.

Information related to our EPS calculations is summarized as follows:

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share amounts)	2016	2015	2016	2015
Basic EPS:				
Numerator:				
Net income	$ 7,996	$ 156,212	$ 158,731	$ 100,838
Net (income) loss attributable to noncontrolling interests	(23)	12	(23)	—
Net income attributable to common stockholders	$ 7,973	$ 156,224	$ 158,708	$ 100,838
Denominator:				
Weighted average basic common shares outstanding	39,502	39,473	39,489	39,469
Diluted EPS:				
Numerator:				
Net income attributable to common stockholders	$ 7,973	$ 156,224	$ 158,708	$ 100,838
Less: Warrant liability gain	—	(123,640)	—	(57,450)
Adjusted net income attributable to common stockholders	$ 7,973	$ 32,584	$ 158,708	$ 43,388
Denominator:				
Weighted average basic common shares outstanding	39,502	39,473	39,489	39,469
Restricted stock and stock options	366	405	338	415
Warrants	2,892	3,035	2,892	3,035
Weighted average diluted common shares outstanding	42,760	42,913	42,719	42,919
Basic income per share:	$ 0.20	$ 3.96	$ 4.02	$ 2.55
Diluted income per share:	$ 0.19	$ 0.76	$ 3.72	$ 1.01

The diluted EPS computation for the three and nine months ended September 30, 2016 excludes 343,500 and 404,000 stock options, respectively, because their inclusion would have been anti-dilutive. The diluted EPS computation for the three and nine months ended September 30, 2016 excludes 153,781 shares of restricted stock, respectively, because performance conditions have not been met.

The diluted EPS computation for the three and nine months ended September 30, 2015 excludes 147,538 and 124,122 stock options, respectively, because their inclusion would have been anti-dilutive.

NOTE 5 RECENT TRANSACTIONS

On July 20, 2016, we acquired our joint venture partner's 18.57% interest in the 314-unit Millennium Six Pines Apartments (formerly known as Millennium Woodlands Phase II, LLC) for $4.0 million resulting in the dissolution of the joint venture. Simultaneously with the buyout, we replaced the joint venture's existing $37.7 million construction loan with a $42.5 million fixed rate loan at 3.39% maturing August 1, 2028. Total assets of $67.9 million and liabilities of $42.7 million, including the fixed rate loan noted above, were consolidated into our financial statements at fair value as of the acquisition date. In accordance with GAAP, we recognized a gain of $27.1 million in conjunction with this acquisition relating to the step-up to fair value of the assets acquired. Prior to the acquisition, we accounted for our investment in Millennium Six Pines Apartments under the equity method. We now own 100% of this Class A multi-family property located in The Woodlands Town Center. Included in the Consolidated Statements of Operations for the three and nine months ended September 30, 2016 are revenues of $1.1 million and a pre-tax net loss of $0.2 million since the acquisition date.

On June 1, 2016, the Circle T Ranch joint venture sold approximately 74 acres. Our financial results for the nine months ended September 30, 2016 reflect $10.5 million of pre-tax income on this transaction.

On March 16, 2016, we sold the 80 South Street Assemblage ("80 South Street") for net cash proceeds of $378.3 million, resulting in a pre-tax gain of $140.5 million. 80 South Street was comprised of a 42,694 square foot lot with certain air rights, providing total residential and commercial development rights of 817,784 square feet that had been acquired over the course of 2014 and 2015.

On September 4, 2015, the Company sold The Club at Carlton Woods, its 36-hole golf and country club in The Woodlands, for net cash proceeds of $25.1 million, and purchaser's assumption of net liabilities of $4.0 million, resulting in a pre-tax gain of $29.1 million. The property was comprised of total assets of $20.9 million and total liabilities of $24.9 million. The property was developed and operated by us as an amenity for selling residential lots in a gated community in The Woodlands. Most of the lots have been sold, and the sale of this asset allowed us to redeploy capital to our development activities.

NOTE 6 IMPAIRMENT

We review our real estate assets for potential impairment indicators whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. GAAP related to the impairment or disposal of long lived assets requires that if impairment indicators exist and expected undiscounted cash flows generated by the asset over our anticipated holding period are less than its carrying amount, an impairment provision should be recorded to write down the carrying amount of the asset to its fair value. The impairment analysis does not consider the timing of future cash flows and whether the asset is expected to earn an above or below market rate of return.

During the third quarter 2016, we implemented a plan to sell Park West, a 249,177 square foot open-air shopping, dining and entertainment destination in Peoria, Arizona that is one of our non-core operating assets. As of September 30, 2016, the property met the criteria to be classified as held for sale. Those criteria specify that the asset must be available for immediate sale in its present condition, sale of the asset must be probable and its transfer expect to qualify for recognition as a completed sale within one year. A sale will allow us to redeploy the net cash proceeds from this unleveraged asset into our existing developments. Consistent with prior financial statements where we noted that a decrease by 10% of the estimated undiscounted cash to be received from this property would result in an impairment, we have recognized a $35.7 million impairment charge due to our shorter anticipated holding period. The $34.9 million net carrying value of Park West, after the impairment, represents our best estimate of its current fair market value. There can be no assurance that we will ultimately recover this amount through a sale.

The following table summarizes our provision for impairment:

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Impaired Asset	Location	Method of Determining Fair Value	Provision for impairment as of September 30, 2016	2015
			(In thousands)	
Operating Assets:				
Park West	Peoria, AZ	Discounted cash flow analysis using capitalization rate of 6.75%	$ 35,734	$ —

Each investment in Real Estate and Other Affiliates as discussed in Note 8 – Real Estate and Other Affiliates is evaluated periodically for recoverability and valuation declines that are other-than-temporary. If the decrease in value of our investment in a Real Estate and Other Affiliate is deemed to be other-than-temporary, our investment in such Real Estate and Other Affiliate is reduced to its estimated fair value.

No impairment charges were recorded for any of our investments in Real Estate and Other Affiliates during the three and nine months ended September 30, 2016 or September 30, 2015.

NOTE 7 FAIR VALUE

ASC 820, Fair Value Measurement, emphasizes that fair value is a market-based measurement that should be determined using assumptions market participants would use in pricing an asset or liability. The standard establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring assets or liabilities at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the asset or liability. Assets or liabilities with readily available active quoted prices, or for which fair value can be measured from actively quoted prices, generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

The following table presents the fair value measurement hierarchy levels required under ASC 820 for each of our assets and liabilities that are measured at fair value on a recurring basis:

	September 30, 2016 Fair Value Measurements Using				December 31, 2015 Fair Value Measurements Using			
(In thousands)	Total	Quoted Prices in Active Markets for	Significant Other Observable	Significant Unobservable Inputs	Total	Quoted Prices in Active Markets for	Significant Other Observable	Significant Unobservable Inputs

		Identical Assets (Level 1)	Inputs (Level 2)	(Level 3)		Identical Assets (Level 1)	Inputs (Level 2)	(Level 3)
Assets:								
Cash equivalents	$ 18	$ 18	$ —	$ —	$ 18	$ 18	$ —	$ —
Liabilities:								
Warrants	329,390	—	—	329,390	307,760	—	—	307,760
Interest Rate Swaps and Caps	27,794	—	27,794	—	4,217	—	4,217	—

Cash equivalents consist of registered money market mutual funds which invest in United States treasury securities that are valued at the net asset value of the underlying shares in the funds as of the close of business at the end of each period.

The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates derived from observable market interest rate curves.

The valuation of warrants is based on an option pricing model, utilizing inputs which are classified as Level 3 due to the unavailability of comparable market data. The following table presents a rollforward of the valuation of our Sponsor and Management warrants:

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(In thousands)	2016	2015
Balance as of January 1	$ 307,760	$ 366,080
Warrant liability loss (gain) (a)	21,630	(57,450)
Balance as of September 30	$ 329,390	$ 308,630

(a) All gains/losses during 2016 and 2015 were unrealized. Changes in the fair value of the Sponsor and Management Warrants are recognized in net income as a warrant liability gain or loss.

The inputs to the valuation model include the fair value of stock related to the warrants, exercise price and term of the warrants, expected volatility, risk-free interest rate and dividend yield and, with respect to the Management Warrants, a discount for lack of marketability. Generally, an increase in expected volatility would increase the fair value of the liability, while a decrease in expected volatility would decrease the fair value of the liability, but the impact of the volatility on fair value diminishes as the market value of the stock increases above the strike price. As the period of restriction lapses, the marketability discount reduces to zero and increases the fair value of the warrants.

The significant unobservable inputs used in the fair value measurement of our warrants as of September 30, 2016 and December 31, 2015 are as follows:

	Unobservable Inputs	
	Expected Volatility (a)	Marketability Discount (b)
September 30, 2016	26.9%	2.0% - 5.0%
December 31, 2015	27.4%	10.0% - 12.0%

(a) Based on our implied equity volatility.

(b) Represents the discount rate for lack of marketability of the Management Warrants.

The following table includes a non-financial asset that was measured at fair value on a non-recurring basis as a result of the property being impaired:

(In thousands)	Total Fair Value	Quoted Prices in	Significant Other	Significant Unobservable	Total (Loss) -

	Measurement	Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Inputs (Level 3)	Nine Months Ended September 30, 2016
Operating Assets:					
Park West (a)	$ 34,888	$ —	$ —	$ 34,888	$ (35,734)

(a) The fair value was determined based on a discounted cash flow analysis using a capitalization rate of 6.75% and is shown net of transaction costs.

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The estimated fair values of our financial instruments that are not measured at fair value on a recurring basis are as follows:

		September 30, 2016		December 31, 2015	
(In thousands)	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:					
Cash	Level 1	$ 653,023	$ 653,023	$ 445,283	$ 445,283
Notes receivable, net (a)	Level 3	69	69	1,664	1,664
Liabilities:					
Fixed-rate debt	Level 2	$ 1,146,863	$ 1,190,015	$ 1,141,381	$ 1,137,166
Variable-rate debt	Level 2	1,712,561	1,712,561	1,314,973	1,314,973

(a) Notes receivable are shown net of an allowance of $0.2 million as of September 30, 2016 and $0.2 million as of December 31, 2015.

Notes receivable are carried at net realizable value which approximates fair value. The estimated fair values are based on certain factors, such as current interest rates, terms of the note and credit worthiness of the borrower.

The fair value of fixed-rate debt in the table above, not including our Senior Notes (please refer to Note 9 – Mortgages, Notes and Loans Payable), was estimated based on a discounted future cash payment model, which includes risk premiums and a risk free rate derived from the current London Interbank Offered Rate (“LIBOR”) or U.S. Treasury obligation interest rates. The discount rates reflect our judgment as to what the approximate current lending rates for loans or groups of loans with similar maturities and credit quality would be if credit markets were operating efficiently and assuming that the debt is outstanding through maturity. The fair values of our Senior Notes, included in fixed-rate debt in the table above, are based upon the last trade price closest to the end of the period presented.

The carrying amounts for our variable-rate debt approximate fair value given that the interest rates are variable and adjust with current market rates for instruments with similar risks and maturities.

The carrying amounts of cash and cash equivalents and accounts receivable approximate fair value because of the short term maturity of these instruments.

NOTE 8 REAL ESTATE AND OTHER AFFILIATES

In the ordinary course of business, we enter into partnerships or joint ventures primarily for the development and operations of real estate assets that are referred to as “Real Estate and Other Affiliates.” These partnerships or joint ventures are accounted for in accordance with FASB ASC 810 Consolidation.

In accordance with ASC 810, we assess our joint ventures at inception to determine if any meet the qualifications of a variable interest entity (VIE). We consider a partnership or joint venture a VIE if: (a) the total equity investment is not sufficient to permit the entity to finance its activities without additional subordinated financial support; (b) characteristics of a controlling financial interest are missing (either the ability to make decisions through voting or other rights, the obligation to absorb the expected losses of the entity or the right to receive the expected residual returns of the entity); or (c) the voting rights of the equity holders are not proportional to their obligations to absorb the expected losses of the entity and/or their rights to receive the expected residual returns of the entity, and substantially all of the entity’s activities either involve or are conducted on behalf of an investor that has disproportionately few voting rights. Upon the occurrence of certain events outlined in ASC 810, we reassess our initial determination of whether the partnership or joint venture is a VIE.

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We perform a qualitative assessment of each VIE to determine if we are the primary beneficiary, as required by ASC 810. A company has a controlling financial interest and must consolidate the VIE if it has both (1) the power to direct the activities of the VIE that most significantly impact the VIE's performance, and (2) "benefits," defined as the obligation to absorb the losses of the VIE that potentially could be significant to the VIE or the right to receive benefits from the VIE that potentially could be significant to the VIE. The variable interest model requires a reporting entity to reevaluate whether an entity is a VIE upon the occurrence of certain significant events as listed in ASC 810-10-35-4, including any event that changes the design of the entity and calls into question the entity's sufficiency of equity at risk or characteristics of a controlling financial interest (i.e. amendments to legal governing documents, returns or additions of equity, curtailments or modifications to activities in a way that impacts the equity at risk, etc.).

We account for investments in joint ventures which are not VIEs where we own a non-controlling interest and investments in joint ventures deemed to be VIEs for which we are not considered to be the primary beneficiary but have significant influence using the equity method. We use the cost method to account for investments where we do not have significant influence over the joint venture's operations and financial policies. Generally, the operating agreements with respect to our Real Estate Affiliates provide that assets, liabilities and funding obligations are shared in accordance with our ownership percentages.

Our investments in Real Estate and Other Affiliates that are reported on the equity and cost methods are as follows:

	Economic/Legal Ownership		Carrying Value		Share of Earnings/Dividends			
					Three Months Ended		Nine Months Ended September 30,	
	September 30,	December 31,	September 30,	December 31,	September 30,			
($ in Thousands)	2016	2015	2016	2015	2016	2015	2016	2015
Equity Method Investments								
Master Planned Communities:								
The Summit (a)	—	—	$ 34,626	$ 12,052	$ 13,700	$ —	$ 22,574	$ —
Operating Assets:								
Grandview SHG, LLC (a)	35.00 %	— %	8,061	—	(117)	—	(76)	—
Millennium Six Pines Apartments (b) (c)	100.00 %	81.43 %	—	—	9	(177)	44	(1,327)

Stewart Title	50.00 %	50.00 %	3,592	3,715	221	163	477	659
Clark County Las Vegas Stadium, LLC (c)	50.00 %	50.00 %	11,348	11,050	2	105	297	389
The Metropolitan Downtown Columbia (d)	50.00 %	50.00 %	(539)	4,872	(351)	140	(863)	(268)
Woodlands Sarofim	20.00 %	20.00 %	2,674	2,588	26	58	121	133
Strategic Developments:								
Circle T Ranch and Power Center (a)	50.00 %	50.00 %	4,956	9,128	—	—	10,498	—
Constellation (a) (c)	50.00 %	50.00 %	2,685	2,685	—	—	—	—
HHMK Development (c)	50.00 %	50.00 %	10	10	—	—	—	549
KR Holdings (c)	50.00 %	50.00 %	761	689	3	6	12	1,282
m.flats (formerly Parcel C) (a) (c)	50.00 %	50.00 %	6,369	7,070	—	—	—	—
			74,543	53,859	13,493	295	33,084	1,417
Cost method investments			4,347	3,952	—	—	2,616	1,747
Investment in Real Estate and Other Affiliates			$ 78,890	$ 57,811	$ 13,493	$ 295	$ 35,700	$ 3,164

(a) Please refer to the discussion below for a description of the joint venture ownership structure.
(b) As of July 20, 2016, we acquired our joint venture partner's interest in Millennium Six Pines Apartments (formerly known as Millennium Woodlands Phase II, LLC) and have fully consolidated the assets and liabilities of the entity. See Note 5 – Recent Transactions for additional information regarding this transaction. The investment balance was in a $1.8 million deficit position and reported in Accounts payable and accrued expenses as of December 31, 2015.
(c) Equity method variable interest entity ("VIE"). The m.flats joint venture was a VIE as of December 31, 2015, but on completion of the financing in the first quarter 2016, we determined the entity was no longer a VIE.
(d) The Metropolitan Downtown Columbia was placed in service in the first quarter 2015.

