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

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 000-19989

STRATUS®

Stratus Properties Inc.

(Exact name of registrant as specified in its charter)

Delaware	**72-1211572**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
212 Lavaca St., Suite 300 **Austin, Texas**	**78701**
(Address of principal executive offices)	(Zip Code)

(512) 478-5788
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	The NASDAQ Stock Market
Preferred Stock Purchase Rights	The NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☑ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☑ No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

The aggregate market value of common stock held by non-affiliates of the registrant was approximately $65.2 million on February 27, 2015, and approximately $78.0 million on June 30, 2014.

Common stock issued and outstanding was 8,041,680 shares on February 27, 2015, and 8,029,353 shares on June 30, 2014.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our proxy statement for our 2015 annual meeting of stockholders are incorporated by reference into Part III (Items 10, 11, 12, 13 and 14) of this report.

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PART I

Items 1. and 2. Business and Properties

Except as otherwise described herein or the context otherwise requires, all references to "Stratus," "we," "us" and "our" in this Form 10-K refer to Stratus Properties Inc. and all entities owned or controlled by Stratus Properties Inc. All of our periodic reports filed with or furnished to the United States (U.S.) Securities and Exchange Commission (SEC) pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports are available, free of charge, through our website, www.stratusproperties.com, or by submitting a written request via mail to Stratus Investor Relations, 212 Lavaca St., Suite 300, Austin, Texas 78701. These reports and amendments are available through our website or by request as soon as reasonably practicable after we electronically file or furnish such material with or to the SEC.

All references to "Notes" herein refer to the Notes to Consolidated Financial Statements located in Part II, Item 8. of this Form 10-K.

Overview

We are a diversified real estate company engaged primarily in the development, management, operation and/or sale of commercial, hotel, entertainment, and multi- and single-family residential real estate properties located in Texas, primarily in the Austin area. We generate revenues from sales of developed properties, from our hotel and entertainment operations and from rental income from our commercial properties. See Note 11 for further discussion of our operating segments.

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

Our principal executive offices are located in Austin, Texas, and our company was incorporated under the laws of the state of Delaware on March 11, 1992. Stratus Properties Inc. was formed to hold, operate and develop the domestic real estate and oil and gas properties of our former parent company. We sold all of our oil and gas properties during the 1990s and have since focused solely on our real estate properties. Our overall strategy has been to enhance the value of our properties by securing and maintaining development entitlements and developing and building real estate projects on these properties for sale or investment. We have also pursued opportunities for new projects that offer the possibility of acceptable returns and risks. See "Business Strategy and Related Risks" in Part 2, Item 7. for further discussion of Stratus' business strategy and related risks.

Operations

Real Estate Operations. A developed lot is an individual tract of land that has been developed and permitted for residential use. Developed acreage or acreage under development includes real estate for which infrastructure work over the entire property has been completed, is currently being completed or is able to be completed and for which necessary permits have been obtained. The undeveloped acreage shown in the table below is presented according to anticipated uses for multi- and single-family lots and commercial development based upon our understanding of the properties' existing entitlements. However, there is no assurance that the undeveloped acreage will be developed because of the nature and cost of the approval and development process and market demand for a particular use. Undeveloped acreage includes real estate that can be sold "as is" (i.e., no infrastructure or development work has begun on such property). The number of developed lots/units, acreage under development and undeveloped acreage as of December 31, 2014, that comprise our real estate operations are presented in the following table.

		Acreage							
		Under Development			Undeveloped				
	Developed Lots/Units	Single Family	Commercial	Total	Single Family	Multi-family	Commercial	Total	Total Acreage
Austin:									
Barton Creek	14	166	—	166	512	327	418	1,257	1,423
Circle C	50	—	—	—	—	36	228	264	264
Lantana	—	—	—	—	—	—	44	44	44
W Austin Residences	2	—	—	—	—	—	—	—	—
Lakeway	—	—	87	87	—	—	—	—	87
Magnolia	—	—	—	—	—	—	124	124	124
San Antonio:									
Camino Real	—	—	—	—	—	—	2	2	2
Total	66	166	87	253	512	363	816	1,691	1,944

Revenue from our real estate operations segment accounted for 28 percent of our total revenue for 2014 and 53 percent for 2013.

The following table summarizes the estimated development potential, including 64 single family lots and 245,022 square feet of commercial space currently under development, of our Austin-area acreage as of December 31, 2014:

	Single Family	Multi-family	Commercial
	(lots)	(units)	(gross square feet)
Barton Creek	219	2,074	1,604,081
Lantana	—	—	485,000
Circle C	—	296	692,857
Lakeway	—	—	245,022
Magnolia	—	—	351,000
Austin 290 Tract	—	—	20,000
Total	219	2,370	3,397,960

Hotel. The W Austin Hotel includes 251 luxury rooms and suites, a full service spa, gym, rooftop pool and 9,750 square feet of meeting space. We have an agreement with Starwood Hotels & Resorts Worldwide, Inc. (Starwood) for the management of hotel operations at our W Austin Hotel & Residences project. Revenue per available room for the W Austin Hotel averaged $291 during 2014 and $260 during 2013.

Revenue from our hotel segment accounted for 45 percent of our total revenue for 2014 and 31 percent for 2013.

Entertainment. The entertainment space at the W Austin Hotel & Residences project is occupied by Austin City Limits Live at the Moody Theater (ACL Live) and includes a live music and entertainment venue and production studio with a maximum capacity of approximately 3,000 people. In addition to hosting concerts and private events, this venue is the home of Austin City Limits, a television program showcasing popular music legends. ACL Live

hosted 207 events in 2014 with an estimated attendance of 231,200, and 186 events in 2013 with an estimated attendance of 217,100. As of February 27, 2015, ACL Live has events booked through March 2016.

Our entertainment business also includes events hosted at other venues through our joint ventures.

Revenue from our entertainment segment accounted for 20 percent of our total revenue for 2014 and 12 percent for 2013.

Commercial Leasing. Our principal commercial holdings at December 31, 2014, consisted of 39,328 square feet of office space and 18,362 square feet of retail space at the W Austin Hotel & Residences project, a 22,366-square-foot retail complex and a 3,085-square-foot bank building representing the first phase of Barton Creek Village, two retail buildings totaling 21,248 square feet in the aggregate and a 4,450-square-foot bank building on an existing ground lease at the 5700 Slaughter retail complex in the Circle C Ranch (Circle C) community, and 90,184 square feet at Parkside Village, a retail project in the Circle C community.

For 2014, no single commercial leasing property exceeded ten percent or more of our total assets or represented ten percent or more of our aggregate gross revenue. Our largest commercial leasing property, Parkside Village, provided 42 percent of our 2014 commercial leasing revenues and 3 percent of our 2014 total revenues.

A summary of the average occupancy rates and average rentals per square foot for our portfolio of commercial leasing properties for each of the last two years follows:

	2014	2013
Average occupancy	91%	87%
Average rentals per square foot[a]	$ 37.77	$ 34.19

a. Based on revenue for contractual rentals plus expense reimbursements for leased space.

Revenue from our commercial leasing segment accounted for 7 percent of our total revenue for 2014 and 4 percent for 2013.

Our scheduled expirations of leased square footage as of December 31, 2014, as a percentage of total leased space follows:

2015	2016	2017	2018	2019	Thereafter
2%	—%	6%	9%	12%	71%

For further information about our operating segments see “Results of Operations” in Part II, Item 7. and Note 11.

Properties

Our properties include the following:

Barton Creek

Calera. Calera is a residential subdivision with plat approval for 155 lots. The initial 16-acre phase of the Calera subdivision included courtyard homes at Calera Court, the last of which were sold in 2012.

The second phase of Calera, Calera Drive, consisted of 53 single-family lots, many of which adjoin the Fazio Canyons Golf Course. During 2013, we sold the remaining six Calera Drive lots.

Construction of the final phase of Calera, known as Verano Drive, was completed in July 2008 and included 71 single-family lots. During 2014, we sold the remaining nine Verano Drive lots.

Amarra Drive. Amarra Drive Phase I, which is the initial phase of the Amarra Drive subdivision, was completed in 2007 and included six lots with sizes ranging from approximately one to four acres. During 2013, we sold the remaining two Phase I lots.

In 2008, we developed Amarra Drive Phase II, which consisted of 35 lots on 51 acres. During 2014, we sold 16 Phase II lots and as of December 31, 2014, 14 Phase II lots remain unsold. As of March 3, 2015, one Phase II lot was under contract.

During fourth-quarter 2013, we commenced development of Amarra Drive Phase III, which consists of 64 lots on 166 acres. These lots were substantially completed during first-quarter 2015 and will be marketed for sale beginning in late March 2015.

Mirador Estate. The Mirador subdivision consisted of 34 estate lots, with each lot averaging approximately 3.5 acres in size. During 2013, we sold the final Mirador lot.

Barton Creek Village. The first phase of Barton Creek Village included a 22,366-square-foot retail complex with a 3,085-square-foot bank building. As of December 31, 2014, occupancy was 100 percent for the retail complex and the bank building was leased through January 2023.

Circle C Community

Effective August 2002, the City of Austin (the City) granted final approval of a development agreement (the Circle C settlement), which firmly established all essential municipal development regulations applicable to our Circle C properties for 30 years. The City also provided us $15 million of cash incentives in connection with the future development of our Circle C and other Austin-area properties. These incentives, which are in the form of Credit Bank capacity, can be used for City fees and for reimbursement of certain infrastructure costs. Annually, we may elect to sell up to $1.5 million of the incentives to other developers for their use in paying City fees related to their projects. As of December 31, 2014, we have permanently used $11.4 million of the $15 million of cash incentives provided by the City, including cumulative sales of $5.1 million to other developers. We also have $1.4 million in Credit Bank capacity in use as temporary fiscal deposits. At December 31, 2014, available Credit Bank capacity was $2.2 million.

We are developing the Circle C community based on the entitlements secured in our Circle C settlement with the City. Our Circle C settlement, as amended in 2004, permits development of 1.16 million square feet of commercial space, 504 multi-family units and 830 single-family residential lots. Meridian is an 800-lot residential development at the Circle C community. Development of the final phase of Meridian, which consisted of 57 one-acre lots, was completed in first-quarter 2014. During 2014, we sold seven Meridian lots and as of December 31, 2014, 50 lots remained unsold. During early 2015, we sold eight Meridian lots, and as of March 3, 2015, one Meridian lot was under contract.

In addition, several retail sites at the Circle C community have received final approvals by the City. In 2008, we completed the construction of two retail buildings at 5700 Slaughter totaling 21,248 square feet in the aggregate. As of December 31, 2014, occupancy was 100 percent for the two retail buildings. This project also included a 4,450-square-foot bank building on an existing ground lease, which expires in 2025.

The Circle C community also includes Parkside Village, a 90,184-square-foot retail project. The project consists of a 33,650-square-foot full-service movie theater and restaurant, a 13,890-square-foot medical clinic and five other retail buildings, including a 14,926-square-foot building, a 10,175-square-foot building, a 8,043-square-foot building, a 4,500-square-foot building and a stand-alone 5,000-square-foot building. In 2011, we entered into a joint venture with LCHM Holdings, LLC (LCHM Holdings), formerly Moffett Holdings, LLC, to develop Parkside Village (see Note 3). Construction of the Parkside Village retail project was completed in fourth-quarter 2014, and as of December 31, 2014, occupancy of Parkside Village was approximately 96 percent. Leases for the remaining available space were signed in March 2015.

As of December 31, 2014, our Circle C community had remaining entitlements for 692,857 square feet of commercial space and 296 multi-family units.

Lantana

Lantana is a partially developed, mixed-use real-estate development project. During first-quarter 2013, we sold a 16-acre tract with entitlements for approximately 70,000 square feet of office space for $2.1 million. As of December 31, 2014, we had remaining entitlements for approximately 485,000 square feet of office and retail use

on 44 acres. Regional utility and road infrastructure is in place with capacity to serve Lantana at full build-out as permitted under our existing entitlements.

The W Austin Hotel & Residences

In December 2006, we acquired a two-acre city block in downtown Austin for $15.1 million to develop a multi-use project. In 2008, we entered into a joint venture with Canyon-Johnson for the development of the W Austin Hotel & Residences project (see Note 2). Construction of the $300 million project commenced in 2008 and is complete.

In December 2010, the hotel at the W Austin Hotel & Residences project opened, and in January 2011, we began closing on sales of condominium units at the project. The W Austin Hotel & Residences project contains a 251-room luxury hotel, 159 residential condominium units, 39,328 square feet of office space, and 18,362 square feet of retail space and entertainment space. During 2014, we sold seven condominium units and only two condominium units remained unsold as of December 31, 2014.

The Oaks at Lakeway

In 2013, we acquired 87 acres in the greater Austin area for The Oaks at Lakeway, an HEB-anchored retail project planned for 245,022 square feet of commercial space. The HEB lease and related agreements have been executed and leasing for the approximately 150,000 square feet of remaining retail space is underway. The project is currently under construction, and the HEB store is expected to open in October 2015.

Magnolia

In 2014, we acquired 124 acres in the greater Houston area for the Magnolia project, an HEB-anchored retail project planned for 351,000 square feet of commercial space. Planning and infrastructure work by the city of Magnolia and road expansion by the Texas Department of Transportation are in progress and construction is expected to begin in 2016.

Unconsolidated Affiliates

Crestview Station. In 2005, we formed a joint venture with Trammell Crow Central Texas Development, Inc. (Trammell Crow) to acquire an approximate 74-acre tract at the intersection of Airport Boulevard and Lamar Boulevard in Austin, Texas, for $7.7 million. The property, known as Crestview Station (the Crestview Station Joint Venture) is a single-family, multi-family, retail and office development, which is located on the site of a commuter line (see Note 6).

Stump Fluff. In April 2013, we formed a joint venture, Stump Fluff LLC (Stump Fluff), with Transmission Entertainment, LLC (Transmission) to own, operate, manage and sell live music and entertainment promotion, booking, production, merchandising, venue services and other related products and services. As of December 31, 2014, Stratus' capital contributions to Stump Fluff totaled $0.8 million. Stratus will contribute additional capital to Stump Fluff as necessary to fund its working capital needs. Stratus and Transmission each have a 50 percent voting interest in Stump Fluff. After Stratus is repaid its original capital contributions and a preferred return (10 percent annually) on those contributions, Stratus will receive 33 percent of any distributions from Stump Fluff and Transmission will receive 67 percent. We account for our investment in Stump Fluff under the equity method.

Guapo Enterprises. In May 2013, Stratus and Austin Pachanga Partners, LLC (Pachanga Partners) formed a joint venture, Guapo Enterprises LLC (Guapo) to own, operate, manage and sell the products and services of the Pachanga music festival business. As of December 31, 2014, Stratus' capital contributions to Guapo totaled $0.3 million. Stratus will contribute additional capital to Guapo as necessary to fund its working capital needs. Stratus and Pachanga Partners each have a 50 percent voting interest in Guapo. After Stratus is repaid its original capital contributions and a preferred return (10 percent annually) on those contributions, Stratus will receive 33 percent of any distributions from Guapo and Pachanga Partners will receive 67 percent. We account for our investment in Guapo under the equity method.

See Note 6 for further discussion of our unconsolidated affiliates.

Competition

We operate in highly competitive industries, namely the real estate development, hotel, entertainment venue and commercial leasing industries. In the real estate development industry, we compete with numerous public and private developers of varying sizes, ranging from local to national in scope. As a result, we may be competing for investment opportunities, financing and potential buyers with developers that may possess greater financial, marketing or other resources than we have. Our prospective customers generally have a variety of choices of new and existing homes and homesites when considering a purchase. We attempt to differentiate our properties primarily on the basis of community design, quality, uniqueness, amenities, location and developer reputation.

In the hotel industry, competition is generally based on quality and consistency of rooms, restaurant and meeting facilities and services, attractiveness of location, price and other factors. Management believes that we compete favorably in these areas. Our W Austin Hotel competes with other hotels and resorts in our geographic market, including facilities owned locally and facilities owned by national and international chains.

In the entertainment industry, we compete with other venues in Austin, Texas, and venues in other markets for artists likely to perform in the Austin, Texas region. Consequently, touring artists have several alternatives to our venue in scheduling tours. Some of our competitors in venue management have a greater number of venues in certain markets and may have greater financial resources in those markets. We differentiate our entertainment businesses by providing a quality live music experience and promoting our entertainment space through KLRU's broadcast of Austin City Limits.

The commercial leasing industry is highly fragmented among individuals, partnerships and public and private entities, with no dominant single entity or person. Although we may compete against large sophisticated owners and operators, owners and operators of any size can provide effective competition for prospective tenants. We compete for tenants primarily on the basis of property location, rent charged, and the design and condition of improvements.

Credit Facility and Other Financing Arrangements

Obtaining and maintaining adequate financing is a critical component of our business. For information about our credit facility and other financing arrangements, see “Credit Facility and Other Financing Arrangements” in Part II, Item 7. and Note 7.

Regulation and Environmental Matters

Our real estate investments are subject to extensive local, city, county and state rules and regulations regarding permitting, zoning, subdivision, utilities and water quality as well as federal rules and regulations regarding air and water quality and protection of endangered species and their habitats. Such regulation has delayed and may continue to delay development of our properties and may result in higher development and administrative costs. See Part 1, Item 1A. "Risk Factors" for further discussion.

We have made, and will continue to make, expenditures for the protection of the environment with respect to our real estate development activities. Emphasis on environmental matters will result in additional costs in the future. Based on an analysis of our operations in relation to current and presently anticipated environmental requirements, we currently do not anticipate that these costs will have a material adverse effect on our future operations or financial condition.

Employees

At December 31, 2014, we had a total of 113 employees, 39 of which were full-time employees, located at our Austin, Texas headquarters. We believe we have a good relationship with our employees, none of whom are represented by a union. Since January 1, 1996, certain services necessary for our business and operations, including certain administrative, financial reporting and other services, have been performed by FM Services Company (FM Services) pursuant to a services agreement. FM Services is a wholly owned subsidiary of Freeport-McMoRan Inc. Either party may terminate the services agreement at any time upon 60 days notice or earlier upon mutual written agreement.

Item 1A. Risk Factors

This report contains "forward-looking statements" within the meaning of U.S. federal securities laws. Forward-looking statements are all statements other than statements of historical facts, such as projections or expectations related to operational and financial performance, reimbursements for infrastructure costs, financing and regulatory matters, development plans and sales of land, units and lots, commercial leasing activities, timeframes for development, construction and completion of our projects, capital expenditures, liquidity and capital resources, results of our business strategy, and other plans and objectives of management for future operations and activities. We undertake no obligation to update any forward-looking statements. Readers are cautioned that forward-looking statements are not guarantees of future performance and our actual results may differ materially from those anticipated, projected or assumed in the forward-looking statements. Important factors that could cause actual results to differ materially from our expectations include, without limitation, the following:

Risks Relating to our Business and Industries

We need significant amounts of cash to service our debt. If we are unable to generate sufficient cash to service our debt, our liquidity, financial condition and results of operations could be negatively affected.

Our business strategy requires us to rely on cash flow from operations and our debt agreements as our primary sources of funding for our liquidity needs. As of December 31, 2014, our outstanding debt totaled $196.5 million and our cash and cash equivalents totaled $29.6 million, of which $11.6 million is available to Stratus, $17.3 million is available to our joint venture with Canyon-Johnson and $0.7 million is available to our joint venture with LCHM Holdings. Our level of indebtedness could have significant consequences. For example, it could:

- increase our vulnerability to adverse changes in economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations and proceeds from asset sales to pay or provide for our indebtedness, thus reducing the availability of cash flows to fund working capital, capital expenditures, acquisitions, investments and other general corporate purposes;
- limit our flexibility to plan for, or react to, changes in our business and the market in which we operate;
- place us at a competitive disadvantage to our competitors that have less debt; and
- limit our ability to borrow money to fund our working capital, capital expenditures, debt service requirements and other financing needs.

As of December 31, 2014, we had approximately $40.4 million of debt scheduled to become due during 2015. Historically, much of our debt has been renewed or refinanced in the ordinary course of business. However, in the future we may not be able to obtain sufficient external sources of liquidity on attractive terms, if at all, or otherwise renew, extend or refinance a significant portion of our outstanding debt scheduled to become due in the near future. In addition, there can be no assurance that we will maintain cash reserves and generate sufficient cash flow from operations in an amount sufficient to enable us to service our debt or to fund our other liquidity needs. Any of these occurrences may have a material, adverse effect on our liquidity, financial condition and results of operations.

The terms of the agreements governing our indebtedness include restrictive covenants and require that certain financial ratios be maintained. For example, the minimum stockholders' equity covenant contained in most of our debt agreements requires us to maintain total stockholders' equity of no less than $110.0 million. At December 31, 2014, our total stockholders' equity was $136.4 million and was in compliance with this covenant. Failure to comply with this covenant could result in a default that may, if not cured, accelerate the payment under such debt which would likely have a material adverse effect on our liquidity, financial condition and results of operations.

In order to maintain compliance with the covenants in our debt agreements and carry out our business plan, we may need to raise additional capital through equity transactions or obtain waivers or modifications of covenants from our lenders. Such additional funding may not be available on acceptable terms, if at all, at such time. We also may need to incur additional indebtedness in the future in the ordinary course of business to fund our development projects and our operations. There can be no assurance that such additional financing would be available or, if available, offered on acceptable terms. If new debt is added to current debt levels, the risks described above could intensify.

We are vulnerable to concentration risks because our operations are almost exclusive to the Austin, Texas market.

Our real estate operations are primarily, and our hotel and entertainment venue operations are entirely, located in Austin, Texas. Because of our geographic concentration and limited number of projects, our operations are more vulnerable to local economic downturns and adverse project-specific risks than those of larger, more diversified companies. The performance of the Austin economy greatly affects our sales and consequently the underlying values of our properties. Our geographic concentration may create increased vulnerability during regional economic downturns, which can significantly affect our financial condition and results of operations.

The success of our business is significantly related to general economic conditions and, accordingly, our business could be harmed by any slowdown or deterioration in the economy.

Periods of economic weakness or recession; significantly rising interest rates; declining employment levels; declining demand for real estate; declining real estate values; conditions which negatively shape public perception of travel, including travel-related accidents, the financial condition of the airline, automotive and other transportation-related industries; or the public perception that any of these events or conditions may occur or be present, may negatively affect our business. These economic conditions can result in a general decline in acquisition, disposition and leasing activity, demand for hotel rooms and related lodging services, a general decline in the value of real estate and in rents, which in turn reduces revenue derived from property sales and leases and hotel operations as well as revenues associated with development activities. These conditions also can lead to a decline in property sales prices as well as a decline in funds invested in existing commercial real estate and related assets and properties planned for development. In addition, during periods of economic slowdown and recession, many consumers have historically reduced their discretionary spending, and our entertainment businesses depend on discretionary consumer and corporate spending. A reduction in consumer spending historically is accompanied by a decrease in attendance at live entertainment, sporting and leisure events, which may result in reductions in ticket sales, sponsorship opportunities and our ability to generate revenue with our entertainment businesses.

During an economic downturn, investment capital is usually constrained and it may take longer for us to dispose of real estate investments. As a result, the value of our real estate investments may be reduced and we could realize losses or diminished profitability. If economic and market conditions decline, our business performance and profitability could deteriorate. If this were to occur, we could fail to comply with certain financial covenants in our debt agreements, which would force us to seek amendments with our lenders. No assurance can be given that we would be able to obtain any necessary waivers or amendments on satisfactory terms, if at all.

Changes in weather conditions or natural disasters could adversely affect our business, financial condition and results of operations.

Our performance may be adversely affected by weather conditions. For our real estate operations, adverse weather may delay development or damage property, resulting in substantial repair or replacement costs to the extent not covered by insurance, a reduction in property values, or a loss of revenue, each of which could have a material adverse effect on our business, financial condition and results of operations. Our competitors may be affected differently by such changes in weather conditions or natural disasters depending on the location of their supplies or operations. Adverse weather conditions also may affect our live music events. Due to weather conditions, we may be required to reschedule an event to another available day, which would increase our costs for the event and could negatively affect the attendance at the event, as well as concession and merchandise sales, which could adversely affect our financial condition and results of operations.

Our insurance coverage on our properties may be inadequate to cover any losses we may incur.

We maintain insurance on our properties, including property, liability, fire and extended coverage. However, there are certain types of losses, generally of a catastrophic nature, such as hurricanes and floods or acts of war or terrorism that may be uninsurable or not economical to insure. We use our discretion when determining amounts, coverage limits and deductibles for insurance. These terms are determined based on retaining an acceptable level of risk at a reasonable cost. This may result in insurance coverage that in the event of a substantial loss would not be sufficient to pay the full current market value or current replacement cost of our lost investment. Inflation, changes in building codes and ordinances, environmental considerations and other factors also may make it unfeasible to use insurance proceeds to replace a building or other facility after it has been damaged or destroyed.

Under such circumstances, the insurance proceeds we receive may be inadequate to restore our economic position in a property.

Risks Relating to Real Estate Operations

The real estate business is highly competitive and many of our competitors are larger and financially stronger than we are.

The real estate business is highly competitive. We compete with a large number of companies and individuals that have significantly greater financial, sales, marketing and other resources than we have. Our competitors include local developers who are committed primarily to particular markets and also national developers who acquire properties throughout the U.S. A downturn in the real estate industry could significantly increase competition among developers. Increased competition could cause us to increase our selling incentives and/or reduce our prices. An oversupply of real estate properties available for sale or lease, as well as the potential significant discounting of prices by some of our competitors, may adversely affect our results of operations.

We currently participate in five joint ventures and may participate in other joint ventures in the future. We could be adversely affected if any of our joint venture partners fail to fulfill their obligations or if we have disagreements with any of our joint venture partners that are not satisfactorily resolved.

We currently have investments in and commitments to five joint ventures and we may participate in other joint ventures in the future. Under existing joint venture agreements, we and our joint venture partners could be required to, among other things, provide guarantees of obligations or contribute additional capital until specified capital contribution requirements are met and we may have little or no control over the amount or timing of these obligations. In some circumstances, decisions of the joint venture are made by unanimous vote of the partners. If our joint venture partners are unable or unwilling to fulfill their obligations or if we have any unresolved disagreements with our joint venture partners, we may be required to fulfill those obligations alone, expend additional resources to continue development of projects or delay further construction of projects, or we may be required to write down our investments at amounts that could be significant.

Our participation in our current joint ventures and/or joint ventures in the future could subject us to certain risks, other than or in addition to the risk of non-performance by and/or disagreements with our joint venture partners, which may not otherwise be present, including:

- the joint venture partner may have economic, business or legal interests or goals that are inconsistent with or adverse to our interests or goals or the goals of the joint venture;
- the joint venture partner may take actions contrary to our requests or instructions or contrary to our objectives or policies;
- the joint venture partner might become bankrupt or fail to fund its share of required capital contributions; and
- we may become liable for the actions of our third-party joint venture partners.

Any unresolved disputes that may arise between joint venture partners and us may result in litigation or arbitration that would increase our expenses and prevent us from focusing our time and effort on the business of the joint ventures or our other businesses.

Our results of operations, cash flows and financial condition are greatly affected by the performance of the real estate industry.

Revenue from our real estate operations segment accounted for 28 percent of our total revenue for the fiscal year ended December 31, 2014. The U.S. real estate industry is highly cyclical and is affected by changes in global, national and local economic conditions and events such as general employment and income levels, availability of financing, interest rates, consumer confidence and overbuilding of or decrease in demand for residential and commercial real estate. Our real estate activities are subject to numerous factors beyond our control, including local real estate market conditions (both where our properties are located and in areas where our potential customers reside), substantial existing and potential competition, general national, regional and local economic conditions,

fluctuations in interest rates and mortgage availability, changes in demographic conditions and changes in government regulations or requirements. Any of the foregoing factors could result in a reduction or cancellation of sales and/or lower gross margins for sales. Lower than expected sales could have a material adverse effect on the level of our profits and the timing and amounts of our cash flows.

Real estate investments often cannot easily be converted into cash and market values may be adversely affected by these economic circumstances, market fundamentals, and competitive and demographic conditions. Because of the effect these factors have on real estate values, it is difficult to predict the level of future sales or sales prices that will be realized for individual assets.

Our operations are subject to an intensive regulatory approval process and opposition from environmental groups, either or both of which could cause delays and increase the costs of our development efforts or preclude such developments entirely.

Before we can develop a property, we must obtain a variety of approvals from local and state governments with respect to such matters as zoning and other land use issues, and subdivision, site planning and environmental issues under applicable regulations. Some of these approvals are discretionary. Because government agencies and special interest groups have in the past expressed concerns about our development plans in or near Austin, our ability to develop these properties and realize future income from our properties could be delayed, reduced, prevented or made more expensive.

Several special interest groups have in the past opposed our plans in the Austin area and have taken various actions to partially or completely restrict development in some areas, including areas where some of our most valuable properties are located. We have actively opposed these actions. However, because of the regulatory environment that has existed in the Austin area and the opposition of these special interest groups, there can be no assurance that an unfavorable ruling would not have a significant long-term adverse effect on the overall value of our property holdings.

Our operations are subject to environmental regulation, which can change at any time and could increase our costs.

Real estate development is subject to state and federal environmental regulations and to possible interruption or termination because of environmental considerations, including, without limitation, air and water quality and protection of endangered species and their habitats.

Certain of the Barton Creek and Lantana properties include nesting territories for the Golden-cheeked Warbler, a federally listed endangered species. In 1995, we received a permit from the U.S. Wildlife Service pursuant to the Endangered Species Act, which to date has allowed the development of the Barton Creek and Lantana properties free of restrictions under the Endangered Species Act related to the maintenance of habitat for the Golden-cheeked Warbler.

Additionally, in April 1997, the U.S. Department of Interior listed the Barton Springs Salamander as an endangered species after a federal court overturned a March 1997 decision by the Department of Interior not to list the Barton Springs Salamander based on a conservation agreement between the State of Texas and federal agencies. The listing of the Barton Springs Salamander has not affected, nor do we anticipate it will affect, our Barton Creek and Lantana properties for several reasons, including the results of technical studies and the U.S. Fish and Wildlife Service 10(a) permit obtained by us in 1995. The development permitted by the 2002 Circle C settlement with the City has been reviewed and approved by the U.S. Fish and Wildlife Service and, as a result, we also do not anticipate that the 1997 listing of the Barton Springs Salamander will affect our Circle C properties.

In January 2013, the U.S. Department of the Interior announced that it had conducted an economic assessment of the potential designation of critical habitat for four species of Central Texas salamanders. Although this potential designation of habitat has not affected, nor do we anticipate that it will affect, our Barton Creek, Lantana or Circle C properties for several reasons, including prior studies and approvals, and our existing U.S. Fish and Wildlife Service 10(a) permit obtained in 1995, future endangered species listings or habitat designations could impact development of our properties.

We are making, and will continue to make, expenditures with respect to our real estate development for the protection of the environment. Emphasis on environmental matters will result in additional costs in the future. New

environmental regulations or changes in existing regulations or their enforcement may be enacted and such new regulations or changes may require significant expenditures by us. The recent trend toward stricter standards in environmental legislation and regulations is likely to continue and could have a material adverse effect on our operating costs.

Risks Relating to Hotel Operations

We are subject to the business, financial and operating risks common to the hotel industry, any of which could reduce our revenues.

Revenue from our hotel segment accounted for 45 percent of our total revenue for the fiscal year ended December 31, 2014. Business, financial and operating risks common to the hotel industry include:

- changes in desirability of geographic regions and geographic concentration of our operations and customers;
- decreases in the demand for hotel rooms and related lodging services, including a reduction in business travel as a result of alternatives to in-person meetings (including virtual meetings hosted online or over private teleconferencing networks) or due to general economic conditions;
- decreased corporate or governmental travel-related budgets and spending, as well as cancellations, deferrals or renegotiations of group business such as industry conventions;
- negative public perception of corporate travel-related activities;
- the effect of internet intermediaries and other new industry entrants on pricing and our increasing reliance on technology;
- the costs and administrative burdens associated with complying with applicable laws and regulations in the U.S., including health, safety and environmental laws, rules and regulations and other governmental and regulatory action;
- changes in operating costs including, but not limited to, energy, water, labor costs (including the effect of labor shortages and unionization), food costs, workers' compensation and health-care related costs, insurance and unanticipated costs such as acts of nature and their consequences; and
- cyclical over-building in the hotel industry.

External perception of the W Austin Hotel could negatively affect our results of operations.

Starwood manages hotel operations at the W Austin Hotel. Our ability to attract and retain guests depends, in part, upon the external perceptions of Starwood and the quality of the W Austin Hotel and its services. We believe that recognition of the Starwood brand gives us a competitive advantage in attracting and retaining guests; however, there is a risk to the reputation of the W Austin Hotel if Starwood fails to act responsibly or comply with regulatory requirements in a number of areas, such as safety and security, sustainability, responsible tourism, environmental management, human rights and support for the local communities where Starwood manages and/or owns properties. The considerable increase in the use of social media over recent years has greatly expanded the potential scope and scale, and increased the rapidity of the dissemination of negative publicity that could be generated by any adverse incident or failure on the part of hotel operators. An adverse incident involving associates or guests and any media coverage resulting therefrom may cause a loss of consumer confidence in the Starwood brand which could negatively affect our results or operations.

Our revenues, profits or market share could be harmed if we are unable to compete effectively in the hotel industry in Austin.

The hotel industry in Austin is highly competitive. The W Austin Hotel competes for customers with other hotel and resort properties in Austin, ranging from national and international hotel brands to independent, local and regional hotel operators. We compete based on a number of factors, primarily including quality and consistency of rooms, restaurant and meeting facilities and services, attractiveness of location and price. Some of our competitors may

have substantially greater marketing and financial resources than we do, and if we are unable to successfully compete in these areas, our operating results could be adversely affected.

Currently, the Austin market has a limited number of high-end hotel accommodations. If hotel capacity is expanded by other hotel operators in Austin, competition will increase which could lead to an excess supply of hotel rooms in the Austin market, thereby causing Starwood to increase promotional incentives for hotel guests and/or reduce rates. Increased competition in the Austin market from new hotels or hotels that have recently undergone substantial renovation could have an adverse effect on occupancy, average daily rate and room revenue per available room.

Risks Relating to Entertainment Businesses

We face intense competition in the live music industry, and we may not be able to maintain or increase our current revenue, which could adversely affect our business, financial condition and results of operations.

Revenue from our entertainment businesses accounted for 20 percent of our total revenue for the fiscal year ended December 31, 2014. Our entertainment businesses compete in a highly competitive industry, and we may not be able to maintain or increase our current revenue as a result of such competition. The live music industry competes with other forms of entertainment for consumers' discretionary spending and within this industry we compete with other venues to book artists. Our competitors compete with us for key employees who have relationships with popular music artists and that have a history of being able to book such artists for concerts and tours. These competitors may engage in more extensive development efforts, undertake more far-reaching marketing campaigns, adopt more aggressive pricing policies and make more attractive offers to existing and potential artists. Our competitors may develop services, advertising options or music venues that are equal or superior to those we provide or that achieve greater market acceptance and brand recognition than we achieve. It is possible that new competitors may emerge and rapidly acquire significant market share.

Other variables related to our entertainment businesses that could adversely affect our financial performance by, among other things, leading to decreases in overall revenue, the number of sponsors, event attendance, ticket prices and fees or profit margins include:

- an increased level of competition for advertising dollars, which may lead to lower sponsorships as we attempt to retain advertisers or which may cause us to lose advertisers to our competitors offering better programs that we are unable or unwilling to match;
- unfavorable fluctuations in operating costs, which we may be unwilling or unable to pass through to our customers via ticket prices;
- competitors' offerings that may include more favorable terms than we do in order to obtain events for the venues they operate;
- technological changes and innovations that we are unable to adopt or are late in adopting that offer more attractive entertainment alternatives than we or other live entertainment providers currently offer, which may lead to a reduction in attendance at live events, a loss of ticket sales or lower ticket fees;
- other entertainment options available to our audiences that we do not offer;
- general economic conditions which could cause our consumers to reduce discretionary spending; and
- unfavorable changes in labor conditions which may require us to spend more to retain and attract key employees.

There is the risk of personal injuries and accidents in connection with our live music events, which could subject us to personal injury or other claims and increase our expenses, as well as reduce attendance at our live music events, causing a decrease in our revenue.

There are inherent risks involved with producing live music events. As a result, personal injuries and accidents have, and may, occur from time to time, which could subject us to claims and liabilities for personal injuries. Incidents in connection with our live music events at the Moody Theater or festival sites that we rent through our

joint ventures could also result in claims or reduce attendance at our events, which could cause a decrease in our revenue or reduce our operating income. While we maintain insurance policies that provide coverage within limits that are sufficient, in management's judgment, to protect us from material financial loss for personal injuries sustained by persons at our venues or events or accidents in the ordinary course of business, there can be no assurance that such insurance will be adequate at all times and in all circumstances.

Risks Relating to Commercial Leasing

Unfavorable changes in market and economic conditions could negatively affect occupancy or rental rates, which could negatively affect our financial condition and results of operations.

Another decline in the real estate market and economic conditions could significantly affect rental rates. Occupancy and rental rates in our market, in turn, could significantly affect our profitability and our ability to satisfy our financial obligations. The risks that could affect conditions in our market include the following:

- local conditions, such as oversupply of office space, a decline in the demand for office space or increased competition from other available office buildings;
- the inability or unwillingness of tenants to pay their current rent or rent increases; and
- declines in market rental rates.

We cannot predict with certainty whether any of these conditions will occur or whether, and to what extent, they will have an adverse effect on our operations.

Risks Relating to Ownership of Shares of Our Common Stock

Our common stock is thinly traded; therefore, our stock price may fluctuate more than the stock market as a whole.

As a result of the thin trading market for shares of our common stock, our stock price may fluctuate significantly more than the stock market as a whole or the stock prices of similar companies. Without a larger public float, shares of our common stock will be less liquid than the shares of common stock of companies with broader public ownership, and as a result, the trading prices for shares of our common stock may be more volatile. Among other things, trading of a relatively small volume of shares of our common stock may have a greater effect on the trading price than would be the case if our public float were larger.

Item 3. Legal Proceedings

We are from time to time involved in legal proceedings that arise in the ordinary course of our business. We do not believe, based on currently available information, that the outcome of any legal proceeding will have a material adverse effect on our financial condition or results of operations. We maintain liability insurance to cover some, but not all, potential liabilities normally incident to the ordinary course of our business as well as other insurance coverage customary in our business, with such coverage limits as management deems prudent.

Item 4. Mine Safety Disclosures

Not applicable.

Executive Officers of the Registrant

Certain information as of February 27, 2015, regarding our executive officers is set forth in the following table and accompanying text. Each of our executive officers serves at the discretion of our board of directors.

Name	Age	Position or Office
William H. Armstrong III	50	Chairman of the Board, President and Chief Executive Officer
Erin D. Pickens	53	Senior Vice President and Chief Financial Officer

Mr. Armstrong has been employed by us since our inception in 1992. Mr. Armstrong has served as President since August 1996, Chief Executive Officer since May 1998 and Chairman of the Board since August 1998.

Ms. Pickens has served as our Senior Vice President since May 2009 and as our Chief Financial Officer since June 2009. Ms. Pickens previously served as Executive Vice President and Chief Financial Officer of Tarragon Corporation from November 1998 until April 2009, and as Vice President and Chief Accounting Officer from September 1996 until November 1998 and Accounting Manager from June 1995 until August 1996 for Tarragon and its predecessors. Tarragon Corporation filed for voluntary reorganization under Chapter 11 of the U.S. Bankruptcy Code on January 12, 2009, and emerged from bankruptcy on July 6, 2010.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Stock

Our common stock trades on the The Nasdaq Stock Market (NASDAQ) under the symbol "STRS". The following table sets forth, for the periods indicated, the range of high and low sales prices of our common stock, as reported by NASDAQ.

	2014		2013	
	High	Low	High	Low
First Quarter	$ 17.93	$ 16.35	$ 16.54	$ 8.25
Second Quarter	17.55	15.53	16.03	11.59
Third Quarter	16.50	13.75	14.10	11.86
Fourth Quarter	14.74	13.25	17.90	12.78

As of February 27, 2015, there were 435 holders of record of our common stock. We have not in the past paid, and do not anticipate in the future paying, cash dividends on shares of our common stock. The declaration of dividends is at the discretion of our board of directors; however, our ability to pay dividends is restricted by the terms of our credit facility. See Part III, Item 12. for information on our equity compensation plans.

Issuer Purchases of Equity Securities

The following table sets forth information with respect to shares of our common stock that we repurchased under the board-approved open market share purchase program during the three-month period ended December 31, 2014.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[a]	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs[a]
October 1 to 31, 2014	760	$ 13.80	760	993,995
November 1 to 30, 2014	900	13.72	900	993,095
December 1 to 31, 2014	1,400	13.84	1,400	991,695
Total	3,060	$ 13.80	3,060	991,695

a. In November 2013, the board of directors approved an increase in our open-market share purchase program initially authorized in 2001 for up to 1.7 million shares of our common stock. The program does not have an expiration date.

Stratus' loan agreements with Comerica Bank and Diversified Real Asset Income Fund require lender approval of any common stock repurchases.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

In management's discussion and analysis of financial condition and results of operations, "we," "us," "our" and "Stratus" refer to Stratus Properties Inc. and all entities owned or controlled by Stratus Properties Inc. You should read the following discussion in conjunction with our consolidated financial statements and the related discussion of "Business and Properties" and "Risk Factors" included elsewhere in this Form 10-K. The results of operations reported and summarized below are not necessarily indicative of future operating results, and future results could differ materially from those anticipated in forward-looking statements (refer to "Cautionary Statement" for further discussion). All references to "Notes" refer to Notes to Consolidated Financial Statements located in Part II, Item 8. "Financial Statements and Supplementary Data."

We are a diversified real estate company engaged primarily in the development, management, operation and/or sale of commercial, hotel, entertainment, and multi- and single-family residential real estate properties located in Texas, primarily in the Austin area. We generate revenues from sales of developed properties, from our hotel and entertainment operations and from rental income from our commercial properties. See Note 11 for further discussion of our operating segments. See "Business Strategy and Related Risks" for a discussion of our business strategy.

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

The principal holdings in our real estate operating segment are in southwest Austin, Texas. The number of developed lots/units, acreage under development and undeveloped acreage as of December 31, 2014, that comprise our real estate operations are presented in the following table.

		Acreage							
		Under Development			Undeveloped				
	Developed Lots/Units	Single Family	Commercial	Total	Single Family	Multi-family	Commercial	Total	Total Acreage
Austin:									
Barton Creek	14	166	—	166	512	327	418	1,257	1,423
Circle C	50	—	—	—	—	36	228	264	264
Lantana	—	—	—	—	—	—	44	44	44
W Austin Residences	2	—	—	—	—	—	—	—	—
Lakeway:									
The Oaks at Lakeway	—	—	87	87	—	—	—	—	87
Magnolia	—	—	—	—	—	—	124	124	124
San Antonio:									
Camino Real	—	—	—	—	—	—	2	2	2
Total	66	166	87	253	512	363	816	1,691	1,944

Our residential holdings at December 31, 2014, included developed lots at Barton Creek and the Circle C community, and condominium units at the W Austin Hotel & Residences. See "Development Activities - Residential" for further discussion. Our principal commercial leasing holdings at December 31, 2014, in addition to the office and retail space at the W Austin Hotel & Residences project, consisted of the first phase of Barton Creek Village, and the 5700 Slaughter retail complex and Parkside Village, which are both in the Circle C community. See "Development Activities - Commercial" for further discussion.

The W Austin Hotel & Residences project is located on a two-acre city block in downtown Austin and contains a 251-room luxury hotel, 159 residential condominium units (of which we owned and were marketing the remaining two unsold units as of December 31, 2014), and office, retail and entertainment space. The hotel is managed by Starwood Hotels & Resorts Worldwide, Inc. The entertainment space, occupied by Austin City Limits Live at the Moody Theater (ACL Live), includes a live music and entertainment venue and production studio.