We are not the primary beneficiary of any of the VIEs listed above because we do not have the power to direct activities that most significantly impact the economic performance of such joint ventures and therefore we report our interests using the equity method. Our maximum exposure to loss as a result of these investments is limited to the aggregate carrying value of the investment as we have not provided any guarantees or otherwise made firm commitments to fund amounts on behalf of these VIEs. The aggregate carrying value of the unconsolidated VIEs was

$14.8 million and $21.5 million as of September 30, 2016 and December 31, 2015, and was classified as Investment in Real Estate and Other Affiliates in the condensed consolidated balance sheets.

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As of September 30, 2016, approximately $123.6 million of indebtedness was secured by the properties owned by our Real Estate and Other Affiliates of which our share was approximately $54.7 million based upon our economic ownership. All of this indebtedness is without recourse to us.

We are the primary beneficiary of one VIE which is consolidated in the financial statements. The creditors of the consolidated VIE do not have recourse to us. As of September 30, 2016, the carrying values of the assets and liabilities associated with the operations of the consolidated VIE were $21.7 million and $1.4 million, respectively. As of December 31, 2015, the carrying values of the assets and liabilities associated with the operations of the consolidated VIE were $21.5 million and $1.1 million, respectively. The assets of the VIE are restricted for use only by the particular VIE and are not available for our general operations.

Our recent significant investments in Real Estate Affiliates and the related accounting considerations are described below.

The Summit

During the first quarter 2015, we formed DLV/HHPI Summerlin, LLC ("The Summit") a joint venture with Discovery Land Company ("Discovery"). At formation, we contributed land with a book basis of $13.4 million and transferred Special Improvement District ("SID") bonds related to such land with a carrying value of $1.3 million to the joint venture at an agreed upon capital contribution value of $125.4 million, or $226,000 per acre. Discovery is required to fund up to a maximum of $30.0 million cash as its capital contribution, and we have no further capital obligations. The gain on the contributed land is being recognized in Equity in earnings from Real Estate and Other Affiliates as the joint venture sells lots.

After receipt of our capital contribution and a 5.0% preferred return, Discovery is entitled to cash distributions by the joint venture until it has received two times its equity contribution. Any further cash distributions are shared 50/50. Discovery is the manager of the project, and development began in the second quarter 2015. As of September 30, 2016, the project has contracted for approximately $216.6 million in land sales, of which $119.8 million in lot closings were completed through the third quarter 2016, resulting in Equity in earnings to us of $22.6 million as of the nine months ended September 30, 2016. Given the nature of the venture's capital structure, our share of the venture's income producing activities is recognized based on the Hypothetical Liquidation Book Value ("HLBV") method, which is an amount equal to the change in our underlying share of the hypothetical distribution assuming all of the venture's net assets were liquidated at book value.

Grandview SHG, LLC

In January 2016, we entered into a joint venture with Grandview SHG, LLC ("Grandview"), which purchased a hotel located at 33 Peck Slip in the Seaport District of New York. We advanced a bridge loan of $25.0 million at a 5.0% interest rate to the joint venture at closing to expedite the acquisition, which was repaid in full in June 2016. In the second quarter 2016, upon completion of a refinancing of the property with a $36.0 million redevelopment loan, we made an additional capital contribution of $2.3 million. Our total investment in the joint venture is $8.1 million as of September 30, 2016.

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Circle T Ranch and Power Center

On June 1, 2016, the Circle T Ranch joint venture sold approximately 74 acres. See Note 5 – Recent Transactions for additional information regarding this transaction.

m.flats

On October 4, 2013, we entered into a joint venture agreement with a local developer, Kettler, Inc. (“Kettler”), to construct an apartment complex with ground floor retail in Downtown Columbia, Maryland. We contributed approximately five acres of land having a book value of $4.0 million to the joint venture and subsequently incurred an additional $3.1 million in capitalized development costs for a total book value contribution of $7.1 million. Our land was valued at $23.4 million, or $53,500 per constructed unit. In January 2016, the venture closed on an $88.0 million construction loan which is non-recourse to us and bears interest at one-month LIBOR plus 2.40% with an initial maturity date of February 2020, with three, one-year extension options. At loan closing, Kettler contributed $16.1 million in cash, of which $7.3 million was distributed to us. This transaction was accounted for as a partial sale of the land for which we recognized a net profit of $0.2 million in the nine months ended September 30, 2016. We also contributed $3.9 million and $6.3 million in the three and nine months ended September 30, 2016, respectively, into this joint venture.

Constellation

On January 24, 2014, we entered into a joint venture with a national multi-family real estate developer, The Calida Group (“Calida”), to construct, own and operate a 124-unit gated luxury apartment development in Downtown Summerlin. We and our partner each own 50% of the venture, and unanimous consent of the partners is required for all major decisions. This project represents the first residential development in Summerlin’s 400-acre downtown. In the first quarter 2015, we contributed a 4.5-acre parcel of land with an agreed value of $3.2 million in exchange for a 50% interest in the venture. Our partner contributed $3.2 million of cash for their 50% interest. Additionally, our partner is the development manager, funded all pre-development activities, obtained construction financing in the first quarter 2015 and provided guarantees required by the lender. The project is financed by a $15.8 million construction loan with an outstanding balance of $11.9 million as of September 30, 2016. The loan is non-recourse to us. In the fourth quarter 2015, we contributed an additional $1.0 million to the joint venture to fund development costs. Upon a sale of the property, we are entitled to 50% of the proceeds up to, and 100% of the proceeds in excess of, an amount determined by applying a 7.0% capitalization rate to net operating income. The venture commenced construction in February 2015 and is being completed in phases. New tenants began to take occupancy in the third quarter 2016. As of September 30, 2016, the project is 14.5% occupied and 42.7% leased.

NOTE 9 MORTGAGES, NOTES AND LOANS PAYABLE

Mortgages, notes and loans payable are summarized as follows:

(In thousands)	September 30, 2016	December 31, 2015
Fixed-rate debt:		
Collateralized mortgages, notes and loans payable	$ 1,100,148	$ 1,087,642
Special Improvement District bonds	46,715	53,739
Variable-rate debt:		
Collateralized mortgages, notes and loans payable (a)	1,712,559	1,314,973
Deferred Financing Costs, net of accumulated amortization of $16.1 million and $12.7 million, respectively	(12,420)	(12,392)
Total mortgages, notes and loans payable	$ 2,847,002	$ 2,443,962

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(a) As more fully described below, $183.0 million and $209.5 million of variable rate debt has been swapped to a fixed-rate for the term of the related debt as of September 30, 2016 and December 31, 2015, respectively.

The following table presents our mortgages, notes, and loans payable by property:

($ In thousands)	Maturity (a)	Interest Rate			Maximum Facility Amount	Carrying Value September 30, 2016	Carrying Value December 31, 2015
Master Planned Communities							
Bridgeland Credit Facility	November 2022	4.60	%	(b)	$ 65,000	$ 64,843	$ 40,072
Summerlin South SID Bonds - S124	December 2019	5.95	%			141	159
Summerlin South SID Bonds - S128	December 2020	6.05	%			478	534
Summerlin South SID Bonds - S128C	December 2030	6.05	%			4,737	4,856
Summerlin South SID Bonds - S132	December 2020	6.00	%			1,480	1,676
Summerlin South SID Bonds - S151	June 2025	6.00	%			4,349	4,534
Summerlin South SID Bonds - S159	June 2035	6.00	%			4,486	9,020
Summerlin West SID Bonds - S808/S810	April 2031	6.00	%			—	1,047
Summerlin West SID Bonds - S812	October 2035	6.00	%			27,459	28,328
The Woodlands Master Credit Facility	August 2018	3.28	%	(b)	175,000	175,000	192,663
Master Planned Communities Total						282,973	282,889
Operating Assets							
10-60 Columbia Corporate Centers	May 2022	2.84	%	(b)(c)		80,000	80,000
70 Columbia Corporate Center	July 2019	2.78	%	(b)		20,000	20,000
Columbia Regional Building	March 2018	2.53	%	(b)	23,008	22,188	22,188
Downtown Summerlin	July 2019	2.78	%	(b)	311,800	299,448	289,804
Downtown Summerlin SID Bonds - S108	December 2016	5.95	%			235	235

Downtown Summerlin SID Bonds - S128	December 2030	6.05	%		3,350	3,350
Embassy Suites at Hughes Landing	October 2020	3.03	% (b)	37,100	29,231	20,064
One Hughes Landing	December 2029	4.30	%		52,000	52,000
Two Hughes Landing	December 2030	4.20	%		48,000	48,000
Three Hughes Landing	December 2019	2.88	% (b)	65,455	34,208	23,268
1725-35 Hughes Landing Boulevard	June 2019	2.18	% (b)	143,000	105,044	89,677
Hughes Landing Retail	December 2018	2.48	% (b)	36,575	34,467	28,726
1701 Lake Robbins	April 2017	5.81	%		4,600	4,600
Lakeland Village Center	May 2020	2.88	% (b)	14,000	9,167	—
Millennium Waterway Apartments	June 2022	3.75	%		55,584	55,584
Millennium Six Pines Apartments	August 2028	3.39	%		42,500	—
110 N. Wacker	October 2019	5.21	% (d)		23,648	26,481
9303 New Trails	December 2023	4.88	%		12,468	12,734
One Lakes Edge	November 2018	2.78	% (b)	73,525	71,874	67,517
Outlet Collection at Riverwalk	October 2018	3.28	% (b)	64,400	56,100	56,100
3831 Technology Forest Drive	March 2026	4.50	%		22,480	22,759
The Westin at The Woodlands	August 2019	3.18	% (b)	69,300	57,223	33,361
The Woodlands Resort & Conference Center	December 2020	3.28	% (b)		85,000	85,000
Ward Village	September 2023	3.33	% (b)(e)		238,716	238,716
20/25 Waterway Avenue	May 2022	4.79	%		13,944	14,112
3 Waterway Square	August 2028	3.94	%		51,898	52,000
4 Waterway Square	December 2023	4.88	%		36,515	37,293
Capital lease obligations	various	3.60	%		3	52
Operating Assets Total					1,509,891	1,383,621
Strategic Developments						
HHC 242 Self Storage Facility	October 2021	3.13	% (b)	6,658	2,573	—
HHC 2978 Self Storage Facility	January 2022	3.13	% (b)	6,368	384	—
Merriweather Post Pavilion	October 2021	2.53	% (b)	9,500	2,416	—
One Merriweather	February 2021	2.68	% (b)	49,900	13,746	—
Waiea and Anaha Condominiums (f)	November 2019	7.28	% (b)	600,000	287,283	27,817
Strategic Developments Total					306,402	27,817
Other Corporate Financing Arrangements	June 2018	3.00	%		16,189	18,794

Senior Notes	October 2021	6.88	%	750,000	750,000
Unamortized underwriting fees				(6,033)	(6,767)
Deferred Financing Costs, net				(12,420)	(12,392)
Total mortgages, notes, and loans payable				$ 2,847,002	$ 2,443,962

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(a) Maturity date includes any extension periods that can be exercised at our option at the initial maturity date, subject to customary extension terms that based on current property performance projections, we expect to meet. Such terms may include but are not limited to minimum debt service coverage, minimum occupancy levels and other performance criteria. In certain cases due to property performance not meeting covenants, we may have to paydown a portion of the loan in order to obtain the extension.
(b) The interest rate presented is based on the one month LIBOR rate, which was 0.53% at September 30, 2016.
(c) $40.0 million of the outstanding principal balance is swapped to a 3.41% fixed-rate through maturity.
(d) The $23.6 million outstanding principal balance is swapped to a 5.21% fixed-rate through maturity.
(e) $119.4 million of the outstanding principal balance is swapped to a 3.64% fixed-rate through maturity.
(f) Waiea and Anaha have available financing for up to $600 million in the form of a non-recourse construction loan cross-collateralized by the condominium towers bearing interest at one-month LIBOR plus 6.75% with an initial maturity date of November 6, 2017, and two, one-year extension options. In August 2016, the original financing agreement was modified. The previous agreement did not allow for distributions until Anaha was delivered and the loan was fully repaid. The modification allowed for an immediate advance on the loan of $50.0 million, returning a substantial portion of the project's prior cash equity contribution to us and allows for an additional distribution of up to $113 million from Waiea's bulk closing in November 2016. The balance of Waiea sales proceeds will be applied to the loan balance as well as fund any construction costs remaining for Waiea. The interest rate and maturity date remained unchanged.

The weighted average interest rate on our mortgages, notes and loans payable, excluding interest rate hedges, was 4.68% and 4.44% as of September 30, 2016 and December 31, 2015, respectively.

All of the mortgage debt is secured by the individual properties listed in the table above and is non-recourse to HHC, except for:

(i) $750.0 million of Senior Notes;
(ii) $311.8 million financing for the Downtown Summerlin development which has an initial maximum recourse of 35% of the outstanding balance, which will reduce to 15.0% upon completion of the project and achievement of a 1.15:1.0 debt service coverage ratio. The recourse further reduces to 10% upon achievement of a 1.25:1.0 debt service coverage ratio, a 90% occupancy level, and average tenant sales of at least $500.00 per net rentable square foot. As of September 30, 2016, 35% of the outstanding loan balance remains recourse to HHC;
(iii) $64.4 million of construction financing for the Outlet Collection at Riverwalk with an initial maximum recourse of 50% of the outstanding balance, which will be reduced to 25.0% upon completion of the project and the achievement of an 11.0% debt yield and a minimum level of tenant sales per square foot for twelve months. As of September 30, 2016, 50% of the outstanding loan balance remains recourse to HHC;
(iv) $16.2 million of Other Corporate Financing Arrangements; and
(v) $7.0 million of the 110 N. Wacker mortgage.