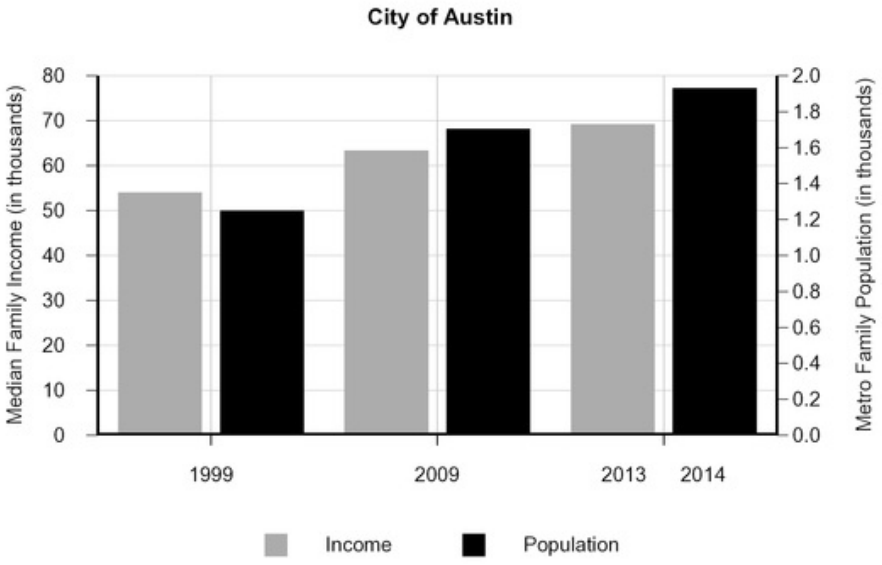
In 2014, our revenues totaled $94.1 million and our net income attributable to common stock totaled $13.4 million, compared with revenues of $127.7 million and net income attributable to common stock of $2.6 million for 2013. The decrease in revenues in 2014 primarily relates to fewer condominium unit sales at the W Austin Residences and fewer lot sales at Verano Drive, as we continued to sell our remaining available W Austin Residences condominium inventory and completed the sale of our remaining Verano Drive lots. Revenue and operating income from our Hotel and Entertainment segments increased. The results for 2014 included credits to the provision for income taxes of $12.1 million primarily associated with the reversal of the valuation allowance on our deferred tax assets. The results for 2014 also included pre-tax income of $1.5 million associated with a litigation settlement, $0.6 million associated with an insurance settlement and $0.4 million associated with the recovery of building repair costs associated with damage caused by the June 2011 balcony glass breakage incidents at the W Austin Hotel & Residences. The results for 2013 included pre-tax income of $1.9 million associated with undeveloped land sales, an insurance settlement of $1.8 million and $1.1 million associated with the recovery of building repair costs, partly offset by a pre-tax loss on early extinguishment of debt of $1.4 million.

For discussion of operating cash flows and debt transactions see "Capital Resources and Liquidity" below.

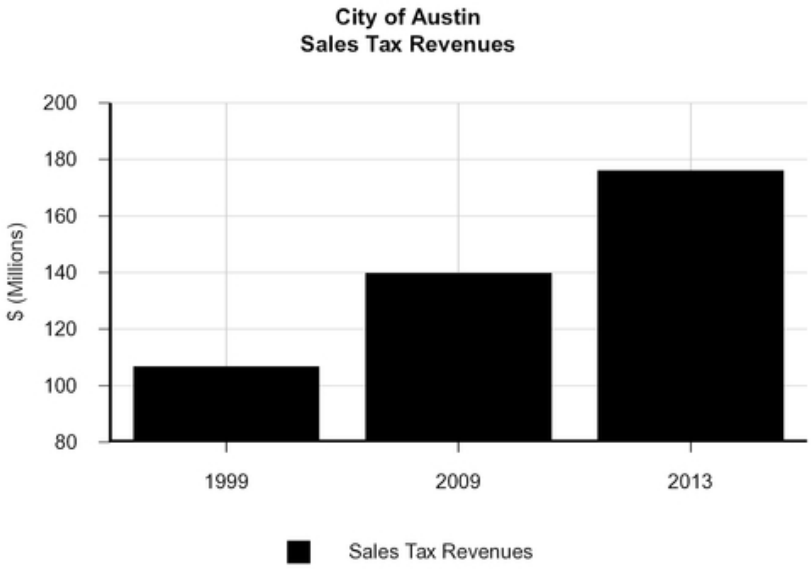
Real Estate Market Conditions
Because of the concentration of our assets primarily in the Austin, Texas area, market conditions in this region significantly affect our business. Our future operating cash flows and our ability to develop and sell our properties will be dependent on the level and profitability of our real estate sales. In turn, these sales will be significantly affected by future real estate market conditions in and around Austin, Texas, including development costs, interest rate levels, the availability of credit to finance real estate transactions, demand for residential and commercial real estate, and regulatory factors including our use and development entitlements. These market conditions historically move in periodic cycles, and can be volatile.

In addition to the traditional influence of state and federal government employment levels on the local economy, the Austin area has been influenced by growth in the technology sector. The Austin-area population increased approximately 13 percent between 2009 and 2014, largely because of an influx of technology companies and related businesses. Median family income levels in Austin also increased during the period from 2009 through 2014, rising nine percent. The expanding economy resulted in rising demands for residential housing, commercial office space and retail services. Between 2009 and 2013, sales tax receipts in Austin rose by approximately 26 percent, an indication of the increase in business activity during the period.

The following chart compares Austin's five-county metro area population and median family income for 1999, 2009 and the most current information available for 2013 and 2014, based on United States (U.S.) Census Bureau data and City of Austin (the City) data.



Based on the City's fiscal year of October 1st through September 30th, the chart below compares Austin's sales tax revenues for 1999, 2009 and 2013 (the latest period for which data is available).



Source: Comprehensive Annual Financial Report for the City of Austin, Texas

Real estate development in southwest Austin, where most of the property in our real estate operations segment is located, has historically been constrained as a result of various restrictions imposed by the City. Additionally, several special interest groups have traditionally opposed development in southwest Austin. During 2008 and 2009, economic conditions resulted in a general decline in leasing activity across the U.S. and caused vacancy rates to

increase in most markets, including Austin, Texas. Vacancy rates for various types of developed properties in Austin have improved since 2009, and the vacancy rates as of December 31, 2014 and 2013, are noted below.

Building Type	December 31, 2014 Vacancy Rates	December 31, 2013 Vacancy Rates
Industrial Buildings	11% [a]	10% [a]
Office Buildings (Class A)	10% [a]	12% [a]
Multi-Family Buildings	5% [b]	5% [b]
Retail Buildings	5% [b]	6% [b]

a. CB Richard Ellis: Austin MarketView
b. Marcus & Millichap Research Services, CoStar Group, Inc.

BUSINESS STRATEGY AND RELATED RISKS

Stratus Properties Inc. was formed in 1992 to hold, operate and develop the domestic real estate and oil and gas properties of our former parent company. We sold all of our oil and gas properties during the 1990s and have since focused solely on our real estate properties. Our overall strategy has been to enhance the value of our properties by securing and maintaining development entitlements and developing and building real estate projects on these properties for sale or investment. We have also pursued opportunities for new projects that offer the possibility of acceptable returns and risks.

Our board of directors has unanimously approved a five-year plan to create value for stockholders by methodically developing certain existing assets and actively marketing other assets, including the W Austin Hotel & Residences project development, for possible sale at appropriate values. Under the plan, any future new projects will be complementary to existing operations and will be projected to be developed and sold within a five-year time frame. We believe that the Austin and surrounding sub-markets continue to be desirable. Many of our developments are in locations where development approvals have historically been subject to regulatory constraints, which has made it difficult to obtain entitlements. Our Austin assets, which are located in desirable areas with significant regulatory constraints, are now highly entitled and, as a result, we believe that through strategic planning and selective development, we can maximize and fully realize their value. Our development plans require significant additional capital, and may be pursued through joint ventures or other means. In addition, our strategy is subject to continued review by our board of directors and may change as a result of market conditions or other factors deemed relevant by our board of directors.

In January 2015, we and Canyon-Johnson Urban Fund II, L.P. (Canyon-Johnson), our joint venture partner in the W Austin Hotel & Residences project, engaged a financial adviser to explore a possible sale of the W Austin Hotel & Residences project. Stratus is the manager of, and has an approximate 42 percent interest in, the W Austin Hotel & Residences project, and Canyon-Johnson has an approximate 58 percent interest in the W Austin Hotel & Residences project. We believe the W Austin Hotel sets a high standard for contemporary luxury in downtown Austin and competes favorably with other hotels and resorts in our geographic market. Our entertainment operations provide quality live music experiences that create awareness for our Austin City Limits Live at the Moody Theater (ACL Live) venue and brand, which we believe enhances the overall value of the W Austin Hotel & Residences project. We are also in the process of engaging or considering the engagement of advisers to market other developed and undeveloped properties.

In years past, economic conditions, including the constrained capital and credit markets, negatively affected the execution of our business plan, primarily by decreasing our pace of development to match economic and market conditions. We responded to these conditions by successfully restructuring our existing debt, including reducing interest rates and extending maturities, which enabled us to preserve our development opportunities until market conditions improved. Economic conditions have improved and we believe we have the financial flexibility to fully exploit our development opportunities and resources. During 2014, the joint venture for the W Austin Hotel & Residences project, CJUF II Stratus Block 21, LLC (the Block 21 Joint Venture), paid $8.0 million in distributions to Stratus and $11.0 million to Canyon-Johnson. Additionally, during 2014, our operating cash flows reflect purchases and development of real estate properties totaling $54.9 million, funded primarily from construction and terms loans, to invest in new development opportunities to be executed over the next 24 months. As of December 31, 2014, we had $11.9 million of availability under our revolving line of credit with Comerica Bank, which matures in May 2015 and which we expect to refinance in the normal course of business. We also had $11.6 million in cash and cash

equivalents available for use in our real estate operations, excluding cash balances held by our joint ventures, as shown below (in thousands):

Consolidated cash and cash equivalents	$	29,645
Less: Block 21 Joint Venture cash		17,319
Less: Parkside Village Joint Venture cash		726
Net cash available	$	11,600

Although we have debt maturities of $40.4 million in 2015 and $109.2 million million in 2016, and significant recurring costs, including property taxes, maintenance and marketing, we believe we will have sufficient sources of debt financing and cash from operations to address our cash requirements. See “Capital Resources and Liquidity” and Part 1, Item 1A. “Risk Factors” for further discussion.

CRITICAL ACCOUNTING POLICIES

Management’s discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the U.S. The preparation of these financial statements requires that we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. We base these estimates on historical experience and on assumptions that we consider reasonable under the circumstances; however, reported results could differ from those based on the current estimates under different assumptions and/or conditions. The areas requiring the use of management’s estimates are discussed in Note 1 under the heading “Use of Estimates.” We believe that our most critical accounting policies relate to our real estate and commercial leasing assets and deferred tax assets.

Management has reviewed the following discussion of its development and selection of critical accounting estimates with the audit committee of our board of directors.

• **Real Estate, Hotel, Entertainment Venue and Commercial Leasing Assets.** Real estate held for sale is stated at the lower of cost or fair value less costs to sell. The cost of real estate sold includes acquisition, development, construction and carrying costs and other related costs through the development stage. Real estate under development and land available for development are stated at cost. Real estate held for investment, which includes the hotel and entertainment venue at the W Austin Hotel & Residences project and our commercial leasing assets, is also stated at cost. When events or circumstances indicate that an asset’s carrying amount may not be recoverable, an impairment test is performed. For real estate held for sale, if estimated fair value less costs to sell is less than the related carrying amount, then a reduction of the asset’s carrying value to fair value less costs to sell is required. For real estate under development, land available for development and real estate held for investment, if the projected undiscounted cash flow from the asset is less than the related carrying amount, then a reduction of the carrying amount of the asset to fair value is required. Measurement of an impairment loss is based on the fair value of the asset. Generally, we determine fair value using valuation techniques such as discounted expected future cash flows.

In developing estimated future cash flows for impairment testing for our real estate assets, we have incorporated our own market assumptions including those regarding real estate prices, sales pace, sales and marketing costs, and infrastructure costs. Our assumptions are based, in part, on general economic conditions, the current state of the real estate industry, expectations about the short- and long-term outlook for the real estate market, and competition from other developers in the area in which we develop our properties. These assumptions can significantly affect our estimates of future cash flows. For those properties held for sale and deemed to be impaired, we determine fair value based on appraised values, adjusted for estimated costs to sell, as we believe this is the value for which the property could be sold. We recorded no impairment losses during 2014 or 2013 (see Note 1).

The estimate of our future revenues is also important because it is the basis of our development plans and also a factor in our ability to obtain the financing necessary to complete such plans. If our estimates of future cash flows from our properties differ from expectations, then our financial position and liquidity may be impacted, which could result in our default under certain debt instruments or result in our suspending some or all of our development activities.

• **Deferred Tax Assets.** The carrying amounts of deferred tax assets are required to be reduced by a valuation allowance if, based on the available evidence, it is more likely than not that such assets will not be realized. Accordingly, we assess the need to establish valuation allowances for deferred tax assets periodically based on the more-likely-than-not realization threshold criterion. In the assessment for a valuation allowance, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, our experience with operating loss and tax credit carryforwards not expiring unused, and tax planning alternatives. This process involves significant management judgment about assumptions that are subject to change based on variances between projected and actual operating performance and changes in our business environment or operating or financing plans.

In fourth-quarter 2014, we evaluated the recoverability of our deferred tax assets, considering available positive and negative evidence, including recent earnings history and the current forecast of future taxable income. As a result, we concluded that there was sufficient positive evidence that our $11.8 million of deferred tax assets (net of deferred tax liabilities) will be realized. Accordingly, we reversed the valuation allowance against our deferred tax assets as of December 31, 2014, resulting in credits to the provision for income taxes of $12.1 million in 2014 (see Note 8).

Our future results of operations may be negatively impacted by our inability to realize a tax benefit for future tax losses or for items that will generate additional deferred tax assets that are not more likely than not to be realized.

DEVELOPMENT ACTIVITIES

Residential. As of December 31, 2014, the number of our residential developed lots/units, lots under development and lots/units for potential development by area are shown below:

	Residential Lots/Units			
	Developed	Under Development	Potential Development[a]	Total
Barton Creek:				
Amarra Drive:				
Phase II lots	14	—	—	14
Phase III lots	—	64	—	64
Townhomes	—	—	214	214
Section N multi-family (Tecoma)	—	—	1,860	1,860
Other Barton Creek sections	—	—	155	155
Circle C:				
Meridian	50	—	—	50
Tract 101 multi-family	—	—	240	240
Tract 102 multi-family	—	—	56	56
W Austin Hotel & Residences project:				
Condominium units[b]	2	—	—	2
Total Residential Lots/Units	66	64	2,525	2,655

a. Our development of the properties identified under the heading “Potential Development” is dependent upon the approval of our development plans and permits by governmental agencies, including the City of Austin (the City). Those governmental agencies may either not approve one or more development plans and permit applications related to such properties or require us to modify our development plans. Accordingly, our development strategy with respect to those properties may change in the future. While we may be proceeding with approved infrastructure projects on some of these properties, they are not considered to be “under development” for disclosure in this table unless other development activities necessary to fully realize the properties’ intended final use are in progress or scheduled to commence in the near term.

b. Owned through a joint venture.

Calera. Calera is a residential subdivision with plat approval for 155 lots. The initial phase of the Calera subdivision included 16 courtyard homes at Calera Court. The second phase of the Calera subdivision, Calera Drive, consisted of 53 single-family lots. Construction of the final phase, known as Verano Drive, was completed in July 2008 and included 71 single-family lots. During 2013, we sold the remaining six Calera Drive lots for $1.4 million and during 2014, we sold the remaining nine Verano Drive lots for $3.5 million.

Amarra Drive. Amarra Drive Phase I, which is the initial phase of the Amarra Drive subdivision, was completed in 2007 and included six lots with sizes ranging from approximately one to four acres. Amarra Drive Phase II, which consisted of 35 lots on 51 acres, was substantially completed in October 2008. During 2013, we sold the remaining two Phase I lots for $0.7 million. During 2014, we sold 16 Phase II lots for $8.2 million, and as of December 31, 2014, 14 Phase II lots remained unsold. As of March 3, 2015, one Phase II lot was under contract.

During late 2013, we commenced development of Amarra Drive Phase III, which consists of 64 lots on 166 acres. These lots were substantially completed during first-quarter 2015 and will be marketed for sale beginning late March 2015.

Circle C. We are developing the Circle C community based on the entitlements secured in our Circle C settlement with the City. The Circle C settlement, as amended in 2004, permits development of 1.16 million square feet of commercial space, 504 multi-family units and 830 single-family residential lots. See "Properties" under Part 1, Items 1. and 2. for further discussion of our Circle C settlement with the City. Meridian is an 800-lot residential development at the Circle C community. Development of the final phase of Meridian, which consisted of 57 one-acre lots, was completed in first-quarter 2014. During 2014, we sold seven Meridian lots for $2.0 million and as of December 31, 2014, 50 lots remained unsold. During early 2015, we sold eight Meridian lots for $2.2 million, and as of March 3, 2015, one Meridian lot was under contract.

W Austin Hotel & Residences. During 2014, sales of seven of the remaining condominium units closed for $11.9 million, and as of December 31, 2014, only two condominium units remained unsold.

Commercial. As of December 31, 2014, the number of square feet of our commercial property developed, under development and our remaining entitlements for potential development related to our commercial property (excluding property associated with our unconsolidated joint venture with Tramell Crow Central Texas Development, Inc. relating to Crestview Station in Austin, TX (the Crestview Station Joint Venture)) are shown below:

	Commercial Property			
	Developed	Under Development	Potential Development [a]	Total
Barton Creek:				
Treaty Oak Bank	3,085	—	—	3,085
Barton Creek Village Phase I	22,366	—	—	22,366
Barton Creek Village Phase II	—	—	16,000	16,000
Entry corner	—	—	5,000	5,000
Amarra retail/office	—	—	83,081	83,081
Section N	—	—	1,500,000	1,500,000
Circle C:				
Chase Bank ground lease	4,450	—	—	4,450
5700 Slaughter	21,248	—	—	21,248
Parkside Village[b]	90,184	—	—	90,184
Tract 110	—	—	614,500	614,500
Tract 114	—	—	78,357	78,357
Lantana:				
Tract GR1	—	—	325,000	325,000
Tract G07	—	—	160,000	160,000
W Austin Hotel & Residences project:				
Office[b]	39,328	—	—	39,328
Retail[b]	18,362	—	—	18,362
Lakeway:				
The Oaks at Lakeway	—	245,022	—	245,022
Magnolia	—	—	351,000	351,000
Austin 290 tract	—	—	20,000	20,000
Total Square Feet	199,023	245,022	3,152,938	3,596,983

a. Our development of the properties identified under the heading “Potential Development” is dependent upon the approval of our development plans and permits by governmental agencies, including the City. Those governmental agencies may either not approve one or more development plans and permit applications related to such properties or require us to modify our development plans. Accordingly, our development strategy with respect to those properties may change in the future. While we may be proceeding with approved infrastructure projects on some of these properties, they are not considered to be

"under development" for disclosure in this table unless other development activities necessary to fully realize the properties' intended final use are in progress or scheduled to commence in the near term.

b. Owned though a joint venture.

Barton Creek. The first phase of Barton Creek Village consists of a 22,366-square-foot retail complex and a 3,085-square-foot bank building. As of December 31, 2014, occupancy was 100 percent for the retail complex, and the bank building is leased through January 2023.

Circle C. In 2008, we completed the construction of two retail buildings, totaling 21,248 square feet, at 5700 Slaughter in the Circle C community (5700 Slaughter). As of December 31, 2014, aggregate occupancy for the two retail buildings was 100 percent. The Circle C community also included a 4,450-square-foot bank building on an existing ground lease, which expires in 2025.

The Circle C community also includes Parkside Village, a 90,184-square-foot retail project. The project consists of a 33,650-square-foot full-service movie theater and restaurant, a 13,890-square-foot medical clinic and five other retail buildings, including a 14,926-square-foot building, a 10,175-square-foot building, a 8,043-square-foot building, a 4,500-square-foot building and a stand-alone 5,000-square-foot building. In February 2011, we entered into a joint venture with LCHM Holdings, LLC, formerly Moffett Holdings, LLC, for the development of Parkside Village (the Parkside Village Joint Venture), obtained final permits and entitlements and began construction on the retail project (see Note 3). Construction of the Parkside Village retail project was completed in fourth-quarter 2014, and as of December 31, 2014, occupancy of Parkside Village was approximately 96 percent. Leases for the remaining available space were signed in March 2015.

Lantana. Lantana is a partially developed, mixed-use real-estate development project. During first-quarter 2013, we sold a 16-acre tract of land with entitlements for approximately 70,000 square feet of office space for $2.1 million. As of December 31, 2014, we had entitlements for approximately 485,000 square feet of office and retail space on the remaining 44 acres. Regional utility and road infrastructure is in place with capacity to serve Lantana at full build-out as permitted under our existing entitlements.

W Austin Hotel & Residences. The project has 39,328 square feet of leasable office space, including 9,000 square feet occupied by our corporate office, and 18,362 square feet of retail space. As of December 31, 2014, occupancy for the office space was 91 percent and occupancy for the retail space was 74 percent. A lease for the remaining available office space was signed in October 2014 and the tenant is expected to take occupancy in March 2015. Leasing is ongoing for the remaining retail space.

The Oaks at Lakeway. The Oaks at Lakeway is a HEB-anchored retail project planned for 245,022 square feet of commercial space. The HEB lease and related agreements have been executed and leasing for the retail space is underway. The project is currently under construction, and the HEB store is expected to open in October 2015.

Magnolia. The Magnolia project is a HEB-anchored retail project planned for 351,000 square feet of commercial space. Planning and infrastructure work by the city of Magnolia and road expansion by the Texas Department of Transportation are in progress and construction is expected to begin in 2016.

Crestview Station. Crestview Station is a single-family, multi-family, retail and office development, located on the site of a commuter rail line. The Crestview Station Joint Venture sold substantially all of its multi-family and commercial properties in 2007 and one commercial site in 2008. In 2014, the Crestview Station Joint Venture sold the remaining residential land to DR Horton, see table below (in millions, except lots closed).

Closing Date	Lots Closed	Sale Price	Gross Profit
April 2012	74	$ 3.8	$ 0.4
May 2013	59	3.4	0.7
March 2014	59	3.5	0.8
November 2014	111	6.8	1.8
	303	$ 17.5	$ 3.7

As of December 31, 2014, the Crestview Station Joint Venture had one commercial site remaining. We account for our 50 percent interest in the Crestview Station Joint Venture under the equity method. See Note 6 for further discussion of Crestview Station.

RESULTS OF OPERATIONS

We are continually evaluating the development and sale potential of our properties and will continue to consider opportunities to enter into transactions involving our properties. As a result, and because of numerous other factors affecting our business activities as described herein, our past operating results are not necessarily indicative of our future results.

The following table summarizes our operating results (in thousands):

	Years ended December 31,	
	2014	2013
Operating income:		
Real estate operations	$ 1,186	$ 9,000
Hotel	5,854	3,706
Entertainment	2,937	1,119
Commercial leasing	238	277
Eliminations and other	149	49
Operating income	$ 10,364	$ 14,151
Interest expense, net	$ (3,751)	$ (7,093)
Net income	$ 18,157	$ 5,894
Net income attributable to noncontrolling interests in subsidiaries	$ (4,754)	$ (3,309)
Net income attributable to common stock	$ 13,403	$ 2,585

We have four operating segments: Real Estate Operations, Hotel, Entertainment and Commercial Leasing (see Note 11). The following is a discussion of our operating results by segment.

Real Estate Operations

The following table summarizes our Real Estate Operations operating results (in thousands):

	2014	2013
Revenues:		
Developed property sales	$ 25,674	$ 63,676
Undeveloped property sales	—	3,266
Commissions and other	507	719
Total revenues	26,181	67,661
Cost of sales, including depreciation	20,972	54,422
Litigation and insurance settlements	(2,082)	(1,785)
General and administrative expenses	6,105	6,024
Operating income	$ 1,186	$ 9,000

Developed Property Sales. The following table summarizes our developed property sales for 2014 and 2013(dollars in thousands):

	2014			2013		
	Lots/Units	Revenues	Average Cost per Lot/Unit	Lots/Units	Revenues	Average Cost per Lot/Unit
W Austin Hotel & Residences						
Condominium units	7	$ 11,928	$ 1,517	32	$ 47,582	$ 1,251
Barton Creek						
Calera:						
Verano Drive	9	3,523	181	39	12,143	163
Calera Drive	—	—	—	6	1,371	142
Amarra:						
Phase I lots	—	—	—	2	650	279
Phase II lots	16	8,216	194	3	1,525	217
Mirador Estate	—	—	—	1	405	264
Circle C						
Meridian	7	2,007	160	—	—	—
Total Residential	39	$ 25,674		83	$ 63,676	

The decrease in developed property sales and revenues in 2014 primarily resulted from decreases in condominium unit sales at the W Austin Residences and lot sales at Verano Drive as inventories of both have declined, partly offset by increased lot sales at Amarra Drive Phase II and Meridian.

Undeveloped Property Sales. During March 2013, we sold a 16-acre tract of land with entitlements for approximately 70,000 square feet of office space in Lantana for $2.1 million, and entitlements for 20,000 square feet of office space in Circle C for $1.2 million.

Commissions and Other. Commissions and other primarily includes design fees and sales of our development fee credits, which totaled less than $0.1 million in 2014 and 2013, to third parties. We received the development fee credits as part of the Circle C settlement (see Note 10).

Cost of Sales. Cost of sales includes cost of property sold, project operating and marketing expenses and allocated overhead costs, partly offset by reductions for certain municipal utility district (MUD) reimbursements. Cost of sales totaled $21.0 million in 2014 and $54.4 million in 2013. The decrease in cost of sales in 2014, compared with 2013, primarily reflects fewer condominium unit sales at the W Austin Residences. Cost of sales for our real estate operations also include significant recurring costs (including property taxes, maintenance and marketing), which totaled $3.5 million in 2014 and $5.4 million in 2013. The decrease in these recurring costs for 2014 primarily reflects lower property taxes as a result of lower condominium unit inventory at the W Austin Residences. We received no MUD reimbursements credited to cost of sales in 2014 or 2013. Cost of sales also included credits of $0.4 million in 2014 and $1.1 million in 2013 related to the recovery of building repair costs associated with damage caused by the June 2011 balcony glass breakage incidents at the W Austin Hotel & Residences project.

Litigation and Insurance Settlements. We recorded pre-tax income on a litigation settlement totaling $1.5 million in 2014 related to the termination of a lease. We also had pre-tax income of $0.6 million in 2014 and $1.8 million in 2013 related to insurance settlements.

General and Administrative Expenses. Consolidated general and administrative expenses primarily consist of employee salaries, wages and other costs and totaled $7.9 million in 2014 and $7.1 million in 2013. The increase in general and administrative expenses for 2014 primarily reflects increased employee costs and consulting fees. General and administrative expenses allocated to real estate operations totaled $6.1 million in 2014 and $6.0 million in 2013. For information about the allocation of general and administrative expenses to our operating segments see Note 11.

Hotel

The following table summarizes our Hotel operating results (in thousands):

	2014	2013
Hotel revenue	$ 42,860	$ 39,544
Hotel cost of sales, excluding depreciation	30,753	29,483
Depreciation	5,851	6,033
General and administrative expenses	402	322
Operating income	$ 5,854	$ 3,706

Hotel Revenue. Hotel revenue reflects the results of operations for the W Austin Hotel, and primarily includes revenue from room reservations and food and beverage sales. Revenue per Available Room (REVPAR), which is calculated by dividing total room revenue by total rooms available, averaged $291 for 2014, compared with $260 for 2013. Hotel revenues increased in 2014, compared with 2013, primarily reflecting higher room rates and increased food and beverage sales.

Hotel Cost of Sales. Hotel operating costs increased in 2014, compared with 2013, primarily reflecting increased variable costs, including labor and marketing.

Entertainment

The following table summarizes our Entertainment operating results (in thousands):

	2014	2013
Entertainment revenue	$ 19,108	$ 15,559
Entertainment cost of sales, excluding depreciation	14,763	13,076
Depreciation	1,260	1,239
General and administrative expenses	148	125
Operating income	$ 2,937	$ 1,119

Entertainment Revenue. Entertainment revenue primarily reflects the results of operations for ACL Live including ticket sales, revenue from private events, sponsorships, personal seat license sales and suite sales, and sales of concessions and merchandise. Entertainment revenue also reflects revenues associated with outside events hosted at venues other than ACL Live and production of recorded content for artists performing at ACL Live, as well as the results of the joint venture with Pedernales Entertainment LLC relating to Stageside Productions. Revenues from the Entertainment segment will vary from period to period as a result of factors such as the price and number of tickets sold, as well as the number and types of events. The increase in Entertainment revenue for 2014 primarily resulted from higher private event revenue and higher ancillary revenue per attendee.

Certain key operating statistics specific to the concert and event hosting industry are included below to provide additional information regarding our ACL Live operating performance.

	2014	2013
Events:		
Events hosted	207	186
Estimated attendance	231,200	217,100
Ancillary net revenue per attendee	$ 41.91	$ 35.31
Ticketing:		
Number of tickets sold	166,603	148,400
Gross value of tickets sold (in thousands)	$ 10,270	$ 9,397

Entertainment Cost of Sales. Entertainment operating costs increased in 2014, compared with 2013, primarily reflecting an increase in events hosted.

Commercial Leasing

The following table summarizes our Commercial Leasing operating results (in thousands):

	2014	2013
Rental revenue	$ 7,128	$ 5,923
Rental cost of sales, excluding depreciation	3,236 [a]	2,755
Depreciation	1,785	1,687
General and administrative expenses	1,869	1,204
Operating income	$ 238	$ 277

a. Includes $0.3 million of lease termination charges.

Rental Revenue. Rental revenue primarily reflects revenue from the office and retail space at the W Austin Hotel & Residences project, Barton Creek Village, and Parkside Village and 5700 Slaughter, which are both in the Circle C community. The increase in rental revenue in 2014, compared with 2013, primarily reflects increased occupancy at the W Austin Hotel & Residences project.

Rental Cost of Sales. Rental costs increased in 2014, compared with 2013, primarily reflecting higher operating costs from the increased occupancy at the W Austin Hotel & Residences project.

Non-Operating Results

Interest Expense, Net. Interest expense (before capitalized interest) totaled $7.9 million in 2014 and $10.7 million in 2013. The decrease in interest expense in 2014, compared with 2013, primarily reflects lower average interest rates following refinancing transactions. Capitalized interest totaled $4.1 million in 2014 and $3.6 million in 2013, and is primarily related to development activities at properties in Barton Creek.

Loss on Early Extinguishment of Debt. We recorded a loss on early extinguishment of debt totaling less than $0.1 million for 2014 associated with the refinancing of the term loan secured by 5700 Slaughter in July 2014, and $1.4 million in 2013 associated with the prepayment of the loan related to the W Austin Hotel & Residences project. See Note 7 for further discussion.

Loss on Interest Rate Cap Agreement. We recorded a loss of $0.3 million in 2014 and $0.1 million in 2013, associated with changes in the fair value of our interest rate cap agreement (see Note 5).

Other Income, Net. We recorded other income of less than $0.1 million in 2014 and $1.4 million in 2013. Other income in 2013 included interest received in connection with a Barton Creek MUD reimbursement and a gain on the recovery of land previously sold.

Equity in Unconsolidated Affiliates' Income (Loss). We account for our interests in our unconsolidated affiliates, Crestview Station, Stump Fluff and Guapo Enterprises, using the equity method. Our equity in the net income (loss) of these entities totaled $1.1 million in 2014 and $(0.1) million in 2013. Equity in our unconsolidated affiliates income for 2014 reflects the third and fourth closings in the take-down agreement between Crestview Station and DR Horton and events hosted by Stump Fluff during the South by Southwest festival. See Note 6 for further discussion.

Benefit from (Provision for) Income Taxes. We recorded a benefit from (provision for) income taxes of $10.7 million in 2014 and $(0.9) million in 2013, primarily reflecting credits to the provision for income taxes of $12.1 million associated with the reversal of the valuation allowance against deferred tax assets in 2014. Our tax provisions for both 2014 and 2013 also include the Texas state margin tax. The difference between our consolidated effective income tax rate for 2014, compared to the U.S. federal statutory rate of 35 percent, is primarily attributable to the reversal of the valuation allowance on our deferred tax assets. The difference between our consolidated effective income tax rate for 2013, compared to the U.S. federal statutory rate of 35 percent, is primarily attributable to the realization of deferred tax assets (see Note 8).

Net Income Attributable to Noncontrolling Interests in Subsidiaries. Net income attributable to noncontrolling interests in subsidiaries totaled $4.8 million in 2014 and $3.3 million in 2013. The increase for 2014 primarily relates to income from the W Austin Hotel & Residences project (see Note 2).

RECOGNITION OF DEFERRED GAIN

In 2012, Stratus sold 7500 Rialto, an office building in Lantana. In connection with the sale, Stratus recognized a gain of $5.1 million and deferred a gain of $5 million related to a guaranty provided to the lender in connection with the buyer's assumption of the loan related to 7500 Rialto. The guaranty was released in January 2015, and Stratus will recognize the $5 million deferred gain in first-quarter 2015.

CAPITAL RESOURCES AND LIQUIDITY

Volatility in the real estate market, including the markets in which we operate, can impact sales of our properties from period to period. However, we believe that the unique nature and location of our assets will provide us positive cash flows over time. See "Business Strategy and Related Risks" for further discussion of our liquidity.

Comparison of Year-to-Year Cash Flows

Cash (used in) provided by operating activities totaled $(21.6) million in 2014, compared with $55.9 million in 2013. Operating cash flows for 2014 decreased by $77.5 million compared to 2013 because of fewer developed property sales principally resulting from decreases in condominium unit sales at the W Austin Residences and lot sales at Verano Drive as inventories have declined. Additionally, expenditures for purchases and development of real estate properties increased to $54.9 million during 2014 compared with $16.6 million during 2013, primarily reflecting increased development costs for The Oaks at Lakeway and our Barton Creek properties, and the purchase of land in Magnolia, Texas.

Cash used in investing activities totaled $2.7 million in 2014, compared with $3.5 million in 2013. Capital expenditures for 2014 totaled $6.8 million, primarily for The Oaks at Lakeway, compared with $2.4 million in 2013, primarily for the hotel and office portions of the W Austin Hotel & Residences project and Parkside Village. During 2014, Stratus received distributions from Crestview Station totaling $4.7 million and during 2013, Stratus made capital contributions of $1.1 million to certain of its unconsolidated affiliates.

Cash provided by (used in) financing activities totaled $32.6 million in 2014, compared with $(43.9) million in 2013. During 2014, net borrowings on the Comerica credit facility totaled $23.1 million, compared with net payments of $26.6 million for 2013. Net borrowings on the Bank of America (BoA) loan, the Lakeway Construction loan, the Barton Creek Village term loan and other project and term loans totaled $22.1 million for 2014, compared with net borrowings of $40.2 million for 2013. Noncontrolling interest distributions for the Block 21 Joint Venture and the Parkside Village Joint Venture totaled $11.6 million for 2014, compared with distributions primarily for the Block 21 Joint Venture of $54.7 million for 2013. For a description of our outstanding debt, see Note 7. See also “Credit Facility and Other Financing Arrangements” for a discussion of our outstanding debt at December 31, 2014.

In November 2013, the board approved an increase in the open market share purchase program to 1.7 million shares of our common stock. During 2014, purchases under this program included 39,960 shares of our common stock for $0.7 million, or $17.00 per share. As of December 31, 2014, a total of 991,695 shares of our common stock remain available under this program. There have not been any additional purchases through February 27, 2015. Our loan agreements with Comerica Bank and Diversified Real Asset Income Fund (DRAIF) require lender approval of any stock repurchases.

Credit Facility and Other Financing Arrangements

At December 31, 2014, we had total debt of $196.5 million, compared with $151.3 million at December 31, 2013. The increase is primarily related to increased borrowing under our Comerica revolving credit facility, the Lakeway construction loan and the Magnolia loan. Our debt outstanding at December 31, 2014, consisted of the following:

- $98.3 million outstanding under the BoA loan.
- $23.1 million outstanding under the $48.0 million Comerica credit facility, which is comprised of a $35.0 million revolving loan, $11.9 million of which was available at December 31, 2014; a $3.0 million tranche for letters of credit, with no amounts outstanding ($2.7 million of letters of credit committed); and a $10.0 million construction loan, with no amounts outstanding ($1.9 million of letters of credit committed). The Comerica credit facility is secured by substantially all of our assets except for properties that are encumbered by separate loan financing.

- $23.0 million outstanding under the five unsecured term loans with DRAIF, formerly American Strategic Income Portfolio Inc. or ASIP, which include an $8.0 million loan, a $5.0 million loan, two $3.5 million loans and a $3.0 million loan.
- $18.9 million outstanding under the $19.7 million Parkside Village loan.
- $16.6 million outstanding under the Lakeway construction loan.
- $6.9 million outstanding under the United/Slaughter loan.
- $5.9 million outstanding under the Barton Creek Village term loan.
- $3.8 million outstanding under the Magnolia loan.

The Comerica credit facility and our DRAIF unsecured term loans contain customary financial covenants, including a requirement that we maintain a minimum total stockholders' equity balance of $110 million. As of December 31, 2014, Stratus' total stockholders' equity was $136.4 million. See Note 7 for further discussion of our outstanding debt.

DEBT MATURITIES AND OTHER CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual cash obligations as of December 31, 2014 (in thousands):

	Total	2015	2016 - 2017	2018 - 2019	Thereafter
Debt[a]	$ 196,477	$ 40,424	$ 110,042	$ 18,237	$ 27,774
Scheduled interest payments[b]	17,459	5,999	5,564	2,932	2,964
Construction contracts	55,251	48,178	7,073	—	—
Operating lease	211	100	70	41	—
Total	$ 269,398	$ 94,701	$ 122,749	$ 21,210	$ 30,738

a. Debt maturities represent scheduled maturities based on outstanding debt balances at December 31, 2014.

b. Scheduled interest payments were calculated using stated coupon rates for fixed-rate debt and interest rates applicable at December 31, 2014, for variable-rate debt.

We had commitments under noncancelable contracts totaling $55.3 million at December 31, 2014. These commitments primarily included contracts for construction of improvements for the Tecoma apartments at Barton Creek and The Oaks at Lakeway.

We also had guarantees related to the W Austin Hotel & Residences project at December 31, 2014 (see Note 7).

NEW ACCOUNTING STANDARDS

We do not expect the impact of recently issued accounting standards to have a significant impact on our future financial statements and disclosures.

OFF-BALANCE SHEET ARRANGEMENTS

Refer to Note 10 for discussion of off-balance sheet arrangements.

CAUTIONARY STATEMENT

Management's Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements in which we discuss factors we believe may affect our future performance. Forward-looking statements are all statements other than statements of historical facts, such as statements regarding the implementation and potential results of our new five-year business strategy, projections or expectations related to operational and financial performance, reimbursements for infrastructure costs, financing and regulatory matters, development plans and sales of land, units and lots, commercial leasing activities, timeframes for development, construction and completion of our projects, capital expenditures, liquidity and capital resources and other plans and objectives of management for future operations and activities. The words "anticipates," "may," "can," "plans," "believes," "potential," "estimates," "expects," "projects," "intends," "likely," "will," "should," "to be" and any similar expressions and/or statements that are not historical facts are intended to identify those assertions as forward-looking statements.

We caution readers that forward-looking statements are not guarantees of future performance, and our actual results may differ materially from those anticipated, projected or assumed in the forward-looking statements. Important factors that can cause our actual results to differ materially from those anticipated in the forward-looking statements include, but are not limited to, our ability to refinance and service our debt and the availability of financing for development projects and other corporate purposes, our ability to sell properties at prices we consider acceptable, a decrease in the demand for real estate in the Austin, Texas market, changes in economic and business conditions, reductions in discretionary spending by consumers and corporations, competition from other real estate developers, hotel operators and/or entertainment venue operators and promoters, business opportunities that may be presented to and/or pursued by us, the failure of third parties to satisfy debt service obligations, the failure to complete agreements with strategic partners and/or appropriately manage relationships with strategic partners, the termination of sales contracts or letters of intent due to, among other factors, the failure of one or more closing conditions or market changes, the failure to attract customers for our developments or their failure to satisfy their purchase commitments, increases in interest rates, declines in the market value of our assets, increases in operating costs, including real estate taxes and the cost of construction materials, changes in external perception of the W Austin Hotel, changes in consumer preferences, changes in laws, regulations or the regulatory environment affecting the development of real estate, opposition from special interest groups with respect to development projects, weather-related risks and other factors described in more detail under "Risk Factors" in Part I, Item 1A. of this Form 10-K.

Investors are cautioned that many of the assumptions on which our forward-looking statements are based are subject to change after our forward-looking statements are made. Further, we may make changes to our business plans that could or will affect our results. We caution investors that we do not intend to update our forward-looking statements, notwithstanding any changes in our assumptions, business plans, actual experience, or other changes, and we undertake no obligation to update any forward-looking statements, except as required by law.

Item 8. Financial Statements and Supplementary Data

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Stratus Properties Inc.'s (the Company's) management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Company's assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management, including its principal executive officer and principal financial officer, assessed the effectiveness of its internal control over financial reporting as of the end of the fiscal year covered by this annual report on Form 10-K. In making this assessment, the Company's management used the criteria set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Based on management's assessment, management concluded that, as of December 31, 2014, the Company's internal control over financial reporting is effective based on the COSO criteria.

BKM Sowan Horan, LLP, an independent registered public accounting firm who audited the Company's consolidated financial statements included in this Form 10-K, has issued an attestation report on the Company's internal control over financial reporting, which is included herein.

/s/ William H. Armstrong III
William H. Armstrong III
Chairman of the Board, President
and Chief Executive Officer

/s/ Erin D. Pickens
Erin D. Pickens
Senior Vice President
and Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Stratus Properties Inc.

We have audited Stratus Properties Inc.'s (the Company) internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO criteria). Stratus Properties Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control Over Financial Reporting.* Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Stratus Properties Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Stratus Properties Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the years in the two-year period ended December 31, 2014, and our report dated March 16, 2015, expressed an unqualified opinion on these consolidated financial statements.

/s/ BKM Sowan Horan, LLP

Austin, Texas
March 16, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Stratus Properties Inc.

We have audited the accompanying consolidated balance sheets of Stratus Properties Inc. and subsidiaries (the Company) as of December 31, 2014, and 2013 and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the years in the two-year period ended December 31, 2014. Our audit also includes the financial statement schedule listed in the accompanying index. Stratus Properties Inc.'s management is responsible for these financial statements and the schedule. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stratus Properties Inc. as of December 31, 2014, and 2013, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2014 in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Stratus Properties Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ BKM Sowan Horan, LLP

Austin, Texas
March 16, 2015

STRATUS PROPERTIES INC.
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Par Value)

	December 31,	
	2014	2013
ASSETS		
Cash and cash equivalents	$ 29,645	$ 21,307
Restricted cash	7,615	5,077
Real estate held for sale	12,245	18,133
Real estate under development	123,921	76,891
Land available for development	21,368	21,404
Real estate held for investment, net	178,065	182,530
Investment in unconsolidated affiliates	795	4,427
Deferred tax assets	11,759	263
Other assets	17,274	16,911
Total assets	$ 402,687	$ 346,943
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable	$ 8,076	$ 5,143
Accrued liabilities	9,670	9,360
Debt	196,477	151,332
Other liabilities and deferred gain	13,378	11,792
Total liabilities	227,601	177,627
Commitments and contingencies (Notes 7,10 and 12)		
Equity:		
Stratus stockholders' equity:		
Common stock, par value of $0.01 per share, 150,000 shares authorized,		
9,116 and 9,076 shares issued, respectively and		
8,035 and 8,046 shares outstanding, respectively	91	91
Capital in excess of par value of common stock	204,269	203,724
Accumulated deficit	(47,321)	(60,724)
Accumulated other comprehensive loss	(279)	(22)
Common stock held in treasury, 1,081 shares and 1,030 shares		
at cost, respectively	(20,317)	(19,448)
Total stockholders' equity	136,443	123,621
Noncontrolling interests in subsidiaries	38,643	45,695
Total equity	175,086	169,316
Total liabilities and equity	$ 402,687	$ 346,943

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

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

	Years Ended December 31,	
	2014	2013
Revenues:		
Hotel	$ 42,354	$ 39,234
Real estate operations	26,084	67,589
Entertainment	19,048	15,481
Commercial leasing	6,625	5,406
Total revenues	94,111	127,710
Cost of sales:		
Hotel	30,746	29,483
Real estate operations	20,650	54,129
Entertainment	14,431	12,922
Commercial leasing	3,138	2,670
Depreciation	8,977	9,053
Total cost of sales	77,942	108,257
Litigation and insurance settlement	(2,082)	(1,785)
General and administrative expenses	7,887	7,087
Total costs and expenses	83,747	113,559
Operating income	10,364	14,151
Interest expense, net	(3,751)	(7,093)
Loss on early extinguishment of debt	(19)	(1,379)
Loss on interest rate cap	(272)	(136)
Other income, net	29	1,356
Income before income taxes and equity in unconsolidated affiliates' income (loss)	6,351	6,899
Equity in unconsolidated affiliates' income (loss)	1,112	(76)
Benefit from (provision for) income taxes	10,694	(929)
Net income	18,157	5,894
Net income attributable to noncontrolling interests in subsidiaries	(4,754)	(3,309)
Net income attributable to common stock	$ 13,403	$ 2,585
Net income per share attributable to common stockholders:		
Basic	$ 1.67	$ 0.32
Diluted	$ 1.66	$ 0.32
Weighted-average shares of common stock outstanding:		
Basic	8,037	8,077
Diluted	8,078	8,111

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

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

	Years Ended December 31,	
	2014	2013
Net income	$ 18,157	$ 5,894
Other comprehensive loss, net of taxes:		
Loss on interest rate swap agreement	(427)	(32)
Other comprehensive loss	(427)	(32)
Total comprehensive income	17,730	5,862
Total comprehensive income attributable to noncontrolling interests	(4,584)	(3,299)
Total comprehensive income attributable to common stock	$ 13,146	$ 2,563

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

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

	Years Ended December 31,	
	2014	2013
Cash flow from operating activities:		
Net income	$ 18,157	$ 5,894
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	8,977	9,053
Cost of real estate sold	15,725	42,944
Loss on early extinguishment of debt	19	1,379
Stock-based compensation	480	338
Equity in unconsolidated affiliates' (income) loss	(1,112)	76
Return on investment in unconsolidated affiliate	675	—
Deposits	(425)	—
Deferred income taxes	(11,358)	30
Purchases and development of real estate properties	(54,928)	(16,595)
Recovery of land previously sold	—	(485)
Municipal utility districts reimbursement	—	208
(Increase) decrease in other assets	(2,161)	11,236
Increase in accounts payable, accrued liabilities and other	4,389	1,863
Net cash (used in) provided by operating activities	(21,562)	55,941
Cash flow from investing activities:		
Capital expenditures	(6,804)	(2,386)
Return of investment in (investment in) unconsolidated affiliates	4,069	(1,100)
Net cash used in investing activities	(2,735)	(3,486)
Cash flow from financing activities:		
Borrowings from credit facility	36,000	18,000
Payments on credit facility	(12,915)	(44,612)
Borrowings from project loans	34,588	109,042
Payments on project and term loans	(12,528)	(68,806)
Noncontrolling interests distributions	(11,637)	(54,721)
Repurchases of treasury stock	(679)	(957)
Net payments for stock-based awards	(125)	(9)
Financing costs	(69)	(1,869)
Net cash provided by (used in) financing activities	32,635	(43,932)
Net increase in cash and cash equivalents	8,338	8,523
Cash and cash equivalents at beginning of year	21,307	12,784
Cash and cash equivalents at end of year	$ 29,645	$ 21,307

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

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

	Stratus Stockholders' Equity									
	Common Stock					Common Stock Held in Treasury				
	Number of Shares	At Par Value	Capital in Excess of Par Value	Accum-ulated Deficit	Accum-ulated Other Compre-hensive Loss	Number of Shares	At Cost	Total Stratus Stockholders' Equity	Noncontrolling Interests in Subsidiaries	Total Equity
Balance at December 31, 2012	9,037	$ 90	$203,298	$(63,309)	$ —	940	$(18,392)	$ 121,687	$ 87,208	$208,895
Common stock repurchases	—	—	—	—	—	82	(957)	(957)	—	(957)
Exercised and issued stock-based awards	39	1	88	—	—	—	—	89	—	89
Stock-based compensation	—	—	338	—	—	—	—	338	—	338
Tender of shares for stock-based awards	—	—	—	—	—	8	(99)	(99)	—	(99)
Noncontrolling interests distributions	—	—	—	—	—	—	—	—	(44,812)	(44,812)
Total comprehensive income (loss)	—	—	—	2,585	(22)	—	—	2,563	3,299	5,862
Balance at December 31, 2013	9,076	91	203,724	(60,724)	(22)	1,030	(19,448)	123,621	45,695	169,316
Common stock repurchases	—	—	—	—	—	40	(679)	(679)	—	(679)
Exercised and issued stock-based awards	40	—	65	—	—	—	—	65	—	65
Stock-based compensation	—	—	480	—	—	—	—	480	—	480
Tender of shares for stock-based awards	—	—	—	—	—	11	(190)	(190)	—	(190)
Noncontrolling interests distributions	—	—	—	—	—	—	—	—	(11,636)	(11,636)
Total comprehensive income (loss)	—	—	—	13,403	(257)	—	—	13,146	4,584	17,730
Balance at December 31, 2014	9,116	$ 91	$204,269	$(47,321)	$ (279)	1,081	$(20,317)	$ 136,443	$ 38,643	$175,086

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

STRATUS PROPERTIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Business and Principles of Consolidation. Stratus Properties Inc. (Stratus), a Delaware corporation, is engaged primarily in the development, management, operation and sale of commercial, hotel, entertainment, and multi- and single-family residential real estate properties located primarily in the Austin, Texas area. The real estate development and marketing operations of Stratus are conducted through its wholly owned subsidiaries, two consolidated joint ventures (see Notes 2 and 3) and through unconsolidated joint ventures (see "Investments in Unconsolidated Affiliates" below and Note 6). Stratus consolidates its wholly owned subsidiaries, subsidiaries in which Stratus has a controlling interest and variable interest entities in which Stratus is deemed the primary beneficiary. All significant intercompany transactions have been eliminated in consolidation.

Concentration of Risks. Stratus primarily conducts its operations in Austin, Texas. Consequently, any significant economic downturn in the Austin market could potentially have an effect on Stratus' business, results of operations and financial condition.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States (U.S.) requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. The more significant estimates include the (1) estimates of future cash flow from development and sale of real estate properties used in the assessment of impairments, (2) valuation allowances for deferred tax assets, (3) allocation of certain indirect costs and (4) useful lives for depreciation. Actual results could differ from those estimates.

Real Estate and Commercial Leasing Assets. Real estate held for sale is stated at the lower of cost or fair value less costs to sell. The cost of real estate held for sale includes acquisition, development, construction and carrying costs, and other related costs incurred through the development stage. Real estate under development and land available for development are stated at cost. Real estate held for investment, which includes the hotel and entertainment venue at the W Austin Hotel & Residences project and Stratus' commercial leasing assets, is stated at cost, less accumulated depreciation. Stratus capitalizes interest on funds used in developing properties from the date of initiation of development activities through the date the property is substantially complete and ready for sale or lease. Common costs are allocated based on the relative fair value of individual land parcels. Certain carrying costs are capitalized on properties currently under active development. Stratus capitalizes improvements that increase the value of commercial leasing properties and have useful lives greater than one year. Costs related to repairs and maintenance are charged to expense as incurred.

Stratus performs an impairment test when events or circumstances indicate that an asset's carrying amount may not be recoverable. Events or circumstances that Stratus considers indicators of impairment include significant decreases in market values, adverse changes in regulatory requirements (including environmental laws), significant budget overruns for properties under development, and current period or projected operating cash flow losses from rental properties. Impairment tests for properties to be held and used, including properties under development, involve the use of estimated future net undiscounted cash flows expected to be generated from the use of the property and its eventual disposition. If projected undiscounted cash flow from properties to be held and used is less than the related carrying amount, then a reduction of the carrying amount of the long-lived asset to fair value is required. Measurement of the impairment loss is based on the fair value of the asset. Generally, Stratus determines fair value using valuation techniques such as discounted expected future cash flows. Impairment tests for properties held for sale involve management estimates of fair value based on estimated market values for similar properties in similar locations and management estimates of costs to sell. If estimated fair value less costs to sell is less than the related carrying amount, then a reduction of the carrying amount of the asset to fair value less costs to sell is required.

Stratus recorded no impairment charges for the years ended December 31, 2014 and 2013. Should market conditions deteriorate in the future or other events occur that indicate the carrying amount of Stratus' real estate assets may not be recoverable, Stratus will reevaluate the expected cash flows from each property to determine whether any impairment exists.

Depreciation. Commercial leasing properties are depreciated on a straight-line basis over their estimated life of between 30 and 40 years. The hotel and entertainment venue properties are depreciated on a straight-line basis over their estimated life of 35 years. Furniture, fixtures and equipment are depreciated on a straight-line basis over a three to five-year period. Tenant improvements are depreciated over the related lease terms.

Investments in Unconsolidated Affiliates. Stratus has interests in three unconsolidated affiliates, which it accounts for under the equity method (see Note 6).

Other Assets. Other assets primarily consist of restricted cash (associated with the joint venture between Stratus and Canyon-Johnson Urban Fund II, L.P. (Canyon-Johnson) (the Block 21 Joint Venture)), deferred financing and leasing costs, prepaid insurance, tenant and other accounts receivable, and notes and interest receivable. Deferred financing costs are amortized using the straight-line method over the term of the related debt, which approximates the effective interest method, to interest expense. Deferred leasing costs are amortized to cost of sales using the straight-line method over the related lease terms.

Accrued Property Taxes. Stratus estimates its property taxes based on prior year property tax payments and other current events that may impact the amount. Upon receipt of the property tax bill, Stratus adjusts its accrued property tax balance at year-end to the actual amount of taxes due for such year. Accrued property taxes included in accrued liabilities on the balance sheets totaled $5.0 million at December 31, 2014, and $5.1 million at December 31, 2013.

Revenue Recognition. Revenues from property sales are recognized when the risks and rewards of ownership are transferred to the buyer, when the consideration received can be reasonably determined and when Stratus has completed its obligations to perform certain supplementary development activities, if any exist, at the time of the sale. Consideration is reasonably determined and considered likely of collection when Stratus has signed sales agreements and has determined that the buyer has demonstrated a commitment to pay. The buyer's commitment to pay is supported by the level of their initial investment, Stratus' assessment of the buyer's credit standing and Stratus' assessment of whether the buyer's stake in the property is sufficient to motivate the buyer to honor their obligation to pay.

Stratus' revenues from hotel operations are primarily derived from room reservations and food and beverage sales. Revenue is recognized when rooms are occupied and services have been rendered. Taxes collected from customers and submitted to taxing authorities are not recorded in revenue.

Stratus' revenues from entertainment operations are primarily derived from ticket sales; sponsorships, personal seat licenses and suite sales; and sales of concessions and merchandise. Revenues from ticket sales are recognized after the corresponding performance occurs. Revenues from sponsorships and other revenue not related to a single event are classified as deferred revenue and generally amortized over the operating season or term of the contract. Revenues from concessions and merchandise sales are recognized at the time of sale.

Stratus recognizes its rental income based on the terms of its signed leases with tenants on a straight-line basis. Recoveries from tenants for taxes, insurance and other commercial property operating expenses are recognized as revenues in the period the related costs are incurred. Stratus recognizes sales commissions and management and development fees when earned, as properties are sold or when the services are performed.

A summary of Stratus' revenues follows (in thousands):

	Years Ended December 31,	
	2014	2013
Revenues:		
Hotel	$ 42,354	$ 39,234
Developed property sales	25,674	63,676
Undeveloped property sales	—	3,266
Entertainment	19,048	15,481
Commercial leasing	6,625	5,406
Commissions and other	410	647
Total revenues	$ 94,111	$ 127,710

Cost of Sales. Cost of sales includes the cost of real estate sold as well as costs directly attributable to the properties sold such as marketing, maintenance and property taxes. Cost of sales also includes operating costs and depreciation for properties held for investment and municipal utility district reimbursements. A summary of Stratus' cost of sales follows (in thousands):

	Years Ended December 31,	
	2014	2013
Hotel	$ 30,746	$ 29,483
Cost of developed property sales	16,466	48,732
Cost of undeveloped property sales	43	1,122
Entertainment	14,431	12,922
Commercial leasing	3,138	2,670
Project expenses and allocation of overhead costs (see below)	3,543	5,423
Depreciation	8,977	9,053
Other, net	598 [a]	(1,148) [a]
Total cost of sales	$ 77,942	$ 108,257

a. Includes a credit of $0.4 million in 2014 and $1.1 million in 2013 related to the recovery of building repair costs associated with damage caused by the June 2011 balcony glass breakage incidents at the W Austin Hotel & Residences project.

Gross profit on condominium sales from the W Austin Hotel & Residences project is based on estimates of total project sales value and total project costs for the condominiums. When estimates of sales value or project costs are revised, gross profit is adjusted in the period of change so that cumulative project earnings reflect the revised profit estimate.

Allocation of Overhead Costs. Stratus allocates a portion of its overhead costs to both capitalized real estate costs and cost of sales based on the percentage of time certain of its employees, comprising its indirect overhead pool, worked in the related areas (i.e. construction and development for capital assets and sales and marketing for cost of sales). Stratus capitalizes only direct and certain indirect project costs associated with the acquisition, development and construction of a real estate project. Indirect costs include allocated costs associated with certain pooled resources (such as office supplies, telephone and postage) which are used to support Stratus' development projects, as well as general and administrative functions. Allocations of pooled resources are based only on those employees directly responsible for development (i.e., project managers and subordinates). Stratus charges to expense indirect costs that do not clearly relate to a real estate project, such as all salaries and costs related to its Chief Executive Officer and Chief Financial Officer.

Municipal Utility District Reimbursements. Stratus receives Barton Creek Municipal Utility District (MUD) reimbursements for certain infrastructure costs incurred in the Barton Creek area. Prior to 1996, Stratus capitalized infrastructure costs to its properties as those costs were incurred. Subsequently, those costs were charged to cost of sales as properties were sold. In 1996, following the 1995 creation of MUDs, Stratus began capitalizing the infrastructure costs to a separate MUD property category. MUD reimbursements received for infrastructure costs incurred prior to 1996 are reflected as a reduction of cost of sales, while other MUD reimbursements represent a reimbursement of the cost of MUD properties and are recorded as a reduction of the related asset's carrying amount or cost of sales if the property has been sold. Stratus has long-term agreements with seven independent MUDs in Barton Creek to build the MUDs' utility systems and to be eligible for future reimbursements for the related costs. The amount and timing of MUD reimbursements depends upon the respective MUD having a sufficient tax base within its district to issue bonds and obtain the necessary state approval for the sale of the bonds. Because the timing of the issuance and approval of the bonds is subject to considerable uncertainty, coupled with the fact that interest rates on such bonds cannot be fixed until they are approved, the amounts associated with MUD reimbursements are not known until approximately one month before the MUD reimbursements are received. To the extent the reimbursements are less than the costs capitalized, Stratus records a loss when that determination is made. MUD reimbursements represent the actual amounts received.

Advertising Costs. Advertising costs are expensed as incurred and are included as a component of cost of sales. Advertising costs totaled $0.8 million in 2014 and $0.9 million in 2013.

Income Taxes. Stratus accounts for deferred income taxes utilizing an asset and liability method, whereby deferred tax assets and liabilities are recognized based on the tax effects of temporary differences between the financial statements and the tax basis of assets and liabilities, as measured by current enacted tax rates. The effect on

deferred income tax assets and liabilities of a change in tax rates or laws is recognized in income in the period in which such changes are enacted. Stratus periodically evaluates the need for a valuation allowance to reduce deferred tax assets to estimated recoverable amounts. Stratus establishes a valuation allowance to reduce its deferred tax assets and records a corresponding charge to earnings if it is determined, based on available evidence at the time, that it is more likely than not that any portion of the deferred tax assets will not be realized. In evaluating the need for a valuation allowance, Stratus estimates future taxable income based on projections and ongoing tax strategies. This process involves significant management judgment about assumptions that are subject to change based on variances between projected and actual operating performance and changes in Stratus' business environment or operating or financial plans. See Note 8 for further discussion.

Earnings Per Share. Stratus' basic net income per share of common stock was calculated by dividing the net income attributable to common stock by the weighted-average shares of common stock outstanding during the period. A reconciliation of net income and weighted-average shares of common stock outstanding for purposes of calculating diluted net income per share (in thousands, except per share amounts) for the years ended December 31 follows:

	2014	2013
Net income	$ 18,157	$ 5,894
Net income attributable to noncontrolling interests	(4,754)	(3,309)
Net income attributable to common stock	$ 13,403	$ 2,585
Weighted-average shares of common stock outstanding	8,037	8,077
Add shares issuable upon exercise or vesting of:		
Dilutive stock options	11	7 [a]
Restricted stock units	30 [b]	27
Weighted-average shares of common stock outstanding for purposes of calculating diluted net income per share	8,078	8,111
Diluted net income per share attributable to common stock	$ 1.66	$ 0.32

a. Excludes 1,000 shares of Stratus common stock associated with outstanding stock options with exercise prices less than the average market price of Stratus' common stock that were anti-dilutive based on the treasury stock for the year ended December 31, 2013.

b. Excludes 36,000 shares of common stock that were anti-dilutive based on the treasury stock method.

Outstanding stock options with exercise prices greater than the average market price for Stratus' common stock during the period are excluded from the computation of diluted net income per share of common stock. Excluded were 42,000 stock options with a weighted average exercise price of $23.44 for 2014, and 64,000 stock options with a weighted average exercise price of $20.85 for 2013.

Stock-Based Compensation. Compensation costs for share-based payments to employees, including stock options, are measured at fair value and charged to expense over the requisite service period for awards that are expected to vest. The fair value of stock options is determined using the Black-Scholes option valuation model. In addition, for restricted stock units, compensation costs are recognized based on the fair value on the date of grant. Stratus estimates forfeitures at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from those estimates through the final vesting date of the awards. See Note 9 for further discussion.

2. Joint Venture with Canyon-Johnson Urban Fund II, L.P.

Stratus and Canyon-Johnson are participants in the Block 21 Joint Venture for a 36-story mixed-use development in downtown Austin, Texas, anchored by a W Hotel & Residences (the W Austin Hotel & Residences project). Stratus is the manager of, and has an approximate 40 percent interest in the Block 21 Joint Venture, and Canyon-Johnson has an approximate 60 percent interest. As of December 31, 2014, cumulative capital contributions totaled $71.9 million for Stratus and $94.0 million for Canyon-Johnson. As of December 31, 2014, the inception-to-date distributions totaled $52.7 million to Stratus, including $8.0 million in 2014, and $61.6 million to Canyon-Johnson, including $11.0 million in 2014.

Upon formation of the Block 21 Joint Venture, Stratus performed an initial evaluation and concluded that the Block 21 Joint Venture was a variable interest entity (VIE) and that Stratus was the primary beneficiary. Stratus reevaluated and reaffirmed its previous conclusion as to the VIE status and Stratus as primary beneficiary of the

Block 21 Joint Venture as of September 30, 2013, the date of the Bank of America (BoA) refinancing transaction (see Note 7). Stratus will continue to evaluate which entity is the primary beneficiary of the Block 21 Joint Venture in accordance with applicable accounting guidance.

Stratus' consolidated balance sheets include the following assets and liabilities of the Block 21 Joint Venture (in thousands):

	December 31,	
	2014	2013
Assets:		
Cash and cash equivalents	$ 17,319	$ 13,192
Restricted cash	7,090	5,069
Real estate held for sale	—	10,942
Real estate held for investment, net	151,078	157,541
Other assets	6,042	7,631
Total assets	181,529	194,375
Liabilities:		
Accounts payable	2,859	3,428
Accrued liabilities	6,901	6,856
Debt	98,267	99,754
Other liabilities	5,346	4,761
Total liabilities	113,373	114,799
Net assets	$ 68,156	$ 79,576

Profits and losses among partners in a real estate venture are allocated based on how changes in net assets of the venture would affect cash payments to the partners over the life of the venture and on its liquidation. The amount of the ultimate profits earned by the Block 21 Joint Venture will affect the ultimate profit sharing ratios because of provisions in the joint venture agreement, which would require Stratus to return certain previously received distributions to Canyon-Johnson under certain circumstances. Because of the uncertainty of the ultimate profits and, therefore, profit-sharing ratios, the Block 21 Joint Venture's cumulative profits or losses are allocated based on a hypothetical liquidation of the Block 21 Joint Venture's net assets as of each balance sheet date. As of December 31, 2014, the cumulative earnings of the Block 21 Joint Venture were allocated based on 42 percent for Stratus and 58 percent for Canyon-Johnson.

On October 3, 2012, the joint venture and Pedernales Entertainment LLC (Pedernales) formed Stageside Productions (Stageside) to promote, market and commercialize the production, sale, distribution and general oversight of audio and video recordings of events or performances occurring at Austin City Limits Live at the Moody Theater (ACL Live). The Block 21 Joint Venture's initial capital contributions to Stageside totaled $0.3 million, and the Block 21 Joint Venture will contribute additional capital as necessary to fund the working capital needs of Stageside. The Block 21 Joint Venture has a 100 percent capital funding interest and a 40 percent residual and voting interest in Stageside. The joint venture performed an evaluation and concluded Stageside is a VIE and that the Block 21 Joint Venture is the primary beneficiary. Accordingly, the results of Stageside are consolidated in the Block 21 Joint Venture's financial statements.

3. Joint Venture with LCHM Holdings, LLC

In 2011, Stratus entered into a joint venture (the Parkside Village Joint Venture) with Moffett Holdings, LLC (Moffett Holdings) for the development of Parkside Village, a retail project in the Circle C community in southwest Austin, Texas. On March 3, 2014, Moffett Holdings redeemed and purchased the membership interest in Moffett Holdings held by LCHM Holdings, LLC (LCHM Holdings). In connection with the redemption, (1) LCHM Holdings received the 625,000 shares of Stratus common stock held by Moffett Holdings and (2) LCHM Holdings entered into an assignment and assumption agreement pursuant to which Moffett Holdings assigned to LCHM Holdings its rights and obligations under the Investor Rights Agreement between Moffett Holdings and Stratus dated as of March 15, 2012.

Stratus' capital contributions to the Parkside Village Joint Venture totaled $3.1 million, which consisted of a 23.03 acre tract of land located in Austin, Texas, the related property and development agreements for the land and other project costs incurred by Stratus before February 28, 2011. Moffett Holdings made cash capital contributions to the

Parkside Village Joint Venture totaling $3.8 million, the rights of which were subsequently assigned to LCHM Holdings, to fund the development of the project. As of December 31, 2014, cumulative distributions of $4.0 million were made to Stratus ($0.5 million in 2014 and $3.5 million in 2013) and $4.8 million to LCHM Holdings, formerly Moffett Holdings ($0.7 million in 2014 and $4.1 million in 2013). The Parkside Village Joint Venture also has a loan with Comerica Bank (see Note 7 for further discussion). The Parkside Village loan had an outstanding balance of $18.9 million and further availability of $0.8 million at December 31, 2014.

Stratus is the manager of the Parkside Village Joint Venture. After the partners are paid a preferred return on their contributions, Stratus will receive 80 percent of any distributions and LCHM Holdings will receive 20 percent. As the manager Parkside Village Joint Venture with a majority of the voting and profit interest (80 percent), Stratus consolidates the Parkside Village Joint Venture in its financial statements.

4. Real Estate, net

Stratus' consolidated balance sheets include the following net real estate assets as of December 31 (in thousands):

	December 31,	
	2014	2013
Real estate held for sale:		
Developed lots and condominium units	$ 12,245	$ 18,133
Real estate under development:		
Acreage and lots	123,921	76,891
Land available for development:		
Undeveloped acreage	21,368	21,404
Real estate held for investment:		
W Austin Hotel & Residences		
Hotel	123,474	122,979
Entertainment venue	41,344	41,048
Office and retail	16,647	16,389
Parkside Village	18,680	15,459
Barton Creek Village	6,120	6,443
5700 Slaughter	5,741	5,846
Furniture, fixtures and equipment	1,443	1,375
Total	213,449	209,539
Accumulated depreciation	(35,384)	(27,009)
Total real estate held for investment, net	178,065	182,530
Total real estate, net	$ 335,599	$ 298,958

Real estate held for sale. Developed lots and condominium units include condominium units at the W Austin Hotel & Residences project, an individual tract of land that has been developed and permitted for residential use, or a developed lot with a home already built on it. As of December 31, 2014, Stratus owned 64 developed lots and two completed condominium units at the W Austin Hotel & Residences project.

Real estate under development. Acreage under development includes real estate for which infrastructure for the entire property is currently under construction and/or is expected to be completed, and necessary permits have been received, or acreage on which commercial properties are under development. Acreage under development at December 31, 2014, totaled 253 acres.

Land available for development. Undeveloped acreage includes real estate that can be sold “as is” (i.e., no infrastructure or development work has begun on such property). Stratus’ undeveloped acreage as of December 31, 2014, included approximately 1,691 acres of land primarily in Austin, Texas, permitted for residential and commercial development.

Real estate held for investment. The W Austin Hotel & Residences project includes a 251-room hotel, which opened in December 2010. The W Austin Hotel & Residences project also includes ACL Live, an entertainment venue and production studio, with a maximum capacity of 3,000 people, 39,328 square feet of office space and 18,362 square feet of retail space. As of December 31, 2014, occupancy was 91 percent for the office space and 74 percent for the retail space. Parkside Village consists of a 90,184-square-foot retail complex in the Circle C community.

Construction was completed in fourth-quarter 2014 and as of December 31, 2014, occupancy was 96 percent. Barton Creek Village includes a 22,366-square-foot retail complex, which was 100 percent leased at December 31, 2014, and a 3,085-square-foot bank building, which is leased through January 2023. The 5700 Slaughter property includes two retail buildings totaling in the aggregate 21,248 square feet, which was 100 percent leased at December 31, 2014.

Capitalized interest. Stratus recorded capitalized interest of $4.1 million in 2014 and $3.6 million in 2013.

5. Fair Value Measurements

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

The carrying value for certain Stratus financial instruments (i.e., cash and cash equivalents, restricted cash, accounts payable and accrued liabilities) approximates fair value because of their short-term nature and generally negligible credit losses. A summary of the carrying amount and fair value of Stratus' other financial instruments follows (in thousands):

	December 31, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Interest rate cap agreement	$ 79	$ 79	$ 351	$ 351
Liabilities:				
Interest rate swap	596	596	32	32
Debt	196,477	196,856	151,332	151,584

Interest Rate Cap Agreement. On September 30, 2013, the Block 21 Joint Venture paid $0.5 million to enter into an interest rate cap agreement, which caps the one-month London Interbank Offered Rate (LIBOR), the variable rate in the BoA loan agreement relating to the W Austin Hotel & Residences project (the BoA loan), at 1 percent for the first year the BoA loan is outstanding, 1.5 percent for the second year and 2 percent for the third year. Stratus uses an interest rate pricing model that relies on market observable inputs such as LIBOR to measure the fair value of the interest rate cap agreement. Stratus also evaluated the counterparty credit risk associated with the interest rate cap agreement, which is considered a Level 3 input, but did not consider such risk to be significant. Therefore, the interest rate cap agreement is classified within Level 2 of the fair value hierarchy. See Note 7 for more information on the BoA loan.

Interest Rate Swap Agreement. On December 13, 2013, the Parkside Village Joint Venture entered into an interest rate swap agreement with Comerica Bank that effectively converts the variable rate portion of Parkside Village's loan from Comerica Bank (the Parkside Village loan) from one-month LIBOR to a fixed rate of 2.3 percent. With the interest rate swap agreement in place, the Parkside Village Joint Venture's interest cost on the Parkside Village loan will be 4.8 percent through the December 31, 2020, maturity date. Stratus also evaluated the counterparty credit risk associated with the interest rate swap agreement, which is considered a Level 3 input, but did not consider such risk to be significant. Therefore, the interest rate swap agreement is classified within Level 2 of the fair value hierarchy. See Note 7 for more information on the Parkside Village loan.

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

6. Investment in Unconsolidated Affiliates

Crestview Station. In 2005, Stratus formed a joint venture with Trammell Crow Central Texas Development, Inc. (Trammell Crow) to acquire an approximate 74-acre tract at the intersection of Airport Boulevard and Lamar Boulevard in Austin, Texas, for $7.7 million. The property, known as Crestview Station (the Crestview Station Joint Venture), is a single-family, multi-family, retail and office development located on the site of a commuter line. The Crestview Station Joint Venture sold substantially all of its multi-family and commercial properties in 2007 and one commercial site in 2008. The Crestview Station Joint Venture sold the remaining residential land to DR Horton, as follows (in millions, except lots closed):

Closing Date	Lots Closed	Sale Price	Gross Profit
April 2012	74	$ 3.8	$ 0.4
May 2013	59	3.4	0.7
March 2014	59	3.5	0.8
November 2014	111	6.8	1.8
	303	$ 17.5	$ 3.7

At December 31, 2014, the Crestview Station Joint Venture had one commercial site remaining. Stratus accounts for its 50 percent interest in the Crestview Station Joint Venture under the equity method.

Stump Fluff. In April 2013, Stratus formed a joint venture, Stump Fluff LLC (Stump Fluff), with Transmission Entertainment, LLC (Transmission) to own, operate, manage and sell live music and entertainment promotion, booking, production, merchandising, venue services and other related products and services. As of December 31, 2014, Stratus' capital contributions to Stump Fluff totaled $0.8 million. Stratus will contribute additional capital to Stump Fluff as necessary to fund its working capital needs. Transmission contributed its existing assets to Stump Fluff. In addition, Stump Fluff assumed specified liabilities of Transmission totaling $0.2 million. Transmission is not required to make any future capital contributions to Stump Fluff. Stratus and Transmission each have a 50 percent voting interest in Stump Fluff. After Stratus is repaid its original capital contributions and a preferred return (10 percent annually) on those contributions, Stratus will receive 33 percent of any distributions from Stump Fluff and Transmission will receive 67 percent.

Guapo Enterprises. In May 2013, Stratus and Austin Pachanga Partners, LLC (Pachanga Partners) formed a joint venture, Guapo Enterprises LLC (Guapo) to own, operate, manage and sell the products and services of the Pachanga music festival business. As of December 31, 2014, Stratus' capital contributions to Guapo totaled $0.3 million. Stratus will contribute additional capital to Guapo as necessary to fund its working capital needs. Pachanga Partners contributed its existing assets to Guapo and is not required to make any future capital contributions. Stratus and Pachanga Partners each have a 50 percent voting interest in Guapo. After Stratus is repaid its original capital contributions and a preferred return (10 percent annually) on those contributions, Stratus will receive 33 percent of any distributions from Guapo and Pachanga Partners will receive 67 percent.

Stratus has concluded that both Stump Fluff and Guapo are VIEs and that no partner in either joint venture is the primary beneficiary because decision-making regarding the activities that most significantly impact the VIEs' economic performance is shared equally between the partners. Stratus accounts for its investments in Stump Fluff and Guapo using the equity method.

Stratus' equity in unconsolidated affiliates' income (losses) totaled $1.1 million in 2014 and less than $(0.1) million in 2013.

Summarized unaudited financial information for Stratus' unconsolidated affiliates follows (in thousands):

	2014	2013
Years Ended December 31:		
Revenues	$ 14,900	$ 8,334
Gross profit	2,608	716
Net income	2,357	115
At December 31:		
Total assets	$ 1,546	$ 9,610
Total liabilities	558	1,587
Total equity	988	8,023

7. Debt

Stratus' total debt as of December 31 follows (in thousands):

	December 31,	
	2014	2013
BoA loan, average interest rate 2.66% in 2014 and 2.67% in 2013	$ 98,267	$ 99,754
Comerica credit facility, average interest rate 6.00% in 2014	23,085	—
Diversified Real Asset Income Fund (DRAIF) term loans, average interest rate 7.25% in 2014 and 2013	23,000	23,000
Parkside Village loan, average interest rate 2.66% in 2014 and 4.97% in 2013	18,923	17,672
Lakeway Construction loan, average interest rate 2.91% in 2014 and 5.0% in 2013	16,588	1,550
United/Slaughter term loan, average interest rate 4.50% in 2014 and 6.95% in 2013	6,932	5,073
Barton Creek Village term loan, average interest rate 4.19% in 2014 and 6.25% in 2013	5,932	4,283
Magnolia term loan average interest rate 7.00% in 2014	3,750	—
Total debt	$ 196,477	$ 151,332

BoA loan. On September 30, 2013, the Block 21 Joint Venture entered into a term loan agreement for a $100 million non-recourse loan.

The initial maturity date of the BoA loan is September 29, 2016, but the Block 21 Joint Venture has the option to extend the maturity date for up to three additional one-year terms. The BoA loan accrues interest at the LIBOR daily floating rate plus 2.5 percent. The Block 21 Joint Venture entered into an interest rate cap agreement for the BoA loan (see Note 5). The Block 21 Joint Venture's obligations under the BoA loan are secured by certain property and assets related to the W Austin Hotel & Residences project, excluding the remaining unsold condominium residences. Additionally, Stratus and Canyon-Johnson guarantee certain obligations of the Block 21 Joint Venture, including environmental indemnification and other customary carve-out obligations. The BoA loan contains customary financial covenants and other restrictions.

Comerica credit facility. Stratus has a $48.0 million credit facility with Comerica, divided into three tranches as follows: (1) a $35.0 million revolving line of credit, (2) $3.0 million for letters of credit and (3) a $10.0 million construction loan. The interest rate applicable to amounts borrowed under each loan is an annual rate of LIBOR plus 4.0 percent, with a minimum interest rate of 6.0 percent. The credit facility will mature in May 2015. Stratus' obligations under the credit facility are secured by substantially all of Stratus' assets, except for properties that are encumbered by separate loan financing. The credit facility sets limitations on liens and transactions with affiliates and requires that certain financial ratios be maintained, including a requirement that Stratus maintain a minimum total stockholders' equity balance of $110.0 million. Stratus is currently negotiating a new credit facility with Comerica that is expected to be completed in second-quarter 2015.

Under the terms of the credit facility, (1) any distributions received by Stratus from its investment in the W Austin Hotel & Residences project shall be paid to Comerica and applied against the $35.0 million revolving loan to the extent of any outstanding balance and (2) MUD reimbursements and land sales proceeds directly related to Section N of Barton Creek shall be used to first repay the Barton Creek Village term loan (discussed below), with any excess used to pay down the $35.0 million revolving loan. Any amounts borrowed and repaid under the $10.0 million construction loan will not be available for future advance to Stratus. At December 31, 2014, a total of $23.1 million was outstanding under the revolving line of credit, no amounts outstanding under the letters of credit tranche ($2.7 million of letters of credit committed) and no amounts were outstanding under the construction loan ($1.9 million of letters of credit committed).

DRAIF term loans. Stratus has $23.0 million outstanding under five unsecured term loans with DRAIF, formerly American Strategic Income Portfolio Inc., including two $3.5 million loans, an $8.0 million loan, a $5.0 million loan and a $3.0 million loan. The DRAIF loan agreements have an interest rate of 7.25 percent, and maturity dates are as follows:

Principal Balance	Maturity Date
$ 5,000,000	3/31/2015
3,500,000	3/31/2015
3,000,000	12/31/2015
3,500,000	12/31/2015
8,000,000	12/31/2016

The DRAIF loan agreements contain a debt service coverage ratio covenant and an alternative covenant that requires Stratus to maintain total stockholders' equity of no less than $110.0 million.

Parkside Village loan. On May 17, 2011, the Parkside Village Joint Venture entered into a construction loan agreement and promissory note with Comerica Bank to finance the development of Parkside Village (the Parkside Village loan). In December 2013, the Parkside Village Joint Venture extended and modified the Parkside Village loan to extend the maturity date from December 31, 2013, to December 31, 2020, increase the principal amount available to a total of $19.7 million, replace the debt coverage provision by providing for a minimum debt yield, as defined in the loan agreement, of 9.1 percent, and amend certain other provisions of the loan agreement. The Parkside Village loan is secured by a lien on the assets of the Parkside Village project, which had a net book value of $16.9 million at December 31, 2014, and Stratus has provided a limited guaranty. As of December 31, 2014, the amount outstanding was $18.9 million with $0.8 million available.

Lakeway Construction loan. On September 29, 2014, a Stratus subsidiary entered into a $62.9 million construction loan agreement with PlainsCapital Bank (the Lakeway Construction loan) to fund the construction, development and leasing of The Oaks at Lakeway in Lakeway, Texas (The Oaks at Lakeway). On November 7, 2014, the Stratus subsidiary and PlainsCapital Bank entered into an amendment to the loan agreement to effect the syndication of a portion of the aggregate principal amount of the Lakeway Construction loan with Southside Bank. Pursuant to the amendment, PlainsCapital Bank has committed $37.9 million and Southside Bank has committed $25.0 million under the Lakeway Construction loan. The loan is secured by the related land, which had a net book value of $32.6 million at December 31, 2014. As of December 31, 2014, Stratus had $16.6 million outstanding under the Lakeway Construction loan, which matures on September 29, 2019.

The variable interest rate is one-month LIBOR plus 2.75 percent. The Lakeway Construction loan is guaranteed by Stratus subject to the guarantee decreasing as certain milestones set forth in the loan agreement are met. Pursuant to the Lakeway Construction loan, $1.6 million of the proceeds were used to fully repay the existing Lakeway loan, which was scheduled to mature on May 15, 2015.

United/Slaughter term loan. On July 18, 2014, Stratus entered into a $7.0 million term loan agreement with United Heritage Credit Union (the United/Slaughter loan), that matures on July 31, 2024. The United/Slaughter loan is secured by assets at Stratus' 5700 Slaughter project in the Circle C community, which had a net book value of $4.6 million at December 31, 2014. The interest rate is 4.50 percent through July 31, 2019. Beginning August 1, 2019, and continuing through the maturity date, interest will accrue at the greater of the prime interest rate plus 1.25 percent, or 4.95 percent. As required by the United/Slaughter loan, $5.0 million of the proceeds were used to fully repay the existing 5700 Slaughter term loan, which was scheduled to mature on January 31, 2015. As of December 31, 2014, the amount outstanding was $6.9 million.

Barton Creek Village term loan. On June 27, 2014, Stratus entered into a $6.0 million term loan agreement with PlainsCapital Bank (the Barton Creek Village term loan), that matures on June 27, 2024. The Barton Creek Village term loan is secured by assets at Stratus' Barton Creek Village project, which had a net book value of $4.8 million at December 31, 2014. The interest rate is 4.19 percent and payments of principal and interest are due monthly. As required by the Barton Creek Village term loan, $4.3 million of the proceeds were used to fully repay the existing Barton Creek Village loan, which was scheduled to mature on June 30, 2014. As of December 31, 2014, the amount outstanding was $5.9 million.

Magnolia term loan. On September 15, 2014, Stratus entered into a $3.8 million term loan agreement with Holliday Fenoglio Fowler, L.P. (the Magnolia loan). The proceeds of the Magnolia loan were used to purchase approximately 142 acres of land located in Magnolia, Texas (approximately 18 acres of which were subsequently sold to HEB Grocery Stores). The interest rate is fixed at 7 percent and the Magnolia loan matures on October 1, 2016. The Magnolia loan is secured by the land, which had a net book value of $3.8 million at December 31, 2014. Stratus has the option to extend the maturity date on the Magnolia loan to October 1, 2017, upon prior written notice to the lender no later than July 1, 2016. As of December 31, 2014, the amount outstanding was $3.8 million.

Maturities. The following table summarizes Stratus' debt maturities as of December 31, 2014 (in thousands):

	2015	2016	2017	2018	2019	Thereafter	Total
BoA loan[a]	$ 1,564	$ 96,703	$ —	$ —	$ —	$ —	$ 98,267
Comerica credit facility[b]	23,085	—	—	—	—	—	23,085
DRAIF term loans[c]	15,000	8,000	—	—	—	—	23,000
Parkside Village loan	480	480	480	480	480	16,523	18,923
Lakeway Construction loan	—	—	—	—	16,588	—	16,588
United/Slaughter term loan	154	161	169	177	185	6,086	6,932
Barton Creek Village term loan	141	146	153	160	167	5,165	5,932
Magnolia term loan	—	3,750	—	—	—	—	3,750
Total	$ 40,424	$ 109,240	$ 802	$ 817	$ 17,420	$ 27,774	$ 196,477

a. The Block 21 Joint Venture has the option to extend the 2016 maturity date for up to three additional one-year terms.

b. The facility matures in May 2015.

c. The $5.0 million loan and one of the $3.5 million loans both mature in March 2015. The other $3.5 million loan and the $3.0 million loan both mature in December 2015.

8. Income Taxes

The components of deferred income taxes follow (in thousands):

	December 31,	
	2014	2013
Deferred tax assets and liabilities:		
Real estate, commercial leasing assets and facilities	$ 6,069	$ 4,829
Alternative minimum tax credits (no expiration)	908	860
Employee benefit accruals	550	917
Accrued liabilities	164	88
Deferred income	3,137	3,747
Charitable contribution carryforward	519	659
Other assets	494	580
Net operating loss credit carryforwards	39	705
Other liabilities	(121)	(26)
Valuation allowance	—	(12,096)
Deferred tax assets, net	$ 11,759	$ 263

In fourth-quarter 2014, Stratus evaluated the recoverability of its deferred tax assets, considering available positive and negative evidence, including recent earnings history and forecasts of future taxable income. As a result, Stratus concluded that there was sufficient positive evidence that its $11.8 million of deferred tax assets (net of deferred tax liabilities) will be realized. Accordingly, Stratus reversed the valuation allowance on its deferred tax assets as of December 31, 2014. Stratus recorded credits totaling $12.1 million in 2014 and $1.4 million in 2013 to the provision for income taxes to adjust the valuation allowances.

Stratus' future results of operations may be negatively impacted by an inability to realize a tax benefit for future tax losses or for items that will generate additional deferred tax assets.

Stratus' income tax provision consists of the following (in thousands):

	Years Ended December 31,	
	2014	2013
Current	$ (664)	$ (899)
Deferred	11,358	(30)
Benefit from (provision for) income taxes	$ 10,694	$ (929)

Excess tax benefits related to option exercises and vesting of restricted stock units cannot be recognized until realization through a reduction of current taxes payable. Stratus' deferred tax assets related to the U.S. net operating loss carry forwards at December 31, 2014, did not include an additional $5.2 million of net operating losses in relation to excess tax benefits on stock option exercises and restricted stock units vested because these benefits have not yet been realized. At December 31, 2014, excluding these losses, Stratus had operating loss carryforwards totaling $0.1 million that expire between 2029 and 2031.