Certain of our loans contain provisions which grant the lender a security interest in the operating cash flow of the property that represents the collateral for the loan. Certain mortgage notes may be prepaid but may be subject to a prepayment penalty equal to a yield maintenance premium, defeasance, or a percentage of the loan balance. As of September 30, 2016, land, buildings and equipment and developments with a net book value basis of $3.0 billion have been pledged as collateral for our mortgages, notes and loans payable.

As of September 30, 2016, we were in compliance with all of the financial covenants related to our debt agreements.

Master Planned Communities

On November 9, 2015, we refinanced $15.2 million of existing debt in connection with closing on a modification which increased the Bridgeland Credit Facility to $65.0 million. The facility bears interest at three-month LIBOR plus 3.15%, with a 4.60% floor, and has an initial maturity date of November 2020 with two, one-year extension options. The proceeds are providing working capital at Bridgeland for development efforts necessary to meet the demand of homebuilders for finished lots in the community.

The Woodlands Master Credit Facility was amended and restated on July 31, 2015 to a $200.0 million maximum facility amount consisting of a $100.0 million term loan and a $100.0 million revolver (together, the “TWL Facility”). The TWL Facility bears interest at one-month LIBOR plus 2.75% and had an August 2016 initial maturity date with two, one–year extension options. In July 2016, we exercised our first one-year extension option, which reduced the total commitment to

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$175.0 million. Semi-annual principal payments of $25.0 million begin on December 31, 2016 and continue through the second, optional one-year extension period. The TWL Facility and The Woodlands Resort & Conference Center loans are recourse to the entities that directly own The Woodlands operations. The TWL Facility also contains certain covenants that, among other things, require the maintenance of specified financial ratios, limit the incurrence of additional recourse indebtedness at The Woodlands, and limit distributions from The Woodlands to us based on a loan to value test. The amendment also modified certain covenants to allow for more construction loan guarantees by the entities that directly own The Woodlands than would otherwise have been permitted by the prior facility.

The Summerlin MPC uses SID bonds to finance certain common infrastructure improvements. These bonds are issued by the municipalities and are secured by the assessments on the land. The majority of proceeds from each bond issued is held in a construction escrow and disbursed to us as infrastructure projects are completed, inspected by the municipalities and approved for reimbursement. Accordingly, the SID bonds have been classified as debt, and the Summerlin MPC pays the debt service on the bonds semi annually. As Summerlin sells land, the buyers assume a proportionate share of the bond obligation at closing, and the residential sales contracts provide for the reimbursement of the principal amounts that we previously paid with respect to such proportionate share of the bond. In the nine months ended September 30, 2016, no new SID bonds were issued and $5.5 million in obligations were assumed by buyers.

Operating Assets

On September 12, 2016, we amended and restated the $238.7 million first mortgage secured by Ward Village. The non-recourse term loan bears interest at one-month LIBOR plus 2.50% with an initial maturity date of September 12, 2021, with two, one-year extension options. $119.4 million of the outstanding principal balance is swapped to a 3.64% fixed-rate through maturity. There was no undrawn availability on this loan as of September 30, 2016.

Strategic Developments

On October 7, 2016 we closed on a $33.2 million non-recourse construction loan for Two Merriweather, bearing interest at one-month LIBOR plus 2.5% with an initial maturity date of October 7, 2020 and a one-year extension option.

On February 25, 2016, we closed on a $49.9 million non-recourse construction loan for One Merriweather. The loan bears interest at one-month LIBOR plus 2.15% with an initial maturity date of February 25, 2020, with a one-year extension option.

On January 27, 2016, we closed on a $6.4 million non-recourse construction loan for the HHC 2978 Self-Storage Facility, bearing interest at one-month LIBOR plus 2.60% with an initial maturity date of January 2020, with two, one-year extension options.

NOTE 10 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We are exposed to interest rate risk related to our variable interest rate debt, and we manage this risk by utilizing interest rate derivatives. Our objective in using interest rate derivatives is to add stability to interest costs by reducing our exposure to interest rate movements. To accomplish this objective, we use interest rate swaps, forward-starting swaps, and caps as part of our interest rate risk management strategy. As of September 30, 2016, we had interest rate swaps with gross notional amounts of $326.0 million and a $100.0 million interest rate cap, all of which were designated as effective cash flow hedges of interest rate risk. We also have $250.0 million in gross notional amounts of forward-starting interest rate swaps that become effective December 31, 2017 to hedge a portion of anticipated future fixed-rate debt issuance.

Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company’s fixed rate payments over the life of the agreements without exchange of the underlying notional amount. The forward-starting interest rate swaps are designated as cash flow hedges of the variability of the anticipated interest

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rate of our long-term financing needs at our Downtown Summerlin property. Interest rate caps designated as cash flow hedges involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up front premium.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated Other Comprehensive Income ("AOCI") and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and nine months ended September 30, 2016 and September 30, 2015, the ineffective portion recorded in earnings was insignificant.

If the derivative contracts are terminated prior to their maturity, the amounts previously recorded in AOCI are recognized into earnings over the period that the hedged transaction impacts earnings. If the hedging relationship is discontinued because it is probable that the forecasted transaction will not occur according to the original strategy, any related amounts previously recorded in AOCI are recognized in earnings immediately.

Amounts reported in AOCI related to derivatives will be reclassified to interest expense as interest payments are made on our variable rate debt. Over the next 12 months, we estimate that an additional $1.9 million will be reclassified to interest expense.

The table below presents the fair value of our derivative financial instruments, which are included in accounts payable and accrued liabilities in the condensed consolidated balance sheets:

(In thousands)	September 30, 2016	December 31, 2015
Interest Rate Swaps & Caps	$ 3,035	$ 2,292
Forward-Starting Swaps	24,759	1,925
Total derivatives designated as hedging instruments	$ 27,794	$ 4,217

The tables below present the effect of our derivative financial instruments on the condensed consolidated statements of operations for the three and nine months ended September 30, 2016 and 2015:

(In thousands) Cash Flow Hedges	Three Months Ended September 30, 2016 Amount of (Loss) Recognized in OCI	2015 Amount of (Loss) Recognized in OCI	Location of Loss Reclassified from AOCI into Earnings	Three Months Ended September 30, 2016 Amount of (Loss) Reclassified from AOCI into Earnings	2015 Amount of (Loss) Reclassified from AOCI into Earnings
Interest Rate Swaps & Caps	$ (203)	$ (877)	Interest Expense	$ (356)	$ (466)
Forward-Starting Swaps	344	—	Interest Expense	—	—
	$ 141	$ (877)		$ (356)	$ (466)

(In thousands) Cash Flow Hedges	Nine Months Ended September 30, 2016 Amount of (Loss) Recognized in OCI	2015 Amount of (Loss) Recognized in OCI	Location of Loss Reclassified from AOCI into Earnings	Nine Months Ended September 30, 2016 Amount of (Loss) Reclassified from AOCI into Earnings	2015 Amount of (Loss) Reclassified from AOCI into Earnings
Interest Rate Swaps & Caps	$ (1,409)	$ (979)	Interest Expense	$ (1,099)	$ (1,276)
Forward-Starting Swaps	(14,566)	—	Interest Expense	—	—
	$ (15,975)	$ (979)		$ (1,099)	$ (1,276)

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NOTE 11 INCOME TAXES

Unrecognized tax benefits pursuant to uncertain tax positions were $35.4 million and $36.5 million as of September 30, 2016 and December 31, 2015, respectively, none of which would impact our effective tax rate.

We have significant permanent differences, primarily from warrant liability gains and losses and changes in valuation allowances that cause our effective tax rate to deviate from statutory rates. The effective tax rates, based upon actual operating results, were 56.0% and 39.1% for the three and nine months ended September 30, 2016 compared to 10.5% and 19.7% for the three and nine months ended September 30, 2015. The changes in the tax rates were primarily attributable to changes in the warrant liability, valuation allowance related to our deferred tax assets, as well as other items which are permanent differences for tax purposes.

The increase in deferred tax liabilities between December 31, 2015 and September 30, 2016 is due primarily to the utilization of federal tax assets used to offset both the tax gain on the sale of the 80 South Street Assemblage and other sources of operating income.

NOTE 12 STOCK BASED PLANS

Our stock based plans are described and informational disclosures are provided in the Notes to the Consolidated Financial Statements included in our Form 10-K for the year ended December 31, 2015.

Stock Options

The following table summarizes our stock option plan:

	Stock Options	Weighted Average Exercise Price

Stock Options outstanding at December 31, 2015	1,086,040	$ 77.11
Granted	146,000	108.93
Exercised	(3,000)	60.33
Forfeited	(51,000)	125.62
Stock Options outstanding at September 30, 2016	1,178,040	78.96

Compensation costs related to stock options were $1.2 million and $3.5 million for the three and nine months ended September 30, 2016, respectively, of which $0.3 million and $1.1 million were capitalized to development projects during the same periods. Stock option costs were $1.2 million and $2.9 million for the three and nine months ended September 30, 2015, respectively, of which $0.6 million and $1.5 million were capitalized to development projects during the same periods.

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Restricted Stock

The following table summarizes restricted stock activity:

	Restricted Stock	Weighted Average Grant Date Fair Value
Restricted stock outstanding at December 31, 2015	242,556	$ 100.15
Granted	136,198	67.80
Vested	(37,670)	83.47
Forfeited	(4,985)	86.48
Restricted Stock outstanding at September 30, 2016	336,099	89.11

Compensation costs related to restricted stock awards was $1.2 million and $4.4 million for the three and nine months ended September 30, 2016, respectively, of which $0.3 million and $0.9 million were capitalized to development projects during the same periods. Compensation costs related to restricted stock awards was $1.5 million and $4.0 million for the three and nine months ended September 30, 2015, respectively, of which $0.2 million and $0.6 million were capitalized to development projects during the same periods.

NOTE 13 OTHER ASSETS AND LIABILITIES

Prepaid Expenses and Other Assets

The following table summarizes the significant components of Prepaid expenses and other assets.

(In thousands)	September 30, 2016	December 31, 2015
Condominium receivables (a)	$ 169,642	$ 191,037
Condominium deposits	478,251	55,749
Special Improvement District receivable	66,300	72,558

In-place leases	16,254	22,139
Below-market ground leases	19,071	19,325
Above-market tenant leases	2,505	3,581
Equipment, net of accumulated depreciation of $4.9 million and $3.9 million, respectively	17,930	18,772
Security and escrow deposits	10,381	17,599
Tenant incentives and other receivables	8,811	10,480
Prepaid expenses	11,743	8,474
Federal income tax receivable	11,564	11,972
Intangibles	4,085	4,045
Uncertain tax position asset	256	112
Other	3,447	5,347
	$ 820,240	$ 441,190

(a) Approximately $32.3 million are expected to be collected in 2016 and $137.3 million are expected to be collected in 2017, based upon anticipated closings of the respective condominium projects.

The $379.1 million net increase primarily relates to the following:

A $422.5 million increase in condominium deposits due to cash buyers remitting the remaining balance of the sales prices in full prior to closing as required in the sales contracts; $3.3 million increase in prepaid expenses; and $0.1 million in other increases.

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These increases were partially offset by the following decreases: a $21.4 million decrease in condominium receivables due primarily to remittance of the remaining balance of the sales price in full by cash buyers prior to closing; a net $7.2 million decrease in security and escrow deposits mostly attributable to our January 2016 investment in the Grandview SHG, LLC joint venture; a $6.3 million decrease in SID receivable due to reimbursement for construction expenditures; a decrease of $5.9 million relating primarily to the amortization of in-place leases; a net decrease in other prepaids of $1.9 million; and a $4.1 million decrease in various other accounts.

Accounts Payable and Accrued Expenses

The following table summarizes the significant components of Accounts payable and accrued expenses.

(In thousands)	September 30, 2016	December 31, 2015
Construction payables	$ 188,501	$ 185,731
Deferred income	104,686	117,730
Condominium deposit liabilities	106,258	50,192
Accounts payable and accrued expenses	42,179	33,928
Tenant and other deposits	33,740	34,894
Accrued interest	29,014	16,504
Accrued payroll and other employee liabilities	24,313	31,271
Accrued real estate taxes	19,875	15,134
Interest rate swaps	27,794	4,217
Straight-line ground rent liability (a)	12,962	10,757
Above-market ground leases	1,994	2,113
Other	11,921	12,883
	$ 603,237	$ 515,354

(a) Straight-line ground rent was previously reported in Other.

Total accounts payable and accrued expenses increased by $87.9 million primarily due to the following:

A $56.1 million increase in condominium deposits liability due to starting sales at Ke Kilohana and continued sales and additional deposit requirements at Ae'o; an increase of $8.3 million in accounts payable and accrued expenses; an increase of $23.6 million in interest rate swaps liability primarily due to a decrease in fair value of the forward-starting swaps; an increase of $12.5 million in accrued interest primarily due to six months of accrued interest at September 30, 2016 as compared to three months of accrued interest at December 2015 for our Senior Notes; $4.7 million increase in accrued real estate taxes; and $4.9 million in other immaterial accounts.

These increases are partially offset by the following: decrease of $13.0 million in deferred income due to the recognition of income on projects as the performance obligations are fulfilled; decrease of $7.0 million in accrued payroll and other employee liabilities primarily due to the payment of bonuses in the first quarter 2016; and $2.2 million in other immaterial decreases.

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NOTE 14 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (“AOCI”)

The following table summarizes AOCI for the period indicated:

	For the Three Months Ended September 30, 2016	For the Three Months Ended September 30, 2015
Balance as of June 30	$ (24,152)	$ (7,116)
Other comprehensive loss before reclassifications	(22)	(919)
Loss reclassified from accumulated other comprehensive loss to net income (loss)	356	466
Net current-period other comprehensive income (loss)	334	(453)
Balance as of September 30	$ (23,818)	$ (7,569)

	For the Nine Months Ended September 30, 2016	For the Nine Months Ended September 30, 2015
Balance as of December 31	$ (7,889)	$ (7,712)
Other comprehensive loss before reclassifications	(17,028)	(1,133)
Loss reclassified from accumulated other comprehensive loss to net income (loss)	1,099	1,276
Net current-period other comprehensive loss	(15,929)	143
Balance as of September 30	$ (23,818)	$ (7,569)

The following table summarizes the amounts reclassified out of AOCI for the period indicated:

	Amounts reclassified from Accumulated Other Comprehensive Income (Loss)		
Accumulated Other Comprehensive Income (Loss) Components	For the Three Months Ended September 30, 2016	For the Nine Months Ended September 30, 2016	Affected line item in the Statement of Operations
Losses on cash flow hedges	$ 558	$ 1,752	Interest expense
Interest rate swap contracts	(202)	(653)	Provision for income taxes
Total reclassifications for the period	$ 356	$ 1,099	Net of tax

Amounts reclassified from Accumulated Other Comprehensive Income

	(Loss)		
Accumulated Other Comprehensive Income (Loss) Components	For the Three Months Ended September 30, 2015	For the Nine Months Ended September 30, 2015	Affected line item in the Statement of Operations
Losses on cash flow hedges	$ 746	$ 2,046	Interest expense
Interest rate swap contracts	(280)	(770)	Provision for income taxes
Total reclassifications for the period	$ 466	$ 1,276	Net of tax

NOTE 15 COMMITMENTS AND CONTINGENCIES

In the normal course of business, from time to time, we are involved in legal proceedings relating to the ownership and operations of our properties. In management's opinion, the liabilities, if any, that may ultimately result from such legal actions are not expected to have a material effect on our consolidated financial position, results of operations or liquidity.

We had outstanding letters of credit and surety bonds totaling $116.0 million and $86.1 million as of September 30, 2016 and December 31, 2015, respectively. These letters of credit and bonds were issued primarily in connection with insurance requirements, special real estate assessments and construction obligations.

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On June 27, 2013, the City of New York executed the amended and restated ground lease for South Street Seaport. The restated lease terms provide for annual fixed base rent of $1.2 million starting July 1, 2013 with an expiration of December 30, 2072, including our options to extend. The rent escalates at 3.0% compounded annually. On July 1, 2048 the base rent will be adjusted to the higher of the fair market value or the then base rent. In addition to the annual base rent, we are required to make annual payments of $210,000 for the esplanade as additional rent through the term of the lease. The additional rent escalates annually at the Consumer Price Index. Simultaneously with the execution of the lease, we executed a completion guaranty for the redevelopment of Pier 17 by 2017.

In the fourth quarter 2012, the historic area of South Street Seaport suffered damage due to flooding as a result of Superstorm Sandy. Reconstruction efforts are ongoing and the property has only partially operated over the last three years. We have received $54.1 million in insurance proceeds, and we recognized Other income of $6.2 million and $0.3 million for the nine months ended September 30, 2016 and September 30, 2015, respectively, for the receipt of insurance proceeds related to our claim. This matter is currently being litigated, and there can be no assurance that we will collect additional insurance proceeds.

NOTE 16 SEGMENTS

We have three business segments which offer different products and services. Our three segments are managed separately because each requires different operating strategies and management expertise and are reflective of management's operating philosophies and methods. In addition, our segments or assets within such segments could change in the future as development of certain properties commences or other operational or management changes occur. All operations are within the United States, and we do not distinguish or group our combined operations on a geographic basis. Our reportable segments are as follows:

· Master Planned Communities ("MPCs") – includes the development and sale of land, in large scale, long term community development projects in and around Las Vegas, Nevada; Houston, Texas; and Columbia, Maryland.

· Operating Assets – includes retail, office, hospitality and multi-family properties along with other real estate investments. These assets are currently generating revenues and are comprised of commercial real estate properties developed or acquired by us, and properties where we believe there is an opportunity to redevelop, reposition or sell to improve segment performance or to recycle capital.

·

Strategic Developments – includes our residential condominium and commercial property projects currently under development and all other properties held for development which have no substantial operations.

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The assets included in each segment as of September 30, 2016, are contained in the following chart:

Master Planned Communities

- Bridgeland
- Maryland
- Summerlin
- The Woodlands
- The Woodlands Hills

Other

- The Summit (a)

Operating Assets

Retail

- Columbia Regional Building
- Cottonwood Square
- Creekside Village Green (b)
- Downtown Summerlin
- Hughes Landing Retail (b)
- 1701 Lake Robbins
- Lakeland Village Center (c)
- Landmark Mall
- Outlet Collection at Riverwalk
- Park West
- South Street Seaport (under construction)
- Ward Village
- 20/25 Waterway Avenue
- Waterway Garage Retail

Multi-family

- Millennium Waterway Apartments
- Millennium Six Pines Apartments
- One Lakes Edge (b)
- 85 South Street
- The Metropolitan Downtown Columbia (a) (b)

Hospitality

Office

- 10-70 Columbia Corporate Center
- Columbia Office Properties
- 1725-35 Hughes Landing Boulevard (b)
- One Hughes Landing
- Two Hughes Landing (b)
- Three Hughes Landing (c)
- 2201 Lake Woodlands Drive
- 9303 New Trails
- 110 N. Wacker
- ONE Summerlin (b)
- 3831 Technology Forest Drive
- 3 Waterway Square
- 4 Waterway Square
- 1400 Woodloch Forest

Other

- Clark County Las Vegas Stadium (a)
- Kewalo Basin Harbor
- Merriweather Post Pavilion
- Stewart Title of Montgomery County, TX (a)
- Summerlin Hospital Medical Center (a)
- The Woodlands Parking Garages

Strategic Developments

Under Construction

- Ae'o
- Anaha
- Circle T Ranch and Power Center (a)
- Constellation (a)
- HHC 242 Self-Storage
- HHC 2978 Self-Storage
- Ke Kilohana
- m.flats (formerly Parcel C) (a)
- One Merriweather
- Two Merriweather
- Waiea

Other

- Alameda Plaza
- AllenTowne
- Bridges at Mint Hill
- Century Plaza Mall
- Cottonwood Mall
- 80% Interest in Fashion Show Air Rights
- Gateway Towers
- Kendall Town Center
- Lakemoor (Volo) Land
- Maui Ranch Land

Embassy Suites at Hughes Landing (b)	Woodlands Sarofim #1 (a)	The Outlet Collection at Elk Grove
Grandview SHG, LLC (a)		West Windsor
The Westin at The Woodlands (c)		
The Woodlands Resort & Conference Center		

(a) A non-consolidated investment. Refer to Note 8 – Real Estate and Other Affiliates.
(b) Asset was placed in service and moved from the Strategic Developments segment to the Operating Assets segment during 2015.
(c) Asset was placed in service and moved from the Strategic Developments segment to the Operating Assets segment during 2016.

Our segments are managed separately, therefore, we use different operating measures to assess operating results and allocate resources among the segments. The one common operating measure used to assess operating results for the business segments is Real Estate Property Earnings Before Taxes ("REP EBT"), which represents the operating revenues of the properties less property operating expenses and adjustments for interest, as further described below. We believe that REP EBT provides useful information about the operating performance of all of our properties.

REP EBT, as it relates to our business, is defined as net income (loss) excluding general and administrative expenses, corporate other income, corporate interest income, corporate interest and depreciation expense, provision for income taxes, warrant liability gain (loss), gains or losses on sales of operating properties and gain on acquisition of joint venture partner's interest. We present REP EBT because we use this measure, among others, internally to assess the core operating performance of our assets. We also present this measure because we believe certain investors use it as a measure of a company's historical operating performance and its ability to service and obtain financing. We believe that the inclusion of certain adjustments to net income (loss) to calculate REP EBT is appropriate to provide additional information to investors.

Segment operating results are as follows:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2016	2015	2016	2015
Master Planned Communities				
Land sales	$ 44,128	$ 45,423	$ 147,168	$ 138,937
Builder price participation	4,483	6,680	15,631	20,285
Minimum rents	95	171	376	601
Other land revenues	2,585	4,612	8,357	11,038
Other rental and property revenues	13	23	33	30
Total revenues	51,304	56,909	171,565	170,891
Cost of sales – land	21,432	19,674	66,128	67,806
Land sales operations	6,797	7,293	19,603	24,593
Land sales real estate and business taxes	2,419	3,056	7,013	7,702
Depreciation and amortization	72	89	236	279
Interest income	(5)	(14)	(26)	(45)
Interest expense (*)	(5,248)	(4,210)	(15,591)	(13,656)
Equity in earnings in Real Estate and Other Affiliates	(13,699)	—	(22,573)	—
Total expenses, net of other income	11,768	25,888	54,790	86,679
MPC EBT	39,536	31,021	116,775	84,212
Operating Assets				
Minimum rents	44,736	37,565	127,663	108,574
Tenant recoveries	11,652	10,685	33,089	30,951
Hospitality revenues	14,088	11,772	46,126	35,256
Other rental and property revenues	3,471	7,400	10,974	20,645
Total revenues	73,947	67,422	217,852	195,426
Other property operating costs	15,611	15,659	43,559	51,495
Real estate taxes	6,406	6,447	19,257	17,956
Rental property maintenance costs	3,247	2,968	8,893	8,380
Hospitality costs	12,662	8,767	37,379	26,738
Provision for doubtful accounts	1,940	975	4,566	3,050
Demolition costs	16	798	494	2,411
Provision for impairment	35,734	—	35,734	—
Development-related marketing costs	1,950	2,367	5,038	7,381
Depreciation and amortization	20,732	22,936	64,546	64,585
Other income, net	(13)	—	(3,126)	—
Interest income	(3)	(10)	(19)	(29)
Interest expense	9,772	8,002	29,041	22,124
	209	(289)	(2,617)	(1,333)

Equity in earnings from Real Estate and Other Affiliates				
Total expenses, net of other income	108,263	68,620	242,745	202,758
Operating Assets EBT	(34,316)	(1,198)	(24,893)	(7,332)
Strategic Developments				
Minimum rents	79	78	216	822
Tenant recoveries	5	7	19	109
Condominium rights and unit sales	115,407	78,992	362,613	200,362
Other land revenues	10	5	30	17
Other rental and property revenues	54	29	328	68
Total revenues	115,555	79,111	363,206	201,378
Condominium rights and unit cost of sales	83,218	47,573	237,759	126,747
Other property operating costs	924	1,021	3,954	2,964
Real estate taxes	627	461	1,853	1,720
Rental property maintenance costs	85	126	324	358
Provision for doubtful accounts	—	32	63	32
Demolition costs	240	226	724	226
Development-related marketing costs	2,766	5,272	10,548	12,095
Depreciation and amortization	659	528	1,978	2,145
Other income, net	(298)	435	(542)	101
Interest income	(140)	(21)	(271)	(188)
Interest expense (*)	(1,731)	(1,903)	(4,764)	(5,289)
Equity in earnings from Real Estate and Other Affiliates	(3)	(6)	(10,510)	(1,831)
Gain on sale of 80 South Street Assemblage	(70)	—	(140,549)	—
Total expenses, net of other income	86,277	53,744	100,567	139,080
Strategic Developments EBT	29,278	25,367	262,639	62,298
REP EBT	$ 34,498	$ 55,190	$ 354,521	$ 139,178

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(*) Negative interest expense amounts are due to interest capitalized in our Master Planned Communities and Strategic Developments segments related to Operating Assets segment debt and the Senior Notes.

The following reconciles REP EBT to GAAP income (loss) before taxes:

Reconciliation of REP EBT to GAAP income (loss) before taxes	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2016	2015	2016	2015
REP EBT	$ 34,498	$ 55,190	$ 354,521	$ 139,178
General and administrative	(21,128)	(18,526)	(61,505)	(57,095)
Corporate interest expense, net	(13,263)	(13,262)	(39,358)	(39,709)
Warrant liability gain (loss)	(7,300)	123,640	(21,630)	57,450
Corporate other income expense, net	123	(222)	6,190	1,304
Gain on sale of The Club at Carlton Woods	—	29,073	—	29,073
Gain on acquisition of joint venture partner’s interest	27,087	—	27,087	—
Corporate depreciation and amortization	(1,859)	(1,444)	(4,486)	(4,568)
Income before taxes	$ 18,158	$ 174,449	$ 260,819	$ 125,633

The following reconciles segment revenues to GAAP consolidated revenues:

Reconciliation of Segment Basis Revenues to GAAP Revenues	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2016	2015	2016	2015
Master Planned Communities	$ 51,304	$ 56,909	$ 171,565	$ 170,891
Operating Assets	73,947	67,422	217,852	195,426
Strategic Developments	115,555	79,111	363,206	201,378
Total revenues	$ 240,806	$ 203,442	$ 752,623	$ 567,695

The assets by segment and the reconciliation of total segment assets to the total assets in the condensed consolidated balance sheets are summarized as follows:

(In thousands)	September 30, 2016	December 31, 2015
Master Planned Communities	$ 2,026,761	$ 2,022,524
Operating Assets	2,580,682	2,365,724
Strategic Developments	1,314,753	1,138,695
Total segment assets	5,922,196	5,526,943
Corporate and other	548,187	194,639
Total assets	$ 6,470,383	$ 5,721,582

The $176.1 million increase in the Strategic Developments segment asset balance as of September 30, 2016 compared to December 31, 2015 is primarily due to the receipt of cash for the remaining sales price from cash buyers at Waiea prior to closing.

The increase in the Operating Assets segment asset balance as of September 30, 2016 of $215.0 million compared to December 31, 2015 is primarily due to the buyout of our partner's interest in Millennium Six Pines Apartments (formerly known as Millennium Woodlands Phase II, LLC), placing in service The Westin at The Woodlands, Three Hughes Landing, Lakeland Village Center and additional development expenditures at South Street Seaport.

The $353.5 million increase in the Corporate and other asset balance as of September 30, 2016 compared to December 31, 2015 is primarily due to the proceeds from the 80 South Street sale in March 2016. The development costs were reported

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in the Strategic Developments segment at year end and the cash is reported in Corporate and other as of September 30, 2016.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes included in this Quarterly Report and in the Company's Form 10-K for the year ended December 31, 2015. All references to numbered Notes are to specific notes to our Condensed Consolidated Financial Statements included in this Quarterly Report.

Forward-looking information

We may make forward-looking statements in this Quarterly Report and in other reports that we file with the SEC. In addition, our management may make forward-looking statements orally to analysts, investors, creditors, the media and others.

Forward-looking statements include:

- projections and expectations regarding our revenues, operating income, net income, earnings per share, REP EBT, Net Operating Income ("NOI"), capital expenditures, income tax, other contingent liabilities, dividends, leverage, capital structure or other financial items;
- forecasts of our future economic performance; and
- descriptions of assumptions underlying or relating to any of the foregoing.

In this Quarterly Report, we make forward-looking statements discussing our expectations about:

- capital required for our operations and development opportunities for the properties in our Operating Assets and Strategic Developments segments;
- expected performance of our Master Planned Communities segment and other current income producing properties; and
- future liquidity, development opportunities, development spending and management plans.

Forward-looking statements give our current expectations relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to current or historical facts. These statements may include words such as "anticipate," "believe," "estimate," "expect," "forecast," "intend," "likely," "may," "plan," "project," "realize," "should," "transform," "would," and ot similar expression. Forward-looking statements should not be relied upon. They give our expectations about the future and are not guarantees.

There are several factors, many beyond our control, which could cause results to differ materially from our expectations. These risk factors are described in our Annual Report on Form 10-K for the year ended December 31, 2015 (the “Annual Report”) and are incorporated herein by reference. Any factor could, by itself, or together with one or more other factors, adversely affect our business, results of operations or financial condition. There may be other factors that we have not described in this Quarterly Report or in our Annual Report that could cause results to differ from our expectations. These forward-looking statements present our estimates and assumptions as of the date of this Quarterly Report. Except as may be required by law, we undertake no obligation to modify or revise any forward-looking statements to reflect events or circumstances occurring after the date of this Quarterly Report.