During 2014 and 2013, Stratus recorded unrecognized tax benefits related to state income tax filing positions. A summary of the changes in unrecognized tax benefits follows (in thousands):

	December 31,	
	2014	2013
Balance at January 1	$ 854	$ 562
Additions for tax positions related to the current year	221	274
Additions for tax positions related to prior years	85	18
Balance at December 31	$ 1,160	$ 854

As of December 31, 2014, there was $1.2 million of unrecognized tax benefits that if recognized would affect Stratus' annual effective tax rate. Stratus does not expect its unrecognized tax benefits to change significantly over the next 12 months.

Stratus records liabilities offsetting the tax provision benefits of uncertain tax positions to the extent it estimates that a tax position is not more likely than not to be sustained upon examination by the taxing authorities. Stratus has elected to classify any interest expense and penalties related to income taxes within income tax expense in its consolidated statements of operations. As of December 31, 2014, less than $0.1 million of interest costs have been accrued.

Stratus files income tax returns in the U.S. federal jurisdiction and state jurisdictions. With few exceptions, Stratus is no longer subject to U.S. federal income tax examinations by tax authorities for the years prior to 2009, and state income tax examinations for the years prior to 2010.

Reconciliations of the income tax benefit computed at the federal statutory tax rate of 35 percent and the recorded income tax provision follow (dollars in thousands):

	Years Ended December 31,			
	2014		2013	
	Amount	Percent	Amount	Percent
Income tax expense computed at the federal statutory income tax rate	$ (2,612)	(35)%	$ (2,388)	(35)%
Adjustments attributable to:				
Change in valuation allowance	12,096	162 %	1,395	20 %
Noncontrolling interests	1,664	22 %	1,158	17 %
Equity in unconsolidated affiliates' (income) loss	—	— %	27	— %
State taxes and other, net	(454)	(6)%	(1,121)	(16)%
Benefit from (provision for) income taxes	$ 10,694	143 %	$ (929)	(14)%

Stratus paid federal and state income taxes totaling $0.5 million in 2014 and $0.5 million in 2013. Stratus received income tax refunds of less than $0.1 million in 2014. Stratus did not receive refunds of federal or state income taxes in 2013.

9. Stock-Based Compensation, Equity Transactions and Employee Benefits

Stock-Based Compensation Plans. Stratus currently has three stock-based compensation plans, all of which have awards available for grant. In May 2013, Stratus' stockholders approved the 2013 Stock Incentive Plan, which provides for the issuance of stock-based compensation awards, including stock options and restricted stock units, relating to 180,000 shares of Stratus common stock that are issuable to Stratus employees and non-employee directors. Stratus' 2010 Stock Incentive Plan provides for the issuance of stock options and restricted stock units relating to 140,000 shares of Stratus common stock that are issuable to Stratus employees and non-employee directors. Stratus' 1996 Stock Option Plan for Non-Employee Directors provides for the issuance of stock options only. Stratus common stock issued upon option exercises or restricted stock unit vestings represent newly issued shares of common stock. Awards with respect to 139,000 shares under the 2013 Stock Incentive Plan, 1,875 shares under the 2010 Stock Incentive Plan and 2,500 shares under the 1996 Stock Option Plan for Non-Employee Directors were available for new grants as of December 31, 2014.

Stock-Based Compensation Costs. Compensation costs charged against earnings for stock-based awards are shown below (in thousands). Stock-based compensation costs are capitalized when appropriate. Stratus' estimated forfeiture rate used in estimating stock-based compensation costs for stock options was 2.8 percent and for restricted stock units was zero percent for the years presented below.

	Years Ended December 31,	
	2014	2013
Stock options awarded to directors	$ 6	$ 14
Restricted stock units awarded to employees and directors	474	324
Impact on net income before income taxes	$ 480	$ 338

Options. Stock options granted under the plans generally expire 10 years after the date of grant and vest in 25 percent annual increments beginning one year from the date of grant. The plans and award agreements provide that participants will receive the following year's vesting after retirement and provide for accelerated vesting if there is a change of control (as defined in the plans). Stratus has not granted stock options since 2011. A summary of stock options outstanding as of December 31, 2014, and changes during the year ended December 31, 2014, follow:

	Number of Options	Weighted Average Option Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value ($000)
Balance at January 1	76,875	$ 18.42		
Exercised	(5,000)	13.06		
Expired	(28,750)	16.02		
Balance at December 31	43,125	20.65	3.1	$ 81
Vested and exercisable at December 31	41,875	20.97	2.9	$ 77

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model. Expected volatility is based on the historical volatility of Stratus' common stock. Stratus estimates its expected life of options using historical data to estimate option exercises and forfeitures. When appropriate, employees who have similar historical exercise behavior are grouped for valuation purposes. The risk-free interest rate is based on Federal Reserve rates in effect for bonds with maturity dates equal to the expected term of the option at the date of grant. Stratus has not paid, and has no current plan to pay, cash dividends on its common stock. Our current ability to pay dividends is restricted by terms of our credit facility. There were no stock options granted during 2014 or 2013.

The intrinsic value of options exercised during 2014 and 2013 was less than $0.1 million. A total of 2,500 stock options vested during 2014 and 3,750 vested during 2013, with weighted-average grant-date fair values of $6.63 per option and $5.91 per option, respectively. As of December 31, 2014, there were 1,250 stock options unvested with a weighted-average grant-date fair value of $6.91 per option. As of December 31, 2014, Stratus had no unrecognized compensation cost related to unvested stock options.

Restricted Stock Units. Restricted stock units granted under the plans provide for the issuance of common stock to the non-employee directors and certain officers of Stratus at no cost to the directors and officers. The restricted stock units are converted into shares of Stratus common stock ratably and generally vest in one-quarter increments over the four years following the grant date. For officers, the awards will fully vest upon retirement, death and disability, and upon a change of control. For directors, the awards will fully vest upon a change of control and there will be a partial acceleration of vesting due to retirement, death and disability.

A summary of outstanding unvested restricted stock units as of December 31, 2014, and activity during the year ended December 31, 2014, is presented below:

	Number of Restricted Stock Units	Aggregate Intrinsic Value ($000)
Balance at January 1	100,875	
Granted	48,000	
Vested	(35,375)	
Balance at December 31	113,500	$ 1,566

The total grant date fair value of restricted stock units granted during the year ended December 31, 2014, was $0.8 million. The total intrinsic value of restricted stock units vesting during the year ended December 31, 2014, was $0.6 million. As of December 31, 2014, Stratus had $1.1 million of total unrecognized compensation cost related to unvested restricted stock units expected to be recognized over a weighted-average period of 1.8 years.

The following table includes amounts related to exercises of stock options and vesting of restricted stock units for the years ended December 31, 2014, and 2013 (in thousands, except shares of Stratus common stock tendered):

	2014	2013
Stratus shares tendered to pay the exercise price and/or the minimum required taxes[a]	10,917	8,132
Cash received from stock option exercises	$ 65	$ 91
Amounts Stratus paid for employee taxes	$ 125	$ 9

a. Under terms of the related plans and agreements, upon exercise of stock options and vesting of restricted stock units, employees may tender shares of Stratus common stock to Stratus to pay the exercise price and/or the minimum required taxes.

Share Purchase Program. In November 2013, Stratus' board of directors approved an increase in the open market share purchase program from 0.7 million shares to 1.7 million shares of Stratus common stock. The purchases may occur over time depending on many factors, including the market price of Stratus common stock; Stratus' operating results, cash flow and financial position; and general economic and market conditions. Purchases under this program during 2014 included 39,960 shares for $0.7 million (an average of $17.00 per share), which Stratus purchased in private transactions. As of December 31, 2014, 991,695 shares remain available under this program.

Employee Benefits. Stratus maintains 401(k) defined contribution plans subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The 401(k) plans provide for an employer matching contribution equal to 100 percent of the participant's contribution, subject to a limit of 5 percent of the participant's annual salary. Stratus' policy is to make an additional safe harbor contribution equal to 3 percent of each participant's total compensation for corporate employees and 4 percent for ACL Live employees. The 401(k) plans also provide for discretionary contributions. Stratus' contributions to the 401(k) plans totaled $0.4 million in both 2014 and 2013.

10. Commitments and Contingencies

Construction Contracts. Stratus had commitments under noncancelable construction contracts totaling $55.3 million at December 31, 2014. These commitments primarily included contracts for construction of improvements for the Tecoma apartments at Barton Creek and The Oaks and Lakeway.

Guarantees. At December 31, 2014, Stratus had guarantees related to the W Austin Hotel & Residences project (see Note 2).

Letters of Credit. As of December 31, 2014, Stratus had letters of credit committed totaling $4.6 million under its credit facility with Comerica (see Note 7).

Rental Income. As of December 31, 2014, Stratus' minimum rental income, including scheduled rent increases under noncancelable long-term leases which extend through 2025, totaled $4.8 million in 2015, $4.8 million in 2016, $4.8 million in 2017, $4.5 million in 2018, $3.8 million in 2019 and $15.3 million thereafter.

Operating Lease. As of December 31, 2014, Stratus' minimum annual contractual payments under its noncancelable long-term operating leases totaled $0.1 million for each of 2015 and 2016 and less than $0.1 million in 2017. Total expense under Stratus' operating leases amounted to $0.1 million in 2014 and 2013.

Circle C Settlement. On August 1, 2002, the City of Austin (the City) granted final approval of a development agreement (the Circle C settlement) and permanent zoning for Stratus' real estate located within the Circle C community in southwest Austin. The Circle C settlement firmly established all essential municipal development regulations applicable to Stratus' Circle C properties for thirty years. The City also provided Stratus $15 million of development fee credits, which are in the form of credit bank capacity, in connection with its future development of its Circle C and other Austin-area properties for waivers of fees and reimbursement for certain infrastructure costs. In addition, Stratus can elect to sell up to $1.5 million of the incentives per year to other developers for their use in paying City fees related to their projects as long as the projects are within the desired development zone, as defined within the Circle C settlement. To the extent Stratus sells the incentives to other developers, Stratus recognizes the income from the sale when title is transferred and compensation is received. As of December 31, 2014, Stratus had permanently used $11.4 million of its City-based development fee credits, including cumulative amounts sold to third parties totaling $5.1 million. Fee credits used for the development of Stratus' properties effectively reduce the basis of the related properties and defer recognition of any gain associated with the use of the fees until the affected properties are sold. Stratus also had $1.4 million in credit bank capacity in use as temporary fiscal deposits as of December 31, 2014. Available credit bank capacity was $2.2 million at December 31, 2014.

Environmental Regulations. Stratus has made, and will continue to make, expenditures for protection of the environment. Increasing emphasis on environmental matters can be expected to result in additional costs, which will be charged against Stratus' operations in future periods. Present and future environmental laws and regulations applicable to Stratus' operations may require substantial capital expenditures that could adversely affect the development of its real estate interests or may affect its operations in other ways that cannot be accurately predicted at this time.

Litigation. Stratus may from time to time be involved in various legal proceedings of a character normally incident to the ordinary course of its business. Stratus believes that potential liability from any of these pending
or threatened proceedings will not have a material adverse effect on Stratus' financial condition or results of operations.

11. Business Segments

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

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

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

The Entertainment segment includes ACL Live, a live music and entertainment venue and production studio at the W Austin Hotel & Residences project. In addition to hosting concerts and private events, this venue is the home of Austin City Limits, a television program showcasing popular music legends. The Entertainment segment also includes revenues and costs associated with events hosted at other venues and the results of the Stageside Productions joint venture with Pedernales Entertainment LLC (see Note 2).

The Commercial Leasing segment includes the office and retail space at the W Austin Hotel & Residences project, a retail building and a bank building in Barton Creek Village, and 5700 Slaughter and Parkside Village in the Circle C community.

Stratus uses operating income or loss to measure the performance of each segment. Stratus allocates parent company general and administrative expenses that do not directly relate to a particular operating segment between the Real Estate Operations and Commercial Leasing segments based on projected annual revenues for each segment. General and administrative expenses related to the W Austin Hotel & Residences project are allocated to the Real Estate Operations, Hotel, Entertainment and Commercial Leasing segments based on projected annual revenues for the W Austin Hotel & Residences project. The following segment information reflects management's determinations that may not be indicative of what actual financial performance of each segment would be if it were an independent entity.

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

	Real Estate Operations[a]	Hotel	Entertainment	Commercial Leasing	Eliminations and Other[b]	Total
Year Ended December 31, 2014:						
Revenues:						
Unaffiliated customers	$ 26,084	$ 42,354	$ 19,048	$ 6,625	$ —	$ 94,111
Intersegment	97	506	60	503	(1,166)	—
Cost of sales, excluding depreciation	20,743	30,753	14,763	3,236	(530)	68,965
Depreciation	229	5,851	1,260	1,785	(148)	8,977
Litigation settlement	(2,082)	—	—	—	—	(2,082)
General and administrative expenses	6,105	402	148	1,869	(637)	7,887
Operating income	$ 1,186	$ 5,854	$ 2,937	$ 238	$ 149	$ 10,364
Capital expenditures[c]	$ 54,928	$ 704	$ 123	$ 5,977	$ —	$ 61,732
Total assets at December 31, 2014	$ 183,856	$ 111,671	$ 50,486	$ 50,510	$ 6,164	$ 402,687
Year Ended December 31, 2013:						
Revenues:						
Unaffiliated customers	$ 67,589	$ 39,234	$ 15,481	$ 5,406	$ —	$ 127,710
Intersegment	72	310	78	517	(977)	—
Cost of sales, excluding depreciation	54,180	29,483	13,076	2,755	(290)	99,204
Depreciation	242	6,033	1,239	1,687	(148)	9,053
Insurance Settlement	(1,785)	—	—	—	—	(1,785)
General and administrative expenses	6,024	322	125	1,204	(588)	7,087
Operating income	$ 9,000	$ 3,706	$ 1,119	$ 277	$ 49	$ 14,151
Capital expenditures[c]	$ 16,595	$ 759	$ 280	$ 1,347	$ —	$ 18,981
Total assets at December 31, 2013	$ 140,890	$ 115,510	$ 47,802	$ 48,617	$ (5,876)	$ 346,943

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

b. Includes eliminations of intersegment amounts, including the deferred development fee income between Stratus and the Block 21 Joint Venture (see Note 2).

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

12. Subsequent Events

On January 8, 2015, a Stratus subsidiary entered into a $34.1 million construction loan agreement with Comerica Bank (the Tecoma Construction loan), to fund the development and construction of the first phase of a multi-family development in Section N of Barton Creek, which is referred to as the Tecoma Barton Creek multi-family project. The interest rate is a LIBOR-based rate (as defined in the loan agreement) plus 2.5 percent. The Tecoma Construction loan matures on January 8, 2018, and Stratus has the option to extend the maturity date for two additional twelve-month periods, subject to certain debt service coverage conditions. The Tecoma Construction loan is fully guaranteed by Stratus until certain operational milestones (as defined in the loan agreement) are met.

In 2012, Stratus sold 7500 Rialto, an office building in Lantana, and recognized a gain of $5.1 million and deferred a gain of $5 million related to a guaranty provided to the lender in connection with the buyer's assumption of the loan.

The guaranty was released in January 2015, and Stratus will recognize the $5 million deferred gain in first-quarter 2015.

Stratus evaluated events after December 31, 2014, and through the date the financial statements were issued, and determined any events or transactions occurring during this period that would require recognition or disclosure are appropriately addressed in these financial statements.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
Not applicable.

Item 9A. Controls and Procedures
(a) Evaluation of disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer, with the participation of management, have evaluated the effectiveness of our "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this annual report on Form 10-K. Based on their evaluation, they have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) Changes in internal controls over financial reporting. There has been no change in our internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2014, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

(c) Management's annual report on internal control over financial reporting is included in Part II, Item 8. "Financial Statements and Supplementary Data."

Item 9B. Other Information
On January 8, 2015, Barton Creek Tecoma I, L.L.C., a wholly owned subsidiary of Stratus, and Comerica Bank entered into a construction loan agreement, a promissory note and related loan documents which provide for a construction loan in the aggregate amount of $34,148,000, the proceeds of which will be used for the development and construction of the first phase, consisting of 236 units, of a 1,856 unit multi-family development in Section N of Barton Creek, which is referred to as the Tecoma Barton Creek multi-family project.

The interest rate applicable to amounts borrowed under the loan is a LIBOR-based rate (defined under the loan agreement as the per annum interest rate equal to the quotient of LIBOR divided by 1.00 minus the maximum rate during the interest period at which the lender is required to maintain reserves on "Euro-currency Liabilities" as defined in and pursuant to Regulation D of the Board of Governors) plus 2.5 percent per annum. The loan may be repaid in part or whole at any time during the term of the loan without penalty. The loan will mature on January 8, 2018, and Stratus may extend the maturity of the loan for up to two additional twelve-month periods, the second of which ends on January 8, 2020, subject to satisfaction of certain conditions, including a debt service coverage ratio of at least 1.10 to 1.00 on the date immediately preceding the commencement of the first extension period and 1.20 to 1.00 on the date immediately preceding the commencement of the second extension period.

The loan contains affirmative and negative covenants usual and customary for loan agreements of this nature.

The loan is secured by a first lien on 44.888 acres of land in Section N of Barton Creek and the improvements thereon.

The payment and performance of the loan has been guaranteed by Stratus as follows: 100 percent through completion of the development and construction of the first phase, reducing to 50 percent upon the issuance of the certificate of occupancy, and ceasing once the Tecoma Barton Creek multi-family project's net operating income achieves the greater of a 9.10 percent debt yield ratio or a debt service coverage ratio of at least 1.20 to 1.00.

PART III

Item 10. Directors, Executive Officers and Corporate Governance
Information required by this item will be contained in our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A relating to our 2015 annual meeting of stockholders and is incorporated herein by reference. The information required by Item 10. regarding our executive officers appears under "Executive Officers of the Registrant" after Part I, Item 4. "Mine Safety Disclosures."

Item 11. Executive Compensation

Information required by this item will be contained in our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A relating to our 2015 annual meeting of stockholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this item will be contained in our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A relating to our 2015 annual meeting of stockholders and is incorporated herein by reference.

Equity Compensation Plan Information as of December 31, 2014

We have equity compensation plans pursuant to which our common stock may be issued to employees and non-employees as compensation. All of our outstanding equity compensation plans were previously approved by our stockholders, and the following plans had shares available for grant as of December 31, 2014: the 2013 Stock Incentive Plan, the 2010 Stock Incentive Plan and the 1996 Stock Option Plan for Non-Employee Directors. The following table presents information regarding these equity compensation plans as of December 31, 2014:

	Number of Securities To be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)		Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)	
Equity compensation plans approved by security holders	156,625	[a]	$ 20.65	143,375	[b]
Equity compensation plans not approved by security holders	N/A		N/A	N/A	
Total	156,625	[a]	$ 20.65	143,375	[b]

a. The number of securities to be issued upon the exercise of outstanding options, warrants and rights includes shares issuable upon the vesting of 113,500 restricted stock units. These awards are not reflected in column (b) as they do not have an exercise price.

b. As of December 31, 2014, there were 139,000 shares remaining available for future issuance to Stratus employees and non-employee directors under the 2013 Stock Incentive Plan, all of which could be issued pursuant to awards of stock options, stock appreciation rights, restricted stock, restricted stock units or "other stock-based awards." There were 1,875 shares remaining available for future issuance to Stratus employees and non-employee directors under the 2010 Stock Incentive Plan, all of which could be issued pursuant to awards of stock options, stock appreciation rights, restricted stock, restricted stock units or "other stock-based awards." There were 2,500 shares remaining available for future issuance of stock options to our non-employee directors under the 1996 Stock Option Plan for Non-Employee Directors.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information required by this item will be contained in our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A relating to our 2015 annual meeting of stockholders and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Information required by this item will be contained in our definitive proxy statement to be filed with the SEC pursuant to Regulation 14A relating to our 2015 annual meeting of stockholders and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1). Financial Statements.

The consolidated statements of income, comprehensive income, cash flows and equity, and the consolidated balance sheets are included as part of Part II, Item 8. "Financial Statements and Supplementary Data."

(a)(2). Financial Statement Schedules.

Reference is made to Schedule III-Real Estate, Commercial Leasing Assets and Facilities and Accumulated Depreciation, beginning on page F-2 hereof.

(a)(3). Exhibits.

Reference is made to the Exhibit Index beginning on page E-1 hereof.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STRATUS PROPERTIES INC.

By: /s/ William H. Armstrong III
William H. Armstrong III
Chairman of the Board, President
and Chief Executive Officer

Date: March 16, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

/s/ William H. Armstrong III William H. Armstrong III	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
* Erin D. Pickens	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
* C. Donald Whitmire, Jr.	Vice President and Controller (Principal Accounting Officer)
* James C. Leslie	Director
* Michael D. Madden	Director
* William H. Lenehan IV	Director
* Charles W. Porter	Director

*By: /s/ William H. Armstrong III
William H. Armstrong III
Attorney-in-Fact

Date: March 16, 2015

STRATUS PROPERTIES INC.
INDEX TO FINANCIAL STATEMENTS

The schedule listed below should be read in conjunction with the financial statements of Stratus Properties Inc. contained elsewhere in this Annual Report on Form 10-K.

	Page
Schedule III-Real Estate, Commercial Leasing Assets and Facilities and Accumulated Depreciation	F-2

Schedules other than the one listed above have been omitted since they are either not required, not applicable or the required information is included in the financial statements or notes thereto.

STRATUS PROPERTIES INC.
REAL ESTATE, COMMERCIAL LEASING ASSETS AND FACILITIES AND ACCUMULATED DEPRECIATION
December 31, 2014
(In Thousands, except Number of Lots and Acres)

SCHEDULE III

	Initial Cost		Cost Capitalized Subsequent to Acquisitions	Gross Amounts at December 31, 2014			Number of Lots/Units and Acres		Accumulated Depreciation	Year Acquired
	Land	Bldg. and Improvements		Land	Bldg. and Improvements	Total	Lots/ Units	Acres		
Real Estate Held for Sale[a]										
Barton Creek, Austin, TX	$ 353	$ —	$ 2,257	$ 2,610	$ —	$ 2,610	14	—	$ —	1988
Circle C, Austin, TX	837	—	6,555	7,392	—	7,392	50	—	—	1992
W Austin Hotel & Residences, Austin, TX	—	2,243	—	—	2,243	2,243	2	—	—	2014
Real Estate Under Development[b,c]										
Barton Creek, Austin, TX	9,505	—	71,162	80,667	—	80,667	—	166	—	1988
Lakeway, TX	22,562	—	10,022	32,584	—	32,584	—	87	—	2013
Circle C, Austin, TX	753	—	1,591	2,344	—	2,344	—	—	—	1992
Magnolia, TX	3,237	—	523	3,760	—	3,760	—	124	—	2014
Lantana, Austin, TX	1,513	—	3,053	4,566	—	4,566	—	36	—	1994
Land Available for Development[c,d]										
Camino Real, San Antonio, TX	16	—	(16)	—	—	—	—	2	—	1990
Barton Creek, Austin, TX	7,983	—	7,829	15,812	—	15,812	—	1,257	—	1988
Circle C, Austin, TX	2,704	—	2,441	5,145	—	5,145	—	264	—	1992
Lantana, Austin, TX	157	—	254	411	—	411	—	8	—	1994
Real Estate Held for Investment[b,c]										
W Austin Hotel & Residences, Austin, TX[e]	8,075	173,565	—	8,075	173,565	181,640	—	—	30,596	2006
Barton Creek Village, Austin, TX[f]	55	6,065	—	55	6,065	6,120	—	—	1,317	2007
5700 Slaughter, Austin, TX[g]	969	4,772	—	969	4,772	5,741	—	—	1,169	2008
Parkside Village, Austin, TX[h]	665	18,015	—	665	18,015	18,680	—	—	1,750	1992
Corporate offices, Austin,TX	—	1,268	—	—	1,268	1,268	—	—	552	N/A
Total	$59,384	$ 205,928	$ 105,671	$165,055	$ 205,928	$370,983	66	1,944	$ 35,384	

a. Includes individual tracts of land that have been developed and permitted for residential use, condominium units at our W Austin Hotel & Residences project or developed lots with homes already built on them.

b. Includes real estate that is currently being developed or has received the necessary permits to be developed.

c. See Note 7 included in Part II, Item 8. of this Annual Report on Form 10-K for a description of assets securing debt.

d. Includes undeveloped real estate that can be sold “as is” or will be developed in the future as additional permitting is obtained.

e. Consists of a 251-room hotel, entertainment venue, and office and retail space at the W Austin Hotel & Residences project.

f. Consists of a 22,366-square-foot retail complex representing the first phase of Barton Creek Village and a 3,085-square-foot bank building.

g. Consists of two retail buildings totaling 21,248 square feet and a 4,450-square-foot bank building at the 5700 Slaughter retail complex in the Circle C community.

h. Consists of a 90,184-square-foot retail complex in the Circle C community.

STRATUS PROPERTIES INC.
Notes to Schedule III

(1) Reconciliation of Real Estate, Commercial Leasing Assets and Facilities:

The changes in real estate, commercial leasing assets and facilities for the years ended December 31, 2014 and 2013, are as follows (in thousands):

	2014	2013
Balance, beginning of year	$ 325,967	$ 349,120
Improvements and other	60,741	19,791
Cost of real estate sold	(15,725)	(42,944)
Balance, end of year	$ 370,983	$ 325,967

The aggregate net book value for federal income tax purposes as of December 31, 2014 was $370.9 million.

(2) Reconciliation of Accumulated Depreciation:

The changes in accumulated depreciation for the years ended December 31, 2014 and 2013, are as follows (in thousands):

	2014	2013
Balance, beginning of year	$ 27,009	$ 18,380
Retirement of assets	(602)	(424)
Depreciation expense	8,977	9,053
Balance, end of year	$ 35,384	$ 27,009

Depreciation of buildings and improvements is calculated over estimated lives of 30 to 40 years.

STRATUS PROPERTIES INC.
EXHIBIT INDEX

Exhibit Number	Exhibit Title	Filed with this Form 10-K	Incorporated by Reference		
			Form	File No.	Date Filed
3.1	Composite Certificate of Incorporation of Stratus Properties Inc.		8-A/A	000-19989	8/26/2010
3.2	By-laws of Stratus Properties Inc., as amended as of November 6, 2007.		10-Q	000-19989	8/11/2008
4.1	Amended and Restated Rights Agreement, dated as of April 13, 2012, between Stratus Properties Inc. and Computershare Shareowner Services LLC, as Rights Agent, which includes the Form of Certificate of Designations of Series C Participating Cumulative Preferred Stock, the Form of Right Certificate, and the Summary of Stockholder Rights.		8-K	000-19989	4/18/2012
4.2	Investor Rights Agreement by and between Stratus Properties Inc. and Moffett Holdings, LLC dated as of March 15, 2012.		8-K	000-19989	3/20/2012
4.3	Assignment and Assumption Agreement by and between Moffett Holdings, LLC and LCHM Holdings, LLC.		13D	000-19989	3/5/2014
10.1	Loan Agreement by and among Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P., Austin 290 Properties, Inc. and Comerica Bank dated as of December 31, 2012.		8-K	000-19989	1/7/2013
10.2	Modification and Extension Agreement by and between Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P., Austin 290 Properties, Inc. and Comerica Bank dated as of November 12, 2014.	X			
10.3	Second Modification and Extension Agreement by and between Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P., Austin 290 Properties, Inc. and Comerica Bank dated as of February 11, 2015.	X			
10.4	Promissory Note by and between Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P., Austin 290 Properties, Inc., and Comerica Bank dated as of December 31, 2012 ($35.0 million revolving line of credit).		10-K	000-19989	3/29/2013
10.5	Promissory Note by and between Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P., Austin 290 Properties, Inc., and Comerica Bank dated as of December 31, 2012 ($3.0 million letters of credit).		10-K	000-19989	3/29/2013
10.6	Promissory Note by and between Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P., Austin 290 Properties, Inc., and Comerica Bank dated as of December 31, 2012 ($10.0 million construction loan).		10-K	000-19989	3/29/2013
10.7	Term Loan Agreement by and among CJUF II Stratus Block 21 LLC, Bank of America, N.A., and the lenders party thereto from time to time, dated September 30, 2013.		8-K	000-19989	10/3/2013
10.8	Promissory Note by and between CJUF II Stratus Block 21 LLC and Bank of America, N.A., dated September 30, 2013.		8-K	000-19989	10/3/2013

Exhibit Number	Exhibit Title	Filed with this Form 10-K	Incorporated by Reference		
			Form	File No.	Date Filed
10.9	Loan Modification Agreement by and between Stratus Properties Inc. and American Select Portfolio Inc. effective as of April 1, 2013 ($5.0 million loan).		10-Q	000-19989	5/15/2013
10.10	Loan Modification Agreement by and between Stratus Properties Inc. and American Select Portfolio Inc. effective as of September 1, 2012 ($5.0 million loan).		8-K	000-19989	9/12/2012
10.11	Amended and Restated Loan Agreement between Stratus Properties Inc. and American Select Portfolio Inc. dated as of December 12, 2006 ($5.0 million loan).		10-K	000-19989	3/16/2007
10.12	Loan Modification Agreement by and between Stratus Properties Inc. and American Strategic Income Portfolio Inc.-II effective as of April 1, 2013 ($3.0 million loan).		10-Q	000-19989	5/15/2013
10.13	Loan Modification Agreement by and between Stratus Properties Inc. and American Strategic Income Portfolio Inc.-II effective as of September 1, 2012 ($3.0 million loan).		8-K	000-19989	9/12/2012
10.14	Amended and Restated Loan Agreement between Stratus Properties Inc. and American Strategic Income Portfolio Inc.-II dated as of December 12, 2006 ($3.0 million loan).		10-K	000-19989	3/16/2007
10.15	Loan Modification Agreement by and between Stratus Properties Inc. and American Strategic Income Portfolio Inc.-II effective as of April 1, 2013 ($8.0 million loan).		10-Q	000-19989	5/15/2013
10.16	Loan Modification Agreement by and between Stratus Properties Inc. and American Strategic Income Portfolio Inc.-II effective as of September 1, 2012 ($8.0 million loan).		8-K	000-19989	9/12/2012
10.17	Loan Agreement between Stratus Properties Inc. and Holliday Fenoglio Fowler, L.P. dated as of December 12, 2006, subsequently assigned to American Strategic Income Portfolio Inc.-II ($8.0 million loan).		10-K	000-19989	3/16/2007
10.18	Loan Modification Agreement by and between Stratus Properties Inc. and American Select Portfolio Inc. effective as of April 1, 2013 ($3.5 million loan).		10-Q	000-19989	5/15/2013
10.19	Loan Modification Agreement by and between Stratus Properties Inc. and American Select Portfolio Inc. effective as of September 1, 2012 ($3.5 million loan).		8-K	000-19989	9/12/2012
10.20	Loan Agreement between Stratus Properties Inc. and Holliday Fenoglio Fowler, L.P. dated as of June 1, 2007, subsequently assigned to American Select Portfolio Inc. ($3.5 million loan).		10-Q	000-19989	8/9/2007
10.21	Loan Modification Agreement by and between Stratus Properties Inc. and American Strategic Income Portfolio Inc. effective as of April 1, 2013 ($3.5 million loan).		10-Q	000-19989	5/15/2013
10.22	Loan Modification Agreement by and between Stratus Properties Inc. and American Strategic Income Portfolio Inc. effective as of September 1, 2012 ($3.5 million loan).		8-K	000-19989	9/12/2012
10.23	Loan Agreement between Stratus Properties Inc. and Holliday Fenoglio Fowler, L.P. dated as of June 1, 2007, subsequently assigned to American Strategic Income Portfolio Inc. ($3.5 million loan).		10-Q	000-19989	8/9/2007

Exhibit Number	Exhibit Title	Filed with this Form 10-K	Incorporated by Reference		
			Form	File No.	Date Filed
10.24	Construction Loan Agreement by and between Tract 107, L.L.C. and Comerica Bank dated as of May 17, 2011.		10-Q	000-19989	8/15/2011
10.25	Fifth Modification and Extension Agreement by and among Tract 107, L.L.C., Stratus Properties Inc. and Comerica Bank effective as of December 12, 2013.		8-K	000-19989	12/18/2013
10.26	Amended and Restated Promissory Note by and between Tract 107, L.L.C. and Comerica Bank effective as of December 12, 2013.		8-K	000-19989	12/18/2013
10.27	Development Agreement effective as of August 15, 2002, between Circle C Land Corp. and City of Austin.		10-Q	000-19989	11/14/2002
10.28	First Amendment dated June 21, 2004, Second Amendment dated November 9, 2004, and Third Amendment dated March 2, 2005, to Development Agreement effective as of August 15, 2002, between Circle C Land Corp. and City of Austin.	X			
10.29	Construction Loan Agreement among Stratus Lakeway Center L.L.C., as Borrower and PlainsCapital Bank, as Administrative Agent and the Other Financial Institutions Party Thereto as Lenders dated as of September 29, 2014.		8-K	000-19989	10/3/2014
10.30	First Amendment to Construction Loan Agreement among Stratus Lakeway Center L.L.C., as Borrower, PlainsCapital Bank, as Administrative Agent and the Other Financial Institutions Party Thereto as Existing Lender and New Lender dated as of November 7, 2014.		10-Q	000-19989	11/13/2014
10.31	Promissory Note dated September 29, 2014 executed by and among Stratus Lakeway Center L.L.C. and PlainsCapital Bank.	X			
10.32	Promissory Note dated September 29, 2014 executed by and among Stratus Lakeway Center L.L.C. and Southside Bank.	X			
10.33	Construction Loan Agreement by and between Barton Creek Tecoma I, L.L.C. and Comerica Bank effective as of January 8, 2015.	X			
10.34	Promissory Note by and between Barton Creek Tecoma I, L.L.C. and Comerica Bank dated as of January 8, 2015.	X			
10.35*	Stratus Properties Inc. 2013 Stock Incentive Plan, as amended and restated.	X			
10.36*	Stratus Properties Inc. 2010 Stock Incentive Plan, as amended and restated.	X			
10.37*	Form of Notice of Grant of Nonqualified Stock Options under the Stratus Properties Inc. stock incentive plans (adopted January 2011).		10-K	000-19989	3/31/2011
10.38*	Form of Notice of Grant of Restricted Stock Units under the Stratus Properties Inc. stock incentive plans (adopted January 2011).		10-K	000-19989	3/31/2011
10.39*	Form of Notice of Grant of Restricted Stock Units under the 2010 Stock Incentive Plan for Non-Employee Director Grants (adopted August 2012).		10-K	000-19989	3/29/2013

Exhibit Number	Exhibit Title	Filed with this Form 10-K	Incorporated by Reference		
			Form	File No.	Date Filed
10.40*	Form of Notice of Grant of Restricted Stock Units under the Stratus Properties Inc. Stock Incentive Plan for Non-Employee Director Grants (adopted August 2014)	X			
10.41*	Stratus Properties Inc. Performance Incentive Awards Program, as amended, effective December 30, 2008.		10-Q	000-19989	5/5/2009
10.42*	Stratus Properties Inc. 1996 Stock Option Plan for Non-Employee Directors, as amended and restated.		10-Q	000-19989	5/10/2007
10.43*	Stratus Properties Inc. Director Compensation.		10-K	000-19989	3/31/2014
10.44*	Change of Control Agreement between Stratus Properties Inc. and William H. Armstrong III, effective as of April 1, 2013.		8-K	000-19989	4/15/2013
10.45*	Change of Control Agreement between Stratus Properties Inc. and Erin D. Pickens, effective as of April 1, 2013.		8-K	000-19989	4/15/2013
14.1	Ethics and Business Conduct Policy.		10-K	000-19989	3/30/2004
21.1	List of subsidiaries.	X			
23.1	Consent of BKM Sowan Horan, LLP.	X			
24.1	Certified resolution of the Board of Directors of Stratus Properties Inc. authorizing this report to be signed on behalf of any officer or director pursuant to a Power of Attorney.	X			
24.2	Power of Attorney pursuant to which this report has been signed on behalf of certain officers and directors of Stratus Properties Inc.	X			
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).	X			
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).	X			
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.	X			
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.	X			
101.INS	XBRL Instance Document.	X			
101.SCH	XBRL Taxonomy Extension Schema.	X			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.	X			
101.DEF	XBRL Taxonomy Extension Definition Linkbase.	X			
101.LAB	XBRL Taxonomy Extension Label Linkbase.	X			
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.	X			

* Indicates management contract or compensatory plan or arrangement.

After Recording Return to:
Thompson & Knight LLP
1722 Routh Street, Suite 1500
Dallas, Texas 75201
Attention: Adam Hill

MODIFICATION AND EXTENSION AGREEMENT

This MODIFICATION AND EXTENSION AGREEMENT (this " **Agreement**") dated effective as of November 12, 2014 (the "**Effective Date**") by and between **STRATUS PROPERTIES INC.**, a Delaware corporation ("**Stratus**"), **STRATUS PROPERTIES OPERATING CO., L.P.**, a Delaware limited partnership ("**SPOC**"), **CIRCLE C LAND, L.P.**, a Texas limited partnership ("**Circle C**"), and **AUSTIN 290 PROPERTIES, INC.**, a Texas corporation ("**Austin**") (Stratus, SPOC, Circle C and Austin are sometimes referred to in this Agreement severally as "**Borrower**"), and **COMERICA BANK** ("**Lender**");

W I T N E S S E T H:

A. Borrower has executed and delivered to Lender, inter alia, relating to a loan (the "**Loan**") in the original principal sum of $48,000,000.00

i. that certain Revolving Promissory Note dated as of December 31, 2012, payable to the order of Lender in the original principal sum of $35,000,000.00, with interest and principal payable as therein provided (the "**Revolving Note**");

ii. that certain Promissory Note dated as of December 31, 2012, payable to the order of Lender in the original principal sum of $10,000,000.00, with interest and principal payable as therein provided (the "**Construction Note**");

iii. that certain Promissory Note dated as of December 31, 2012, payable to the order of Lender in the original principal sum of $3,000,000.00, with interest and principal payable as therein provided (the "**Line of Credit Note**"; and together the Revolving Note and the Construction Note, collectively referred to as the "**Note**");

iv. that certain Loan Agreement dated of even date with the Note between Borrower and Lender (the "**Loan Agreement**");

v. that certain Deed of Trust, Security Agreement and Assignment of Rents dated of even date with the Note from Stratus to Brian P. Foley, Trustee, securing the payment of the Note, covering certain real and personal property described therein, recorded under Clerk's File No. 2012220644 of the Real Property Records of Travis County, Texas (the " **Stratus Deed of Trust**");

vi. that certain Deed of Trust, Security Agreement and Assignment of Rents dated of even date with the Note from Circle C to Brian P. Foley, Trustee, securing the payment of the Note, covering certain real and personal property described therein, recorded under Clerk's File No. 2012220642 of the Real Property Records of Travis County, Texas (the "**Circle C Deed of Trust**");

vii. that certain Deed of Trust, Security Agreement and Assignment of Rents dated of even date with the Note from SPOC to Brian P. Foley, Trustee, securing the payment of the Note, covering certain real and personal property described therein, recorded under Clerk's File No. 2012220643 of the Real Property Records of Travis County, Texas (the " **SPOC Deed of Trust**"); and

viii. that certain Deed of Trust, Security Agreement and Assignment of Rents dated of even date with the Note from Austin to Brian P. Foley, Trustee, securing the payment of the Note, covering certain real and personal property described therein, recorded under Clerk's File No. 2012220641 of the Real Property Records of Travis County, Texas, (the " **Austin Deed of Trust**"; and together with the Stratus Deed of Trust, Circle C Deed of Trust and the SPOC Deed of Trust, collectively referred to as the "**Deed of Trust**").

The Note, the Loan Agreement, the Deed of Trust and all other documents evidencing, securing or otherwise in connection with the Loan evidenced by the Note being herein collectively called the "**Loan Documents**").

B. The Note is due and payable on November 30, 2014, and Borrower has requested that Lender extend the term of the Note to February 28, 2015, and make certain other modifications to the Loan Documents, and Lender is willing to do so on the terms and conditions set forth below; and

C. Lender is the owner and holder of the Note and Borrower is the owner of the legal and equitable title to the Mortgaged Property;

NOW, THEREFORE, for and in consideration of the mutual covenants contained herein and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. **Defined Terms**. Capitalized terms used but not defined in this Agreement shall have the meaning given to such capitalized terms in the Loan Agreement.

2. **Extension of Maturity Date**. The maturity date of the Note is hereby extended to February 28, 2015 (the "**Maturity Date**"), and the liens, security interests, assignments and other rights evidenced by the Loan Documents are hereby renewed and extended to secure payment of the Note as extended hereby. Without limiting the foregoing, the term "Maturity Date" and other references to the maturity of the Loan or the Note used in the Note, the Loan Agreement and other Loan Documents are likewise amended to mean and refer to "February 28, 2015".

3. **Representations and Warranties**. Borrower hereby represents and warrants that (a) Borrower is the sole legal and beneficial owner of the Mortgaged Property (other than the Mortgaged Property which has been released by Lender from the liens of the Deed of Trust); (b) Borrower is duly organized and legally existing under the laws of the state of its organizations and is duly qualified to do business in the State of Texas; (c) the execution and delivery of, and performance under this Agreement are within Borrower's power and authority without the joinder or consent of any other party and have been duly authorized by all requisite action and are not in contravention of law or the powers of Borrower's articles of incorporation and bylaws; (d) this Agreement constitutes the legal, valid and binding obligations of Borrower enforceable in accordance with its terms; (e) the execution and delivery of this Agreement by Borrower do not contravene, result in a breach of or constitute a default under any deed of trust, loan agreement, indenture or other contract, agreement or undertaking to which Borrower is a party or by which Borrower or any of its properties may be bound (nor would such execution and delivery constitute such a default with the passage of time or the giving of notice or both) and do not

violate or contravene any law, order, decree, rule or regulation to which Borrower is subject; and (f) to the best of Borrower's knowledge there exists no uncured default under any of the Loan Documents. Borrower agrees to indemnify and hold Lender harmless against any loss, claim, damage, liability or expense (including without limitation reasonable attorneys' fees) incurred as a result of any representation or warranty made by it herein proving to be untrue in any respect.

4. **Further Assurances**. Borrower, upon request from Lender, agrees to execute such other and further documents as may be reasonably necessary or appropriate to consummate the transactions contemplated herein or to perfect the liens and security interests intended to secure the payment of the loan evidenced by the Note.

5. **Default; Remedies**. If Borrower shall fail to keep or perform any of the covenants or agreements contained herein or if any statement, representation or warranty contained herein is false, misleading or erroneous in any material respect, Borrower shall be deemed to be in default under the Deed of Trust and Lender shall be entitled at its option to exercise any and all of the rights and remedies granted pursuant to the any of the Loan Documents or to which Lender may otherwise be entitled, whether at law or in equity.

6. **Endorsement to Mortgagee Title Policy**. Contemporaneously with the execution and delivery hereof, Borrower shall, at its sole cost and expense, obtain and deliver to Lender an Endorsement of the Mortgagee Title Policy insuring the lien of the Deed of Trust, under Procedural Rule P-9b(3) of the applicable title insurance rules and regulations, in form and content acceptable to Lender, stating that the company issuing said Mortgagee Title Policy will not claim that policy coverage has terminated or that policy coverage has been reduced, solely by reason of the execution of this Agreement.

7. **Ratification of Loan Documents**. Except as provided herein, the terms and provisions of the Loan Documents shall remain unchanged and shall remain in full force and effect. Any modification herein of any of the Loan Documents shall in no way adversely affect the security of the Deed of Trust and the other Loan Documents for the payment of the Note. The Loan Documents as modified and amended hereby are hereby ratified and confirmed in all respects. All liens, security interests, mortgages and assignments granted or created by or existing under the Loan Documents remain unchanged and continue, unabated, in full force and effect, to secure Borrower's obligation to repay the Note.