Real Estate Property Earnings Before Taxes

We use a number of operating measures for assessing operating performance of properties within our segments, some of which may not be common among all three of our segments. We believe that investors may find some operating measures more useful than others when separately evaluating each segment. One common operating measure used to assess operating results for our business segments is Real Estate Property Earnings Before Taxes (“REP EBT”). We believe REP EBT provides useful information about the operating performance of our properties because it excludes certain non-

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recurring and non-cash items, which we believe are not indicative of our core business. REP EBT may be calculated differently by other companies in our industry, limiting its usefulness as a comparative measure.

REP EBT, as it relates to our business, is defined as net income (loss) excluding general and administrative expenses, corporate other income, corporate interest income, corporate interest and depreciation expense, provision for income taxes, warrant liability gain (loss), gain or loss on sale of operating properties and gain on acquisition of joint venture partner's interest. We also provide a measure of Adjusted Operating Assets REP EBT, which excludes depreciation and amortization, development-related demolition and marketing costs and provision for impairment. We present REP EBT because we use these measures, among others, internally to assess the core operating performance of our assets. We also present these measures because we believe certain investors use them as a measure of a company's historical operating performance and its ability to service and incur debt. We believe that the inclusion of certain adjustments to net income (loss) to calculate REP EBT and the exclusion of other non-operating items from REP EBT to calculate Adjusted Operating Assets REP EBT is appropriate to provide additional information to investors. A reconciliation of REP EBT to consolidated net income (loss) as computed in accordance with GAAP has been presented in Note 16 – Segments. A reconciliation of Adjusted Operating Assets EBT to Operating Assets EBT is included in the Operating Assets discussion.

REP EBT and Adjusted Operating Assets REP EBT should not be considered as alternatives to GAAP net income (loss) attributable to common stockholders or GAAP net income (loss), as they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of the limitations of these metrics are that they do not include the following:

- cash expenditures, or future requirements for capital expenditures or contractual commitments;
- corporate general and administrative expenses;
- interest expense on our corporate debt;
- income taxes that we may be required to pay;
- any cash requirements for replacement of fully depreciated or amortized assets; and
- limitations on, or costs related to, transferring earnings from our Real Estate and Other Affiliates to us.

Operating Assets Net Operating Income

We believe that net operating income ("NOI") is a useful supplemental measure of the performance of our Operating Assets because it provides a performance measure that, when compared year over year, reflects the revenues and expenses directly associated with owning and operating real estate properties and the impact on operations from trends in rental and occupancy rates and operating costs. We define NOI as operating revenues (rental income, tenant recoveries and other revenue) less operating expenses (real estate taxes, repairs and maintenance, marketing and other property expenses). NOI excludes straight-line rents and amortization of tenant incentives, net interest expense, ground rent amortization, demolition costs, amortization, depreciation, development-related marketing costs and Equity in earnings from Real Estate and Other Affiliates. We use NOI to evaluate our operating performance on a property-by-property basis because NOI allows us to evaluate the impact that factors, which vary by property, such as lease structure, lease rates and tenant base have on our operating results, gross margins and investment returns.

Although we believe that NOI provides useful information to investors about the performance of our Operating Assets, due to the exclusions noted above, NOI should only be used as an additional measure of the financial performance of such assets and not as an alternative to GAAP net income (loss). For reference, and as an aid in understanding our computation of NOI, a reconciliation of Operating Assets NOI to Operating Assets REP EBT has been presented in the Operating Assets segment discussion below.

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Results of Operations

Our revenues are primarily derived from the sale of individual lots to homebuilders at our master planned communities, from tenants at our operating assets in the form of fixed minimum rents, overage rent and recoveries of operating expenses and from the sale of condominium units.

The following table reflects our results of operations for the three and nine months ended September 30, 2016 and 2015, respectively:

	Three Months Ended September 30,			Nine Months Ended September 30,		
(In thousands, except per share amounts)	2016	2015	Change	2016	2015	Change
Revenues						
MPC segment revenues	$ 51,304	$ 56,909	$ (5,605)	$ 171,565	$ 170,891	$ 674
Operating Assets segment revenues	73,947	67,422	6,525	217,852	195,426	22,426
Strategic Developments segment revenues	115,555	79,111	36,444	363,206	201,378	161,828
Total revenues	$ 240,806	$ 203,442	$ 37,364	$ 752,623	$ 567,695	$ 184,928
MPC segment REP EBT	$ 39,536	$ 31,021	$ 8,515	$ 116,775	$ 84,212	$ 32,563
Operating Assets segment REP EBT	(34,316)	(1,198)	(33,118)	(24,893)	(7,332)	(17,561)
Strategic Developments segment REP EBT	29,278	25,367	3,911	262,639	62,298	200,341
Total segment REP EBT (a)	34,498	55,190	(20,692)	354,521	139,178	215,343
General and administrative	(21,128)	(18,526)	(2,602)	(61,505)	(57,095)	(4,410)
Corporate interest expense, net	(13,263)	(13,262)	(1)	(39,358)	(39,709)	351
Warrant liability (loss) gain	(7,300)	123,640	(130,940)	(21,630)	57,450	(79,080)
Gain on acquisition of joint venture partner's interest	27,087	—	27,087	27,087	—	27,087
Gain on sale of The Club at Carlton Woods	—	29,073	(29,073)	—	29,073	(29,073)
Corporate other income (expense), net	123	(222)	345	6,190	1,304	4,886
Corporate depreciation and amortization	(1,859)	(1,444)	(415)	(4,486)	(4,568)	82
Provision for income taxes	(10,162)	(18,237)	8,075	(102,088)	(24,795)	(77,293)
Net income (loss)	7,996	156,212	(148,216)	158,731	100,838	57,893
Net loss (income) attributable to noncontrolling interests	(23)	12	(35)	(23)	—	(23)
Net income (loss) attributable to common stockholders	$ 7,973	$ 156,224	$ (148,251)	$ 158,708	$ 100,838	$ 57,870
Diluted income (loss) per share	$ 0.19	$ 0.76	$ (0.57)	$ 3.72	$ 1.01	$ 2.70

(a)

Total segment REP EBT includes depreciation and amortization expense for assets placed in service. Non-cash total segment depreciation and amortization, primarily relating to Operating Assets recently placed in service, is currently offsetting the net operating income generated from these properties because they typically will not stabilize for 12 – 36 months after they are placed in service, but the full amount of their annual depreciation and amortization begins when they are placed in service. The following table shows the amounts included in segment REP EBT related to non-cash depreciation and amortization:

	Three Months Ended September 30,			Nine Months Ended September 30,		
(In thousands)	2016	2015	Change	2016	2015	Change
Total segment depreciation and amortization	$ 21,463	$ 23,553	$ (2,090)	$ 66,760	$ 67,009	$ (249)

Total revenues for the three and nine months ended September 30, 2016 increased compared to the same period in 2015 due to higher revenues in our Operating Assets and Strategic Developments segments. Generally, MPC revenues fluctuate during the year; therefore, a better measurement of performance is the full year impact instead of quarterly results. See “Segment Operations” below for more discussion of the individual segments.

General and administrative expenses for the three and nine months ended September 30, 2016 increased compared to the same periods in 2015. For the three months ended September 30, 2016, the increase is primarily due to $1.9 million of higher compensation costs related to headcount and $0.6 million of increased information technology costs due to system implementations and upgrades compared to the same period in the prior year. For the nine months ended September 30, 2016, the increase is primarily due to $2.4 million of higher compensation costs related to headcount and $1.8 million of increased information technology costs due to system implementations and upgrades compared to the same period in the prior year.

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We realized a gain of $27.1 million in the three and nine months ended September 30, 2016 related to the acquisition of our Millennium Six Pines Apartments (formerly known as Millennium Woodlands Phase II, LLC) joint venture partner's interest. In accordance with ASC 805, we remeasured to fair value our equity interest held in the joint venture as of the July 20, 2016 acquisition date. We also realized a gain of $29.1 million in the three and nine months ended September 30, 2015 relating to the September 2015 sale of The Club at Carlton Woods for net cash proceeds of $25.1 million and purchaser's assumption of net liabilities of $4.0 million.

Provision for income taxes decreased for the three months ended September 30, 2016 due to a tax benefit recognized for the provision for impairment for Park West. The increase in the provision for income taxes for the nine months ended September 30, 2016 is due to increases in pre-tax earnings, as noted on the Condensed Consolidated Statement of Operations, adjusted to exclude the non-taxable warrant gain (loss) which has no impact on our tax provision.

We have significant permanent differences, primarily due to warrant liability gains and losses and changes in valuation allowances that cause our effective tax rate to deviate greatly from statutory rates. The effective tax rates, based upon actual operating results were 56.0% and 39.1% for the three and nine months ended September 30, 2016 compared to 10.5% and 19.7% for the three and nine months ended September 30, 2015. The changes in the tax rate were primarily attributable to changes in the warrant liability, valuation allowance related to our deferred tax asset, as well as other items which are permanent differences for tax purposes. If changes in the warrant liability, valuation allowance, unrecognized tax benefits, and other material discrete adjustments to deferred tax liabilities were excluded from the effective tax rate computation, the adjusted effective tax rates would have been 42.6% and 37.4% for the three and nine months ended September 30, 2016, respectively, compared to 35.0% and 35.2% for three and nine months ended September 30, 2015.

The decrease in Net income attributable to common stockholders for the three months ended September 30, 2016 compared to the same period in 2015 is primarily due to a warrant liability loss in 2016 as compared to a gain in 2015, and a provision for impairment in our Operating Assets segment REP EBT offset by increased REP EBT in our MPC and Strategic Developments segments. The increase in Net income (loss) attributable to common stockholders for the nine months ended September 30, 2016 compared to the same period in 2015 is primarily due to significant growth in Strategic Developments REP EBT from higher condominium rights and unit revenue recognition and a gain of $140.5 million on the sale of the 80 South Street Assemblage. The increase is also due to higher MPC segment REP EBT. These increases are partially offset by a provision for impairment in our Operating Assets segment REP EBT, a warrant liability loss and an increased provision for income taxes.

Please refer to the individual segment operations sections that follow for explanations of segment performance.

Segment Operations

Please refer to Note 16 - Segments for additional information including reconciliations of our segment basis results to generally accepted accounting principles ("GAAP") basis results.

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Master Planned Communities Revenues and Expenses (*)

For the three months ended September 30, 2016 and 2015

(In thousands, except %)

	Bridgeland		Maryland Communities		Summerlin		The Woodlands		The Wo Hills
(In thousands)	2016	2015	2016	2015	2016	2015	2016	2015	2016
Land sales (a)	$ 7,210	$ 11,387	$ —	$ —	$ 26,336	$ 16,718	$ 10,582	$ 17,318	$ —
Builder price participation	160	292	—	—	4,221	5,453	102	935	—
Minimum rents	—	—	—	—	95	171	—	—	—
Other land sale revenues	96	68	413	413	1,975	2,163	95	1,968	6
Other rental and property revenues	—	—	—	—	17	23	—	—	(4)
Total revenues	7,466	11,747	413	413	32,644	24,528	10,779	20,221	2
Cost of sales - land	2,255	3,503	—	—	13,558	9,499	5,619	6,672	—
Land sales operations	1,373	1,172	484	501	2,114	2,241	2,739	3,379	87
Land sales real estate and business taxes	411	610	159	159	630	1,037	1,196	1,225	23
Depreciation and amortization	23	26	3	5	16	28	30	30	—
Total expenses	4,062	5,311	646	665	16,318	12,805	9,584	11,306	110
Operating income	3,404	6,436	(233)	(252)	16,326	11,723	1,195	8,915	(108)
Interest expense, net (b)	(2,366)	(2,159)	3	(8)	(3,982)	(3,511)	1,240	1,585	(148)
Equity in earnings in Real Estate	—	—	—	—	(13,699)	—	—	—	—

and Other Affiliates (c)									
MPC REP EBT	$ 5,770	$ 8,595	$ (236) (d)	$ (244) (d)	$ 34,007	$ 15,234	$ (45) (e)	$ 7,330	$ 40
Gross Margin % (f)	68.7 %	69.2 %	NM	NM	48.5 %	43.2 %	46.9 %	61.5 %	NM

(*) For a reconciliation of MPC REP EBT to consolidated income (loss) before taxes, refer to Note 16 – Segments.

(a) Land sales includes deferred revenue from land sales closed in a previous period which met criteria for recognition in the current period.
(b) Negative interest expense amounts relate to interest capitalized on debt assigned to our Operating Assets segment and corporate debt.
(c) Equity in earnings in Real Estate and Other Affiliates is our share of earnings in The Summit joint venture which commenced lot sales in 2016.
(d) The negative MPC REP EBT in Maryland is due to no land sales in 2016 or 2015; however, certain costs such as real estate taxes and administrative expenses continue to be incurred.
(e) The number of residential lots sold decreased from 88 to 79 and the number of commercial acres sold decreased from 3.3 acres to zero for the three months ended September 30, 2016 compared to the same period in 2015, resulting in negative MPC REP EBT at The Woodlands.
(f) Gross Margin % is the ratio of Land sales less Cost of sales-land, divided by Land sales.
NM – Not meaningful

MPC revenues vary between periods based on economic conditions and several factors such as, but not limited to, location, availability of land for sale, development density and residential or commercial use. Gross margin for each MPC may vary from period to period based on the locations of the land sold and the related costs associated with developing the land sold. Reported results may differ significantly from actual cash flows generated principally because cost of sales for GAAP purposes is derived from margins calculated using carrying values, projected future improvements and other capitalized project costs in relation to projected future land sale revenues. Carrying values, generally, represent acquisition and development costs reduced by any previous impairment charges. Development expenditures are capitalized and generally not reflected in the condensed consolidated statements of operations in the current period.

Builder price participation revenue is based on an agreed-upon percentage of the estimated sales price of the home relative to the base lot price.

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In the third quarter 2016, the gross margin for The Woodlands decreased by 14.4% due to downward adjustments in the lot prices for some product lines and a decrease in commercial acreage sold. For selected lot sizes, lot prices were reduced to meet current market conditions and to help stimulate lot sales. Most of the lot sales in the third quarter were in the product lines where the lot sale prices were adjusted. Subsequent home sales have been responding positively and we believe that further reductions for these lot sizes will not be required. Also, in the third quarter 2015 there was a large commercial land sale that contributed to the higher gross margin.

Cost of sales – land includes both actual and estimated future costs allocated based upon relative sales value to the lots or land parcels in each of the villages and neighborhoods in our MPCs.

Interest expense, net reflects the amount of interest that is capitalized at the project level.

Although our business does not involve the sale or resale of homes, we believe that net new home sales are an important indicator of future demand for our superpad sites and lots; therefore, we use this statistic where relevant in the discussion of our MPC operating results. Net new home sales reflect home sales made by homebuilders, less cancellations. Cancelations occur when a home buyer signs a contract to purchase a home, but later fails to qualify for a home mortgage or is unable to provide an adequate down payment to complete the home sale.

Master Planned Communities Revenues and Expenses (*)

For the nine months ended September 30, 2016 and 2015

(In thousands, except %)

	Bridgeland		Maryland Communities		Summerlin		The Woodlands		The W Hills
(In thousands)	2016	2015	2016	2015	2016	2015	2016	2015	2016
Land sales (a)	$ 15,991	$ 17,460	$ —	$ —	$ 106,341	$ 87,837	$ 24,836	$ 33,640	$ —
Builder price participation	595	813	—	—	13,535	15,995	1,501	3,477	—
Minimum rents	—	—	—	—	376	601	—	—	—
Other land sale revenues	206	270	416	466	7,396	5,617	328	4,685	11
Other rental and property revenues	—	—	—	—	33	30	—	—	—
	16,792	18,543	416	466	127,681	110,080	26,665	41,802	11

Total revenues									
Cost of sales - land	5,234	5,707	—	—	49,603	49,886	11,291	12,213	—
Land sales operations	3,635	3,102	604	703	6,431	8,604	8,747	12,181	186
Land sales real estate and business taxes	898	757	483	488	1,784	2,892	3,779	3,512	69
Depreciation and amortization	70	85	13	16	62	89	91	89	—
Total expenses	9,837	9,651	1,100	1,207	57,880	61,471	23,908	27,995	255
Operating income	6,955	8,892	(684)	(741)	69,801	48,609	2,757	13,807	(24
Interest expense, net (b)	(7,053)	(6,756)	(4)	(25)	(12,438)	(10,567)	4,307	4,101	(42
Equity in earnings in Real Estate and Other Affiliates (c)	—	—	—	—	(22,573)	—	—	—	—
MPC REP EBT	$ 14,008	$ 15,648	$ (680) (d)	$ (716) (d)	$ 104,812	$ 59,176	$ (1,550) (e)	$ 9,706	$ 185
Gross Margin % (f)	67.3 %	67.3 %	NM	NM	53.4 %	43.2 %	54.5 %	63.7 %	NM

(*) For a reconciliation of MPC REP EBT to consolidated income (loss) before taxes, refer to Note 16 – Segments.

(a) Land sales includes deferred revenue from land sales closed in a previous period which met criteria for recognition in the current period.
(b) Negative interest expense amounts relate to interest capitalized on debt assigned to our Operating Assets segment and corporate debt.
(c) Equity in earnings in Real Estate and Other Affiliates is our share of earnings in The Summit joint venture which commenced lot sales in 2016.

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(d) The negative MPC REP EBT in Maryland is due to no land sales in 2016 or 2015; however, certain costs such as real estate taxes and administrative expenses continue to be incurred.
(e) The number of residential lots sold decreased from 177 to 105 for the nine months ended September 30, 2016 compared to the same period in 2015, resulting in negative MPC REP EBT at The Woodlands.
(f) Gross margin % is the ratio of Land sales less Cost of sales-land, divided by Land sales.
NM – Not meaningful

Summary of MPC Land Sales Closed in the Three Months Ended September 30,

	Land Sales		Acres Sold		Number of Lots/Units		Price per acre		Price per lot	
($ In thousands)	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Bridgeland										
Residential										
Single family - detached	$ 4,687	$ 2,273	12.2	5.8	69	34	$ 384	$ 392	$ 68	$ 67
Commercial										
Not-for-profit	—	20,475	—	160.2	—	—	—	128	—	—
Total	4,687	22,748	12.2	166.0	69	34	384	137	68	67
$ Change	(18,061)		(153.8)		35		247		1	
% Change	(79.4%)		(92.7%)		102.9%		180.3%		1.5%	
Maryland Communities										
No land sales										
Summerlin										
Residential										
Superpad sites	15,000	17,754	30.9	36.1	75	160	485	492	200	111
Custom lots	1,525	1,580	0.8	0.8	2	2	1,906	1,975	763	790
Total	16,525	19,334	31.7	36.9	77	162	521	524	215	119
$ Change	(2,809)		(5.2)		(85)		(3)		96	
% Change	(14.5%)		(14.1%)		(52.5%)		(0.6%)		80.7%	
The Woodlands										
Residential										
Single family - detached	10,581	5,609	19.9	9.2	79	32	532	610	134	175
Single family - attached	—	4,872	—	5.0	—	56	—	974	—	87
Commercial										
Medical	—	6,837	—	3.3	—	—	—	2,072	—	—
Total	10,581	17,318	19.9	17.5	79	88	532	990	134	119
$ Change	(6,737)		2.4		(9)		(458)		15	
% Change	(38.9%)		13.7%		(10.2%)		(46.2%)		12.6%	
	$ 31,793	$ 59,400	63.8	220.4	225	284				

Total land sales closed in period		
Net recognized (deferred) revenue		
Bridgeland	$ 2,523	$ (11,361)
Summerlin	7,649	(2,633)
Total net recognized (deferred) revenue (a)	10,172	(13,994)
Special Improvement District revenue	2,163	17
Total land sales revenue - GAAP basis	$ 44,128	$ 45,423

(a) Represents revenues on sales closed in prior periods where revenue was previously deferred and met criteria for recognition in the current periods, offset by revenues deferred on sales closed in the current period.

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Summary of MPC Land Sales Closed in the Nine Months Ended September 30,

	Land Sales		Acres Sold		Number of Lots/Units		Price per acre		Price per lot	
($ In thousands)	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Bridgeland										
Residential										
Single family - detached	$ 13,557	$ 8,346	36.2	21.3	201	94	$ 375	$ 392	$ 67	$ 89
Commercial										
Not-for-profit	—	20,475	—	160.2	—	—	—	128	—	—
Total	13,557	28,821	36.2	181.5	201	94	375	159	67	89
$ Change	(15,264)		(145.3)		107		216		(22)	
% Change	(53.0%)		(80.1%)		113.8%		135.8%		(24.7%)	
Maryland Communities										
No land sales										
Summerlin										
Residential										
Superpad sites	81,987	63,784	201.1	117.2	943	393	408 (a)	544	87	162
Single family - detached	—	13,650	—	14.9	—	75	—	916	—	182
Custom lots	4,170	7,900	2.4	5.3	7	13	1,738	1,491	596	608
Commercial										
Not-for-profit	348	—	10.0	—	—	—	35	—	—	—
Other	—	3,136	—	3.6	—	—	—	871	—	—
Total	86,505	88,470	213.5	141.0	950	481	405	627	91	177
$ Change	(1,965)		72.5		469		(222)		(86)	
% Change	(2.2%)		51.4%		97.5%		(35.4%)		(48.6%)	
The Woodlands										
Residential										
Single family - detached	14,431	19,468	26.3	31.2	105	112	549	624	137	174
Single family - attached	—	5,280	—	5.8	—	65	—	910	—	81
Commercial										
Not-for-profit	—	733	—	5.0	—	—	—	147	—	—
Medical	10,405	6,837	4.3	3.3	—	—	2,420	2,072	—	—
Other	—	1,321	—	0.9	—	—	—	1,468	—	—
Total	24,836	33,639	30.6	46.2	105	177	812	728	137	140
$ Change	(8,803)		(15.6)		(72)		84		(3)	
% Change	(26.2%)		(33.8%)		(40.7%)		11.5%		(2.1%)	

Total land sales closed in period	$ 124,898	$ 150,930	280.3	368.7	1,256	752
Net recognized (deferred) revenue						
Bridgeland	$ 2,435	$ (11,361)				
Summerlin	13,941	(4,740)				
Total net recognized (deferred) revenue (b)	16,376	(16,101)				
Special Improvement District revenue	5,894	4,108				
Total land sales revenue - GAAP basis	$ 147,168	$ 138,937				

(a) Please see discussion below.

(b) Represents revenues on sales closed in prior periods where revenue was previously deferred and met criteria for recognition in the current periods, offset by revenues deferred on sales closed in the current period.

Houston MPCs

Bridgeland

Residential land sales for the three and nine months ended September 30, 2016 were substantially higher compared to the same periods in 2015 due to increased demand from homebuilders, offset by a $20.5 million decrease in commercial land sales from 2015. While the greater Houston market remains impacted by the ongoing economic stagnancy caused by low oil prices, the Bridgeland submarket has shown improvement in the mid-range of the residential market. For the three and nine months ended September 30, 2016, Bridgeland sold 12.2 and 36.2 residential acres, respectively, compared to 5.8 and 21.3 acres for the same periods in 2015. The average price per residential acre for single-family – detached product decreased slightly for the three and nine months ended September 30, 2016 compared to 2015, by 2.0% and 4.3%, respectively. The decrease is attributable to a combination of lot price adjustments to meet current market conditions and the mix of lots sold in the respective periods. For the three and nine months ended September 30, 2016, there was a larger percentage of smaller, lower priced lots sold than in the same periods in 2015.

There were 74 and 243 new home sales at Bridgeland for the three and nine months ended September 30, 2016, representing an increase of 105.6% and 67.6%, respectively, compared to the same periods in 2015. For the three months ended September 30, 2016, the median price of new homes sold in Bridgeland was $308,000, a 23.6% decrease compared to $403,000 for the same period in 2015. The median price of new homes sold in the nine months ended September 30, 2016 decreased 20.4% to $324,000 compared to $407,000 for the same period in 2015. These decreases in median home pricing are due to the mix of homes sold and reflect increased sales of more affordable homes. Land and home absorption rates at Bridgeland in 2016 have benefited from the wide variety of products being offered at highly competitive prices. In addition, the Grand Parkway toll road, which opened in February 2016, provides greater connectivity between Bridgeland and major employment centers in Houston.

The Woodlands

The $6.7 million decrease in total land sales for the three months ended September 30, 2016 compared to the same period in 2015 is primarily due to a 3.3-acre medical office building land sale in the third quarter 2015 for $6.8 million. The $8.8 million decrease in total land sales for the nine months ended September 30, 2016 compared to the same period in 2015 is due to reduced lot sales of $10.3 million due to 72 fewer lot closings, offset by a $1.5 million increase in commercial land sales.

There were 105 lot closings in The Woodlands for the nine months ended September 30, 2016, which were 72 fewer than the same period in 2015. The reduced lot sales pace is due primarily to the downturn in the Houston economy resulting from lower oil prices and the disproportionate impact this has had on the upper end of the housing market. Also contributing to the reduced lot sales pace is the build-up of homebuilder vacant lot inventory levels to 505 lots as of September 30, 2016. Based on current home sales velocity, this level of inventory could equate to more than a two-year supply of some product types. The 179 home sales, which exceeded the 105 lot closings for the nine months ended September 30, 2016, helped reduce the homebuilder vacant lot inventory from 575 at December 31, 2015 to 505 as of September 30, 2016.

There were 62 and 179 new home sales in The Woodlands for the three and nine months ended September 30, 2016, respectively, representing a 29.2% increase and 16.7% decrease, respectively, compared to the 48 and 215 new home sales for the same periods in 2015. For the three months ended September 30, 2016, the median price of new homes sold in The Woodlands decreased 3.3% to $578,000 compared to $598,000 for the same period in 2015. The median price of new homes sold in the nine months ended September 30, 2016 decreased 1.6% to $559,000 compared to $568,000 for the same period in 2015. The lower home prices indicate that homebuilders are reducing home prices to meet homebuilder demand at a lower price point.

The Woodlands Hills

On June 30, 2016, we received approval of our development plan for The Woodlands Hills from the City of Conroe. As a result of this approval, we can now begin submitting plats to the City of Conroe for their review and approval of the first sections scheduled for development. We currently expect to start water, sewer and drainage construction in the fourth quarter 2016 and sales to begin in the fourth quarter 2017. We believe that The Woodlands Hills is well-positioned to

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capture the home buying demand for moderately priced homes. It has a projected lower price point for all product types compared to The Woodlands, with pricing comparable to Bridgeland. Furthermore, it benefits from The Woodlands' brand reputation and has a favorable location to major employment centers, including the medical and office centers in The Woodlands and the ExxonMobil campus located just south of The Woodlands.

Maryland

Our Columbia, Gateway, Emerson and Fairwood communities contain approximately 108 commercial acres remaining to be sold, there were no commercial land sales for the three or nine month periods ended September 30, 2016 or 2015. All of the residential inventory was sold out in prior years.

In December 2015, approximately 35 acres of the Columbia commercial acreage was transferred to our Strategic Developments segment as we began development of office space in the Downtown Columbia Town Center Redevelopment District ("DCRD"). The entitlements, which do not expire under Maryland law, are enabling us to redevelop Downtown Columbia, a portion of DCRD and further support the approximate 112,000 residents.

Summerlin

Land sales revenue of $26.3 million and $106.3 million recognized for the three and nine months ended September 30, 2016, includes $7.6 million and $13.9 million, respectively, in revenue from land sales closed in prior periods which were previously deferred and met criteria for recognition in the current periods.

Summerlin's land sales for the three months ended September 30, 2016 were lower compared to the same period in 2015 due to the sale of one superpad in the third quarter 2016 compared to two superpads in the third quarter 2015. The average price per superpad acre sold for the three months ended September 30, 2016 was $485,000 compared to $492,000 for the same period in 2015, a reduction of 1.4%. Summerlin's land sales for the nine months ended September 30, 2016 were slightly lower compared to the same period in 2015. The average price per superpad acre for the nine months ended September 30, 2016 of $408,000 is not comparable to the average price per acre of $544,000 for the same period in 2015 due to a $40 million bulk sale to a homebuilder for a large parcel in the first quarter 2016. This sale was unique as the homebuilder will be responsible for installing power and drainage facilities to the village, and unlike a typical sale, Summerlin is not obligated to incur any development costs within the boundaries of the parcel. Gross margin increased for the nine months ended September 30, 2016 compared to 2015 due to this sale of undeveloped land for which we incurred much lower development costs. In addition, as part of the transaction we negotiated a favorable adjustment to the builder price participation on the land we sold to the same homebuilder in 2006.

The Summerlin market and job growth remain strong. Summerlin had 195 and 545 new home sales for the three and nine months ended September 30, 2016, respectively, representing a 42.3% and 17.5% increase compared to 137 and 464 new home sales for the three and nine months ended September 30, 2015, respectively. For the three months ended September 30, 2016, the median price of new homes sold in Summerlin increased 2.2% to $521,000 compared to $510,000 for the same period in 2015. The median price of new homes sold in Summerlin increased 2.1% to $538,000 for the nine months ended September 30, 2016 compared to $527,000 for the same period in 2015.