8. **Liens Valid; No Offsets or Defenses**. Borrower hereby acknowledges that the liens, security interests and assignments created and evidenced by the Loan Documents are valid and subsisting and further acknowledges and agrees that there are no offsets, claims or defenses to any of the Loan Documents.

9. **Merger; No Prior Oral Agreements**. This Agreement supersedes and merges all prior and contemporaneous promises, representations and agreements. No modification of this Agreement or any of the Loan Documents, or any waiver of rights under any of the foregoing, shall be effective unless made by supplemental agreement, in writing, executed by Lender and Borrower. Lender and Borrower further agree that this Agreement may not in any way be explained or supplemented by a prior, existing or future course of dealings between the parties or by any prior, existing, or future performance between the parties pursuant to this Agreement or otherwise.

11. **Costs and Expenses**. Contemporaneously with the execution and delivery hereof, Borrower shall pay, or cause to be paid, all costs and expenses incident to the preparation hereof and the consummation of the transactions specified herein, including without limitation title insurance policy endorsement charges, recording fees and fees and expenses of legal counsel to Lender.

12. **Release of Lender**. Borrower hereby releases, remises, acquits and forever discharges Lender, together with its employees, agents, representatives, consultants, attorneys, fiduciaries, servants, officers, directors, partners, predecessors, successors and assigns, subsidiary corporations, parent corporations, and related corporate divisions (all of the foregoing hereinafter called the "**Released Parties**"), from any and all actions and causes of action, judgments, executions, suits, debts, claims, demands, liabilities, obligations, damages and expenses of any and every character, known or unknown, direct and/or indirect, at law or in equity, of whatsoever kind or nature, whether heretofore or hereafter accruing, for or because of any matter or things done, omitted or suffered to be done by any of the Released Parties prior to and including the Effective Date, and in any way directly or indirectly arising out of or in any way connected to this Agreement or any of the Loan Documents or any of the transactions associated therewith, or the Mortgaged Property, including specifically but not limited to claims of usury.

13. **Counterparts**. This Agreement may be executed in any number of counterparts with the same effect as if all parties hereto had signed the same document. All such counterparts shall be construed together and shall constitute one instrument, but in making proof hereof it shall only be necessary to produce one such counterpart.

14. **Severability**. If any covenant, condition, or provision herein contained is held to be invalid by final judgment of any court of competent jurisdiction, the invalidity of such covenant, condition, or provision shall not in any way affect any other covenant, condition or provision herein contained.

15. **Time of the Essence**. It is expressly agreed by the parties hereto that time is of the essence with respect to this Agreement.

16. **Representation by Counsel**. The parties acknowledge and confirm that each of their respective attorneys have participated jointly in the review and revision of this Agreement and that it has not been written solely by counsel for one party. The parties hereto therefore stipulate and agree that the rule of construction to the effect that any ambiguities are to or may be resolved against the drafting party shall not be employed in the interpretation of this Agreement to favor either party against the other.

17. **Governing Law**. This Agreement and the rights and duties of the parties hereunder shall be governed for all purposes by the law of the State of Texas and the law of the United States applicable to transactions within said State.

18. **Successors and Assigns**. The terms and provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

19. **Notice of No Oral Agreements**. Borrower and Lender hereby take notice of and agree to the following:

A. **PURSUANT TO SUBSECTION 26.02(b) OF THE TEXAS BUSINESS AND COMMERCE CODE, A LOAN AGREEMENT IN WHICH THE AMOUNT INVOLVED THEREIN EXCEEDS $50,000 IN VALUE IS NOT ENFORCEABLE UNLESS THE AGREEMENT IS IN WRITING AND SIGNED BY THE PARTY TO BE BOUND OR BY THAT PARTY'S AUTHORIZED REPRESENTATIVE**.

B. **PURSUANT TO SUBSECTION 26.02(c) OF THE TEXAS BUSINESS AND COMMERCE CODE, THE RIGHTS AND OBLIGATIONS OF THE PARTIES TO THE LOAN**

DOCUMENTS SHALL BE DETERMINED SOLELY FROM THE LOAN DOCUMENTS, AND ANY PRIOR ORAL AGREEMENTS BETWEEN THE PARTIES ARE SUPERSEDED BY AND MERGED INTO THE LOAN DOCUMENTS.

C. **THE LOAN DOCUMENTS AND THIS AGREEMENT REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES THERETO AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES THERETO. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.**

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, this Agreement is executed on the respective dates of acknowledgement below but is effective as of the date first above written.

BORROWER:

STRATUS PROPERTIES INC.,
a Delaware corporation

By: /s/Erin D. Pickens
Erin D. Pickens, Sr. Vice President

STRATUS PROPERTIES OPERATING CO., L.P., a Delaware limited partnership

By: STRS L.L.C., a Delaware limited liability company, General Partner

By Stratus Properties Inc., a Delaware corporation, Sole Member

By: /s/Erin D. Pickens
Erin D. Pickens,
Sr. Vice President

CIRCLE C LAND, L.P.,
a Texas limited partnership

By: Circle C GP, L.L.C., a Delaware limited liability company, General Partner

By Stratus Properties Inc., a Delaware corporation, Sole Member

By: /s/Erin D. Pickens
Erin D. Pickens,
Sr. Vice President

AUSTIN 290 PROPERTIES, INC.,
a Texas corporation

By: /s/Erin D. Pickens
Erin D. Pickens, Sr. Vice President

[Signature Page - Modification and Extension Agreement]

STATE OF TEXAS §

§

COUNTY OF TRAVIS §

This instrument was acknowledged before me on the _12___ day of November, 2014, by Erin D. Pickens, Sr. Vice President of Stratus Properties Inc., a Delaware corporation, on behalf of said corporation.

/s/ Brooke E. Browning
Notary Public, State of Texas
My Commission Expires: 7-18-18
Printed Name of Notary: Brooke Browning

STATE OF TEXAS §

§

COUNTY OF TRAVIS §

This instrument was acknowledged before me on the _12___ day of November, 2014, by Erin D. Pickens, Sr. Vice President of Stratus Properties Inc., a Delaware corporation, Sole Member of STRS L.L.C., a Delaware limited liability company, General Partner of Stratus Properties Operating Co., L.P., a Delaware limited partnership, on behalf of said corporation, limited liability company and limited partnership.

/s/ Brooke E. Browning
Notary Public, State of Texas
My Commission Expires: 7-18-18
Printed Name of Notary: Brooke Browning

STATE OF TEXAS §

§

COUNTY OF TRAVIS §

This instrument was acknowledged before me on the _12___ day of November, 2014, by Erin D. Pickens, Sr. Vice President of Stratus Properties Inc., a Delaware corporation, Sole Member of Circle C GP, L.L.C., a Delaware limited liability company, General Partner of Circle C Land, L.P., a Delaware limited partnership, on behalf of said corporation, limited liability company limited partnership.

/s/ Brooke E. Browning
Notary Public, State of Texas
My Commission Expires: 7-18-18
Printed Name of Notary: Brooke Browning

STATE OF TEXAS §

§

COUNTY OF TRAVIS §

This instrument was acknowledged before me on the _12___ day of November, 2014, by Erin D. Pickens, Sr. Vice President of Austin 290 Properties Inc., a Delaware corporation, on behalf of said corporation.

/s/ Brooke E. Browning
Notary Public, State of Texas
My Commission Expires: 7-18-18
Printed Name of Notary: Brooke Browning

[Signature Page - Modification and Extension Agreement]

LENDER:

COMERICA BANK

By: /s/ Sterling J. Silver
Sterling J. Silver, Senior Vice President

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the ___ day of November, 2014, by Sterling J. Silver, Senior Vice President of Comerica Bank, on behalf of said bank.

/s/ Sarah Hanes
Notary Public, State of Texas
My Commission Expires: 7-24-15
Printed Name of Notary: Sarah Hanes

[Signature Page - Modification and Extension Agreement]

After Recording Return to:
Thompson & Knight LLP
1722 Routh Street, Suite 1500
Dallas, Texas 75201
Attention: Matthew H. Swerdlow

SECOND MODIFICATION AND EXTENSION AGREEMENT

This SECOND MODIFICATION AND EXTENSION AGREEMENT (this "**Agreement**") dated effective as of February ___, 2015 (the "**Effective Date**") by and between **STRATUS PROPERTIES INC.**, a Delaware corporation ("**Stratus**"), **STRATUS PROPERTIES OPERATING CO., L.P.**, a Delaware limited partnership ("**SPOC**"), **CIRCLE C LAND, L.P.**, a Texas limited partnership ("**Circle C**"), and **AUSTIN 290 PROPERTIES, INC.**, a Texas corporation ("**Austin**") (Stratus, SPOC, Circle C and Austin are sometimes referred to in this Agreement severally as "**Borrower**"), and **COMERICA BANK** ("**Lender**");

W I T N E S S E T H:

A. Borrower has executed and delivered to Lender, inter alia, relating to a loan (the "**Loan**") in the original principal sum of $48,000,000.00:

i. that certain Revolving Promissory Note dated as of December 31, 2012, payable to the order of Lender in the original principal sum of $35,000,000.00, with interest and principal payable as therein provided (the "**Revolving Note**");

ii. that certain Promissory Note dated as of December 31, 2012, payable to the order of Lender in the original principal sum of $10,000,000.00, with interest and principal payable as therein provided (the "**Construction Note**");

iii. that certain Promissory Note dated as of December 31, 2012, payable to the order of Lender in the original principal sum of $3,000,000.00, with interest and principal payable as therein provided (the "**Line of Credit Note**"; and together the Revolving Note and the Construction Note, collectively referred to as the "**Note**");

iv. that certain Loan Agreement dated of even date with the Note between Borrower and Lender (the "**Loan Agreement**");

v. that certain Deed of Trust, Security Agreement and Assignment of Rents dated of even date with the Note from Stratus to Brian P. Foley, Trustee, securing the payment of the Note, covering certain real and personal property described therein, recorded under Clerk's File No. 2012220644 of the Real Property Records of Travis County, Texas (the " **Stratus Deed of Trust**");

vi. that certain Deed of Trust, Security Agreement and Assignment of Rents dated of even date with the Note from Circle C to Brian P. Foley, Trustee, securing the payment of the Note, covering certain real and personal property described therein, recorded under Clerk's File No. 2012220642 of the Real Property Records of Travis County, Texas (the "**Circle C Deed of Trust**");

vii. that certain Deed of Trust, Security Agreement and Assignment of Rents dated of even date with the Note from SPOC to Brian P. Foley, Trustee, securing the payment of the Note, covering certain real and personal property described therein, recorded under Clerk's File No. 2012220643 of the Real Property Records of Travis County, Texas (the " **SPOC Deed of Trust**");

viii. that certain Deed of Trust, Security Agreement and Assignment of Rents dated of even date with the Note from Austin to Brian P. Foley, Trustee, securing the payment of the Note, covering certain real and personal property described therein, recorded under Clerk's File No. 2012220641 of the Real Property Records of Travis County, Texas, (the " **Austin Deed of Trust**"; and together with the Stratus Deed of Trust, Circle C Deed of Trust and the SPOC Deed of Trust, collectively referred to as the "**Deed of Trust**"); and

ix. that certain Modification and Extension Agreement dated November 12, 2014, between Borrower and Lender (the "**Modification Agreement**").

The Note, the Loan Agreement, the Deed of Trust, the Modification Agreement and all other documents evidencing, securing or otherwise in connection with the Loan evidenced by the Note being herein collectively called the "**Loan Documents**").

B. The Note is due and payable on February 28, 2015, and Borrower has requested that Lender extend the term of the Note to May 31, 2015, and make certain other modifications to the Loan Documents, and Lender is willing to do so on the terms and conditions set forth below; and

C. Lender is the owner and holder of the Note and Borrower is the owner of the legal and equitable title to the Mortgaged Property;

NOW, THEREFORE, for and in consideration of the mutual covenants contained herein and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. **Defined Terms**. Capitalized terms used but not defined in this Agreement shall have the meaning given to such capitalized terms in the Loan Agreement.

2. **Extension Fee**. As consideration for the extension of the term of the Loan, contemporaneously with the execution and delivery of this Agreement and as a condition to its effectiveness, Borrower hereby agrees to pay to Lender, in immediately available funds, a loan extension fee in the amount of $60,000.00.

3. **Extension of Maturity Date**. The maturity date of the Note is hereby extended to May 31, 2015 (the "**Maturity Date**"), and the liens, security interests, assignments and other rights evidenced by the Loan Documents are hereby renewed and extended to secure payment of the Note as extended hereby. Without limiting the foregoing, the term "Maturity Date" and other references to the maturity of the Loan or the Note used in the Note, the Loan Agreement and other Loan Documents are likewise amended to mean and refer to "May 31, 2015".

4. **Representations and Warranties**. Borrower hereby represents and warrants that (a) Borrower is the sole legal and beneficial owner of the Mortgaged Property (other than the Mortgaged Property which has been released by Lender from the liens of the Deed of Trust); (b) Borrower is duly organized and legally existing under the laws of the state of its organizations and is duly qualified to do business in the State of Texas; (c) the execution and delivery of, and performance under this Agreement are within Borrower's power and authority without the joinder or consent of any other party and have

been duly authorized by all requisite action and are not in contravention of law or the powers of Borrower's articles of incorporation and bylaws; (d) this Agreement constitutes the legal, valid and binding obligations of Borrower enforceable in accordance with its terms; (e) the execution and delivery of this Agreement by Borrower do not contravene, result in a breach of or constitute a default under any deed of trust, loan agreement, indenture or other contract, agreement or undertaking to which Borrower is a party or by which Borrower or any of its properties may be bound (nor would such execution and delivery constitute such a default with the passage of time or the giving of notice or both) and do not violate or contravene any law, order, decree, rule or regulation to which Borrower is subject; and (f) to the best of Borrower's knowledge there exists no uncured default under any of the Loan Documents. Borrower agrees to indemnify and hold Lender harmless against any loss, claim, damage, liability or expense (including without limitation reasonable attorneys' fees) incurred as a result of any representation or warranty made by it herein proving to be untrue in any respect.

5. **Further Assurances**. Borrower, upon request from Lender, agrees to execute such other and further documents as may be reasonably necessary or appropriate to consummate the transactions contemplated herein or to perfect the liens and security interests intended to secure the payment of the loan evidenced by the Note.

6. **Default; Remedies**. If Borrower shall fail to keep or perform any of the covenants or agreements contained herein or if any statement, representation or warranty contained herein is false, misleading or erroneous in any material respect, Borrower shall be deemed to be in default under the Deed of Trust and Lender shall be entitled at its option to exercise any and all of the rights and remedies granted pursuant to the any of the Loan Documents or to which Lender may otherwise be entitled, whether at law or in equity.

7. **Endorsement to Mortgagee Title Policy**. Contemporaneously with the execution and delivery hereof, Borrower shall, at its sole cost and expense, obtain and deliver to Lender an Endorsement of the Mortgagee Title Policy insuring the lien of the Deed of Trust, under Procedural Rule P-9b(3) of the applicable title insurance rules and regulations, in form and content acceptable to Lender, stating that the company issuing said Mortgagee Title Policy will not claim that policy coverage has terminated or that policy coverage has been reduced, solely by reason of the execution of this Agreement.

8. **Ratification of Loan Documents**. Except as provided herein, the terms and provisions of the Loan Documents shall remain unchanged and shall remain in full force and effect. Any modification herein of any of the Loan Documents shall in no way adversely affect the security of the Deed of Trust and the other Loan Documents for the payment of the Note. The Loan Documents as modified and amended hereby are hereby ratified and confirmed in all respects. All liens, security interests, mortgages and assignments granted or created by or existing under the Loan Documents remain unchanged and continue, unabated, in full force and effect, to secure Borrower's obligation to repay the Note.

9. **Liens Valid; No Offsets or Defenses**. Borrower hereby acknowledges that the liens, security interests and assignments created and evidenced by the Loan Documents are valid and subsisting and further acknowledges and agrees that there are no offsets, claims or defenses to any of the Loan Documents.

10. **Merger; No Prior Oral Agreements**. This Agreement supersedes and merges all prior and contemporaneous promises, representations and agreements. No modification of this Agreement or any of the Loan Documents, or any waiver of rights under any of the foregoing, shall be effective unless made by supplemental agreement, in writing, executed by Lender and Borrower. Lender and Borrower further agree that this Agreement may not in any way be explained or supplemented by a prior, existing or

future course of dealings between the parties or by any prior, existing, or future performance between the parties pursuant to this Agreement or otherwise.

11. **Costs and Expenses**. Contemporaneously with the execution and delivery hereof, Borrower shall pay, or cause to be paid, all costs and expenses incident to the preparation hereof and the consummation of the transactions specified herein, including without limitation title insurance policy endorsement charges, recording fees and fees and expenses of legal counsel to Lender.

12. **Release of Lender**. Borrower hereby releases, remises, acquits and forever discharges Lender, together with its employees, agents, representatives, consultants, attorneys, fiduciaries, servants, officers, directors, partners, predecessors, successors and assigns, subsidiary corporations, parent corporations, and related corporate divisions (all of the foregoing hereinafter called the "**Released Parties**"), from any and all actions and causes of action, judgments, executions, suits, debts, claims, demands, liabilities, obligations, damages and expenses of any and every character, known or unknown, direct and/or indirect, at law or in equity, of whatsoever kind or nature, whether heretofore or hereafter accruing, for or because of any matter or things done, omitted or suffered to be done by any of the Released Parties prior to and including the Effective Date, and in any way directly or indirectly arising out of or in any way connected to this Agreement or any of the Loan Documents or any of the transactions associated therewith, or the Mortgaged Property, including specifically but not limited to claims of usury.

13. **Counterparts**. This Agreement may be executed in any number of counterparts with the same effect as if all parties hereto had signed the same document. All such counterparts shall be construed together and shall constitute one instrument, but in making proof hereof it shall only be necessary to produce one such counterpart.

14. **Severability**. If any covenant, condition, or provision herein contained is held to be invalid by final judgment of any court of competent jurisdiction, the invalidity of such covenant, condition, or provision shall not in any way affect any other covenant, condition or provision herein contained.

15. **Time of the Essence**. It is expressly agreed by the parties hereto that time is of the essence with respect to this Agreement.

16. **Representation by Counsel**. The parties acknowledge and confirm that each of their respective attorneys have participated jointly in the review and revision of this Agreement and that it has not been written solely by counsel for one party. The parties hereto therefore stipulate and agree that the rule of construction to the effect that any ambiguities are to or may be resolved against the drafting party shall not be employed in the interpretation of this Agreement to favor either party against the other.

17. **Governing Law**. This Agreement and the rights and duties of the parties hereunder shall be governed for all purposes by the law of the State of Texas and the law of the United States applicable to transactions within said State.

18. **Successors and Assigns**. The terms and provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

19. **Notice of No Oral Agreements**. Borrower and Lender hereby take notice of and agree to the following:

A. **PURSUANT TO SUBSECTION 26.02(b) OF THE TEXAS BUSINESS AND COMMERCE CODE, A LOAN AGREEMENT IN WHICH THE AMOUNT INVOLVED THEREIN EXCEEDS $50,000 IN VALUE IS NOT ENFORCEABLE UNLESS THE AGREEMENT IS IN WRITING AND SIGNED BY THE PARTY TO BE BOUND OR BY THAT PARTY'S AUTHORIZED REPRESENTATIVE**.

B. **PURSUANT TO SUBSECTION 26.02(c) OF THE TEXAS BUSINESS AND COMMERCE CODE, THE RIGHTS AND OBLIGATIONS OF THE PARTIES TO THE LOAN DOCUMENTS SHALL BE DETERMINED SOLELY FROM THE LOAN DOCUMENTS, AND ANY PRIOR ORAL AGREEMENTS BETWEEN THE PARTIES ARE SUPERSEDED BY AND MERGED INTO THE LOAN DOCUMENTS.**

C. **THE LOAN DOCUMENTS AND THIS AGREEMENT REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES THERETO AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES THERETO. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.**

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, this Agreement is executed on the respective dates of acknowledgement below but is effective as of the date first above written.

BORROWER:

STRATUS PROPERTIES INC.,
a Delaware corporation

By: /s/Erin D. Pickens
Erin D. Pickens, Sr. Vice President

STRATUS PROPERTIES OPERATING CO., L.P., a Delaware limited partnership

By: STRS L.L.C., a Delaware limited liability company, General Partner

By Stratus Properties Inc., a Delaware corporation, Sole Member

By: /s/Erin D. Pickens
Erin D. Pickens,
Sr. Vice President

CIRCLE C LAND, L.P.,
a Texas limited partnership

By: Circle C GP, L.L.C., a Delaware limited liability company, General Partner

By Stratus Properties Inc., a Delaware corporation, Sole Member

By: /s/Erin D. Pickens
Erin D. Pickens,
Sr. Vice President

AUSTIN 290 PROPERTIES, INC.,
a Texas corporation

By: /s/Erin D. Pickens
Erin D. Pickens, Sr. Vice President

[Signature Page - Second Modification and Extension Agreement]

STATE OF TEXAS §

§

COUNTY OF TRAVIS §

This instrument was acknowledged before me on the _9th___ day of _February_, 2015, by Erin D. Pickens, Sr. Vice President of Stratus Properties Inc., a Delaware corporation, on behalf of said corporation.

/s/ Brooke E. Browning
Notary Public, State of Texas
My Commission Expires: __7-18-18
Printed Name of Notary: __Brooke Browning_

STATE OF TEXAS §

§

COUNTY OF TRAVIS §

This instrument was acknowledged before me on the __9th__ day of __February__, 2015, by Erin D. Pickens, Sr. Vice President of Stratus Properties Inc., a Delaware corporation, Sole Member of STRS L.L.C., a Delaware limited liability company, General Partner of Stratus Properties Operating Co., L.P., a Delaware limited partnership, on behalf of said corporation, limited liability company and limited partnership.

/s/ Brooke E. Browning
Notary Public, State of Texas
My Commission Expires: __7-18-18
Printed Name of Notary: __Brooke Browning_

STATE OF TEXAS §

§

COUNTY OF TRAVIS §

This instrument was acknowledged before me on the _9th___ day of __February__, 2015, by Erin D. Pickens, Sr. Vice President of Stratus Properties Inc., a Delaware corporation, Sole Member of Circle C GP, L.L.C., a Delaware limited liability company, General Partner of Circle C Land, L.P., a Delaware limited partnership, on behalf of said corporation, limited liability company limited partnership.

/s/ Brooke E. Browning
Notary Public, State of Texas
My Commission Expires: __7-18-18
Printed Name of Notary: __Brooke Browning_

STATE OF TEXAS §

§

COUNTY OF TRAVIS §

This instrument was acknowledged before me on the __9th__ day of __February_, 2015, by Erin D. Pickens, Sr. Vice President of Austin 290 Properties Inc., a Delaware corporation, on behalf of said corporation.

/s/ Brooke E. Browning
Notary Public, State of Texas
My Commission Expires: __7-18-18
Printed Name of Notary:__Brooke Browning_

[Signature Page - Second Modification and Extension Agreement]

LENDER:

COMERICA BANK

By: /s/ Sterling J. Silver
Sterling J. Silver, Senior Vice President

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 10th day of February, 2015, by Sterling J. Silver, Senior Vice President of Comerica Bank, on behalf of said bank.

/s/ Sarah Hanes
Notary Public, State of Texas
My Commission Expires: 7-24-15
Printed Name of Notary: Sarah Hanes

STATE OF TEXAS §
§
COUNTIES OF TRAVIS §
AND HAYS §

FIRST AMENDMENT TO DEVELOPMENT AGREEMENT

THIS FIRST AMENDMENT TO DEVELOPMENT AGREEMENT (this "**Amendment**") is entered into as of the 21st day of June, 2004, by and among the **CITY OF AUSTIN**, a home rule city and municipal corporation located in Travis, Hays and Williamson Counties in the State of Texas (the "**City**"), **ESCARPMENT VILLAGE, L.P.**, a Texas limited partnership ("**Escarpment**") and **CIRCLE C LAND, L.P.**, a Texas limited partnership, formerly known as Circle C Land Corp., a Texas corporation ("**CCLC**"). The City, Escarpment and CCLC are collectively referred to as the "Parties".

RECITALS

A. The City and CCLC entered into that certain Development Agreement dated effective August 15, 2002 between Circle C Land Corp. and the City of Austin and recorded under Document No. 2002151984 of the Real Property Records of Travis County, Texas and Document No. 02022402 of the Real Property Records of Hays County, Texas (the "**Development Agreement**").

B. The Development Agreement, among other things, established limits on the development density on the Land for Office, Retail, Residential and Multi-Family Residential development as more particularly described and defined therein.

C. Escarpment is the sole owner of Parcel 103 and currently intends to eliminate all Multi-Family development on Parcel 103 and to develop a Large Grocery Store and related Retail development on Parcel 103. The Parties desire to amend the Development Agreement to re-allocate the amount of Retail and Multi-Family development permitted under the Development Agreement for Parcel 103 and to make certain other modifications as more particularly described below.

E. Pursuant to Section 17.10 thereof, the Development Agreement may be amended by mutual agreement of the City and the Landowner to whose Parcel such amendment relates. As of the date of this Amendment, Escarpment is the sole owner of Parcel 103 and CCLC is the sole owner of Parcel 107, being the only two Parcels affected by this Amendment.

F. The Parties have agreed to amend the Development Agreement as just described, and in other respects, to reflect their agreement, as more particularly described below.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. Recitals Incorporated. The above recitals are incorporated herein for all purposes.

2. Capitalized Terms. Any capitalized term that is used herein and is not otherwise defined herein shall have the meaning that is ascribed to it elsewhere in the Development Agreement.

3. Development Density. The first full paragraph of Section 6.1A of the Development Agreement is hereby deleted in its entirety and the following is substituted therefor:

> "**6.1.A. Development Density**. The maximum aggregate amount of development density permitted on the Land with respect to certain project types is as follows ("**Total Permitted Density**"):
>
> Office 750,000 square feet of Net Floor Area
> Retail 410,000 square feet of Net Floor Area
> Residential 1,334 living units
> Multi-Family Residential 504 living units"

4. Reallocated Development Density. As of the date hereof, there has been no Assignment of Development Allocation or Apportionment of Development Allocation of development density affecting Parcel 103. Accordingly, the initial Development Allocation for Parcel 103 is hereby amended to be the Development Allocation shown on Exhibit "H" attached hereto and incorporated herein. The Development Agreement is hereby amended by substituting the Exhibit "H" attached thereto (and referenced in Section 6.1B thereof) with the Exhibit "H" attached hereto. As a consequence of the revisions to Exhibit "H", 54 Residential living units and 4 Multi-Family Residential living units remain allocated to Parcel 103 but it is anticipated that they will be re-allocated to another Parcel in accordance with the terms and provisions of the Development Agreement prior to development. The foregoing notwithstanding, nothing herein is intended to affect any Assignment of Development Allocations or Apportionment of Development Allocations previously filed with the City for other Parcels under the Development Agreement.

5. CEF Setback. A portion of the 100 foot eastern setback from the Pipeline Sink critical environmental feature on Parcel 107 described in Exhibit "M" is hereby increased to create a minimum of a 150 foot eastern setback from the center of Pipeline Sink as more particularly depicted on Figure "M-1" attached hereto. In that regard, the Figure

"M-1" attached hereto is hereby substituted for the Figure "M-1" attached to Exhibit "M" to the Development Agreement for all purposes.

6. Park Berm. CCLC agrees that it will design and construct, at its sole cost and expense, a low earthen berm on Parcel 104 to divert low storm water flows (a two year storm event) from an existing drainage culvert around Grassy Cove Cave located on Parcel 104 (the "Berm"). Parcel 104 was previously dedicated to the City by CCLC as parkland. CCLC will submit a design for the Berm to the Watershed Protection Department of the City on or before October 1, 2004. The City will then process and secure all governmental approvals and permits required for the construction of the Berm including approval for CCLC to perform the work on City park property ("Berm Permits and Approvals"). Within 120 days after the City delivers all Berm Permits and Approvals to CCLC, CCLC will construct the Berm.

7. Effect of Amendment. Except as specifically amended by the provisions hereof, the terms and provisions stated in the Development Agreement shall continue to govern the rights and obligations of the Parties, and all provisions and covenants of the Development Agreement, as amended hereby, shall remain in full force and effect. The terms and provisions of the Development Agreement, as hereby amended, are hereby ratified and confirmed, and this Amendment and the Development Agreement shall be construed as one instrument. In that regard, this Amendment and the Development Agreement, including all exhibits to such documents, constitute the entire agreement between the parties relative to the subject matter hereof and supersede all prior and contemporaneous agreements and understandings of the parties in connection therewith. In the event of any inconsistency, the terms and provisions of this Amendment shall control over and modify the terms and provisions of the Development Agreement.

8. Miscellaneous.

a. Captions. The captions preceding the text of each section and paragraph hereof, if any, are included only for convenience of reference and shall be disregarded in the construction and interpretation of this Amendment.

b. Authority. Each party hereto has the full legal authority to execute and deliver this Amendment. In addition, the individual who executes this Amendment on behalf of each party hereto is authorized to act for and on behalf of such party and to bind such party to the terms and provisions hereof.

c. Severability. If any provision of this Amendment shall be held to be invalid or unenforceable for any reason, the remaining provisions shall continue to be valid and enforceable, unless enforcement of this Amendment as so invalidated would be unreasonable or grossly inequitable under the circumstances or would frustrate the purpose of this Amendment.

d. Binding Effect. This Amendment shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and permitted (pursuant to the terms of the Development Agreement) assigns. This Amendment

shall inure to the benefit of and be binding upon each of the Parties, and their respective successors, assigns, transferees, and grantees.

e. Multiple Counterparts. Multiple copies of this Amendment may be executed by the Parties hereto. Each such executed copy shall have the full force and effect of an original executed instrument. To facilitate execution of this Amendment, the Parties may execute and exchange by telephone facsimile counterparts of the signature pages.

IN WITNESS WHEREOF, the Parties have caused this Amendment to be executed as of the date and year first above written.

CIRCLE C LAND, L.P., a Texas limited partnership

By: CIRCLE C GP, L.L.C., a Delaware limited liability company, General Partner

By: STRATUS PROPERTIES INC., a Delaware corporation, Sole Member

By: /s/ William H. Armstrong, III
William H. Armstrong, III,

President

Date: June 22, 2004

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 22nd day of June, 2004, by William H. Armstrong, III, President of Stratus Properties Inc., a Delaware corporation, sole member of Circle C GP, L.L.C., a Delaware limited liability company, general partner of Circle C Land, L.P., a Texas limited partnership, on behalf of said entities.

/s/ Jody L. Bickel
Notary Public, State of Texas

ESCARPMENT VILLAGE, L.P.,

a Texas limited partnership

By: Escarpment Village Management, L.L.C., a Texas limited liability company, its sole General Partner

By: Circle C Land, L.P., a Texas limited partnership, Manager

By: Circle C GP, L.L.C., a Delaware limited liability company, General Partner

By: Stratus Properties Inc., a Delaware corporation, Sole Member

By: /s/ William H. Armstrong

Name: William H. Armstrong

Its: President

THE STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 22nd day of June, 2004, by William H. Armstrong III, President of Stratus Properties Inc., a Delaware corporation, sole member of Circle C GP, L.L.C., a Delaware limited liability company, general partner of Circle C Land, L.P., a Texas limited partnership, manager of Escarpment Village Management, L.L.C., a Texas limited liability company, general partner of Escarpment Village, L.P., a Texas limited partnership, on behalf of such entities.

/s/ Jody L. Bickel
Notary Public, State of Texas

THE CITY OF AUSTIN,
a Texas municipal corporation

By: /s/ Laura J. Huffman
Name: Laura J. Huffman
Title: Assistant City Manager
Date : July 12, 2004

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 12th day of July, 2004, by Laura J. Huffman, Assistant City Manager of The City of Austin, a Texas municipal corporation, on behalf of said municipal corporation

/s/ Annette M. Bogusch
Notary Public, State of Texas

APPROVED AS TO FORM:

/s/ Alison Gallaway
Assistant City Attorney

CONSENT AND SUBORDINATION OF MORTGAGEE

Comerica Bank, a Michigan banking corporation, successor by merger to Comerica Bank-Texas, is the legal owner and holder of certain indebtedness of Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land Corp., and Austin 290 Properties, Inc., which is secured by, among other things, a deed of trust lien granted in a deed of trust dated December 16, 1999, from Circle C Land Corp., a Texas corporation, to Gary W. Orr, Trustee for Comerica Bank, recorded under Document No. 1999158708, Official Public Records of Travis County, Texas, and by a second lien deed of trust lien granted in a deed of trust dated December 16, 1999, from Circle C Land Corp., a Texas corporation, to Gary W. Orr, Trustee for Comerica Bank, recorded under Document No. 1999158709, Official Public Records of Travis County, Texas, and as both were modified by Modification Agreement dated December 27, 2000, recorded under Document No. 2000204551, Official Public Records of Travis County, Texas, and Document No. 00030106 (Volume 1754, Page 392), Official Public Records of Hays County, Texas, Second Modification Agreement dated December 18, 2001, recorded under Document No. 2001215158, Official Public Records of Travis County, Texas, and Document No. 01031701 (Volume 1924, Page 563), Official Public Records of Hays County, Texas, and Third Modification and Extension Agreement dated June 30, 2003, recorded under Document No. 2003237684, Official Public Records of Travis County, Texas, and further secured by a deed of trust lien granted in a second deed of trust dated September 22, 2003, from Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land Corp., Austin 290 Properties, Inc., Stratus 7000 West Joint Venture and Lantana Office Properties I, L.P., to Melinda Chausse, Trustee for Comerica Bank, recorded under Document No. 2003237682, Official Public Records of Travis County, Texas, and a deed of trust lien granted in a subordinate deed of trust dated February 27, 2004, from Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P., Austin 290 Properties, Inc., Stratus 7000 West Joint Venture and Lantana Office Properties I, L.P., to Melinda Chausse, Trustee for Comerica Bank, recorded under Document No. 2004047013, Official Public Records of Travis County, Texas (collectively and as modified, the "Deed of Trust").

Comerica Bank hereby joins in this Amendment for the sole purpose of consenting to the Amendment and subordinating the Deed of Trust and all other liens it may have securing such indebtedness, to the Amendment and the interests of the City of Austin, and its successors and assigns, in and to the Amendment. The undersigned has the authority to execute this Consent and Subordination on behalf of Comerica Bank and represents, in that regard, that all corporate action has been taken by Comerica Bank to make this a binding Consent and Subordination.

COMERICA BANK,
a Michigan banking corporation, successor by
merger to Comerica Bank-Texas
By:/s/ Shery R. Layne

Shery R. Layne, Senior Vice President

THE STATE OF TEXAS §
§
COUNTY OF DALLAS §

This instrument was acknowledged before me on the 29th day of June, 2004, by Shery R. Layne, Senior Vice President of Comerica Bank, a Michigan banking corporation, successor by merger to Comerica Bank-Texas, on behalf of said banking corporation.

/s/ Kristine K. Finn
Notary Public Signature

(seal)

STATE OF TEXAS §
§
COUNTIES OF TRAVIS §
AND HAYS §

SECOND AMENDMENT TO DEVELOPMENT AGREEMENT

THIS SECOND AMENDMENT TO DEVELOPMENT AGREEMENT (this "**First Amendment**") is entered into as of the 9th day of November, 2004, by and among the **CITY OF AUSTIN**, a home rule city and municipal corporation located in Travis, Hays and Williamson Counties in the State of Texas (the "**City**"), **ESCARPMENT VILLAGE, L.P.**, a Texas limited partnership ("**Escarpment**") and **CIRCLE C LAND, L.P.**, a Texas limited partnership, formerly known as Circle C Land Corp., a Texas corporation ("**CCLC**"). The City, Escarpment and CCLC are collectively referred to as the "Parties".

RECITALS

A. The City and CCLC entered into that certain Development Agreement dated effective August 15, 2002 and recorded under Document No. 2002151984 of the Real Property Records of Travis County, Texas and Document No. 02022402 of the Real Property Records of Hays County, Texas, which was amended by First Amendment to Development Agreement dated June 21, 2004 and recorded under Document No. 2004135909 of the Real Property Records of Travis County, Texas (the "**Development Agreement**").

B. Escarpment, as of the date hereof, is the owner of the Option Tracts described on Exhibit "A" attached hereto and incorporated herein by reference (the "Parcel 103 Option Tracts").

C. CCLC, as of the date hereof, is the owner of the Option Tracts described on Exhibit "B" attached hereto and incorporated herein by reference (the "Parcel 113 Option Tracts").

D. Escarpment and CCLC desire to exercise the option set forth in Section 2.3 of the Development Agreement to incorporate the Parcel 103 Option Tracts and the Parcel 113 Option Tracts into the Land under the Development Agreement and under that certain Conservation Easement to Restrict Impervious Cover dated effective August 15, 2002 and recorded under Document No. 2002151985 of the Real Property Records of Travis County, Texas and under Document No. 02022403 of the Real Property Records of Hays County, Texas (the "Conservation Easement").

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the City, Escarpment and CCLC agree as follows:

1. Recitals Incorporated. The above recitals are incorporated herein for all purposes.

2. Capitalized Terms. Any capitalized term that is used herein and is not otherwise defined herein shall have the meaning that is ascribed to it elsewhere in the Development Agreement.

3. The Land. The definition of Land is hereby amended to incorporate the Parcel 103 Option Tracts and the Parcel 113 Option Tracts as more particularly described on Exhibit "A" and Exhibit "B" respectively. Accordingly, the Parcel 103 Option Tracts and the Parcel 113 Option Tracts, as part of the Land, are subject to the terms and provisions of the Development Agreement for all purposes.

4. Development Allocations. The Parcel 103 Option Tracts are hereby incorporated into and made a part of Parcel 103 without any addition Development Allocation. The Parcel 113 Option Tracts are hereby incorporated into and made a part of Parcel 113 without any additional Development Allocation.

5. Allowable Impervious Cover. In accordance with the Development Agreement and Exhibit "E-1" to the Development Agreement, the Allowable Impervious Cover for Parcel 103 is increased by 1.65 acres by the addition of the Parcel 103 Option Tracts and the Parcel 113 Option Tracts. As a result, Parcel 103 has a total allocation of 18.60 acres of Allowable Impervious Cover and has a Maximum Impervious Cover limitation of 18.60 acres. Accordingly, Exhibit "E-1" to the Development Agreement is hereby amended to provide that the total allocation of Allowable Impervious Cover for Parcel 103 is 18.60 acres and to provide that Maximum Impervious Cover limitation for Parcel 103 is 18.60 acres.

6. Miscellaneous.

   a. Conservation Easement. Contemporaneously with the execution of this First Amendment, the City, CCLC and Escarpment are entering into that certain First Amendment to Conservation Easement to Restrict Impervious Cover of even date herewith incorporating the Parcel 103 Option Tracts and the Parcel 113 Option Tracts therein (the "First Amendment to Conservation Easement").

   b. Entire Agreement. This First Amendment, together with the Development Agreement, and the First Amendment to Conservation Easement, together with the Conservation Easement,

sets forth the entire understanding of the parties and supersedes all prior agreements or understandings, whether written or oral, with respect to the subject matter hereof.

c. Binding Effect. This First Amendment will extend to and be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns and will run with the Parcel 103 Option Tracts and the Parcel 113 Option Tracts.

d. Counterparts. This First Amendment may be executed in two or more counterparts, each of which will be deemed an original, which together will constitute one in the same agreement.

e. Governing Law. This First Amendment will be governed by and construed in accordance with the laws of the State of Texas.

IN WITNESS WHEREOF, the Parties have caused this Amendment to be executed as of the date and year first above written.

CIRCLE C LAND, L.P., a Texas limited partnership

By: CIRCLE C GP, L.L.C., a Delaware limited liability company, General Partner

By: STRATUS PROPERTIES INC., a Delaware corporation, Sole Member

By: /s/ John E. Baker
John E. Baker, Senior Vice President

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 12th day of November, 2004, by John E. Baker, Senior Vice President of Stratus Properties Inc., a Delaware corporation, sole member of Circle C GP, L.L.C., a Delaware limited liability company, general partner of Circle C Land, L.P., a Texas limited partnership, on behalf of said enitities.

/s/ Jody L. Bickel
Notary Public, State of Texas

ESCARPMENT VILLAGE, L.P.,

a Texas limited partnership

By: Escarpment Village Management, L.L.C., a Texas limited liability company, its sole General Partner

By: Circle C Land, L.P., a Texas limited partnership, Manager

By: Circle C GP, L.L.C., a Delaware limited liability company, General Partner

By: Stratus Properties Inc., a Delaware corporation, Sole Member

By:/s/ John E. Baker

John E. Baker, Senior Vice President

THE STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 12th day of November, 2004, by John E. Baker, Senior Vice President of Stratus Properties Inc., a Delaware corporation, sole member of Circle C GP, L.L.C., a Delaware limited liability company, general partner of Circle C Land, L.P., a Texas limited partnership, manager of Escarpment Village Management, L.L.C., a Texas limited liability company, general partner of Escarpment Village, L.P., a Texas limited partnership, on behalf of such entities.

/s/ Jody L. Bickel
Notary Public, State of Texas

THE CITY OF AUSTIN,
a Texas municipal corporation

By: /s/ Laura J. Huffman
Name: Laura J. Huffman
Title: Assistant City Manager
Date : December 16, 2004

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 16th day of December, 2004, by Laura J. Huffman, Assistant City Manager of The City of Austin, a Texas municipal corporation, on behalf of said municipal corporation

/s/ Annette M. Bogusch
Notary Public, State of Texas

APPROVED AS TO FORM:

/s/ Alison Gallaway
Assistant City Attorney

CONSENT AND SUBORDINATION OF MORTGAGEE

Comerica Bank, a Michigan banking corporation, successor by merger to Comerica Bank-Texas, is the legal owner and holder of certain indebtedness of Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land Corp., and Austin 290 Properties, Inc., which is secured by, among other things, a deed of trust lien granted in a deed of trust dated December 16, 1999, from Circle C Land Corp., a Texas corporation, to Gary W. Orr, Trustee for Comerica Bank, recorded under Document No. 1999158708, Official Public Records of Travis County, Texas, and by a second lien deed of trust lien granted in a deed of trust dated December 16, 1999, from Circle C Land Corp., a Texas corporation, to Gary W. Orr, Trustee for Comerica Bank, recorded under Document No. 1999158709, Official Public Records of Travis County, Texas, and as both were modified by Modification Agreement dated December 27, 2000, recorded under Document No. 2000204551, Official Public Records of Travis County, Texas, and Document No. 00030106 (Volume 1754, Page 392), Official Public Records of Hays County, Texas, Second Modification Agreement dated December 18, 2001, recorded under Document No. 2001215158, Official Public Records of Travis County, Texas, and Document No. 01031701 (Volume 1924, Page 563), Official Public Records of Hays County, Texas, and Third Modification and Extension Agreement dated June 30, 2003, recorded under Document No. 2003237684, Official Public Records of Travis County, Texas, and further secured by a deed of trust lien granted in a second deed of trust dated September 22, 2003, from Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land Corp., Austin 290 Properties, Inc., Stratus 7000 West Joint Venture and Lantana Office Properties I, L.P., to Melinda Chausse, Trustee for Comerica Bank, recorded under Document No. 2003237682, Official Public Records of Travis County, Texas, and a deed of trust lien granted in a subordinate deed of trust dated February 27, 2004, from Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P., Austin 290 Properties, Inc., Stratus 7000 West Joint Venture and Lantana Office Properties I, L.P., to Melinda Chausse, Trustee for Comerica Bank, recorded under Document No. 2004047013, Official Public Records of Travis County, Texas (collectively and as modified, the "Deed of Trust").

Comerica Bank hereby joins in this Amendment for the sole purpose of consenting to the Amendment and subordinating the Deed of Trust and all other liens it may have securing such indebtedness, to the Amendment and the interests of the City of Austin, and its successors and assigns, in and to the Amendment. The undersigned has the authority to execute this Consent and Subordination on behalf of Comerica Bank and represents, in that regard, that all corporate action has been taken by Comerica Bank to make this a binding Consent and Subordination.