Land development began at The Summit, our joint venture with Discovery Land, in the second quarter 2015 and continues to progress on schedule based upon the initial plan. For the nine months ended September 30, 2016, 38 custom residential lots had closed resulting in the recognition of $22.6 million in Equity in earnings in Real Estate and Other Affiliates. Discovery is the manager of the project, and development began in the second quarter 2015. As of September 30, 2016, the project has contracted for approximately $216.6 million in land sales, of which $119.8 million in lot closings were completed through the third quarter 2016. This revenue is being recognized as the development progresses under the percentage of completion method of accounting. Please refer to Note 8 – Real Estate and Other Affiliates for a description of the joint venture and our share of equity earnings in the period.

MPC Net Contribution

In addition to REP EBT for the MPCs, we believe that certain investors measure the value of the assets in this segment based on their contribution to liquidity and capital available for investment. MPC Net Contribution is defined as MPC REP EBT, plus MPC cost of sales, depreciation and amortization, and net collections from Special Improvement District

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(“SID”) bonds and Municipal Utility District (“MUD”) receivables, reduced by MPC development and land acquisition expenditures. Although MPC Net Contribution can be computed from GAAP elements of income and cash flows, it is not a GAAP-based operational metric and should not be used to measure operating performance of the MPC assets as a substitute for GAAP measures of such performance. A reconciliation of REP EBT to consolidated net income (loss) as computed in accordance with GAAP is presented in Note 16 - Segments.

The following table sets forth the MPC Net Contribution for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,			Nine Months Ended September 30,		
(in thousands)	2016	2015	Change	2016	2015	Change
MPC REP EBT (a)	$ 39,536	$ 31,021	$ 8,515	$ 116,775	$ 84,212	$ 32,563
Plus:						
Cost of sales - land	21,432	19,674	1,758	66,128	67,806	(1,678)
Depreciation and amortization	72	89	(17)	236	279	(43)
MUD and SID bonds collections, net (b)	6,544	1,292	5,252	3,485	(1,220)	4,705
Less:						
MPC development expenditures	(35,823)	(45,430)	9,607	(106,501)	(129,298)	22,797
MPC land acquisitions	-	(4,100)	4,100	(69)	(6,028)	5,959
MPC Net Contribution	$ 31,761	$ 2,546	$ 29,215	$ 80,054	$ 15,751	$ 64,303

(a) For a detailed breakdown of our Master Planned Communities segment EBT, refer to Note 16 – Segments.
(b) SID bond collections are shown net of SID bond assumptions by buyers in the respective periods.

While the land sales closed for the three months ended September 30, 2016 decreased as compared to the same period in 2015, $10.2 million of revenue previously deferred due to future performance obligations met criteria for recognition in the current period. The Summit at our Summerlin MPC contributed earnings of $13.7 million and $22.6 million for the three and nine months ended September 30, 2016, respectively. Accordingly, MPC Net Contribution increased for the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015, primarily due to an increase in MPC REP EBT at Summerlin and the reduction in MPC development expenditures in 2016.

The following table sets forth MPC land inventory activity for the nine months ended September 30, 2016:

(In thousands)	Bridgeland	Maryland	Summerlin	The Woodlands	The Woodlands Hills	Total MPC
Balance December 31, 2015	$ 435,220	$ 22,143	$ 864,276	$ 220,099	$ 101,104	$ 1,642,842
Acquisitions	—	—	—	69	—	69
Development expenditures (a)	32,738	223	50,142	22,041	1,357	106,501
MPC Cost of Sales	(5,234)	—	(49,603)	(11,291)	—	(66,128)

MUD reimbursable costs (b)	(25,293)	—	—	(5,773)	(99)	(31,165)
Other	(1,387)	4	12,753	(3,016)	50	8,404
Balance September 30, 2016	$ 436,044	$ 22,370	$ 877,568	$ 222,129	$ 102,412	$ 1,660,523

(a) Development expenditures are inclusive of capitalized interest and property taxes.
(b) MUD reimbursable costs represent land development expenditures transferred to MUD Receivables.

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Operating Assets

Operating assets typically generate rental revenues sufficient to cover their operating costs except when a substantial portion, or all, of the property is being redeveloped, vacated for development or is in its initial lease-up phase. Variances between years in NOI typically result from changes in rental rates, occupancy, tenant mix and operating expenses. We view NOI as an important measure of the operating performance of our Operating Assets segment. See Operating Assets NOI and REP EBT table below.

Total revenues and expenses for the Operating Assets segment are summarized as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
(In thousands)	2016	2015	Change	2016	2015	Change
Minimum rents	$ 44,736	$ 37,565	$ 7,171	$ 127,663	$ 108,574	$ 19,089
Tenant recoveries	11,652	10,685	967	33,089	30,951	2,138
Hospitality revenues	14,088	11,772	2,316	46,126	35,256	10,870
Other rental and property revenues	3,471	7,400	(3,929)	10,974	20,645	(9,671)
Total revenues	73,947	67,422	6,525	217,852	195,426	22,426
Other property operating costs	15,611	15,659	(48)	43,559	51,495	(7,936)
Rental property real estate taxes	6,406	6,447	(41)	19,257	17,956	1,301
Rental property maintenance costs	3,247	2,968	279	8,893	8,380	513
Hospitality costs	12,662	8,767	3,895	37,379	26,738	10,641
Provision for doubtful accounts	1,940	975	965	4,566	3,050	1,516
Other income, net	(13)	—	(13)	(3,126)	—	(3,126)
Depreciation and amortization	20,732	22,936	(2,204)	64,546	64,585	(39)
Provision for impairment	35,734	—	35,734	35,734	—	35,734
Interest income	(3)	(10)	7	(19)	(29)	10
Interest expense	9,772	8,002	1,770	29,041	22,124	6,917
Equity in earnings from Real Estate and Other Affiliates	209	(289)	498	(2,617)	(1,333)	(1,284)
Total operating expenses	106,297	65,455	40,842	237,213	192,966	44,247
Income before development expenses	(32,350)	1,967	(34,317)	(19,361)	2,460	(21,821)
Demolition costs	16	798	(782)	494	2,411	(1,917)
Development-related marketing costs	1,950	2,367	(417)	5,038	7,381	(2,343)
Total development expenses	1,966	3,165	(1,199)	5,532	9,792	(4,260)
Operating Assets REP EBT	$ (34,316)	$ (1,198)	$ (33,118)	$ (24,893)	$ (7,332)	$ (17,561)

(*)For a reconciliation of Operating Assets REP EBT to consolidated income (loss) before taxes, refer to Note 16 - Segments.

Minimum rents and tenant recoveries increased for the three and nine months ended September 30, 2016 compared to the same periods in 2015 due to increases of $8.1 million and $21.2 million, respectively, for our retail, office and multi-family properties. The increase for our retail properties was primarily due to the elimination of co-tenancy allowances for the majority of tenants at Downtown Summerlin. The increase in our office properties was primarily due to the openings of 1725-1735 Hughes Landing Boulevard. The increase in our multi-family properties was primarily due to the opening of One Lakes Edge in 2015 and the purchase of our partner's interest in Millennium Six Pines Apartments (formerly known as Millennium Woodlands Phase II, LLC).

Hospitality revenues increased for the three months and nine months ended September 30, 2016 due primarily to the opening of the Embassy Suites at Hughes Landing in December 2015 and The Westin at The Woodlands in March 2016.

Other rental and property revenue decreased for the three months ended September 30, 2016 due to a decrease in termination fee income and the sale of the Club at Carlton Woods in September 2015. For the nine months ended September 30, 2016, other rental and property revenue decreased primarily due to the sale of the Club at Carlton Woods in September 2015.

Other property operating costs and rental property maintenance costs decreased for the three months and nine months ended September 30, 2016 compared to the same period 2015 due to the sale of the Club at Carlton Woods, partially offset by an increase for our office properties primarily due to the openings of 1725-1735 Hughes Landing Boulevard.

Rental property real estate taxes for the nine months ended September 30, 2016 compared to the same period 2015 increased primarily due to the openings of 1725-1735 Hughes Landing Boulevard and ONE Summerlin in 2015 (“2015 Office Openings”), Downtown Summerlin and the opening of One Lakes Edge apartments offset by the sale of Carlton Woods.

Hospitality costs increased for the three and nine months ended September 30, 2016 due to the opening of the Embassy Suites at Hughes Landing in December 2015 and The Westin at The Woodlands in March 2016 offset by a decrease in hospitality costs at The Woodlands Resort & Conference Center due to a decline in occupancy and conference center services.

Provision for doubtful accounts increased for the three months ended September 30, 2016 compared to the same period in 2015 due to collectability issues related to a tenant’s termination fees. Additionally, the provision for doubtful accounts increased for the nine months ended September 30, 2016 compared to the same period in 2015 due to a write-off of straight-line rent at Ward Village as a result of an agreement reached in the second quarter to assume a bankrupt tenant’s lease. Recoveries of the pre-petition receivables are recognized in accordance with the agreement.

The provision for impairment resulted from a decrease in our expected holding period for Park West which resulted in an impairment. The property also has an approximate $81.4 million tax basis, which upon a sale of the property for our estimated carrying value would represent a $46.5 million tax loss that could be used to offset future taxable income.

Depreciation and amortization for the three months ended September 30, 2016 compared to the same period in 2015 decreased due to the transfer of an asset at Ward Village to development.

Interest expense increased primarily due to higher loan balances on properties acquired or placed in service. The increase for retail during the nine months ended September 30, 2016 is primarily due to Downtown Summerlin and Hughes Landing Retail. The increase for office was due primarily to 10-60 Columbia Corporate Center, Two Hughes Landing and 1725-1735 Hughes Landing. Multi-family interest expense increased due to placing One Lakes Edge in service in 2015. Hospitality interest expense increased due to placing in service The Westin at The Woodlands and The Embassy Suites at Hughes Landing.

Equity in earnings from Real Estate and Other Affiliates increased for the three and nine months ended September 30, 2016 compared to the same period for 2015 due primarily to a $2.6 million distribution from our Summerlin Hospital investment as compared to $1.7 million in 2015.

Demolition costs decreased for the three and nine months ended September 30, 2016 compared to the same periods in 2015 due primarily to the completion of the interior demolition work for the Fulton Market Building at South Street Seaport.

Development-related marketing costs decreased for the three and nine months ended September 30, 2016 compared to the same periods in 2015 due to a decrease in marketing costs at Seaport. We incurred higher costs in 2015 due to the opening and operations of our studio store for pre-leasing activities. The costs in 2016 relate to ongoing marketing initiatives as we continue leasing efforts in advance of the completion of our Pier 17 redevelopment.

When a development property is placed in service, depreciation is calculated for the property ratably over the estimated useful lives of each of its components; however, most of our recently developed properties do not reach stabilization for 12 to 36 months after being placed in service due to the timing of tenants taking occupancy and subsequent leasing of remaining unoccupied space during that period. As a result, operating income, earnings before taxes (EBT) and net income will not reflect the ongoing earnings potential of newly placed in service operating assets during this transition period to stabilization. Accordingly, we calculate Adjusted Operating Assets REP EBT, which excludes depreciation and amortization and development-related demolition and marketing costs and provision for impairment, as they do not represent operating costs for stabilized real estate properties. Adjusted Operating Assets REP EBT decreased 3.2% for the three months and increased 20.7% for the nine months ended September 30, 2016, respectively, as compared to the same periods in prior year, due to the 2015 Office Openings and the opening of The Westin at The Woodlands and The Embassy Suites at Hughes Landing.

The following table reconciles Adjusted Operating Assets REP EBT to Operating Assets REP EBT:

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Reconciliation of Adjusted Operating Assets REP EBT to Operating Assets REP EBT (in thousands)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Adjusted Operating Assets REP EBT	$ 24,116	$ 24,903	$ 80,919	$ 67,045
Provision for impairment	(35,734)	—	(35,734)	—
Depreciation and amortization	(20,732)	(22,936)	(64,546)	(64,585)
Demolition costs	(16)	(798)	(494)	(2,411)
Development-related marketing costs	(1,950)	(2,367)	(5,038)	(7,381)
Operating Assets REP EBT	$ (34,316)	$ (1,198)	$ (24,893)	$ (7,332)

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Operating Assets NOI and REP EBT

	Three Months Ended September 30,			Nine Months Ended September 30,		
(In thousands)	2016	2015	Change	2016	2015	Change
Retail						
Columbia Regional	$ 422	$ 535	$ (113)	$ 1,024	$ 1,000	$ 24
Cottonwood Square	170	189	(19)	530	494	36
Creekside Village Green (a)	380	314	66	1,169	539	630
Downtown Summerlin (a)	4,020	2,507	1,513	12,261	6,700	5,561
Hughes Landing Retail (a)	822	400	422	2,345	786	1,559
1701 Lake Robbins	90	111	(21)	274	296	(22)
Lakeland Village Center (b)	—	—	—	56	—	56
Landmark Mall (c)	(202)	(116)	(86)	(526)	(302)	(224)
Outlet Collection at Riverwalk (d)	1,424	1,726	(302)	3,656	4,845	(1,189)
Park West (e)	411	211	200	1,346	1,386	(40)
Ward Village (f)	5,149	6,370	(1,221)	17,039	19,385	(2,346)
20/25 Waterway Avenue	442	437	5	1,282	1,384	(102)
Waterway Garage Retail	184	186	(2)	480	539	(59)
Total Retail	13,312	12,870	442	40,936	37,052	3,884
Office						
10-70 Columbia Corporate Center (g)	2,631	2,925	(294)	8,701	9,449	(748)
Columbia Office Properties (h)	(16)	263	(279)	(133)	342	(475)
One Hughes Landing (j)	1,457	1,475	(18)	4,462	4,112	350
Two Hughes Landing (i)	322	2,528	(2,206)	2,979	3,380	(401)
Three Hughes Landing (b)	(251)	—	(251)	(409)	—	(409)
1725 Hughes Landing Boulevard (b)	817	—	817	(330)	—	(330)
1735 Hughes Landing Boulevard (b)	1,531	—	1,531	956	—	956
2201 Lake Woodlands Drive	(42)	(32)	(10)	(113)	(119)	6
9303 New Trails (d)	401	476	(75)	1,257	1,459	(202)
110 N. Wacker	1,525	1,519	6	4,576	4,577	(1)
ONE Summerlin (a)	691	(148)	839	1,529	(317)	1,846
3831 Technology Forest Drive	600	487	113	1,515	1,415	100
3 Waterway Square (j)	1,545	1,499	46	4,938	4,670	268
4 Waterway Square (j)	1,485	1,520	(35)	4,786	4,462	324
1400 Woodloch Forest (k)	367	485	(118)	1,294	1,248	46
Total Office	13,063	12,997	66	36,008	34,678	1,330
Multi-family						
Millennium Six Pines Apartments (l)	513	—	513	513	—	513
Millennium Waterway Apartments (m)	704	1,106	(402)	2,327	3,151	(824)
One Lakes Edge (a)	967	688	279	2,623	147	2,476