COMERICA BANK,
a Michigan banking corporation, successor by
merger to Comerica Bank-Texas
By:/s/ Shery R. Layne

Shery R. Layne, Senior Vice President

THE STATE OF TEXAS §
§
COUNTY OF DALLAS §

This instrument was acknowledged before me on the 10th day of November, 2004, by Shery R. Layne, Senior Vice President of Comerica Bank, a Michigan banking corporation, successor by merger to Comerica Bank-Texas, on behalf of said banking corporation.

/s/ Kristine K. Finn
Notary Public Signature

(seal)

STATE OF TEXAS §
§
COUNTIES OF TRAVIS §
AND HAYS §

THIRD AMENDMENT TO DEVELOPMENT AGREEMENT

THIS THIRD AMENDMENT TO DEVELOPMENT AGREEMENT (this "**Third Amendment**") is entered into as of the 2nd day of March, 2005, by and among the **CITY OF AUSTIN**, a home rule city and municipal corporation located in Travis, Hays and Williamson Counties in the State of Texas (the "**City**"), **ESCARPMENT VILLAGE, L.P.**, a Texas limited partnership ("**Escarpment**") and **CIRCLE C LAND, L.P.**, a Texas limited partnership, formerly known as Circle C Land Corp., a Texas corporation ("**CCLC**"). The City, Escarpment and CCLC are collectively referred to as the "Parties".

RECITALS

A. The City and CCLC entered into that certain Development Agreement dated effective August 15, 2002 and recorded under Document No. 2002151984 of the Real Property Records of Travis County, Texas and Document No. 02022402 of the Real Property Records of Hays County, Texas, which was amended by First Amendment to Development Agreement dated June 21, 2004 and recorded under Document No. 2004135909 of the Real Property Records of Travis County, Texas and by Second Amendment to Development Agreement dated November 9, 2004 and recorded under Document No. 2004236024 of the Real Property Records of Travis County, Texas (the "**Development Agreement**").

B. Escarpment, as of the date hereof, is the owner of the Option Tract described on Exhibit "A" attached hereto and incorporated herein by reference (the "Remaining Parcel 103 Option Tract").

C. Escarpment and CCLC desire to exercise the option set forth in Section 2.3 of the Development Agreement to incorporate the Remaining Parcel 103 Option Tract into the Land under the Development Agreement and under that certain Conservation Easement to Restrict Impervious Cover dated effective August 15, 2002 and recorded under Document No. 2002151985 of the Real Property Records of Travis County, Texas and under Document No. 02022403 of the Real Property Records of Hays County, Texas, which was amended by First Amendment to Conservation Easement dated November 9, 2004 and recorded under Document No. 2004236025 of the Real Property Records of Travis County, Texas (as amended, the "Conservation Easement").

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the City, Escarpment and CCLC agree as follows:

1. Recitals Incorporated. The above recitals are incorporated herein for all purposes.

2. Capitalized Terms. Any capitalized term that is used herein and is not otherwise defined herein shall have the meaning that is ascribed to it elsewhere in the Development Agreement.

3. The Land. The definition of Land is hereby amended to incorporate the the Remaining Parcel 103 Option Tract as more particularly described on Exhibit "A". Accordingly, the Remaining Parcel 103 Option Tract, as part of the Land, is subject to the terms and provisions of the Development Agreement for all purposes.

4. Development Allocations. The Remaining Parcel 103 Option Tract is hereby incorporated into and made a part of Parcel 103 without any addition Development Allocation.

5. Allowable Impervious Cover. In accordance with the Development Agreement and Exhibit "E-1" to the Development Agreement, the Allowable Impervious Cover for Parcel 103 is increased by 0.15 acres by the addition of the Remaining Parcel 103 Option Tract. As a result, Parcel 103 has a total allocation of 18.75 acres of Allowable Impervious Cover and has a Maximum Impervious Cover limitation of 18.75 acres. Accordingly, Exhibit "E-1" to the Development Agreement is hereby amended to provide that the total allocation of Allowable Impervious Cover for Parcel 103 is 18.75 acres and to provide that Maximum Impervious Cover limitation for Parcel 103 is 18.75 acres.

6. Miscellaneous.

   a. Conservation Easement. Contemporaneously with the execution of this Third Amendment, the City, CCLC and Escarpment are entering into that certain Second Amendment to Conservation Easement to Restrict Impervious Cover of even date herewith incorporating the Remaining Parcel 103 Option Tract therein (the "Second Amendment to Conservation Easement").

   b. Entire Agreement. This Third Amendment, together with the Development Agreement, and the Second Amendment to Conservation Easement, together with the Conservation Easement, sets forth the entire understanding of the parties and supersedes all prior agreements or understandings, whether written or oral, with respect to the subject matter hereof.

c. Binding Effect. This Third Amendment will extend to and be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns and will run with the Remaining Parcel 103 Option Tract.

d. Counterparts. This Third Amendment may be executed in two or more counterparts, each of which will be deemed an original, which together will constitute one in the same agreement.

e. Governing Law. This Third Amendment will be governed by and construed in accordance with the laws of the State of Texas.

IN WITNESS WHEREOF, the Parties have caused this Third Amendment to be executed as of the date and year first above written.

CIRCLE C LAND, L.P., a Texas limited partnership

By: CIRCLE C GP, L.L.C., a Delaware limited liability company, General Partner

By: STRATUS PROPERTIES INC., a Delaware corporation, Sole Member

By: /s/ John E. Baker
John E. Baker, Senior Vice President

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 23rd day of March, 2005, by John E. Baker, Senior Vice President of Stratus Properties Inc., a Delaware corporation, sole member of Circle C GP, L.L.C., a Delaware limited liability company, general partner of Circle C Land, L.P., a Texas limited partnership, on behalf of said entities.

/s/ Jody L. Bickel
Notary Public, State of Texas

ESCARPMENT VILLAGE, L.P.,

a Texas limited partnership

By: Escarpment Village Management, L.L.C., a Texas limited liability company, its sole General Partner

By: Circle C Land, L.P., a Texas limited partnership, Manager

By: Circle C GP, L.L.C., a Delaware limited liability company, General Partner

By: Stratus Properties Inc., a Delaware corporation, Sole Member

By: /s/ John E. Baker

John E. Baker, Senior Vice President

THE STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 23rd day of March, 2005, by John E. Baker, Senior Vice President of Stratus Properties Inc., a Delaware corporation, sole member of Circle C GP, L.L.C., a Delaware limited liability company, general partner of Circle C Land, L.P., a Texas limited partnership, manager of Escarpment Village Management, L.L.C., a Texas limited liability company, general partner of Escarpment Village, L.P., a Texas limited partnership, on behalf of such entities.

/s/ Jody L. Bickel
Notary Public, State of Texas

THE CITY OF AUSTIN,
a Texas municipal corporation

By: /s/ Laura J. Huffman
Name: Laura J. Huffman
Title: Assistant City Manager
Date : March 23, 2005

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 29th day of March, 2005, by Laura J. Huffman, Assistant City Manager of The City of Austin, a Texas municipal corporation, on behalf of said municipal corporation

/s/ Annette M. Bogusch
Notary Public, State of Texas

APPROVED AS TO FORM:

/s/ Alison Gallaway
Assistant City Attorney

CONSENT AND SUBORDINATION OF MORTGAGEE

Comerica Bank, a Michigan banking corporation, successor by merger to Comerica Bank-Texas, is the legal owner and holder of certain indebtedness of Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land Corp., and Austin 290 Properties, Inc., which is secured by, among other things, a deed of trust lien granted in a deed of trust dated December 16, 1999, from Circle C Land Corp., a Texas corporation, to Gary W. Orr, Trustee for Comerica Bank, recorded under Document No. 1999158708, Official Public Records of Travis County, Texas, and by a second lien deed of trust lien granted in a deed of trust dated December 16, 1999, from Circle C Land Corp., a Texas corporation, to Gary W. Orr, Trustee for Comerica Bank, recorded under Document No. 1999158709, Official Public Records of Travis County, Texas, and as both were modified by Modification Agreement dated December 27, 2000, recorded under Document No. 2000204551, Official Public Records of Travis County, Texas, and Document No. 00030106 (Volume 1754, Page 392), Official Public Records of Hays County, Texas, Second Modification Agreement dated December 18, 2001, recorded under Document No. 2001215158, Official Public Records of Travis County, Texas, and Document No. 01031701 (Volume 1924, Page 563), Official Public Records of Hays County, Texas, and Third Modification and Extension Agreement dated June 30, 2003, recorded under Document No. 2003237684, Official Public Records of Travis County, Texas, and further secured by a deed of trust lien granted in a second deed of trust dated September 22, 2003, from Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land Corp., Austin 290 Properties, Inc., Stratus 7000 West Joint Venture and Lantana Office Properties I, L.P., to Melinda Chausse, Trustee for Comerica Bank, recorded under Document No. 2003237682, Official Public Records of Travis County, Texas, a deed of trust lien granted in a subordinate deed of trust dated February 27, 2004, from Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P., Austin 290 Properties, Inc., Stratus 7000 West Joint Venture and Lantana Office Properties I, L.P., to Melinda Chausse, Trustee for Comerica Bank, recorded under Document No. 2004047013, Official Public Records of Travis County, Texas, a deed of trust lien granted in a subordinate deed of trust dated December 21, 2004, from Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P., and Austin 290 Properties, Inc., to Melinda Chausse, Trustee for Comerica Bank, recorded under Document No. 2004240490, Official Public Records of Travis County, Texas, and a deed of trust lien granted in a subordinate deed of trust dated December 21, 2004, from Escarpment Village, L.P., to Melinda Chausse, Trustee for Comerica Bank, recorded under Document No. 2004240488, Official Public Records of Travis County, Texas (collectively and as modified, the "Deed of Trust").

Comerica Bank hereby joins in this Third Amendment for the sole purpose of consenting to the Third Amendment and subordinating the Deed of Trust and all other liens it may have securing such indebtedness, to the Third Amendment and the interests of the City of Austin, and its successors and assigns, in and to the Third Amendment. The undersigned has the authority to execute this Consent and Subordination on behalf of Comerica Bank and represents, in that regard, that all corporate action has been taken by Comerica Bank to make this a binding Consent and Subordination.

COMERICA BANK,
a Michigan banking corporation, successor by
merger to Comerica Bank-Texas
By:/s/ Shery R. Layne

Shery R. Layne, Senior Vice President

THE STATE OF TEXAS §
§
COUNTY OF DALLAS §

This instrument was acknowledged before me on the 3rd day of March, 2005, by Shery R. Layne, Senior Vice President of Comerica Bank, a Michigan banking corporation, successor by merger to Comerica Bank-Texas, on behalf of said banking corporation.

/s/ Kristine K. Finn
Notary Public Signature

(seal)

PROMISSORY NOTE

FOR VALUE RECEIVED, **STRATUS LAKEWAY CENTER, L.L.C.**, a Texas limited liability company (***"Borrower"***), hereby promises to pay to the order of **PLAINSCAPITAL BANK** or registered assigns (***"Lender"***) in accordance with the provisions of the Loan Agreement (as hereinafter defined) the principal amount of each advance of the Loan from time to time made by Lender to Borrower under that certain Construction Loan Agreement dated as of September 29, 2014 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the ***"Loan Agreement;"*** the terms defined therein being used herein as therein defined), among Borrower, the Lenders from time to time party thereto, and PlainsCapital Bank, as Administrative Agent.

Borrower promises to pay interest on the unpaid principal amount of each advance of the Loan from the date of such advance until such principal amount is paid in full, at such interest rates and at such times as provided in the Loan Agreement. All payments of principal and interest shall be made to Administrative Agent for the account of Lender in Dollars in immediately available funds at Administrative Agent's Office. If any amount is not paid in full when due hereunder, such unpaid amount shall bear interest, to be paid upon demand, from the due date thereof until the date of actual payment (and before as well as after judgment) computed at the per annum rate set forth in the Loan Agreement.

This Note is one of the Notes referred to in the Loan Agreement, is entitled to the benefits thereof and may be prepaid in whole or in part subject to the terms and conditions provided therein. *This Note* is *also entitled to the benefits of the Deed of Trust and is secured by the Project and the other collateral described in the Loan Agreement*. Upon the occurrence and continuation of one or more of the Events of Default specified in the Loan Agreement, all amounts then remaining unpaid on this Note shall become, or may be declared to be, immediately due and payable all as provided in the Loan Agreement. Advances of the Loan made by Lender shall be evidenced by one or more loan accounts or records maintained by Lender in the ordinary course of business. Lender may also attach schedules to this Note and endorse thereon the date, amount and maturity of its loans and payments with respect thereto.

Borrower, for itself, its successors and assigns, hereby waives diligence, presentment, protest and demand and notice of protest, demand, dishonor, notice of intent to accelerate, notice of acceleration and non-payment of this Note.

THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

[The remainder of this page is left intentionally blank. The signature page follows.]

STRATUS LAKEWAY CENTER, L.L.C.

By: /s/ Erin D. Pickens
Erin D. Pickens

Senior Vice President

PROMISSORY NOTE

FOR VALUE RECEIVED, **STRATUS LAKEWAY CENTER, L.L.C.**, a Texas limited liability company (***"Borrower"***), hereby promises to pay to the order of **SOUTHSIDE BANK** or registered assigns (***"Lender"***) in accordance with the provisions of the Loan Agreement (as hereinafter defined) the principal amount of each advance of the Loan from time to time made by Lender to Borrower under that certain Construction Loan Agreement dated as of September 29, 2014 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the ***"Loan Agreement;"*** the terms defined therein being used herein as therein defined), among Borrower, the Lenders from time to time party thereto, and PlainsCapital Bank, as Administrative Agent.

Borrower promises to pay interest on the unpaid principal amount of each advance of the Loan from the date of such advance until such principal amount is paid in full, at such interest rates and at such times as provided in the Loan Agreement. All payments of principal and interest shall be made to Administrative Agent for the account of Lender in Dollars in immediately available funds at Administrative Agent's Office. If any amount is not paid in full when due hereunder, such unpaid amount shall bear interest, to be paid upon demand, from the due date thereof until the date of actual payment (and before as well as after judgment) computed at the per annum rate set forth in the Loan Agreement.

This Note is one of the Notes referred to in the Loan Agreement, is entitled to the benefits thereof and may be prepaid in whole or in part subject to the terms and conditions provided therein. *This Note* is *also entitled to the benefits of the Deed of Trust and is secured by the Project and the other collateral described in the Loan Agreement*. Upon the occurrence and continuation of one or more of the Events of Default specified in the Loan Agreement, all amounts then remaining unpaid on this Note shall become, or may be declared to be, immediately due and payable all as provided in the Loan Agreement. Advances of the Loan made by Lender shall be evidenced by one or more loan accounts or records maintained by Lender in the ordinary course of business. Lender may also attach schedules to this Note and endorse thereon the date, amount and maturity of its loans and payments with respect thereto.

Borrower, for itself, its successors and assigns, hereby waives diligence, presentment, protest and demand and notice of protest, demand, dishonor, notice of intent to accelerate, notice of acceleration and non-payment of this Note.

THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

[The remainder of this page is left intentionally blank. The signature page follows.]

STRATUS LAKEWAY CENTER, L.L.C.

By: /s/ Erin D. Pickens
Erin D. Pickens

Senior Vice President

CONSTRUCTION LOAN AGREEMENT

This CONSTRUCTION LOAN AGREEMENT (this "**Agreement**") is made and entered into as of the *___ day of January, 2015, by and between **BARTON CREEK TECOMA I, L.L.C.**, a Texas limited liability company ("**Borrower**"), whose address is c/o Stratus Properties Inc., 212 Lavaca Boulevard, Suite 300, Austin, Texas 78701, and **COMERICA BANK** ("**Lender**"), whose address is 300 W. Sixth Street, Suite 2250, Austin, Texas 78701, Attn: Commercial Real Estate.

ARTICLE I
DEFINITION OF TERMS

1.1 Definitions. As used in this Agreement, the following terms shall have the respective meanings indicated below:

Advance: A disbursement by Lender, whether by journal entry, deposit to Borrower's account, check to third party or otherwise of any of the proceeds of the Loan, any insurance proceeds or Borrower's Deposit.

Affidavit of Commencement: As defined in ***Section 5.13*** hereof.

Affidavit of Completion: As defined in ***Section 5.14*** hereof.

Agreement: This Construction Loan Agreement, as the same may from time to time be amended or supplemented.

Allocations: The line items set forth in the Budget for which Advances of Loan proceeds will be made.

Anti-Terrorism Laws: means any and all present and future judicial decisions, statutes, rulings, rules, regulations, permits, certificates, orders, and ordinances of any Governmental Authority relating to terrorism or money laundering, including, without limiting the generality of the foregoing, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (Pub. L. No. 107-56); the Trading with the Enemy Act (50 U.S.C.A. App. 1 et seq.); the International Emergency Economic Powers Act (50 U.S.C.A. § 1701-06); Executive Order No. 13224 on Terrorist Financing, effective September 24, 2001 (relating to "Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism") and the United States Treasury Department's Office of Foreign Assets Control list of "Specifically Designated National and Blocked Persons" (as published from time to time in various mediums, including, without limitation, at http:www.treas.gov/ofac/t11sdn.pdf).

Appraisal means a written appraisal of the Mortgaged Property (including without limitation, the Improvements) prepared in conformance with the requirements of the Comptroller of the Currency, prepared by an appraiser designated by Lender in Lender's sole discretion, and subject to review and adjustment consistent with Lender's standard practices, and approved by Lender.

Assignment of Leases: The Assignment of Rents and Leases assigning to Lender Borrower's interest in all leases entered into for the Mortgaged Property and all rents and other rights and benefits to which Borrower is entitled under the terms of such leases.

Borrower's Deposit: Such cash amounts as Lender may deem necessary for Borrower to deposit with it in accordance with the provisions of ***Section 3.4*** of this Agreement.

Budget: The budget which is set forth on **Exhibit B** attached hereto and incorporated herein by reference.

Business Day: means a weekday, Monday through Friday, except a legal holiday or a day on which banking institutions in Austin, Texas are authorized or required by law to be closed.

Charges: All fees, charges and/or other things of value, if any, contracted for, charged, received, taken or reserved by Lender in connection with the transactions relating to the Note and the other Loan Documents, which are treated as interest under applicable law.

Commencement Date: January *____, 2015.

Commitment Fee: The sum of $221,962.00 to be paid by Borrower to Lender in connection with the Loan.

Completion Date: December 31, 2016.

Construction Contract: Collectively, all contracts and agreements entered into between Borrower and Contractor pertaining to the development, construction and completion of the Improvements.

Construction Management Agreement: Collectively, all contracts and agreements entered into between Borrower (or its predecessor in interest) and Construction Manager pertaining to the development, construction and completion of the Improvements.

Construction Manager: JPB Properties Corporation, together with any other Person acceptable to Lender with whom Borrower contracts for the development, construction and completion of the Improvements or any portion thereof.

Contractor: Hinton Construction Company, Inc., together with any other Person acceptable to Lender with whom Borrower contracts for the development, construction and completion of the Improvements or any portion thereof.

Debt Service: - The product of (i) the constant monthly payment amount (i.e., payment including both principal and interest) sufficient to fully amortize (using mortgage amortization) the outstanding principal balance of the Loan plus any amounts remaining to be funded under the Loan at the time of determination in equal installments over a thirty (30) year period using an annual interest rate equal to the greatest of (a) the interest rate then in effect under the Note, (b) the then current 10-year U.S. Treasury Rate plus two percent (2.0%), or (c) six and one-half percent (6.5%), multiplied by (ii) twelve (12).

Debt Service Coverage Ratio: - A ratio, as determined by Lender, the first number of which is the Net Operating Income for the trailing three (3) month period as of the date of determination of the Debt Service Coverage Ratio and annualized, and the second of which is Debt Service.

Debt Yield Ratio: - The ratio expressed as a percentage, of (a) Net Operating Income as determined by Lender as of the applicable Determination Date, to (b) the outstanding balance of the Loan as of such Determination Date.

Deed of Trust: The Deed of Trust, Security Agreement and Fixture Filing dated of even date herewith pursuant to which Borrower grants a lien and security interest in and to the Mortgaged Property for the benefit of Lender to secure the Loan.

Design Professional: Stephen L. Gele Architect, Inc. and LJA Engineering, Inc., together with any other Person acceptable to Lender with whom Borrower contracts for the providing of planning, design, architectural, engineering or other similar services relating to the Improvements.

Design Services Contract: Collectively, all contracts and agreements entered into between Borrower and each Design Professional pertaining to the design, development and construction of the Improvements.

Determination Date:- The date the Debt Service Coverage Ratio is calculated for purposes of this Agreement and the other Loan Documents, and for the purposes of determining whether Borrower satisfies the conditions to an Extension Period, the Determination Date shall be the last day of the most recent calendar month ending at least thirty (30) days prior to the commencement of the Extension Period in question.

Disposition: Any sale, lease (except as expressly permitted pursuant to the Loan Documents), exchange, assignment, conveyance, transfer, trade, or other disposition of all or any portion of the Mortgaged Property (or any interest therein) or all or any part, directly or indirectly, of the beneficial ownership interest in Borrower (if Borrower is a corporation, limited liability company, partnership, general partnership, limited partnership, joint venture, trust, or other type of business association or legal entity); provided, however, a sale of the publicly traded stock of Stratus Properties Inc. shall not constitute a Disposition under the terms of this Agreement.

Draw Request: A request by Borrower to Lender for an Advance in such form and containing such information as Lender may reasonably require.

Environmental Indemnity Agreement: That certain Environmental Indemnity Agreement of even date herewith by Borrower and Guarantor, collectively as Indemnitor, in favor of Lender.

Environmental Law: Any federal, state, or local law, statute, ordinance, or regulation, whether now or hereafter in effect, pertaining to health, industrial hygiene, or the environmental conditions on, under, or about the Land or Improvements, including the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 ("**CERCLA**"), 42 U.S.C. § 9601 et seq.; Resource, Conservation and Recovery Act ("**RCRA**"), 42 U.S.C. § 6901 et seq.

as amended by the Superfund Amendments and Reauthorization Act of 1986 ("**SARA**"), Pub. L. 99-499, 100 Stat. 1613; the Toxic Substances Control Act, 15 U.S.C. § 2601 et seq.; Emergency Planning and Community Right to Know Act of 1986, 42 U.S.C. § 1101 et seq.; Clean Water Act ("**CWA**"), 33 U.S.C. § 1251 et seq.; Clean Air Act ("**CAA**"), 42 U.S.C. § 7401 et seq.; Federal Water Pollution Control Act ("**FWPCA**"), 33 U.S.C. § 1251 et seq.; and any corresponding state laws or ordinances including the Texas Water Code ("**TWC**") § 26.001 et seq.; Texas Health & Safety Code ("**THSC**") § 361.001 et seq.; Texas Solid Waste Disposal Act, Tex. Rev. Civ. Stat. Ann. art. 4477-7; and regulations, rules, guidelines, or standards promulgated pursuant to such laws, statutes and regulations.

Event of Default: Any happening or occurrence described in ***Section 7.1*** of this Agreement.

Extension Fee means cash in an amount equal to one-fourth of one percent (.25%) of the then outstanding principal balance of the Loan.

Extension Period: Means the First Extension Period or the Second Extension Period, as the case may be.

Financing Statement: The financing statement or financing statements (on Standard Form UCC-1 or otherwise) covering Borrower's personal property, as debtor, and naming Lender, as secured party, in connection with the Loan Documents.

First Extended Maturity Date: January *___, 2019.

First Extension Period means a single period of one (1) year commencing on the first (1st) day after the Initial Maturity Date.

Governmental Authority: Any and all courts, boards, agencies, commissions, offices, or authorities of any nature whatsoever for any governmental unit (federal, state, county, district, municipal, city or otherwise), whether now or hereafter in existence.

Governmental Requirements: All present and future statutes, laws, ordinances, rules, regulations, orders, writs, injunctions or decrees of any Governmental Authority applicable to Borrower, Guarantor or the Mortgaged Property.

Guarantor: Stratus Properties Inc., a Delaware corporation.

Guaranty: That or those instruments of guaranty now or hereafter in effect from Guarantor to Lender guaranteeing the repayment of all or any part of the Loan, the satisfaction of, or continued compliance with, the covenants contained in the Loan Documents, or both.

Hazardous Substance: Any substance, product, waste, or other material which is or becomes listed, regulated, or addressed as being a toxic, hazardous, polluting, or similarly harmful substance under any Environmental Law, including without limitation: (i) any substance included within the definition of "hazardous waste" pursuant to Section 1004 of RCRA; (ii) any substance included within the definition of "hazardous substance" pursuant to Section 101 of CERCLA; (iii) any substance included within (a) the definition of "regulated

substance" pursuant to Section 26.342(11) of TWC; or (b) the definition of "hazardous substance" pursuant to Section 361.003(11) of THSC; (iv) asbestos; (v) polychlorinated biphenyls; (vi) petroleum products; (vii) underground storage tanks, whether empty, filled or partially filled with any substance; (viii) any radioactive materials, urea formaldehyde foam insulation or radon; (ix) any substance included within the definition of "waste" pursuant to Section 30.003(b) of TWC or "pollutant" pursuant to Section 26.001(13) of TWC; and (x) any other chemical, material or substance, the exposure to which is prohibited, limited or regulated by any Governmental Authority on the basis that such chemical, material or substance is toxic, hazardous or harmful to human health or the environment.

Improvements: A 236-unit garden-style multifamily residential development, together with all other amenities, to be constructed on the Land, all as more particularly described in the Plans and Specifications.

Indebtedness: As defined in the Deed of Trust.

Initial Advance: The first Advance to be made at the time Borrower satisfies the conditions set forth in ***Sections 3.1*** and ***3.2*** of this Agreement.

Initial Maturity Date means the date that is thirty-six (36) months from the date of this Agreement, being January *___, 2018.

Inspecting Person: A representative of CD Construction Consulting or another inspecting architect engaged by Lender who will, from time to time, inspect the Improvements for the benefit of Lender.

Land: The real property or interest therein described in **Exhibit A** attached hereto and incorporated herein by this reference upon which the Improvements are to be constructed.

Loan: The loan evidenced by the Note and governed by this Agreement.

Loan Amount: Up to a maximum amount of THIRTY-FOUR MILLION ONE HUNDRED FORTY-EIGHT THOUSAND AND NO/100 DOLLARS ($34,148,000.00).

Loan Documents: The Note, the Deed of Trust, this Agreement, the Financing Statement, the Guaranty, the Assignment of Leases, the Environmental Indemnity Agreement and any and all other documents now or hereafter executed by the Borrower, Guarantor, or any other Person in connection with the Loan, the indebtedness evidenced by the Note, or the covenants contained in this Agreement.

Loan Party: Borrower, Guarantor and any other Person obligated for the payment and performance of any of the Indebtedness and/or Obligations.

Management Agreement means the written agreement between Borrower and Manager pursuant to which Manager shall manage the Mortgaged Property and which shall be subject to the prior approval of Lender.

Manager means the initial property manager selected by Borrower and approved by Lender, together with any other Person with whom Borrower contracts for the management of the Mortgaged Property.

Material Adverse Effect: Any material and adverse effect on (i) the business condition (financial or otherwise), operations, prospects, results of operations, capitalization, liquidity or any properties of the Borrower or Guarantor, taken as a whole, (ii) the value of the Mortgaged Property, (iii) the ability of Borrower or any Guarantor (or if the Borrower or any Guarantor is a partnership, joint venture, trust or other type of business association, of any of the parties comprising Borrower or such Guarantor) to pay and perform the Indebtedness or any other Obligations, or (iv) the validity, enforceability or binding effect of any of the Loan Documents.

Maturity Date means the Initial Maturity Date, as may be extended to the First Extended Maturity Date and the Second Extended Maturity Date pursuant to the First Extension Period and/or the Second Extension Period, respectively, on the terms and conditions set forth in ***Sections 2.8*** and ***2.9*** hereof, subject, however, to the right of acceleration as herein provided and as provided elsewhere in the Loan Documents.

Maximum Lawful Rate: The maximum lawful rate of interest which may be contracted for, charged, taken, received or reserved by Lender in accordance with the applicable laws of the State of Texas (or applicable United States federal law to the extent that it permits Beneficiary to contract for, charge, take, receive or reserve a greater amount of interest than under Texas law), taking into account all Charges (as herein defined) made in connection with the transaction evidenced by the Note and the other Loan Documents. To the extent that Lender is relying on Chapter 303 of the Texas Finance Code to determine the Maximum Lawful Rate payable on the Note and/or any other portion of the Indebtedness, Lender will utilize the weekly ceiling from time to time in effect as provided in such Chapter 303. To the extent United States federal law permits Lender to contract for, charge, take, receive or reserve a greater amount of interest than under Texas law, Lender will rely on United States federal law instead of such Chapter 303 for the purpose of determining the Maximum Lawful Rate. Additionally, to the extent permitted by applicable law now or hereafter in effect, Lender may, at its option and from time to time, utilize any other method of establishing the Maximum Lawful Rate under such Chapter 303 or under other applicable law by giving notice, if required, to Borrower as provided by applicable law.

Monthly Principal Installment: As defined in ***Section 2.8*** of this Agreement.

Mortgaged Property: Collectively, the Land, the Improvements, and all other collateral covered by the Loan Documents.

Net Operating Income: means, as of any Determination Date, for the applicable period, the Operating Revenues actually received by Borrower from the operation of the Mortgaged Property for the period in question, less Operating Expenses incurred with respect to the Mortgaged Property for such period. Documentation of Net Operating Income shall be certified by an officer of Borrower with detail reasonably satisfactory to Lender and shall be subject to the approval of Lender, which approval shall not be unreasonably withheld.

Note: The Promissory Note dated as of even date herewith in the principal sum of the Loan Amount (together with all renewals and extensions thereof) executed and delivered by Borrower payable to the order of Lender, evidencing the Loan.

Obligations: Any and all of the covenants, conditions, warranties, representations, and other obligations (other than to repay the Indebtedness) made or undertaken by Borrower, Guarantor, or any other Person a party to the Loan Documents to Lender, the trustee of the Deed of Trust, or others as set forth in the Loan Documents, and in any deed, lease, sublease, or other form of conveyance, or any other agreement pursuant to which Borrower is granted a possessory interest in the Land.

Operating Expenses: - means, as of any Determination Date, the greater of (i) pro forma expenses for the Mortgaged Property as assumed in the Appraisal obtained by Lender in connection with making the Loan and (ii) for the prior three (3) month period immediately prior to the Determination Date, which sum shall then be annualized, all actual operating expenses of the Mortgaged Property for the period in question, including, without limitation, (a) ad valorem real estate taxes and assessments (on an accrual basis, based on the best information then available and approved by Lender); (b) insurance premiums (on an accrual basis, based on the best information then available and approved by Lender); and (c) operating expenses actually incurred by Borrower for the management, operation, cleaning, marketing, maintenance and repair of the Mortgaged Property, including (1) the greater of actual management fees or an assumed annual management fee of four percent (4.0%) of Operating Revenues, and (2) a replacement reserve equal to the greater of (x) actual reserves, or (y) $250 per unit. Operating Expenses for this purpose shall exclude (1) any capital expenditures; (2) any payment or expense to which the Borrower was or is to be reimbursed for costs from proceeds of the Loan, insurance, eminent domain, or any source other than Operating Revenues and (3) and any regularly scheduled payments of principal or interest due and owing under the Loan Documents. Operating Expenses shall not include any non-cash expense item such as depreciation or amortization, as such terms are used for accounting or federal income tax purposes.

Operating Revenues: - means, as of any Determination Date, for the prior three (3) month period immediately prior to the Determination Date, which sum shall then be annualized, the recurring gross income actually received by Borrower from the operation of the Mortgaged Property for the period in question, net of any concessions and further excluding (1) security deposits until and unless forfeited by the depositor; (2) any payment to Borrower from the proceeds of the Loan, insurance (other than proceeds of business interruption insurance, which shall be included to the extent such business interruption insurance proceeds are actually received by Borrower) or any other source other than Operating Revenues for reimbursement of costs; (3) advances or loans to Borrower from any partners of Borrower; and (4) other non-recurring income.

Partial Release has the meaning set forth in ***Section 2.10*** of this Agreement.

Patriot Act: means the USA Patriot Act Title III of Pub. L. 107-56 (signed into law October 26, 2001), as amended.

Person: means any individual, corporation, partnership (general or limited), joint venture, limited liability company, association, trust, unincorporated association, joint stock company, government, municipality, political subdivision, agency, or other entity.

Plans and Specifications: The plans and specifications for the development and construction of the Improvements, prepared by Borrower or the Design Professional and approved by Lender as required herein, by all applicable Governmental Authorities, by any party to a purchase or construction contract with a right of approval, all amendments and modifications thereof approved in writing by the same, and all other design, engineering or architectural work, test reports, surveys, shop drawings, and related items.

Second Extended Maturity Date means January *___, 2020.

Second Extension Period means a single period of one (1) year commencing on first day immediately following the First Extension Maturity Date.

Soft Costs: All architectural, engineering, interior and landscape design, legal, consulting and other related fees, taxes on land and improvements, bond and insurance costs, and commitment fees, interest and other financing charges, all as set forth in the Budget.

Special Account: An account established by Borrower with Lender (in which Borrower shall at all times maintain a minimum balance of $1,000.00) into which all Advances made directly to Borrower will be deposited.

Subordinate Mortgage: Any mortgage, deed of trust, pledge, lien (statutory, constitutional, or contractual), security interest, encumbrance or charge, or conditional sale or other title retention agreement, covering all or any portion of the Mortgaged Property executed and delivered by Borrower, the lien of which is subordinate and inferior to the lien of the Deed of Trust.

Title Insurance: A Loan Policy of Title Insurance issued by the Title Company, on a coinsurance or reinsurance basis (with direct access endorsement or rights) if and as required by Lender, in the maximum amount of the Loan insuring or committing to insure that the Deed of Trust constitutes a valid first lien covering the Land and the Improvements, subject only to those exceptions which Lender may approve.

Title Company: The Title Company (and its issuing agent, if applicable) issuing the Title Insurance, which shall be acceptable to Lender in its sole and absolute discretion.

Treasury Rate: means the latest Treasury Constant Maturity Series yields reported, for the latest day for which such yields shall have been so reported as of the applicable Business Day, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to ten (10) years. Such implied yield shall be determined, if necessary, by (i) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice, and (ii) interpolating linearly between reported yields.

ARTICLE II

THE LOAN

2.1 Agreement to Lend. Lender hereby agrees to lend up to but not in excess of the Loan Amount to Borrower, and Borrower hereby agrees to borrow such sum from Lender, all upon and subject to the terms and provisions of this Agreement, such sum to be evidenced by the Note. No principal amount repaid by Borrower may be reborrowed by Borrower. Borrower's liability for repayment of the interest on account of the Loan shall be limited to and calculated with respect to Loan proceeds actually disbursed to Borrower pursuant to the terms of this Agreement and the Note and only from the date or dates of such disbursements. After notice to Borrower, Lender may, in Lender's sole discretion, disburse Loan proceeds by journal entry to pay interest and financing costs and, following an uncured Event of Default, disburse Loan proceeds directly to third parties to pay costs or expenses required to be paid by Borrower pursuant to this Agreement. Loan proceeds disbursed by Lender by journal entry to pay interest or financing costs, and Loan proceeds disbursed directly by Lender to pay costs or expenses required to be paid by Borrower pursuant to this Agreement, shall constitute Advances to Borrower.

2.2 Advances. The purposes for which Loan proceeds are allocated and the respective amounts of such Allocations are set forth in the Budget, which Advances shall be limited to the value of the work in place as determined by the Inspecting Person.

2.3 Allocations. The Allocations shall be disbursed only for the purposes set forth in the Budget. Lender shall not be obligated to make an Advance for an Allocation set forth in the Budget to the extent that the amount of the Advance for such Allocation would, when added to all prior Advances for such Allocation, exceed the total of such Allocation as set forth in the Budget.

2.4 Limitation on Advances. To the extent that Loan proceeds disbursed by Lender pursuant to the Allocations are insufficient to pay all costs required for the acquisition, development, construction and completion of the Mortgaged Property, or to the extent that Loan proceeds available to be disbursed by Lender pursuant to the Allocations are insufficient to pay all remaining costs required for the completion of the Mortgaged Property, Borrower shall pay such excess costs with funds derived from sources other than the Loan prior to any further Advances of the Loan.

2.5 Reallocations. Lender reserves the right, at its option, to disburse Loan proceeds allocated to any of the Allocations for such other purposes or in such different proportions as Lender may, in its sole discretion, deem necessary or advisable. Borrower shall not be entitled to require that Lender reallocate funds among the Allocations.

2.6 Contingency Allocations. Any amount allocated in the Budget for "contingencies" or other non-specific purposes may, in the Lender's discretion after request by Borrower, or upon Lender's own election at any time during the existence of an Event of Default, be disbursed by Lender to pay future contingent costs and expenses of constructing, maintaining, leasing and promoting the Mortgaged Property and such other costs or expenses as Lender shall approve. Under no circumstances shall the Borrower have the right to require

Lender to disburse any amounts so allocated and Lender may impose such requirements and conditions as it deems prudent and necessary should it elect to disburse all or any portion of the amounts so allocated.

2.7 Withholding. Lender may withhold from an Advance or, on account of subsequently discovered evidence, withhold from a later Advance under this Agreement or require Borrower to repay to Lender the whole or any part of any earlier Advance to such extent as may be necessary to protect the Lender from loss on account of (i) defective work not remedied or requirements of this Agreement not performed, (ii) liens filed or reasonable evidence indicating probable filing of liens which are not bonded, (iii) failure of Borrower to make payments to the Contractor for material or labor, except as is permitted by the Construction Contract, or (iv) a reasonable doubt that the construction of the Improvements can be completed for the balance of the Loan Amount then undisbursed. When all such grounds are removed, payment shall be made of any amount so withheld because of them.

2.8 First Extension Period. Provided the following conditions precedent shall have been satisfied, then Borrower shall be entitled (the "First Extension Option") to extend the Initial Maturity Date to the First Extended Maturity Date, subject to the satisfaction of the terms and conditions set forth in this Section. The First Extension Option shall be granted to Borrower only if all of the following conditions have been simultaneously satisfied in each instance:

a. Written notice of such extension shall be given by Borrower to Lender no sooner than ninety (90) days prior to the Initial Maturity Date and not later than thirty (30) days prior to the Initial Maturity Date; and, with such notice, Borrower shall pay to the Lender, the Extension Fee;

b. The Improvements shall have been completed in substantial accordance with the Plans and Specifications and within the Budget, and a final certificate of occupancy shall have been issued for the Improvements;

c. No Event of Default, or any event, circumstance or action of which the Borrower is aware (by notice from Lender or otherwise) and with the passage of time or failure to cure would give rise to an Event of Default, has occurred and is then existing as of the Initial Maturity Date;

d. No event, claim, liability or circumstance shall have occurred which, in the Lender's reasonable determination, could be expected to have or have had a Material Adverse Effect as of the Initial Maturity Date;

e. Written evidence shall be provided by Borrower and such evidence shall be reasonably satisfactory to the Lender indicating that the Debt Service Coverage Ratio then equals or exceeds 1.10:1.0 (calculated on the Determination Date immediately preceding the commencement of the First Extension Period); provided, Borrower shall have the right to prepay on or before the Initial Maturity Date, without premium, penalty or fee (other than any LIBOR Costs [as defined in the Note] actually incurred by Lender), the outstanding principal of the Loan in an amount sufficient to satisfy this condition, after giving effect to such prepayment;

f. Lender shall have received a new Appraisal or an updated Appraisal of the Mortgaged Property, at Borrower's expense, dated within ninety (90) days of the Initial Maturity Date, prepared by an appraiser acceptable to Lender and based upon such standards as Lender may require, which Appraisal shall confirm that the fair market value of the Mortgaged Property on an "as is" basis is not less than the value of the Mortgaged Property set forth in the Appraisal of the Mortgaged Property accepted by Lender in connection with the closing of the Loan.

During the Extension Periods, no further Advances will be available from the Loan and the Loan Documents will be deemed to be automatically modified to reduce the total committed and available amount of the Loan from its original amount to the outstanding principal amount of the Loan as of the commencement of the First Extension Period. In addition, commencing on the first (1st) day of the first month after the commencement of the First Extension Period and continuing on the first (1st) day of each month thereafter until the First Extended Maturity Date, Borrower shall pay a monthly payment of principal (each a "**Monthly Principal Installment**") in an amount equal to 1/24th of the total principal which would be payable during the first twenty-four (24) months of a 30 year mortgage-style amortization of the then outstanding principal balance of the Loan based on an interest rate of six and one-half percent (6.5%) per annum, which installments of principal shall be due and payable in addition to accrued interest due and payable under the Note on each such date.

2.9 Second Extension Period. Provided the following conditions precedent shall have been satisfied, then Borrower shall be entitled (the "Second Extension Option") to extend the First Extended Maturity Date to the Second Extended Maturity Date, subject to the satisfaction of the terms and conditions set forth in this Section. The Second Extension Option shall be granted to Borrower only if all of the following conditions have been simultaneously satisfied in each instance:

a. Borrower exercised the First Extension Option;

b. Written notice of such extension shall be given by Borrower to Lender no sooner than ninety (90) days prior to the First Extended Maturity Date and not later than thirty (30) days prior to the First Extended Maturity Date; and, with such notice, Borrower shall pay to the Lender, the Extension Fee (such Extension Fee being in addition to the Extension Fee paid in conjunction with Borrower's exercise of the First Extension Option);

c. The Improvements shall have been completed in substantial accordance with the Plans and Specifications and within the Budget, and a final certificate of occupancy shall have been issued for all of the apartment units which are a part of the Improvements;

d. No Event of Default, or any event, circumstance or action of which the Borrower is aware (by notice from Lender or otherwise) and with the passage of time or failure to cure would give rise to an Event of Default, has occurred and is then existing as of the First Extended Maturity Date;

e. No event, claim, liability or circumstance shall have occurred which, in the Lender's determination, could be expected to have or have had a Material Adverse Effect as of the First Extended Maturity Date;

f. Written evidence shall be provided by Borrower and such evidence shall be reasonably satisfactory to the Lender indicating that the Debt Service Coverage Ratio then equals or exceeds 1.20:1.0 (calculated on the Determination Date immediately preceding the commencement of the Second Extension Period); provided, Borrower shall have the right to prepay on or before the First Extended Maturity Date, without premium, penalty or fee (other than any LIBOR Costs actually incurred by Lender), the outstanding principal of the Loan in an amount sufficient to satisfy this condition, after giving effect to such prepayment;

g. Lender shall have received a new Appraisal or an updated Appraisal of the Mortgaged Property, at Borrower's expense, dated within ninety (90) days of the First Extended Maturity Date, prepared by an appraiser acceptable to Lender and based upon such standards as Lender may require, which Appraisal shall confirm that the fair market value of the Mortgaged Property on an "as is" basis is not less than the value of the Mortgaged Property set forth in the Appraisal of the Mortgaged Property accepted by Lender in connection with the closing of the Loan.

Borrower shall continue to pay a monthly payment of principal equal to the Monthly Principal Installment on the first (1st) day of each month during the Second Extension Period, which installments of principal shall be due and payable in addition to accrued interest due and payable under the Note on each such date.

2.10 Partial Release. Borrower may obtain, for no consideration or payment of any kind to Lender, other than reimbursement of Lender's actual out-of-pocket costs and expenses, including, without limitation, reasonable third-party attorney's fees and legal expenses, incurred by Lender in connection with the Partial Release, a release of a portion of the Land from the Deed of Trust (the "Partial Release"), consisting of approximately 4.322 acres on which the wastewater treatment facilities have been constructed, which parcel of land is generally depicted and more particularly described in **Exhibit F** attached hereto, the legal description of which shall be acceptable to Lender and verified by a proposed replat of the Land (the "**Plat**") reasonably acceptable to Lender (the "**Release Parcel**"), upon satisfaction of the following conditions:

a. Lender's receipt of a copy of a recorded Plat filed of record in the Real Property Records of Travis County, Texas.

b. At least ten (10) days prior to the date of such Partial Release, Borrower shall deliver to Lender at Borrower's expense the form of the Partial Release to be executed by Lender (which form of Partial Release must be reasonably satisfactory to Lender in form and substance); and prior to or contemporaneously with the execution and delivery of the Partial Release, Borrower shall, at its sole cost and expense, obtain and deliver to Lender a T-38 endorsement to the Title Insurance, reasonably acceptable to Lender.

c. With respect to any portion of the Land not released (the "Unreleased Land"), the Partial Release shall not result in leaving any of the Unreleased Land without access to utilities or access to any public roads or right-of-way, and Lender shall be reasonably satisfied that there is adequate ingress, egress and utility service to and from the Unreleased Land and dedicated public roads or rights-of-way, and adequate detention facilities (if required by any Governmental Authority) on the Unreleased Land (or perpetual, non-terminable and insurable rights of ingress, egress, utility service and detention facilities, if required by any Governmental Authority for the benefit of the Unreleased Land), such that the remaining Unreleased Land is a separate, economically viable project and otherwise complies (and will comply after the Partial Release) with all Governmental Requirements.

d. Contemporaneously with the Partial Release, the Release Parcel shall be conveyed by Borrower to Travis County Municipal Utility District No. 4, and shall be restricted to use for only the waste water treatment facilities for the Mortgaged Property and other property served by such facilities.

e. Upon the recording of the Partial Release, Borrower shall, use good faith, diligent efforts to cause the Release Parcel to constitute a separate tax lot with a separate tax assessment, independent of the Unreleased Land, and shall in any event complete the foregoing no later than December 31, 2015.

ARTICLE III
ADVANCES

3.1 Conditions to Initial Advance. The obligation of Lender to make the Initial Advance hereunder and the first Advance after the closing of the Loan is subject to the prior or simultaneous occurrence of each of the following conditions:

a. Lender shall have received from Borrower all of the Loan Documents duly executed by Borrower and, if applicable, by Guarantor.

b. Lender shall have received certified copies of resolutions of each Loan Party, if such Loan Party is a corporation or limited liability company, or a certified copy of a consent of partners, if such Loan Party is a partnership, authorizing execution, delivery and performance of all of the Loan Documents and authorizing the borrowing hereunder and any guaranties executed in connection with the Loan, along with such certificates of existence, certificates of good standing and other certificates or documents as Lender may reasonably require to evidence such Loan Party's authority.

c. Lender shall have received true copies of all organization documents of each Loan Party, including all amendments or supplements thereto, along with such certificates or other documents as Lender may reasonably require to evidence such Loan Party's authority.

d. Lender shall have received evidence that the Mortgaged Property is not located within any designated flood plain or special flood hazard area; or evidence that

Borrower has applied for and received flood insurance covering the Mortgaged Property in the amount of the Loan or the maximum coverage available to Lender.

e. Lender shall have received evidence of compliance with all Governmental Requirements.

f. Lender shall have received a full-size, single sheet copy of all recorded subdivision or plat maps of the Land approved (to the extent required by Governmental Requirements) by all Governmental Authorities, if applicable, and legible copies of all instruments representing exceptions to the state of title to the Mortgaged Property.

g. Lender shall have received policies of all-risk builder's risk insurance (non-reporting form) for the construction of the Improvements, owner's and contractor's liability insurance, workers' compensation insurance, and such other insurance as Lender may reasonably require, with standard endorsements attached naming Lender as the insured mortgagee or additional insured, whichever is applicable, such policies to be in form and content and issued by companies reasonably satisfactory to Lender, with copies, or certificates thereof, being delivered to Lender.

h. Lender shall have received the Title Insurance, at the sole expense of Borrower.

i. Lender shall have received from Borrower such other instruments, evidence and certificates as Lender may reasonably require, including the items indicated below:

i. Evidence that all the streets furnishing access to the Mortgaged Property have been or will be completed and dedicated to public use and accepted by applicable Governmental Authorities.

ii. A current survey of the Land prepared by a registered surveyor or engineer and certified to Lender, Borrower and the Title Company, in form and substance reasonably acceptable to Lender, showing all easements, building or setback lines, rights-of-way and dedications affecting said land and showing no state of facts objectionable to Lender.

iii. Evidence reasonably satisfactory to Lender showing the availability of all necessary utilities at the boundary lines of the Land (except as disclosed to Lender, and provided that in any event the Plans and Specifications provide that all such utilities will be available to the Land upon construction of the improvements contemplated thereby), including sanitary and storm sewer facilities, potable water, telephone, electricity, gas, and municipal services.

iv. Evidence that the current and proposed use of the Mortgaged Property and the construction of the Improvements complies with all Governmental Requirements.

v. An opinion of counsel for Borrower, which counsel shall be

satisfactory to Lender, to the effect that (i) Borrower possesses full power and authority to own the Mortgaged Property, to construct the Improvements and to perform Borrower's obligations hereunder, and Guarantor has full power and authority to perform Guarantor's obligations under the Guaranty and Environmental indemnity Agreement; (ii) the Loan Documents have been duly authorized, executed and delivered by Borrower and, where required, by Guarantor, and constitute the valid and binding obligations of Borrower and Guarantor, not subject to any defense based upon usury, capacity of Borrower or otherwise; (iii) the Loan Documents are enforceable in accordance with their respective terms, except as limited by bankruptcy, insolvency and other laws affecting creditors' rights generally, and except that certain remedial provisions thereof may be limited by the laws of the State of Texas; (iv) to the knowledge of such counsel, there are no actions, suits or proceedings pending or threatened against or affecting Borrower, Guarantor or the Mortgaged Property, or involving the priority, validity or enforceability of the liens or security interests arising out of the Loan Documents, at law or in equity, or before or by any Governmental Authority, except actions, suits or proceedings fully covered by insurance or which, if adversely determined, would not substantially impair the ability of Borrower or Guarantor to pay when due any amounts which may become payable in respect to the Loan as represented by the Note; (v) to the knowledge of such counsel, neither Borrower nor Guarantor is in default with respect to any order, writ, injunction, decree or demand of any court or any Governmental Authority of which such counsel has knowledge; (vi) to the knowledge of such counsel, the consummation of the transactions hereby contemplated and the performance of this Agreement and the execution and delivery of the Guaranty will not violate or contravene any provision of any instrument creating or governing the business operations of Borrower or Guarantor and will not result in any breach of, or constitute a default under, any mortgage, deed of trust, lease, bank loan or credit agreement or other instrument to which Borrower or any Guarantor is a party or by which Borrower, Guarantor or the Mortgaged Property may be bound or affected; and (vii) such other matters as Lender may reasonably request.

vi. A cost breakdown satisfactory to Lender showing the total costs, including, but not limited to, such related nonconstruction items as interest during construction, commitment, legal, design professional and real estate agents' fees, plus the amount of the Land cost and direct construction costs required to be paid to satisfactorily complete the Improvements, free and clear of liens or claims for liens for material supplied and for labor services performed.

vii. Original or a copy of each Construction Contract for any Improvements then under construction.

viii. Original or a copy of each Construction Management Agreement for any Improvements then under construction.

ix. Original or a copy of each fully executed Design Services Contract for any Improvements then under construction.

x. Waiver of lien or lien subordination agreement(s) for the prior month's Draw Request executed by each Contractor and by each contractor, laborer and suppliers furnishing labor or materials to the Mortgaged Property, in a form acceptable to Lender, together with Borrower's affidavit to Lender that all changes and expenses incurred to date for the Mortgaged Property have been paid in full.

xi. A copy of the Plans and Specifications for the Improvements then under construction.

xii. Site Development Permit(s), Building permit(s) (if applicable), grading permit(s) (if applicable) and all other permits required with respect to the construction of the Improvements prior to construction of work requiring the same; accordingly, it is not a requirement for an Advance to have a permit that is not then required for the construction of Improvements then in progress.

xiii. Evidence that all zoning ordinances (if applicable) and all restrictive covenants affecting the Land permit the use for which the Improvements are intended and have been or will be complied with.

xiv. Evidence of payment of required sums for insurance, taxes, expenses, charges and fees customarily required or recommended by Lender or any Governmental Authority, corporation, or person guaranteeing, insuring or purchasing, committing to guaranty, insure, purchase or refinance the Loan or any portion thereof.

xv. A current financial statement of Guarantor certified by said Guarantor.

xvi. A Guaranty and Environmental Indemnity Agreement executed by Guarantor.

xvii. A schedule of construction progress for the Improvements with the anticipated date and amounts of each Advance for the same.

xviii. Copies of all agreements entered into by Borrower or its operating partner pertaining to the development, construction and completion of the Improvements or pertaining to materials to be used in connection therewith, together with a schedule of anticipated dates and amounts of each Advance for the same.

xix. Environmental site assessment report with respect to the Mortgaged Property prepared by a firm of engineers approved by Lender, which report shall be satisfactory in form and substance to Lender, certifying that there is no evidence that any Hazardous Substance have been generated, treated, stored or disposed of on any of the Mortgaged Property and none exists on, under or at the Mortgaged Property.

xx. A soils and geological report covering the Land issued by a laboratory approved by Lender, which report shall be satisfactory in form and substance to Lender, and shall include a summary of soils test borings.

xxi. Such other instruments, evidence or certificates as Lender may reasonably request.

j. Lender shall have ordered and received, at Borrower's expense, an Appraisal of the Mortgaged Property, prepared by an appraiser acceptable to Lender and presented and based upon such standards as may be required by Lender.

k. Lender shall have received payment of the Commitment Fee.

l. Borrower shall have furnished evidence to Lender that it has contributed cash equity and/or the Land (at a value as shown on the Budget ($7,466,033)) of an amount of not less than $9,986,102.00 in the aggregate, which amount shall be used to pay for project costs in accordance with the Budget.

3.2 Conditions to Advances. The obligation of Lender to make each Advance hereunder, including the Initial Advance, shall be subject to the prior or simultaneous occurrence or satisfaction of each of the following conditions:

a. The conditions to the Initial Advance shall have been satisfied.

b. No Event of Default shall have occurred and then be continuing under this Agreement or any of the other Loan Documents.

c. The Loan Documents shall be and remain outstanding and enforceable in accordance with their terms, all as required hereunder.

d. Lender shall have received a title report dated within two (2) days of the requested Advance from the Title Company showing no state of facts objectionable to Lender, including, but not limited to, a showing that title to the Land is vested in Borrower and that no claim for mechanics' or materialmen's liens has been filed against the Mortgaged Property, and Lender shall receive a down date endorsement to the Title Insurance in connection with such Advance confirming same.

e. A monthly construction status report for the Improvements shall be prepared and submitted by Borrower to Lender on or before the tenth (10th) day of each month, commencing upon commencement of construction of the Improvements and continuing for each month thereafter until completion of the Improvements.

f. Completion of any inspections required by Lender with respect to any work performed since the date of the last Advance.

g. The representations and warranties made by Borrower, as contained in this Agreement and in all other Loan Documents shall be true and correct in all material

respects as of the date of each Advance; and if requested by Lender, Borrower shall give to Lender a certificate to that effect.

h. The covenants made by Borrower to Lender, as contained in this Agreement and in all other Loan Documents shall have been fully complied with, except to the extent such compliance may be limited by the passage of time or the completion of construction of the Improvements.

i. Lender shall have received (i) a fully executed copy of each Construction Contract then in effect or copy thereof; (ii) a report of any changes, replacements, substitutions, additions or other modification in the list of contractors, subcontractors and materialmen involved or expected to be involved in the construction of the Improvements; and (iii) all permits required under ***Section 3.1(i)(12)*** above for Improvements then under construction.

j. Except in connection with the Initial Advance, Lender shall have received from Borrower a Draw Request for such Advance, completed, executed and sworn to by Borrower and Contractor, with the Inspecting Person's approval noted thereon, stating that the requested amount does not exceed the difference of one hundred percent (100%) of the then unpaid cost of construction of the Improvements since the last certificate furnished hereunder less Retainage required hereunder for such requested amount; that said construction was performed in substantial accordance with the Plans and Specifications; and that, in the opinion of Borrower, the applicable Contractor and the applicable Design Professional, construction of the Improvements can be completed on or before the Completion Date for an additional cost not in excess of the amount then available under the Loan. To the extent approved by Lender and included in the Budget, such expenses will be paid from the proceeds of the Loan.

k. Except in connection with the Initial Advance, Borrower shall have furnished to Lender, from each contractor, subcontractor and materialman, including each Contractor, an invoice, lien waiver (on the statutory form) and such other instruments and documents as Lender may from time to time specify, in form and content, and containing such certifications, approvals and other data and information, as Lender may reasonably require. The invoice, lien waiver and other documents shall cover and be based upon work actually completed or materials actually furnished and paid under a prior application for payment. The lien waiver for the prior month's draws of each contractor, subcontractor and materialman shall, if required by Lender, be received by Lender simultaneously with the making of any Advance hereunder for the benefit of such contractor, subcontractor or materialman.

l. There shall exist no default or breach by any obligated party (other than Lender) under the Loan Documents.

m. The Improvements shall not have been materially injured, damaged or destroyed by fire or other casualty, nor shall any part of the Mortgaged Property be subject to condemnation proceedings or negotiations for sale in lieu thereof.

n. All work typically done at the stage of construction when the Advance is requested shall have been done, and all materials, supplies, chattels and fixtures typically furnished or installed at such stage of construction shall have been furnished or installed.

o. All personal property not yet incorporated into the Improvements but which is to be paid for out of such Advance, must then be located upon the Land, secured in a method acceptable to Lender, and Lender shall have received evidence thereof, or if stored off-site, must be stored in a secured area and must be available for inspection by the Inspecting Person. Any materials stored off-site shall be stored in a third-party bonded warehouse acceptable to Lender, with adequate safeguards to prevent loss, theft, damage or commingling with other materials not intended to be used in the construction of the Improvements; provided, further, (i) Borrower shall give Lender prior notice of the off-site storage of any materials and (ii) any materials stored must be incorporated within 45 days after receipt of Loan proceeds from Lender to pay for such materials, unless such date is extended in writing by Lender.

p. Borrower shall have complied with all reasonable requirements of the Inspecting Person to insure compliance with the Plans and Specifications and all requirements of the Governmental Authorities.

q. Except in connection with the Initial Advance, if the Improvements are being built for any party under a purchase or construction contract, then Lender at its election may require the approval of such purchaser before making any additional Advance.

r. Borrower shall have fully completed (to the extent applicable), signed, notarized and delivered to Lender the Draw Request.

s. the Loan shall be "in balance" as provided in ***Section 3.4*** (i.e., the unfunded Loan proceeds and any portion of the Borrower's equity not yet expended are not sufficient to complete construction of the Improvements in accordance with the Plans and Specifications and pay for all costs of construction in connection therewith), and if Lender requires a Borrower's Deposit in accordance with ***Section 3.4*** below, then (x) Borrower shall have made such Borrower's Deposit with Lender as provided thereunder and (y) Borrower shall have collaterally assigned such Borrower's Deposit to Lender to put the Loan in balance by executing an assignment satisfactory to Lender.

t. Borrower shall have funded all Borrower equity requirements indicated on the Budget.

3.3 Advance Not A Waiver . No Advance of the proceeds of the Loan shall constitute a waiver of any of the conditions of Lender's obligation to make further Advances, nor, in the event Borrower is unable to satisfy any such condition, shall any such Advance have the effect of precluding Lender from thereafter declaring such inability to be an Event of Default.

3.4 Borrower's Deposit. If at any time after Borrower has met its funding requirements under ***Section 3.1(l)*** above with respect to its required cash equity, Lender shall in its sole discretion deem that the undisbursed proceeds of the Loan are insufficient to meet the

costs of completing construction of the Improvements, plus any and all Soft Costs for the Improvements, Lender may refuse to make any additional Advances to Borrower hereunder until Borrower shall have deposited with Lender sufficient additional funds ("**Borrower's Deposit**") to cover the deficiency which Lender deems to exist. Such Borrower's Deposit will be disbursed by Lender to Borrower pursuant to the terms and conditions hereof as if they constituted a portion of the Loan being made hereunder prior to any further Advances of the Loan proceeds. Borrower agrees upon fifteen (15) days written demand by Lender to deposit with Lender such Borrower's Deposit. Lender agrees that the Borrower's Deposit shall be placed in an interest-bearing account. Borrower hereby grants a security interest to Lender in and to the Borrower's Deposit and such account, and agrees that at any time during the existing of an Event of Default, Lender shall have the right to offset any Borrower's Deposit against the Indebtedness then outstanding, in addition to any and all other remedies provided under this Agreement and the other Loan Documents or otherwise available at law or in equity.

3.5 Advance Not An Approval. The making of any Advance or part thereof shall not be deemed an approval or acceptance by Lender of the work theretofore done. Lender shall have no obligation to make any Advance or part thereof after the happening of any Event of Default, but shall have the right and option so to do; provided that if Lender elects to make any such Advance, no such Advance shall be deemed to be either a waiver of the right to demand payment of the Loan, or any part thereof, or an obligation to make any other Advance.

3.6 Time and Place of Advances. All Advances are to be made at the office of Lender, or at such other place as Lender may designate; and Lender shall require five (5) Business Days prior notice in writing before the making of any such Advance. Lender shall not be obligated to undertake any Advance hereunder more than once in any 30-day period. Except as set forth in this Agreement, all Advances are to be made by direct deposit into the Special Account. In the event Borrower shall part with or be in any manner whatever deprived of Borrower's interests in the Land, Lender may, at Lender's option but without any obligation to do so, continue to make Advances under this Agreement, and subject to all its terms and conditions, to such Person or Persons as may succeed to Borrower's title and interest and all sums so disbursed shall be deemed Advances under this Agreement and secured by the Deed of Trust and all other liens or security interests securing the Loan.

3.7 Retainage. An amount equal to ten percent (10%) of the cost of construction of the Improvements ("**Retainage**") shall be retained by Lender and shall be paid over by Lender to Borrower, provided that no lien claims are then filed against the Mortgaged Property, when all of the following have occurred to the satisfaction of Lender with respect to those Improvements covered by a Construction Contract:

a. Lender has received a completion certificate prepared by the Inspecting Person and executed by Borrower and the Design Professional stating that the Improvements have been completed in accordance with the Plans and Specifications, together with such other evidence that no mechanics or materialmen's liens or other encumbrances have been filed and remain in effect against the Mortgaged Property which have not been bonded to Lender's satisfaction (and otherwise in accordance with all applicable Governmental Requirements) and that all offsite utilities and streets, if any,

have been completed to the satisfaction of Lender and any applicable Governmental Authority;

b. each applicable Governmental Authority shall have duly inspected and approved the Improvements and issued the appropriate permit, license or certificate to evidence such approval, including without limitation, certificates of occupancy for each of the apartment units which are a part of the Improvements;

c. forty (40) days shall have elapsed from the later of (i) the date of completion of the Improvements, as specified in Texas Property Code §53.106, if the Affidavit of Completion provided for in this Agreement is filed within ten (10) days after such date of completion, or (ii) the date of filing of such Affidavit of Completion if such Affidavit of Completion is filed ten (10) days or more after the date of the completion of the Improvements as specified in Texas Property Code §53.106;

d. receipt by Lender of an as-built ALTA survey of the Mortgaged Property, in form reasonably acceptable to Lender; and

e. receipt by Lender of evidence satisfactory to Lender that payment in full has been made for all obligations incurred in connection with the construction and completion of all off-site utilities and improvements (if any) as required by Lender or any Governmental Authority.

Notwithstanding the foregoing, (A) no Retainage will be withheld for Contractor's purchase of lumber, trusses, framing hardware, windows, doors, wood trim, light fixtures or appliances or for the framing subcontractor's purchase of lumber, trusses or framing hardware, and (B) no Retainage will be withheld for Contractor's overhead and profit, and (C) Lender will disburse to Borrower the Retainage withheld by Lender with respect to a particular Retainage Milestone so that Borrower may pay all remaining amounts owed for the work performed to complete such Retainage Milestone under a particular Construction Contract, upon the satisfaction of all of the following conditions: (i) Contractor has achieved final completion of the Retainage Milestone, as inspected, verified and approved by the Inspecting Person, (ii) all materials to be supplied and all work required to be performed or constructed for such Retainage Milestone have been completed in accordance with the Construction Contract and the applicable Plans and Specifications, (iii) Borrower has provided Lender executed conditional lien waivers (in statutory form) from Contractor and all subcontractors and materialmen and suppliers who performed any of such Retainage Milestone Work, in form and substance acceptable to Lender, (iv) sixty (60) days have elapsed since completion of such Retainage Milestone work and (v) no Event of Default is then existing. The "Retainage Milestone" means each of the Retainage Milestones of the work of Contractor identified on **Exhibit "G"** attached hereto and incorporated herein for all purposes.

3.8 No Third Party Beneficiaries. The benefits of this Agreement shall not inure to any third party, nor shall this Agreement be construed to make or render Lender liable to any materialmen, subcontractors, contractors, laborers or others for goods and materials supplied or work and labor furnished in connection with the construction of the Improvements or for debts or claims accruing to any such Persons against Borrower. Lender shall not be liable for the manner in which any Advances under this Agreement may be applied by Borrower, Contractor and any

of Borrower's other contractors or subcontractors. Notwithstanding anything contained in the Loan Documents, or any conduct or course of conduct by the parties hereto, before or after signing the Loan Documents, this Agreement shall not be construed as creating any rights, claims or causes of action against Lender, or any of its officers, directors, agents or employees, in favor of any contractor, subcontractor, supplier of labor or materials, or any of their respective creditors, or any other Person other than Borrower. Without limiting the generality of the foregoing, Advances made to any contractor, subcontractor or supplier of labor or materials, pursuant to any requests for Advances, whether or not such request is required to be approved by Borrower, shall not be deemed a recognition by Lender of a third-party beneficiary status of any such Person.

3.9 Interest Reserve. The amount of the Loan was determined on the basis of the Borrower's projection of the interest that will accrue on the disbursed principal of the Note during the construction and lease-up phase of the Loan, which interest has been estimated not to exceed $1,256,158.00 (such amount being referred to as the "**Interest Reserve**"). Subject to the conditions to funding Advances set forth in this Agreement, Lender will disburse on the first (1st) day of each calendar month a portion of the Loan sufficient to pay accrued interest then due and payable on the Note during the construction phase, and the amount thereof shall increase the principal of the Note and shall reduce the balance of the Interest Reserve. Under no circumstances shall any undisbursed proceeds of the Loan be disbursed to pay accrued interest thereon during the construction phase upon depletion of the balance of the Interest Reserve, or to the extent that revenues from the Mortgaged Property, after payment of all other operating expenses of the Mortgaged Property, are sufficient to pay the accrued interest or other amounts then due and payable under the Loan Documents. In lieu of disbursing Loan proceeds to Borrower for payment of accrued interest thereon during the construction phase, Lender may handle such disbursement and payment by making appropriate entries on the books and records of Lender, whereupon a statement summarizing such entries shall be furnished to Borrower.

3.10 Additional Expenditures by Lender. Borrower agrees that all sums paid or expended by Lender under the terms of this Agreement in excess of the amount of the Loan shall be considered to be an additional loan to Borrower and the repayment thereof, together with interest thereon at the Default Rate (as defined in the Note), from the date of demand by Lender until the date paid, shall be secured by the Deed of Trust and the other Loan Documents and shall be immediately due and payable within ten (10) days of written notice to Borrower, and Borrower agrees to pay such sum upon demand. Nothing contained herein, however, shall obligate Lender to make such advances. In addition to the foregoing, if Borrower fails to perform any act or to take any action or to pay any amount provided to be paid by it under the provisions of any of the covenants and agreements contained in this Agreement or any other Loan Document, Lender may but shall not be obligated to perform or cause to be performed such act or take such action or pay such money, and any expenses so incurred by Lender and any money so paid by Lender shall be an advance against the Note and shall bear interest from the date of making such payment until paid at the Default Rate and shall be part of the Indebtedness secured by the Deed of Trust, and Lender upon making any such payment shall be subrogated to all rights of the Person receiving such payment. Lender will endeavor to promptly notify Borrower of such amounts paid by Lender hereunder, but Lender's failure to do so shall not create or give rise to any liability on Lender's part or impair or affect any of Lender's rights and remedies under this Agreement or any of the other Loan Documents.

ARTICLE IV

WARRANTIES AND REPRESENTATIONS

Borrower hereby unconditionally warrants and represents to Lender, as of the date hereof and at all times during the term of the Agreement, as follows:

4.1 Plans and Specifications. The Plans and Specifications for the Improvements are satisfactory to Borrower, are in compliance with all Governmental Requirements in all material respects and, to the extent required by Governmental Requirements or any effective restrictive covenant, have been approved by each Governmental Authority (or will timely be approved by the applicable Governmental Authority when required for construction) and/or by the beneficiaries of any such restrictive covenant affecting the Mortgaged Property.

4.2 Governmental Requirements. No violation of any Governmental Requirements exists or will exist with respect to the Mortgaged Property and neither the Borrower nor the Guarantor is, nor will either be, in default with respect to any Governmental Requirements.

4.3 Utility Services. All utility services of sufficient size and capacity necessary for the construction of the Improvements and the use thereof for their intended purposes are available (or will be available upon completion of construction of any offsite utility lines contemplated by the Plans and Specifications) at the property line(s) of the Land for connection to the Improvements, including potable water, storm and sanitary sewer, gas, electric and telephone facilities.

4.4 Access. All roads necessary for the full utilization of the Improvements for their intended purposes either have been completed and dedicated to the public use and accepted by the appropriate Governmental Authority, or will be completed and dedicated to the public and accepted by the appropriate Governmental Authority in connection with the construction of the Improvements, as contemplated by the Plans and Specifications.

4.5 Financial Statements. Each financial statement of Borrower and Guarantor delivered heretofore, concurrently herewith or hereafter to Lender was and will be prepared in conformity with general accepted accounting principles, or other good accounting principles approved by Lender in writing, applied on a basis consistent with that of previous statements and completely and accurately disclose the financial condition of Borrower and Guarantor (including all contingent liabilities) as of the date thereof and for the period covered thereby, and there has been no material adverse change in either Borrower's or Guarantor's financial condition subsequent to the date of the most recent financial statement of Borrower and Guarantor delivered to Lender.

4.6 Statements. No certificate, statement, report or other information delivered heretofore, concurrently herewith or hereafter by Borrower or Guarantor to Lender in connection herewith, or in connection with any transaction contemplated hereby, contains or will contain any untrue statement of a material fact or fails to state any material fact necessary to keep the statements contained therein from being misleading, and same were true, complete and accurate as of the date hereof.

4.7 Disclaimer of Permanent Financing. Borrower acknowledges and agrees that Lender has not made any commitments, either express or implied, to extend the term of the Loan past its stated maturity date or to provide Borrower with any permanent financing except as expressly set forth herein.

4.8 No Commencement. As of the date hereof, no steps to commence construction on the Land have been taken, including, without limitation, steps to clear or otherwise prepare the Land for construction or the delivery of material for use in construction of the Improvements; and no action has been taken under the Construction Contract or any other contract or other agreement for construction which could give rise to a lien on the Land.

4.9 Patriot Act. Borrower and Guarantor are in compliance with (a) the Trading with the Enemy Act, and each of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B Chapter V, as amended), and all other enabling legislation or executive order relating thereto, (b) the Patriot Act, and (c) all other federal or state laws relating to "know your customer" and anti-money laundering rules and regulations. No part of the proceeds of any Loan will be used directly or indirectly for any payments to any government official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977.

ARTICLE V
COVENANTS OF BORROWER

Borrower hereby unconditionally covenants and agrees with Lender, until the Loan shall have been paid in full and the lien of the Deed of Trust shall have been released, as follows:

5.1 Commencement and Completion. Borrower will cause the construction of the Improvements to commence by the Commencement Date and to be prosecuted with diligence and continuity and will complete the same in all material respects in accordance with the Plans and Specifications for the Improvements on or before the Completion Date and within the Budget (subject to any increases in the Budget funded by additional equity contributed by Borrower or Guarantor), free and clear of liens or claims for liens for material supplied and for labor services performed in connection with the construction of the Improvements.

5.2 No Changes. Borrower will not amend, alter or change (pursuant to change order, amendment or otherwise) the Plans and Specifications for the Improvements unless the same shall have been approved in advance in writing by Lender, by all applicable Governmental Authorities; provided, however, Borrower shall have the right to approve change orders without Lender's consent which do not individually exceed $50,000.00, or in the aggregate exceed $200,000.00 for the Improvements.

5.3 Advances. Borrower will receive the Advances and will hold same as a trust fund for the purpose of paying the cost of construction of the Improvements and related nonconstruction costs related to the Mortgaged Property as provided for herein. Borrower will apply the same promptly to the payment of the costs and expenses for which each Advance is made and will not use any part thereof for any other purpose.

5.4 Lender's Expenses. Borrower will reimburse Lender for all out-of-pocket expenses of Lender, including reasonable attorneys' fees, incurred in connection with the preparation, execution, delivery, administration and performance of the Loan Documents.

5.5 Surveys. Borrower will furnish Lender at Borrower's expense (i) a foundation survey and (ii) an as-built survey, each prepared by a registered engineer or surveyor acceptable to Lender, showing the locations of the Improvements, and certifying that same are entirely within the property lines of Land, do not encroach upon any easement, setback or building line or restrictions, are placed in accordance with the Plans and Specifications, all Governmental Requirements and all restrictive covenants affecting the Land and/or the Improvements, and showing no state of facts objectionable to Lender. All surveys shall be in form and substance and from a registered public surveyor acceptable to Lender.

5.6 Defects and Variances. Borrower will, upon demand of Lender and at Borrower's sole expense, correct any structural defect in the Improvements or any variance from the Plans and Specifications for the Improvements (except for those for which Lender's approval is not required under ***Section 5.2*** above) which is not approved in writing by Lender.

5.7 Estoppel Certificates. Borrower will deliver to Lender, promptly after request therefor, estoppel certificates or written statements, duly acknowledged, stating the amount that has then been advanced to Borrower under this Agreement, the amount due on the Note, and whether any known offsets or defenses exist against the Note or any of the other Loan Documents.

5.8 Inspecting Person. Borrower will pay the fees and expenses of, and cooperate, with the Inspecting Person and will cause the Design Professional, the Contractor, each contractor and subcontractor and the employees of each of them to cooperate with the Inspecting Person and, upon request, will furnish the Inspecting Person whatever the Inspecting Person may consider necessary or useful in connection with the performance of the Inspecting Person's duties. Without limiting the generality of the foregoing, Borrower shall furnish or cause to be furnished such items as working details, Plans and Specifications and details thereof, samples of materials, licenses, permits, certificates of public authorities, zoning ordinances, building codes and copies of the contracts between such Person and Borrower (if applicable). Borrower will permit Lender, the Inspecting Person and their representative to enter the Mortgaged Property for the purposes of inspecting same. Borrower acknowledges that the duties of the Inspecting Person run solely to Lender and that the Inspecting Person shall have no obligations or responsibilities whatsoever to Borrower, Contractor, the Design Professional, or to any of Borrower's or Contractor's agents, employees, contractors or subcontractors.

5.9 **BROKERS. BORROWER WILL INDEMNIFY LENDER FROM CLAIMS OF BROKERS ARISING BY REASON OF THE EXECUTION HEREOF OR THE CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED HEREBY TO THE EXTENT SUCH BROKER WAS CONTACTED OR HIRED BY BORROWER OR EITHER OF ITS JOINT VENTURERS.**

5.10 Personalty and Fixtures. Borrower will deliver to Lender, on demand, any contracts, bills of sale, statements, receipted vouchers or agreements under which Borrower

claims title to any materials, fixtures or articles incorporated in the Improvements or subject to the lien or security interests of the Deed of Trust.

5.11 Compliance with Governmental Requirements. Borrower will comply promptly with all Governmental Requirements.

5.12 Compliance with Restrictive Covenants. Borrower will comply with all restrictive covenants, if any, affecting the Mortgaged Property. Construction of the Improvements will be performed in a good and workmanlike manner, within the perimeter boundaries of the Land and within all applicable building and setback lines in accordance with all Governmental Requirements and the Plans and Specifications. There are, and will be, no structural defects in the Improvements.

5.13 Affidavit of Commencement. Within ten (10) days after the commencement of construction of the Improvements, but not before construction of the Improvements has actually begun, Borrower shall file or cause to be filed in the appropriate records of the county in which the Land is situated, an Affidavit of Commencement in the form of **Exhibit C** attached hereto and incorporated herein by this reference, duly executed by Borrower and Contractor. The date of commencement of work set forth in the Affidavit of Commencement shall not be the date of or before the date on which the Deed of Trust was recorded.

5.14 Affidavit of Completion. Borrower, within ten (10) days after construction of the Improvements has been completed, shall file in the appropriate records in the county in which the Land is situated an Affidavit of Completion ("**Affidavit of Completion**") in the form of **Exhibit D** attached hereto and incorporated herein by this reference.

5.15 Payment of Expenses. Borrower shall pay or reimburse to Lender all out-of-pocket costs and expenses relating to the Mortgaged Property and for which an Advance is made, including (without limitation), title insurance and examination charges, survey costs, insurance premiums, filing and recording fees, and other expenses payable to third parties incurred by Lender in connection with the consummation of the transactions contemplated by this Agreement.

5.16 Notices Received. Borrower will promptly deliver to Lender a true and correct copy of all notices received by Borrower from any Person with respect to Borrower, Guarantor, the Mortgaged Property, or any or all of them, which in any way relates to or affects the Loan or the Mortgaged Property.

5.17 Advertising by Lender. Borrower agrees that during the term of the Loan, Borrower shall erect and thereafter shall maintain on the Mortgaged Property one or more advertising signs furnished by Lender indicating that the financing for the Mortgaged Property has been furnished by Lender.

5.18 Leases. Borrower will utilize the form of tenant lease approved by Lender prior to the date hereof in leasing all or any part of the Mortgaged Property (the Texas Apartment Association form being hereby approved by Lender), subject only to non-material changes made on a lease-by-lease basis. Any leases entered into by Borrower shall be with third party tenants

entered into in the ordinary course of business of owning and operating a first class multifamily project in a reasonable and prudent manner, and shall be on then market terms and conditions.

5.19 Statements and Reports. Borrower agrees to deliver to Lender, during the term of the Loan and until the Loan has been fully paid and satisfied, the following statements and reports:

(a) Annual financial statements of Borrower and Guarantor within ninety (90) days after the end of each calendar year, commencing in the calendar year 2014 with respect to Guarantor and the calendar year 2015 with respect to Borrower, which shall be (i) in the case of Borrower, prepared and certified to by the chief financial officer of Borrower and (ii) in the case of Guarantor, audited by an independent certified public accountant;

(b) Monthly marketing reports with detailed information as to leasing activities shall be provided Lender on or before the fifteenth (15th) day of the following month;

(c) Copies of all state and federal tax returns prepared with respect to Guarantor within thirty (30) days of such returns being filed with the Internal Revenue Service or applicable state authority;

(d) Copies of extension requests or similar documents with respect to federal or state income tax filings for Guarantor within ten (10) days of such documents being filed with the Internal Revenue Service or applicable state authority;

(e) Annual operating statements with respect to the Mortgaged Property within ninety (90) days after the end of each calendar year, prepared in such form and detail as Lender may require and certified to by the chief financial officer of Borrower;

(f) Monthly operating statements and a rent roll with respect to the Improvements, within thirty (30) days after the end of each calendar month, commencing upon commencement of leasing activities at the Mortgaged Property, prepared in such form and detail as Lender may reasonably require and in accordance with generally accepted accounting principles and certified to by the chief financial officer of Borrower; and

(g) Such other financial statements and reports required to be delivered to Lender for Guarantor as set forth in the Guaranty, including without limitation, a Compliance Certificate executed by Guarantor certifying Guarantor's compliance (or non-compliance, as the case may be) with the financial covenants applicable to Guarantor set forth in the Guaranty, which Compliance Certificate shall be delivered to Lender within thirty (30) days after the end of each calendar quarter.

(h) Such other reports and statements as Lender may reasonably require from time to time.

5.20 Mechanic's Liens. Borrower shall not install nor otherwise incorporate in the Improvements any materials, equipment or fixtures under any conditional sales agreements or security agreement whereby the right is reserved or accrued to anyone to remove or repossess any such items. Borrower shall not cause or permit any lien or claim for lien for any labor or material to be filed or to become valid or effective against the Mortgaged Property; provided, however, that the existence of any unperfected and unrecorded mechanic's lien shall not constitute a violation of this Section if payment is not yet due for the work giving rise to the lien. In the event a lien is filed against the Mortgaged Property, Borrower shall, upon the request of Lender, obtain an indemnity bond for such lien complying with the requirements of Tex. Property Code §§ 53.171 et. seq., and shall provide such bond to Lender within twenty (20) days of Lender's request unless Borrower otherwise causes such lien to be released prior to the expiration of such twenty (20) day period.

5.21 Transfer of Ownership Interests. Except as otherwise expressly permitted by this Loan Agreement, Borrower shall not convey, transfer or assign any interest in the Mortgaged Property, or permit a change in the ownership interests in the Borrower (whether direct or indirect) or other Disposition, unless the written consent of the Lender is first obtained, which consent may be granted or refused in Lender's sole discretion.

5.22 Assignment of Licenses and Permits. Borrower shall not assign or transfer any of its interest in any licenses and permits pertaining to the Mortgaged Property, or assign, transfer, or remove or permit any other Person to assign, transfer, or remove any records pertaining to the Mortgaged Property without Lender's prior written consent, which consent may be granted or refused in Lender's sole discretion.

5.23 Management Agreement. No later than the commencement of leasing of the Improvements, Borrower shall (i) enter into and maintain the Management Agreement in full force and effect, in form and substance reasonably satisfactory to Lender, and timely perform all of Borrower's obligations thereunder and enforce performance of all obligations of the Manager thereunder and not permit the termination, amendment or assignment of the Management Agreement unless the prior written consent of Lender is first obtained, which consent may be in the sole and absolute discretion of Lender and (ii) Borrower will cause the Manager to enter into a subordination agreement in form and substance acceptable to Lender, subordinating the Management Agreement to the lien of the Deed of Trust. Borrower will not change the Manager or enter into any other management agreement without Lender's prior written consent, which may be in the sole and absolute discretion of Lender.

5.24 Single Purpose Entity. Borrower shall be a single purpose entity at all times, the only business of which is the construction, financing, ownership, maintenance and operation of the Mortgaged Property and other assets directly related to the operation of the Mortgaged Property, and always be in compliance with its Limited Liability Company Agreement. Borrower (i) shall exist solely for the purpose of owning the Mortgaged Property, (ii) will conduct business only in its own name, (iii) will not engage in any business or have any assets unrelated to the Mortgaged Property, (iv) does not have and will not incur any indebtedness other than the Loan and trade payables incurred in the ordinary course of business and which are paid prior to the delinquency date thereof, (v) will have its own separate books, records, and accounts (with no commingling of assets), (vi) will hold itself out as being an entity separate and apart

from any other entity, and (vii) will observe corporate formalities independent of any other entity. Borrower shall immediately provide Lender with copies of any amendments or modifications of its formation or organizational documents.

5.25 Insurance. Borrower shall obtain and maintain such insurance and evidence of insurance as Lender may reasonably require, including but not limited the insurance described on **Exhibit E** attached hereto. To the extent there are any express inconsistencies between the coverages or deductibles set forth on **Exhibit E** and the insurance required pursuant to the terms of the Deed of Trust or any of the other Loan Documents, **Exhibit E** shall control.

ARTICLE VI
ASSIGNMENTS

6.1 Assignment of Construction Contract. As additional security for the payment of the Loan, Borrower hereby collaterally transfers and assigns to Lender all of Borrower's rights and interest, but not its obligations, in, under and to each Construction Contract upon the following terms and conditions:

(a) Borrower represents and warrants that the copy of each Construction Contract the Borrower has furnished or will furnish to Lender is or will be (as applicable) a true and complete copy thereof, including all amendments thereto, if any, and that Borrower's interest therein is not subject to any claim, setoff or encumbrance.

(b) Neither this assignment nor any action by Lender shall constitute an assumption by Lender of any obligations under any Construction Contract, and Borrower shall continue to be liable for all obligations of Borrower thereunder, Borrower hereby agreeing to perform all of its obligations under each Construction Contract. **BORROWER AGREES TO INDEMNIFY AND HOLD LENDER HARMLESS AGAINST AND FROM ANY LOSS, COST, LIABILITY OR EXPENSE (INCLUDING BUT NOT LIMITED TO ATTORNEYS' FEES) RESULTING FROM ANY FAILURE OF BORROWER TO SO PERFORM.**

(c) Following any required notice and opportunity to cure, Lender shall have the right at any time thereafter (but shall have no obligation) to take in its name or in the name of Borrower such action as Lender may at any time determine to be necessary or advisable to cure any default under any Construction Contract or to protect the rights of Borrower or Lender thereunder. **LENDER SHALL INCUR NO LIABILITY IF ANY ACTION SO TAKEN BY IT OR IN ITS BEHALF SHALL PROVE TO BE INADEQUATE OR INVALID, REGARDLESS OF ANY NEGLIGENCE OR ALLEGED NEGLIGENCE OF LENDER, AND BORROWER AGREES TO INDEMNIFY AND HOLD LENDER HARMLESS AGAINST AND FROM ANY LOSS, COST, LIABILITY OR EXPENSE (INCLUDING BUT NOT LIMITED TO REASONABLE ATTORNEYS' FEES) INCURRED IN CONNECTION WITH ANY SUCH ACTION. THIS INDEMNITY INCLUDES ANY LIABILITY ASSERTED AGAINST LENDER ON ACCOUNT OF LENDER'S NEGLIGENCE OR ALLEGED NEGLIGENCE, BUT NOT ANY LIABILITY ARISING FROM LENDER'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.**

(d) Borrower hereby irrevocably constitutes and appoints Lender as Borrower's attorney-in-fact effective upon the occurrence of an Event of Default, in Borrower's or Lender's name, to enforce all rights of Borrower under each Construction Contract. Such appointment is coupled with an interest and is therefore irrevocable.

(e) Prior to the occurrence of an Event of Default, Borrower shall have the right to exercise its rights as owner under each Construction Contract, provided that Borrower shall not cancel or amend any Construction Contract or do or suffer to be done any act which would impair the security constituted by this assignment without the prior written consent of Lender.

(f) This assignment shall inure to the benefit of Lender and its successors and assigns, any purchaser upon foreclosure of the Deed of Trust, any receiver in possession of the Mortgaged Property and any corporation affiliated with Lender which assumes Lender's rights and obligations under this Agreement.

6.2 Assignment of Plans and Specifications. As additional security for the Loan, Borrower hereby collaterally transfers and assigns to Lender all of Borrower's right, title and interest in and to the Plans and Specifications and hereby represents and warrants to and agrees with Lender as follows:

(a) Each schedule of the Plans and Specifications for the Improvements delivered or to be delivered to Lender is and shall be a complete and accurate description of such Plans and Specifications.

(b) The Plans and Specifications for the Improvements are and shall be complete and adequate for the construction of the Improvements and there have been no modifications thereof except as described in such schedule. The Plans and Specifications shall not be modified without the prior consent of Lender.

(c) Lender may use the Plans and Specifications for the Improvements for any purpose relating to the Improvements, including but not limited to inspections of construction and the completion of the Improvements.