85 South Street	141	144	(3)	391	359	32
Total Multi-family	2,325	1,938	387	5,854	3,657	2,197
Hospitality						
Embassy Suites at Hughes Landing (b)	929	—	929	2,498	—	2,498
The Westin at The Woodlands (b)	(24)	—	(24)	585	—	585
The Woodlands Resort & Conference Center (n)	520	3,006	(2,486)	5,663	8,518	(2,855)
Total Hospitality	1,425	3,006	(1,581)	8,746	8,518	228
Total Retail, Office, Multi-family, and Hospitality	30,125	30,811	(686)	91,544	83,905	7,639
The Woodlands Ground leases	378	330	48	1,046	856	190
The Woodlands Parking Garages	(129)	(184)	55	(320)	(455)	135
Other Properties	971	951	20	2,920	2,827	93
Total Other	1,220	1,097	123	3,646	3,228	418
Operating Assets NOI - Consolidated and Owned	31,345	31,908	(563)	95,190	87,133	8,057
Redevelopments						
South Street Seaport (b) (o)	186	(22)	208	(624)	(423)	(201)
Dispositions						
The Club at Carlton Woods (p)	—	751	(751)	—	(942)	942
Total Operating Assets NOI - Consolidated	31,531	32,637	(1,106)	94,566	85,768	8,798
Straight-line lease amortization (q)	2,550	408	2,142	9,632	2,632	7,000
Demolition costs (r)	(16)	(798)	782	(494)	(2,411)	1,917
Development-related marketing costs	(1,950)	(2,367)	417	(5,038)	(7,381)	2,343
Provision for impairment	(35,734)	—	(35,734)	(35,734)	—	(35,734)
Depreciation and Amortization	(20,732)	(22,936)	2,204	(64,546)	(64,585)	39
Write-off of lease intangibles and other	—	(439)	439	—	(593)	593
Other income, net	13	—	13	3,126	—	3,126
Equity in earnings from Real Estate Affiliates	(209)	289	(498)	2,617	1,333	1,284
Interest, net	(9,769)	(7,992)	(1,777)	(29,022)	(22,095)	(6,927)
Total Operating Assets REP EBT (s)	$ (34,316)	$ (1,198)	$ (33,118)	$ (24,893)	$ (7,332)	$ (17,561)

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(In thousands)	Three Months Ended September 30, 2016	2015	Change	Nine Months Ended September 30, 2016	2015	Change
Operating Assets NOI - Equity and Cost Method Investments						
Grandview SHG, LLC (b)	$ 590	$ —	$ 590	$ 899	$ —	$ 899
Millennium Six Pines Apartments (l)	(83)	496	(579)	1,537	503	1,034
Stewart Title Company	891	330	561	1,411	1,329	82
Summerlin Baseball Club	28	211	(183)	628	780	(152)
The Metropolitan Downtown Columbia (a)	(174)	652	(826)	2,759	283	2,476
Woodlands Sarofim # 1	278	465	(187)	1,070	1,194	(124)
Total NOI - equity investees	1,530	2,154	(624)	8,304	4,089	4,215
Adjustments to NOI (t)	(1,978)	(805)	(1,173)	(8,040)	(2,260)	(5,780)
Equity Method Investments REP EBT	(448)	1,349	(1,797)	264	1,829	(1,565)
Less: Joint Venture Partner's Share of REP EBT	239	(1,060)	1,299	(263)	(2,243)	1,980
Equity in earnings from Real Estate and Other Affiliates	(209)	289	(498)	1	(414)	415
Distributions from Summerlin Hospital Investment (u)	—	—	—	2,616	1,747	869
Segment equity in earnings from Real Estate and Other Affiliates	$ (209)	$ 289	$ (498)	$ 2,617	$ 1,333	$ 1,284
Company's Share of Equity Method Investments NOI						
Grandview SHG, LLC	$ 207	$ —	$ 207	$ 315	$ —	$ 315
Millennium Six Pines Apartments (l)	(67)	404	(471)	1,252	410	842
Stewart Title Company	446	165	281	706	665	41
Summerlin Baseball Club	14	105	(91)	314	390	(76)
The Metropolitan Downtown Columbia	(87)	327	(414)	1,380	142	1,238
Woodlands Sarofim # 1	56	93	(37)	214	239	(25)
Total NOI - equity investees	$ 569	$ 1,094	$ (525)	$ 4,181	$ 1,846	$ 2,335

(In thousands)	Economic Ownership		As of September 30, 2016 Total Debt	Total Cash
Grandview, LLC	35.00	%	36,000	18,244
Stewart Title Company	50.00	%	—	218
Summerlin Baseball Club	50.00	%	33	1,745
The Metropolitan Downtown Columbia	50.00	%	70,000	281
Woodlands Sarofim # 1	20.00	%	5,690	950

(a) NOI increase for the quarter ended September 30, 2016 as compared to 2015 relates to an increase in occupancy and/or stabilization of the property.
(b) Please refer to discussion in the following section regarding this property.
(c) The NOI losses in 2016 and 2015 are due to a decline in occupancy as the property loses tenants in anticipation of its redevelopment.
(d) The NOI decrease is due to higher than normal tenant recoveries in 2015.
(e) NOI increase for the nine month period ended September 30, 2016 is due to an increase in occupancy.
(f) The decrease in NOI is due to rent abatement for a tenant related to a lease modification, decrease in occupancy related to a bankrupt tenant and decrease in occupancy due to pending redevelopment.
(g) NOI decrease is due to a decrease in occupancy.
(h) NOI decrease for the three and nine month period ended September 30, 2016 is due primarily to decreased occupancy related to water damage in 2015 and subsequent loss of tenants. Amounts settled with insurers with respect to the water damage are being held in escrow.
(i) The NOI decrease for the three and nine months ended September 30, 2016 is due to the provision for doubtful accounts related to a tenant's termination fee in third quarter 2016 and a large lease termination fee received in 2015.
(j) NOI increase for the nine months ended September 30, 2016 is due to a decrease in real estate taxes and other operating expenses.
(k) NOI decrease for the three months ended September 30, 2016 is due to lower occupancy.
(l) Purchased our partner's 18.57% interest in Millennium Six Pines Apartments (formerly known as Millennium Woodlands Phase II, LLC) in July 2016 and consolidated property at that time.
(m) NOI decrease is due to a decrease in rental rates to maintain occupancy during the lease up of Millennium Six Pines Apartments and One Lakes Edge.
(n) NOI decrease for the three and nine months ended September 30, 2016 is due to lower occupancy and a decrease in conference center services.
(o) NOI increase for the three months ended September 30, 2016 is due to increased occupancy. NOI decrease for the nine months ended September 30, 2016 is due to higher employment costs and professional expenses.
(p) The Club at Carlton Woods was sold in September 2015.
(q) The increase is primarily due to new leases at Downtown Summerlin and 1725-1735 Hughes Landing Boulevard which were placed in service in the fourth quarter 2015.
(r) The decrease in demolition costs is due to completion of the interior demolition of the Fulton Market Building and demolition of Pier 17 at Seaport.
(s) For a detailed breakdown of our Operating Asset segment REP EBT, please refer to Note 16 - Segments in the condensed consolidated financial statements.
(t) Adjustments to NOI include straight-line rent and market lease amortization, demolition costs, depreciation and amortization and non-real estate taxes.
(u) Distributions from the Summerlin Hospital are typically made one time per year in the first quarter.

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Reconciliation of Operating Assets Segment Equity in Earnings

(In thousands)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Equity Method investments	$ (209)	$ 289	$ 1	$ (414)
Cost basis investment	—	—	2,616	1,747
Operating Assets segment Equity in earnings	(209)	289	2,617	1,333
MPC segment Equity in earnings (a)	13,699	—	22,573	—
Strategic Developments segment Equity in earnings (b)	3	6	10,510	1,831
Equity in earnings from Real Estate and Other Affiliates	$ 13,493	$ 295	$ 35,700	$ 3,164

(a) The MPC Equity in earnings is primarily related to The Summit joint venture. Please refer to Note 8 – Real Estate and Other Affiliates for further description of this joint venture.
(b) The Strategic Developments segment Equity in earnings is primarily related to the Circle T Ranch and Power Center joint venture. Please refer to Note 8 – Real Estate and Other Affiliates for further description of this joint venture.

Retail Properties

Some of the leases related to our retail properties are triple net leases, which generally require tenants to pay their pro-rata share of property operating costs, such as real estate taxes, utilities and insurance, and the direct costs of their leased space. We also have leases which require tenants to pay a fixed-rate per square foot reimbursement to us for common area costs which is increased annually according to the terms of the lease.

The following table summarizes the leases we executed at our retail properties during the three months ended September 30, 2016:

			Square Feet			Per Square Foot			(In th
Retail Properties (a)	Total Executed	Avg. Lease Term (Months)	Total Leased	Associated with Tenant Improvements	Associated with Leasing Commissions	Avg. Annual Starting Rents	Total Tenant Improvements	Total Leasing Commissions	Avg. Annu Start Rent
Pre-leased (b)	9	124	36,670	36,670	4,430	$ 25.74	$ 94.15	$ 9.61	$ 94
Comparable - Renewal (c)	16	30	31,452	1,137	10,788	22.16	30.78	1.80	69
Comparable - New (d)	1	60	1,200	1,200	—	29.66	5.00	—	36
Non-comparable (e)	9	70	14,033	12,459	6,109	39.00	30.21	10.23	54
Total			83,355	51,466	21,327				$ 2,2

(a) Excludes executed leases with a term of less than 12 months.
(b) Pre-leased information is associated with projects under development at September 30, 2016.

(c) Comparable - Renewal information is associated with stabilized assets whereby the space was occupied by the same tenant within 12 months prior to the executed agreement. These leases represent an increase in cash rents from \$21.70 per square foot to \$22.16 per square foot, or 2.1% over previous rents.
(d) Comparable - New information is associated with stabilized assets whereby the space was occupied by a different tenant within 12 months prior to the executed agreement.
(e) Non-comparable information is associated with space that was previously vacant for more than 12 months or has never been occupied.

The following table summarizes the leases we executed at our retail properties during the nine months ended September 30, 2016:

			Square Feet			Per Square Foot			
Retail Properties (a)	Total Executed	Avg. Lease Term (Months)	Total Leased	Associated with Tenant Improvements	Associated with Leasing Commissions	Avg. Starting Rents per Annum	Total Tenant Improvements	Total Leasing Commissions	
Pre-leased (b)	20	116	66,779	61,673	21,706	\$ 37.57	\$ 252.89 (f)	\$ 13.16	\$
Comparable - Renewal (c)	28	30	59,318	2,637	18,362	26.98	41.71	2.38	
Comparable - New (d)	6	76	10,630	8,277	1,633	33.67	25.27	6.60	
Non-comparable (e)	26	79	87,813	73,683	59,297	35.48	64.24	6.61	
Total			224,540	146,270	100,998				\$

(a) Excludes executed leases with a term of 12 months or less and one lease with a joint venture in which we are a member.
(b) Pre-leased information is associated with projects under development at September 30, 2016.
(c) Comparable - Renewal information is associated with stabilized assets whereby the space was occupied by the same tenant within 12 months prior to the executed agreement. These leases represent an increase in cash rents from \$24.86 per square foot to \$26.98 per square foot, or 8.5% over previous rents.
(d) Comparable - New information is associated with stabilized assets whereby the space was occupied by a different tenant within 12 months prior to the executed agreement. These leases represent an increase in cash rents from \$29.66 per square foot to \$33.67 per square foot, or 13.5% over previous rents.
(e) Non-comparable information is associated with space that was previously vacant for more than 12 months or has never been occupied.
(f) Total tenant improvements include one anchor lease with above-market finish costs. Excluding this lease, total tenant improvements per square foot would be \$74.55.

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Bridgeland

Lakeland Village Center

In the second quarter 2015, we began construction of Lakeland Village Center, a CVS-anchored neighborhood retail center. CVS opened in March 2016, and this portion of the project is substantially complete and open to the public. The remaining total development costs are expected to be approximately $16 million, and we have incurred $12.1 million as of September 30, 2016. We expect to reach stabilized annual NOI of approximately $1.7 million in 2018. As of October 20, 2016, the project is 40.6% leased. The project is financed by a $14.0 million non-recourse construction loan bearing interest at one-month LIBOR plus 2.35% with an initial maturity date of May 15, 2018, with two, one-year extension options.

Office Properties

All of the office properties listed in the chart in Note 16 - Segments, except for 110 N. Wacker and ONE Summerlin, are located in Columbia, Maryland and in The Woodlands, Texas. Leases related to our office properties in The Woodlands and 110 N. Wacker are generally triple net leases. Those located in Columbia, Maryland, and ONE Summerlin are generally gross leases.

The following table summarizes our executed office property leases during the three months ended September 30, 2016:

			Square Feet			Per Square Foot			(In
Office Properties (a)	Total Executed	Avg. Lease Term (Months)	Total Leased	Associated with Tenant Improvements	Associated with Leasing Commissions	Avg. Annual Starting Rents	Total Tenant Improvements	Total Leasing Commissions	Av An Sta Re
Pre-leased (b)	-	N/A	—	—	—	$ —	$ —	$ —	$ -
Comparable - Renewal (c)	3	63	29,246	4,133	21,055	27.07	10.00	7.81	7
Comparable - New (d)	1	61	2,240	2,240	2,240	30.00	5.00	9.30	6
Non-comparable (e)	9	81	94,629	85,274	85,860	25.49	51.01	15.91	2
Total			126,115	91,647	109,155				$ 3

(a) Excludes executed leases with a term of 12 months or less.
(b) Pre-leased information is associated with projects under development at September 30, 2016.
(c) Comparable - Renewal information is associated with stabilized assets whereby the space was occupied by the same tenant within 12 months prior to the executed agreement. These leases represent a decrease in cash rents from $30.65 per square foot to $27.07 per square foot, or (11.7%) over previous rents.
(d) Comparable - New information is associated with stabilized assets whereby the space was occupied by a different tenant within 12 months prior to the executed agreement. These leases represent an increase in cash rents from $26.00 per square foot to $30.00 per square foot, or 15.4% over previous rents.

(e) Non-comparable information is associated with space that was previously vacant for more than 12 months or has never been occupied.

The following table summarizes our executed office property leases during the nine months ended September 30, 2016:

			Square Footage			Per Square Foot			(In thousands)	
Office Properties (a)	Total Executed	Avg. Lease Term (Months)	Total Leased	Associated with Tenant Improvements	Associated with Leasing Commissions	Avg. Starting Rents per Annum	Total Tenant Improvements	Total Leasing Commissions	Avg. Annual Starting Rents	Tena Impro
Pre-leased (b)	1	125	13,199	13,199	—	$ 27.25	$ 55.00	$ —	$ 360	$ 72
Comparable - Renewal (c)	15	63	94,452	51,300	79,154	26.25	30.25	6.37	2,480	1,5