(d) Lender's acceptance of this assignment shall not constitute approval of the Plans and Specifications by Lender. Lender has no liability or obligation in connection with the Plans and Specifications and no responsibility for the adequacy thereof or for the construction of the Improvements contemplated by the Plans and Specifications for the Improvements. Lender has no duty to inspect the Improvements, and if Lender should inspect the Improvements, Lender shall have no liability or obligation to Borrower or any other party arising out of such inspection. No such inspection nor any failure by Lender to make objections after any such inspection shall constitute a representation by Lender that the Improvements are in accordance with the Plans and Specifications or any other requirement or constitute a waiver of Lender's right thereafter to insist that the Improvements be constructed in accordance with the Plans and Specifications or any other requirement.

(e) This assignment shall inure to the benefit of Lender and its successors and assigns, any purchaser upon foreclosure of the Deed of Trust, any receiver in possession of the Mortgaged Property and any corporation affiliated with Lender which assumes Lender's rights and obligations under this Agreement.

6.3 Assignment of Design Services Contract. As additional security for the payment of the Loan, Borrower hereby collaterally transfers and assigns to Lender all of Borrower's rights and interest, but not its obligations, in, under and to each Design Services Contract upon the following terms and conditions:

(a) Borrower represents and warrants that the copy of each Design Services Contract the Borrower has furnished or will furnish to Lender is or will be (as applicable) a true and complete copy thereof, including all amendments thereto, if any, and that Borrower's interest therein is not subject to any claim, setoff or encumbrance.

(b) Neither this assignment nor any action by Lender shall constitute an assumption by Lender of any obligations under any Design Services Contract, and Borrower shall continue to be liable for all obligations of Borrower thereunder, Borrower hereby agreeing to perform all of its obligations under each Design Services Contract. **BORROWER AGREES TO INDEMNIFY AND HOLD LENDER HARMLESS AGAINST AND FROM ANY LOSS, COST, LIABILITY OR EXPENSE (INCLUDING BUT NOT LIMITED TO ATTORNEYS' FEES) RESULTING FROM ANY FAILURE OF BORROWER TO SO PERFORM.**

(c) Following any required notice and opportunity to cure, Lender shall have the right at any time thereafter (but shall have no obligation) to take in its name or in the name of Borrower such action as Lender may at any time determine to be necessary or advisable to cure any default under any Design Services Contract or to protect the rights of Borrower or Lender thereunder. **LENDER SHALL INCUR NO LIABILITY IF ANY ACTION SO TAKEN BY IT OR IN ITS BEHALF SHALL PROVE TO BE INADEQUATE OR INVALID, REGARDLESS OF ANY NEGLIGENCE OR ALLEGED NEGLIGENCE OF LENDER, AND BORROWER AGREES TO INDEMNIFY AND HOLD LENDER HARMLESS AGAINST AND FROM ANY LOSS, COST, LIABILITY OR EXPENSE (INCLUDING BUT NOT LIMITED TO REASONABLE ATTORNEYS' FEES) INCURRED IN CONNECTION WITH ANY SUCH ACTION. THIS INDEMNITY INCLUDES ANY LIABILITY ASSERTED AGAINST LENDER ON ACCOUNT OF LENDER'S NEGLIGENCE OR ALLEGED NEGLIGENCE, BUT NOT ANY LIABILITY ARISING FROM LENDER'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.**

(d) Borrower hereby irrevocably constitutes and appoints Lender as Borrower's attorney-in-fact effective upon the occurrence of an Event of Default, in Borrower's or Lender's name, to enforce all rights of Borrower under each Design Services Contract. Such appointment is coupled with an interest and is therefore irrevocable.

(e) Prior to the occurrence of an Event of Default, Borrower shall have the right to exercise its rights as owner under each Design Services Contract, provided that Borrower shall not cancel or amend any Design Services Contract or do or suffer to be done any act which would impair the security constituted by this assignment without the prior written consent of Lender.

(f) This assignment shall inure to the benefit of Lender and its successors and assigns, any purchaser upon foreclosure of the Deed of Trust, any receiver in possession of the Mortgaged Property and any corporation affiliated with Lender which assumes Lender's rights and obligations under this Agreement.

6.4 Assignment of Proceeds. Borrower hereby further collaterally transfers and assigns to Lender and acknowledges that Lender shall be entitled to receive (i) any and all sums which may be awarded and become payable to Borrower for condemnation of all or any portion of the Mortgaged Property, or (ii) the proceeds of any and all insurance upon the Mortgaged Property (other than the proceeds of general public liability insurance).

(a) Borrower shall, upon request of Lender, make, execute, acknowledge and deliver any and all additional assignments and documents as may be necessary from time to time to enable Lender to collect and receipt for any of such insurance or condemnation proceeds.

(b) Lender shall not be, under any circumstances, liable or responsible for failure to collect, or exercise diligence in the collection of, any of such sums.

(c) Any sums so received by Lender pursuant to this ***Section 6.4*** may, in Lender's sole discretion, be provided back to Borrower for restoration of the Mortgaged Property, in the amounts, manner, method and pursuant to such requirements in documents as Lender may require, or shall be applied to the liquidation of the Indebtedness in accordance with the provisions of ***Section 6.4*** of the Deed of Trust; provided, however, if Lender determines that the Mortgaged Property can be restored prior to the maturity date of the Note, and no Event of Default exists, then Lender will apply the proceeds to the restoration of the Mortgaged Property.

ARTICLE VII
EVENTS OF DEFAULT

7.1 Events of Default. Each of the following shall constitute an "**Event of Default**" hereunder:

(a) If Borrower shall fail, refuse, or neglect to pay, in full, any installment or portion of the Indebtedness as and when the same shall become due and payable, whether at the due date thereof stipulated in the Loan Documents, upon acceleration or otherwise and such default shall continue for a period of five (5) calendar days beyond any due date (provided, however, any default in making the payment due on the Maturity Date shall be an immediate Event of Default without any grace period).

(b) If Borrower shall fail, refuse or neglect, or cause others to fail, refuse, or neglect to comply with, perform and discharge fully and timely any of the Obligations in any of the Loan Documents (and which are not otherwise specifically addressed in any other subsections of this ***Section 7.1***) as and when called for, and such failure shall continue for a period of fifteen (15) days after receipt of written notice from Lender; provided, however, Borrower shall have the right to attempt to cure said default for up to an additional forty-five (45) days if Borrower is diligently prosecuting a cure of said default.

(c) If any representation, warranty, or statement made by Borrower, Guarantor, or others in, under, or pursuant to the Loan Documents or any affidavit or other instrument executed or delivered with respect to the Loan Documents or the Indebtedness is determined by Lender to be false or misleading in any material respect as of the date hereof or thereof or shall become so at any time prior to the repayment in full of the Indebtedness.

(d) If Borrower shall default or commit an event of default under and pursuant to any other mortgage or security agreement which covers or affects any part of the Mortgaged Property which is not cured within any notice or grace period.

(e) If Borrower (i) shall execute an assignment for the benefit of creditors or an admission in writing by Borrower of Borrower's inability to pay, or Borrower's failure to pay, debts generally as the debts become due; or (ii) shall allow the levy against the Mortgaged Property or any part thereof, of any execution, attachment, sequestration or other writ which is not vacated within sixty days after the levy; or (iii) shall allow the appointment of a receiver, trustee or custodian of Borrower or of the Mortgaged Property or any part thereof, which receiver, trustee or custodian is not discharged within sixty (60) days after the appointment; or (iv) files as a debtor a petition, case, proceeding or other action pursuant to, or voluntarily seeks of the benefit or benefits of any Debtor Relief Law (as defined in the Deed of Trust), or takes any action in furtherance thereof; or (v) files either a petition, complaint, answer or other instrument which seeks to effect a suspension of, or which has the effect of suspending any of the rights or powers of Lender or the trustee under the Deed of Trust granted in the Note, herein or in any Loan Document; or (vi) allows the filing of a petition, case, proceeding or other action against Borrower as a debtor under any Debtor Relief Law or seeks appointment of a receiver, trustee, custodian or liquidator of Borrower or of the Mortgaged Property, or any part thereof, or of any significant portion of Borrower's other property and (a) Borrower admits, acquiesces in or fails to contest diligently the material allegations thereof, or (b) the petition, case, proceeding or other action results in the entry of an order for relief or order granting the relief sought against Borrower, or (c) the petition, case, proceeding or other action is not permanently dismissed or discharged on or before the earlier of trial thereon or sixty (60) days next following the date of filing.

(f) If Borrower, any Constituent Party (as defined in the Deed of Trust), or any Guarantor, shall die, dissolve, terminate or liquidate, or merge with or be consolidated into any other entity, or become permanently disabled.

(g) If Borrower creates, places, or permits to be created or placed, or through any act or failure to act, acquiesces in the placing of, or allows to remain, any Subordinate Mortgage, regardless of whether such Subordinate Mortgage is expressly subordinate to the liens or security interests of the Loan Documents, with respect to the Mortgaged Property, other than the Permitted Exceptions and subject to the right of Borrower to cure or bond over a mechanic's or materialmen's lien in accordance with this Agreement.

(h) If Borrower makes a Disposition, without the prior written consent of Lender.

(i) If any condemnation proceeding is instituted or threatened which would, in Lender's sole judgment, materially impair the use and enjoyment of the Mortgaged Property for its intended purposes.

(j) If the Mortgaged Property is demolished, destroyed, or substantially damaged so that, in Lender's judgment, it cannot be restored or rebuilt with available funds to the condition existing immediately prior to such demolition, destruction, or damage within a reasonable period of time.

(k) If Lender reasonably determines that any event shall have occurred that could be expected to have a Material Adverse Effect.

(l) If Borrower abandons all or any portion of the Mortgaged Property.

(m) The occurrence of any event referred to in ***Sections 7.1(e)*** and ***7.1(f)*** hereof with respect to any Guarantor, Constituent Party or other Person obligated in any manner to pay or perform the Indebtedness or Obligations, respectively, or any part thereof (as if such Guarantor, Constituent Party or other Person were the "Borrower" in such Sections).

(n) An Event of Default, as defined in any of the Loan Documents, occurs.

(o) If the construction of the Improvements are, at any time, (i) discontinued due to acts or matters within Borrower's control for a period of ten (10) or more consecutive days, (ii) not carried on with reasonable dispatch, or (iii) not completed by the Completion Date; subject, however, to Force Majeure (hereinafter defined), not to exceed sixty (60) days in the aggregate. "**Force Majeure**" shall be deemed to mean that Borrower is delayed or hindered in or prevented from the performance of any act required hereunder, not the failure of Borrower, by reason of (i) inability to procure materials or reasonable substitutes thereof, (ii) failure of power, (iii) civil commotion, riots, insurrection or war, (iv) unavoidable fire or other casualty, or acts of God (v) strikes, lockouts or other labor disputes (not by Borrower's employees), (vi) restrictive governmental law or regulation, (vii) delay by Lender of any act required of it hereunder, or (viii) any other causes of a like nature to the above listed (i) through (vii). Financial inability on the part of Borrower shall not be construed a Force Majeure hereunder. Borrower agrees to use its best efforts to resume the construction of the Improvements as soon as practicable after the cause of such delay has been removed or cancelled.

(p) If Borrower is unable to satisfy any condition of Borrower's right to receive Advances hereunder for a period in excess of thirty (30) days after Lender's refusal to make any further Advances.

(q) If Borrower executes any conditional bill of sale, chattel mortgage or other security instrument covering any materials, fixtures or articles intended to be incorporated in the Improvements or the appurtenances thereto, or covering articles of personal property placed in the Improvements, or files a financing statement publishing notice of such security instrument, or if any of such materials, fixtures or articles are not purchased in such a manner that the ownership thereof vests unconditionally in Borrower, free from encumbrances, on delivery at the Improvements, or if Borrower does not produce to Lender upon reasonable demand the contracts, bills of sale, statements, receipted vouchers or agreements, or any of them, under which Borrower claims title to such materials, fixtures and articles.

(r) If any levy, attachment or garnishment is issued, or if any lien for the performance of work or the supply of materials is filed, against any part of the Mortgaged Property and remains unsatisfied or unbonded following the earlier of (i) twenty (20) days after the date of filing thereof or (ii) the requesting by Borrower of an Advance.

(s) The Management Agreement shall be terminated without the prior written approval of Lender.

(t) Borrower fails to make a Borrower's Deposit upon the written request of Lender within the time period required under this Agreement.

(u) If (i) any representation or warranty made by Guarantor in the Guaranty or any of the other Loan Documents is false or misleading in any material respect, (ii) Guarantor breaches any covenant of Guarantor set forth in the Guaranty which is not cured within fifteen (15) days after written notice from Lender or (iii) Guarantor breaches any of the negative covenants or financial covenants applicable to Guarantor set forth in **Sections 5** and **6** of the Guaranty.

7.2 Remedies. Lender shall have the right, upon the happening of an Event of Default, in addition to any rights or remedies available to it under all other Loan Documents, to enter into possession of the Mortgaged Property and perform any and all work and labor necessary to complete the Improvements in accordance with the Plans and Specifications. All amounts so expended by Lender shall be deemed to have been disbursed to Borrower as Loan proceeds and secured by the Deed of Trust. For this purpose, Borrower hereby constitutes and appoints (which appointment is coupled with an interest and is therefore irrevocable) Lender as Borrower's true and lawful attorney-in-fact, with full power of substitution to complete the Improvements in the name of Borrower, and hereby empowers Lender, acting as Borrower's attorney-in-fact, as follows: to use any funds of Borrower, including any balance which may be held in escrow, any Borrower's Deposit and any funds which may remain unadvanced hereunder, for the purpose of completing the Improvements in the manner called for by the Plans and Specifications; to make such additions and changes and corrections in the Plans and Specifications which shall be necessary or desirable to complete the Improvements in the manner

contemplated by the Plans and Specifications; to continue all or any existing construction contracts or subcontracts; to employ such contractors, subcontractors, agents, design professionals and inspectors as shall be required for said purposes; to pay, settle or compromise all existing bills and claims which are or may be liens against the Mortgaged Property, or may be necessary or desirable for the completion of the work or the clearing of title; to execute all the applications and certificates in the name of Borrower which may be required by any construction contract; and to do any and every act with respect to the construction of the Improvements which Borrower could do in Borrower's own behalf. Lender, acting as Borrower's attorney-in-fact, shall also have power to prosecute and defend all actions or proceedings in connection with the Mortgaged Property and to take such action and require such performance as is deemed necessary.

ARTICLE VIII
LENDER'S DISCLAIMERS - BORROWER'S INDEMNITIES

8.1 No Obligation by Lender to Construct. Lender has no liability or obligation whatsoever or howsoever in connection with the Mortgaged Property or the development, construction or completion thereof or work performed thereon, and has no obligation except to disburse the Loan proceeds as herein agreed, Lender is not obligated to inspect the Improvements nor is Lender liable, and under no circumstances whatsoever shall Lender be or become liable, for the performance or default of any contractor or subcontractor, or for any failure to construct, complete, protect or insure the Mortgaged Property, or any part thereof, or for the payment of any cost or expense incurred in connection therewith, or for the performance or nonperformance of any obligation of Borrower or Guarantor to Lender nor to any other Person without limitation. Nothing, including without limitation, any disbursement of Loan proceeds or the Borrower's Deposit nor acceptance of any document or instrument, shall be construed as such a representation or warranty, express or implied, on Lender's part.

8.2 No Obligation by Lender to Operate. Any term or condition of any of the Loan Documents to the contrary notwithstanding, Lender shall not have, and by its execution and acceptance of this Agreement hereby expressly disclaims, any obligation or responsibility for the management, conduct or operation of the business and affairs of Borrower or Guarantor. Any term or condition of the Loan Documents which permits Lender to disburse funds, whether from the proceeds of the Loan, the Borrower's Deposit or otherwise, or to take or refrain from taking any action with respect to Borrower, Guarantor, the Mortgaged Property or any other collateral for repayment of the Loan, shall be deemed to be solely to permit Lender to audit and review the management, operation and conduct of the business and affairs of Borrower and Guarantor, and to maintain and preserve the security given by Borrower to Lender for the Loan, and may not be relied upon by any other Person. Further, Lender shall not have, has not assumed and by its execution and acceptance of this Agreement hereby expressly disclaims any liability or responsibility for the payment or performance of any indebtedness or obligation of Borrower or Guarantor and no term or condition of the Loan Documents, shall be construed otherwise. Borrower hereby expressly acknowledges that no term or condition of the Loan Documents shall be construed so as to deem the relationship between Borrower, Guarantor and Lender to be other than that of borrower, guarantor and lender, and Borrower shall at all times represent that the relationship between Borrower, Guarantor and Lender is solely that of borrower, guarantor and lender. **BORROWER HEREBY INDEMNIFIES AND AGREES TO HOLD LENDER**

HARMLESS FROM AND AGAINST ANY COST, EXPENSE OR LIABILITY INCURRED OR SUFFERED BY LENDER AS A RESULT OF ANY ASSERTION OR CLAIM OF ANY OBLIGATION OR RESPONSIBILITY OF LENDER FOR THE MANAGEMENT, OPERATION AND CONDUCT OF THE BUSINESS AND AFFAIRS OF BORROWER OR GUARANTOR, OR AS A RESULT OF ANY ASSERTION OR CLAIM OF ANY LIABILITY OR RESPONSIBILITY OF LENDER FOR THE PAYMENT OR PERFORMANCE OF ANY INDEBTEDNESS OR OBLIGATION OF BORROWER OR GUARANTOR, INCLUDING WITHOUT LIMITATION ANY COST, EXPENSE OR LIABILITY RESULTING FROM ANY CLAIMS OF NEGLIGENCE OR ALLEGED NEGLIGENCE BY LENDER, BUT NOT ANY COST, EXPENSE OR LIABILITY ARISING FROM LENDER'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.

8.3 **INDEMNITY BY BORROWER. BORROWER HEREBY INDEMNIFIES LENDER AND EACH AFFILIATE THEREOF AND THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, AND AGENTS FROM, AND HOLDS EACH OF THEM HARMLESS AGAINST, ANY AND ALL LOSSES, LIABILITIES, CLAIMS, DAMAGES, COSTS, AND EXPENSES TO WHICH ANY OF THEM MAY BECOME SUBJECT, INSOFAR AS SUCH LOSSES, LIABILITIES, CLAIMS, DAMAGES, COSTS, AND EXPENSES ARISE FROM OR RELATE TO ANY OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREBY OR FROM ANY INVESTIGATION, LITIGATION, OR OTHER PROCEEDING, INCLUDING, WITHOUT LIMITATION, ANY THREATENED INVESTIGATION, LITIGATION, OR OTHER PROCEEDING RELATING TO ANY OF THE FOREGOING, INCLUDING WITHOUT LIMITATION, ANY LOSSES, LIABILITIES, CLAIMS, DAMAGES, COSTS, AND EXPENSES RESULTING FROM ANY CLAIMS OF NEGLIGENCE OR ALLEGED NEGLIGENCE BY LENDER, BUT NOT ANY LOSSES, LIABILITIES, CLAIMS, DAMAGES, COSTS, AND EXPENSES ARISING FROM LENDER'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.** Without intending to limit the remedies available to Lender with respect to the enforcement of its indemnification rights as stated herein or as stated in any Loan Document, in the event any claim or demand is made or any other fact comes to the attention of Lender in connection with, relating or pertaining to, or arising out of the transactions contemplated by this Agreement, which Lender reasonably believes might involve or lead to some liability of Lender, Borrower shall, immediately upon receipt of written notification of any such claim or demand, assume in full the personal responsibility for and the defense of any such claim or demand and pay in connection therewith any loss, damage, deficiency, liability or obligation, including, without limitation, legal fees and court costs incurred in connection therewith. In the event of court action in connection with any such claim or demand, Borrower shall assume in full the responsibility for the defense of any such action and shall immediately satisfy and discharge any final decree or judgment rendered therein. Lender may, in its sole discretion, make any payments sustained or incurred by reason of any of the foregoing; and Borrower shall immediately repay to Lender, in cash and not with proceeds of the Loan, the amount of such payment, with interest thereon at the Default Rate (as defined in the Note) from the date of such payment. Lender shall have the right to join Borrower as a party defendant in any legal action brought against Lender, and Borrower hereby consents to the entry of an order making Borrower a party defendant to any such action.

8.4 No Agency. Nothing herein shall be construed as making or constituting Lender as the agent of Borrower in making payments pursuant to any construction contracts or subcontracts entered into by Borrower for construction of the Improvements or otherwise. The purpose of all requirements of Lender hereunder is solely to allow Lender to check and require documentation (including, but not limited to, lien waivers) sufficient to protect Lender and the Loan contemplated hereby. Borrower shall have no right to rely on any procedures required by Lender, Borrower hereby acknowledging that Borrower has sole responsibility for constructing the Improvements and paying for work done in accordance therewith and that Borrower has solely, on Borrower's own behalf, selected or approved each contractor, each subcontractor and each materialman, Lender having no responsibility for any such Persons or for the quality of their materials or workmanship.

ARTICLE IX
MISCELLANEOUS

9.1 Successors and Assigns. This Agreement shall be binding upon, and shall inure to the benefit of, Borrower and Lender, and their respective heirs, legal representatives, successors and assigns; provided, however, that Borrower may not assign any rights or obligations under this Agreement without the prior written consent of Lender.

9.2 Headings. The Article, Section, and Subsection entitlements hereof are inserted for convenience of reference only and shall in no way alter, modify, define or be used in construing the text of such Articles, Sections or Subsections.

9.3 Survival. The provisions hereof shall survive the execution of all instruments herein mentioned, shall continue in full force and effect until the Loan has been paid in full and shall not be affected by any investigation made by any party.

9.4 **APPLICABLE LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND THE APPLICABLE LAWS OF THE UNITED STATES OF AMERICA. COURTS WITHIN THE STATE OF TEXAS SHALL HAVE JURISDICTION OVER ANY AND ALL DISPUTES BETWEEN BORROWER AND LENDER, WHETHER IN LAW OR EQUITY, INCLUDING, BUT NOT LIMITED TO, ANY AND ALL DISPUTES ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT; AND VENUE IN ANY SUCH DISPUTE WHETHER IN FEDERAL OR STATE COURT SHALL BE LAID IN DALLAS COUNTY, TEXAS.**

9.5 Notices. All notices or other communications required or permitted to be given pursuant to this Agreement shall be in writing and shall be considered as properly given if (i) mailed by first class United States mail, postage prepaid, registered or certified with return receipt requested; (ii) by delivering same in person to the intended addressee; or (iii) by delivery to an independent third party commercial delivery service for same day or next day delivery and providing for evidence of receipt at the office of the intended addressee. Notice so mailed shall be effective upon its deposit with the United States Postal Service or any successor thereto; notice sent a commercial delivery service shall be effective upon delivery to such commercial delivery service; notice given by personal delivery shall be effective only if and when received

by the addressee; and notice given by other means shall be effective only if and when received at the designated address of the intended addressee. For purposes of notice, the addresses of the parties shall be as set forth on page 1 of this Agreement; provided, however, that either party shall have the right to change its address for notice hereunder to any other location within the continental United States by the giving of thirty (30) days notice to the other party in the manner set forth herein.

9.6 Reliance by Lender. Lender is relying and is entitled to rely upon each and all of the provisions of this Agreement; and accordingly, if any provision or provisions of this Agreement should be held to be invalid or ineffective, then all other provisions hereof shall continue in full force and effect notwithstanding.

9.7 Participations. Lender shall have the right at any time and from time to time to grant participations in the Loan and Loan Documents or sell or assign its interest in the Loan and the Loan Documents to a thirty party. Each participant or assignee of Lender shall be entitled to receive all information received by Lender regarding the creditworthiness of Borrower, any of its principals and the Guarantor, including (without limitation) information required to be disclosed to a participant pursuant to Banking Circular 181 (Rev., August 2, 1984), issued by the Comptroller of the Currency (whether the participant is subject to the circular or not).

9.8 Maximum Interest. It is expressly stipulated and agreed to be the intent of Borrower and Lender at all times to comply strictly with the applicable Texas law governing the maximum rate or amount of interest payable on the Indebtedness (as defined in the Deed of Trust) (or applicable United States federal law to the extent that it permits Lender to contract for, charge, take, reserve or receive a greater amount of interest than under Texas law). If the applicable law is ever judicially interpreted so as to render usurious any amount (i) contracted for, charged, taken, reserved or received pursuant to the Note, any of the other Loan Documents or any other communication or writing by or between Borrower and Lender related to any of the Indebtedness, (ii) contracted for, charged or received by reason of Lender's exercise of the option to accelerate the maturity of the Note and/or any other portion of the Indebtedness, or (iii) Borrower will have paid or Lender will have received by reason of any voluntary prepayment by Borrower of the Note and/or any of the other Indebtedness, then it is Borrower's and Lender's express intent that all amounts charged in excess of the Maximum Lawful Rate (as defined in the Deed of Trust) shall be automatically canceled, *ab initio*, and all amounts in excess of the Maximum Lawful Rate theretofore collected by Lender shall be credited on the principal balance of the Note and/or any of the other Indebtedness (or, if the Note and all other Indebtedness have been or would thereby be paid in full, refunded to Borrower), and the provisions of the Note and the other Loan Documents immediately be deemed reformed and the amounts thereafter collectible hereunder and thereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder and thereunder; provided, however, if the Note has been paid in full before the end of the stated term of the Note, then Borrower and Lender agree that Lender shall, with reasonable promptness after Lender discovers or is advised by Borrower that interest was received in an amount in excess of the Maximum Lawful Rate, either refund such excess interest to Borrower and/or credit such excess interest against any other Indebtedness then owing by Borrower to Lender. Borrower hereby agrees that as a condition precedent to any claim seeking usury penalties against Lender, Borrower will provide written

notice to Lender, advising Lender in reasonable detail of the nature and amount of the violation, and Lender shall have sixty (60) days after receipt of such notice in which to correct such usury violation, if any, by either refunding such excess interest to Borrower or crediting such excess interest against the Note and/or other Indebtedness then owing by Borrower to Lender. All sums contracted for, charged or received by Lender for the use, forbearance or detention of any of the Indebtedness, including any portion of the debt evidenced by the Note shall, to the extent permitted by applicable law, be amortized or spread, using the actuarial method, throughout the stated term of the Note and/or other Indebtedness (including any and all renewal and extension periods) until payment in full so that the rate or amount of interest on account of the Note and/or other Indebtedness does not exceed the Maximum Lawful Rate from time to time in effect and applicable to the Note and/or the other Indebtedness for so long as any Indebtedness is outstanding. In no event shall the provisions of Chapter 346 of the Texas Finance Code (which regulates certain revolving credit loan accounts and revolving triparty accounts) apply to the Note and/or any of the other Indebtedness. Notwithstanding anything to the contrary contained herein or in any of the other Loan Documents, it is not the intention of Lender to accelerate the maturity of any interest that has not accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

9.9 Controlling Document. In the event of a conflict between the terms and conditions of this Agreement and the terms and conditions of any other Loan Document, the terms and conditions of this Agreement shall control.

9.10 Construction of Agreement. All pronouns, whether in masculine, feminine or neuter form, shall be deemed to refer to the object of such pronoun whether same is masculine, feminine or neuter in gender, as the context may suggest or require. All terms used herein, whether or not defined in ***Section 1.1*** hereof, and whether used in singular or plural form, shall be deemed to refer to the object of such term, whether such is singular or plural in nature, as the context may suggest or require.

9.11 Counterpart Execution. To facilitate execution, this Agreement may be executed in one or more counterparts as may be convenient or required, with all such counterparts collectively constituting a single instrument.

9.12 **JURISDICTION. BORROWER HEREBY IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY TEXAS OR FEDERAL COURT SITTING IN DALLAS, TEXAS (OR ANY COUNTY IN TEXAS WHERE ANY PORTION OF THE MORTGAGED PROPERTY IS LOCATED) OVER ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY OF THE LOAN DOCUMENTS, AND BORROWER HEREBY AGREES AND CONSENTS THAT, IN ADDITION TO ANY METHODS OF SERVICE OF PROCESS PROVIDED FOR UNDER APPLICABLE LAW, ALL SERVICE OF PROCESS IN ANY SUCH SUIT, ACTION OR PROCEEDING IN ANY TEXAS OR FEDERAL COURT SITTING IN DALLAS, TEXAS (OR SUCH OTHER COUNTY IN TEXAS) MAY BE MADE BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, DIRECTED TO BORROWER AT THE ADDRESS INDICATED BELOW, AND SERVICE SO MADE SHALL BE COMPLETE FIVE DAYS AFTER THE SAME SHALL HAVE BEEN SO MAILED.**

9.13 **WAIVER OF JURY TRIAL. BORROWER AND LENDER, BY ACCEPTANCE OF THIS AGREEMENT, ACKNOWLEDGE THAT THE RIGHT TO TRIAL BY JURY IS A CONSTITUTIONAL ONE, BUT THAT IT MAY BE WAIVED. EACH PARTY, AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF THEIR CHOICE, KNOWINGLY AND VOLUNTARILY, AND FOR THEIR MUTUAL BENEFIT, WAIVES ANY RIGHT TO TRIAL BY JURY IN THE EVENT OF LITIGATION REGARDING THE PERFORMANCE OR ENFORCEMENT OF, OR IN ANY WAY RELATED TO, THIS AGREEMENT OR THE INDEBTEDNESS.**

9.14 **USA PATRIOT ACT NOTIFICATION**. The following notification is provided to Borrower pursuant to Section 326 of the USA Patriot Act of 2001, 31 U.S.C. Section 5318:

IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT. To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each Person that opens an account, including any deposit account, treasury management account, loan, other extension of credit, or other financial services product. What this means for Borrower: When Borrower opens an account, if Borrower is an individual, Lender will ask for Borrower's name, taxpayer identification number, residential address, date of birth and other information that will allow Lender to identify Borrower, and, if Borrower is not an individual, Lender will ask for Borrower's name, tax identification number, business address, and other information that will allow Lender to identify Borrower. Lender may also ask, if Borrower is an individual, to see Borrower's driver's license or other identifying documents, and, if Borrower is not an individual, to see Borrower's legal organizational documents or other identifying documents.

9.15 **NOTICE OF INDEMNIFICATION. BORROWER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT CONTAINS CERTAIN INDEMNIFICATION PROVISIONS PURSUANT TO SECTIONS 5.9, 6.1, 6.3, 8.2 AND 8.3 HEREOF WHICH MAY, IN CERTAIN INSTANCES, INCLUDE INDEMNIFICATION BY BORROWER OR OTHERS AGAINST LENDER'S OWN NEGLIGENCE, BUT SAID INDEMNIFICATION DOES NOT INCLUDE INDEMNIFICATION FOR LENDER'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.**

9.16 **ENTIRE AGREEMENT. THIS LOAN AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES. THIS INSTRUMENT MAY BE AMENDED ONLY BY AN INSTRUMENT IN WRITING EXECUTED BY THE PARTIES HERETO. IN ACCORDANCE WITH SECTION 26.02 OF THE TEXAS BUSINESS AND COMMERCE CODE, THE PARTIES ACKNOWLEDGE THAT THE WRITTEN LOAN DOCUMENTS REPRESENT THE**

FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

9.17 List of Attachments:

Exhibit A - Land Description
Exhibit B - Budget
Exhibit C - Affidavit of Commencement
Exhibit D - Affidavit of Completion
Exhibit E - Insurance Requirements
Exhibit F - Release Parcel
Exhibit G - Retainage Milestones

The remainder of this page is blank. The signature page follows.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

LENDER:

COMERICA BANK

By: /s/ Sterling J. Silver
Sterling J. Silver, Senior Vice President

BORROWER:

BARTON CREEK TECOMA I, L.L.C.,
a Texas limited liability company

By: STRS L.L.C., a Delaware limited liability company, Manager

By: Stratus Properties Inc., a Delaware corporation, Sole Member

By: /s/ Erin D. Pickens
Erin D. Pickens, Senior Vice President

EXHIBIT A

Land Description

TRACT 1: Lot 4, Block B, BARTON CREEK SECTION N, BLOCK B, LOT 4, a subdivision in Travis County, Texas, according to the map or plat recorded under Document No. 201400316 of the Official Public Records of Travis County, Texas.

TRACT 2: Easement Estate for inspection, monitoring, operation, maintenance, replacement, upgrade and repair of drainage facilities created by that certain Declaration of Easements and Restrictive Covenants Regarding the Maintenance of Drainage Facilities for Barton Creek Section N Regional Detention Pond dated November 21, 2014, recorded under Document No. 2014188331 of the Official Public Records of Travis County, Texas, upon and across that certain tract or parcel of land described and depicted therein containing 9.201 acres, more or less, situated in the John McAllister Survey No. 71, Travis County, Texas.

TRACT 3: Easement Estate for inspection, monitoring, operation, maintenance, replacement, upgrade and repair of drainage facilities created by that certain Declaration of Easements and Restrictive Covenants Regarding the Maintenance of Drainage Facilities for Barton Creek Section N Irrigation Field dated November 21, 2014, recorded under Document No. 2014188330 of the Official Public Records of Travis County, Texas, upon and across that certain tract or parcel of land described and depicted therein containing 3.952 acres, more or less, situated in the John McAllister Survey No. 71, Travis County, Texas.

EXHIBIT B

Budget

CONSTRUCTION PROJECT BUDGET

Borrower: Barton Creek Tecoma I, LLC
Project Name: Tecoma Phase I
Project Type: Apartments
Location: Austin, TX
Construction Start Date: December 2014
Construction Completion Date: July 2016

# of Units: 236
or
Square Feet: 240,114
Land Acreage Net: 13.99 (Gross ac. = 44.888)
FAR: 0.39
Land Cost psf: $12.25

USES:	BUDGET TOTAL $	COST / Unit	COST /SF	COMERICA LOAN $	BORROWER EQUITY (4)
LAND COSTS					
Land (1)	$7,466,033	$31,636	$31.09	$0	$7,466,033
TOTAL LAND COSTS	$7,466,033	$31,636	$31.09	$0	$7,466,033
HARD COSTS					
Construction Base Building	$28,492,375	$120,730	$118.66	$26,304,306	$2,188,069
Site Development	$776,078	$3,288	$3.23	$776,078	$0
Landscaping	$550,000	$2,331	$2.29	$550,000	$0
Other	$98,000	$415	$0.41	$98,000	$0
Hard Cost Contingency (2.00%)	$599,225	$2,539	$2.50	$599,225	$0
TOTAL HARD COSTS	$30,515,678	$129,304	$127.09	$28,327,609	$2,188,069
SOFT COSTS:					
Architectural & Engineers Fees	$1,082,736	$4,588	$4.51	$1,082,736	$0
Leasing Costs	$300,000	$1,271	$1.25	$300,000	$0
Municipal Fees	$245,401	$1,040	$1.02	$245,401	$0
Appraisal & Legal	$332,000	$1,407	$1.38	$0	$332,000
Environmental	$14,500	$61	$0.06	$14,500	$0
Consulting Fees	$143,000	$606	$0.60	$143,000	$0
FF&E	$180,000	$763	$0.75	$180,000	$0
Insurance/Taxes	$240,606	$1,020	$1.00	$240,606	$0
Construction Management Fee	$230,000	$975	$0.96	$230,000	$0
Commitment Fee (.65%)	$223,841	$948	$0.93	$223,841	$0
Operating Reserve	$336,487	$1,426	$1.40	$336,487	$0
Developer Fee (2)	$1,375,221	$5,827	$5.73	$1,375,221	$0
Interest Reserve	$1,256,158	$5,323	$5.23	$1,256,158	$0
Soft Cost Contingency (3.23%)	$192,441	$815	$0.80	$192,441	$0
TOTAL SOFT COSTS	$6,152,391	$26,069	$25.62	$5,820,391	$332,000
TOTAL PROJECT COSTS	$44,134,102	$187,009	$183.80	$34,148,000	$9,986,102

SOURCES:	TOTAL $	COST / UNIT	COST / SF	% COSTS
BORROWER'S CASH EQUITY	$9,986,102	$42,314	$41.59	22.6%
COMERICA LOAN	$34,148,000	$144,695	$142.22	77.4%
TOTAL PROJECT SOURCES	$44,134,102	$187,009	$183.80	100.0%

FOOTNOTES:

(1) Land is valued at cost basis.
(2) Developer fee is 4.5% of total hard costs, to be advanced in equal monthly installments over the construction term.
(3) $526,078 of the Site Development line item are MUD Reimbursable.
(4) The allocation of the $2.52MM in cash equity (i.e., non-land equity) among budget line items will naturally adjust depending on those costs first incurred.

EXHIBIT C

Affidavit of Commencement

STATE OF TEXAS §

§

COUNTY OF TRAVIS §

Affidavit of COMMENCEMENT

BEFORE ME, the undersigned authority, on this day personally appeared _____, the _____ of Stratus Properties Inc., a Delaware corporation, the Sole Member of STRS L.L.C., a Delaware limited liability company, the Manager of Barton Creek Tecoma I, L.L.C., a Texas limited liability company ("**Owner**"), and _____, the _____ of Hinton Construction Company,. Inc. ("**Contractor**"), known to me to be the persons whose names are subscribed below, and who, being by me first duly sworn, did under their oath state as follows:

1. Owner. Owner is the owner of the hereinafter described real property being improved ("Property"), has authority to make this Affidavit, and whose address is:

Barton Creek Tecoma I, L.L.C.
c/o Stratus Properties Inc.
212 Lavaca Boulevard, Suite 300
Austin, Texas 78701

2. Contractor. Contractor is the original Contractor for the construction of improvements to the Property, as such improvements are described in the Agreement Between Owner and Contractor, dated December 15, 2014, has authority to make this Affidavit, and whose address is:

Hinton Construction Company, Inc.
110 Dalton Street
Shreveport, Louisiana 71106
Attention: Gary Hinton, Sr.

3. Original Contractors. There is no original contractor, known at this time to Owner, that is furnishing labor, service or materials for the construction of the Improvements other than Contractor.

4. Improvements. Certain improvements ("**Improvements**") are to be furnished pursuant to the original contract ("**Contract**") between Owner and Contractor, which Improvements are generally described as follows:

Development of a multifamily apartment project containing 236 units containing approximately 240,114 rentable square feet of space.

5. Property. Owner represents that Owner is the owner of the Property situated in Travis County, Texas, on which the Improvements are to be constructed and located, which Property is more particularly described as follows:

See Exhibit "A" attached hereto and incorporated herein by reference for all purposes.

6. Commencement. Work, as contemplated by Texas Property Code §53.124(c)(4), on the Improvements actually commenced on _____, at approximately _____ a.m.

7. This Affidavit has been jointly made by Owner and Contractor by and through the undersigned authorized representatives of each and may be recorded by any person with the county clerk of the county in which the Property is located, whereupon it shall be deemed to have been jointly filed by Owner and Contractor. This Affidavit is being executed and filed pursuant to §53.124 of the Texas Property Code, reference to which and to the remainder of Chapter 53 of the Texas Property Code is hereby made for definitions of terms used herein and for all other purposes.

[The Remainder of this Page is Intentionally Left Blank]

DATED as of the _____ day of _____, 201____.

OWNER:

BARTON CREEK TECOMA I, L.L.C.,

a Texas limited liability company

By: STRS L.L.C., a Delaware limited liability company, its Manager

By: Stratus Properties Inc.,

a Delaware corporation, its sole Member

By:
Name:
Title:

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

SUBSCRIBED AND SWORN BEFORE ME, on this ___ day of _____, 201____.

Notary Public in and for the State of Texas

THE STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on _____, 201___ by _____, the _____ of Stratus Properties Inc., a Delaware corporation, as Sole Member of STRS L.L.C., a Delaware limited liability company, as Manager of Barton Creek Tecoma I, L.L.C., a Texas limited liability company, on behalf of said entities.

Notary Public, State of Texas

My commission expires:

_____.

CONTRACTOR:

HINTON CONSTRUCTION COMPANY, INC.

By:

Name:
Title:

STATE OF _____ §
§
COUNTY OF §

SUBSCRIBED AND SWORN BEFORE ME, on this ___ day of _____, 201___.

Notary Public in and for the State of _____

STATE OF _____ §
§
COUNTY OF _____ §

This instrument was acknowledged before me on _____, 201___, by _____, the _____ of Hinton Construction Company, Inc., on behalf of said corporation
.

Notary Public, State of

My Commission Expires:

_____.

Exhibit A
Legal Description

EXHIBIT C, Affidavit of Commencement

EXHIBIT D

Affidavit of Completion

BEFORE ME, the undersigned authority, on this day personally appeared _____ ("**Affiant**"), the _____ of **Barton Creek Tecoma I, L.L.C.,** a Texas limited liability company ("**Owner**"), known to me to be the person whose name is subscribed below, and who, being by me first duly sworn, did his oath state as follows:

1. Owner. The name and address of Owner are:

Barton Creek Tecoma I, L.L.C.
c/o Stratus Properties Inc.
212 Lavaca Boulevard, Suite 300
Austin, Texas 78701

2. Contractor. The name and address of the original contractor ("**Contractor**") is:

Hinton Construction Company, Inc.
Attention: Gary Hinton, Sr.
110 Dalton Street
Shreveport, Louisiana 71106

3. Improvements. Certain improvements ("**Improvements**") were furnished under an original contract ("**Contract**") between Owner and Contractor, which Improvements are generally described as follows:

4. Real Property. Owner is the owner of the real property ("**Real Property**") situated in Travis County, Texas, on which the Improvements were constructed and are located, which Real Property is more particularly described as follows:

See Exhibit A attached hereto and incorporated herein by reference for all purposes.

5. Completion. The Improvements under the Contract between Owner and Contractor have been completed within the meaning of Texas Property Code §53.106(e), and the date of such completion was _____, 201__ ("**Date of Completion**").

6. Affiant. The Affiant is an authorized representative of Owner and has been duly authorized to execute this Affidavit of Completion and cause it to be recorded with the County Clerk of the county in which the Real Property is situated.

NOTICE: A CLAIMANT MAY NOT HAVE A LIEN ON RETAINED FUNDS UNLESS THE CLAIMANT FILES THE AFFIDAVIT CLAIMING A LIEN NOT LATER THAN THE 30TH DAY AFTER THE DATE OF COMPLETION.

DATED as of the _____ day of _____, 200__.

AFFIANT:

Print Name: ,
who is an authorized representative
of Owner

SUBSCRIBED AND SWORN BEFORE ME, on this the ___ day of _____, 200__.

[SEAL]

Notary Public, State of Texas

My Commission Expires:

_____ Printed or Typed Name of Notary

EXHIBIT E

INSURANCE REQUIREMENTS

ANY INSURER MAY BE SELECTED TO PROVIDE INSURANCE. LENDER RESERVES THE RIGHT, HOWEVER, TO APPROVE THE INSURER BASED ON ITS INTERNAL GUIDELINES. Basic guidelines require that an insurer be (a) licensed in the state of the Premises location and (b) listed in the current Best Key Rating Guide with a rating of **B+** or better.

Lender, together with tis successors and assigns, must be named as Loss Payee, Mortgagee or Additional Insured (as applicable) on the policy, binder or certificate.

"Replacement Cost" as used throughout this exhibit means that any loss coverage is based on the then current replacement cost up to the face amount of the policy or the actual loss, whichever is less (as opposed to actual cash value, which is the then current replacement cost less depreciation).

NAME OF INSURED:

The name of the insured must correspond with the borrowing entity on the loan documents, as follows: _____

PROPERTY ADDRESS:

The complete property address must be shown on the declaration of the policy or other evidence of insurance:

_____, _____

ORIGINAL POLICY/CERTIFICATES:

Coverage for Loans of $500,000 or more:

Lender must be provided with the original insurance policy, a certified copy thereof or a binder for 90 days or less (with original policy to follow), prior to loan funding.

If a master policy exists, a certified copy must be provided prior to loan funding. Evidence of Insurance or Certificate of Insurance forms are accepted when Lender has custody of a certified copy of a master policy.

CONDO/PLANNED UNIT DEVELOPMENTS:

A certified copy of the master policy must be provided. It must include: (a) Lender's Loss Payable Endorsement (438BFU or CP 12-18) language, (b) name of the condominium or planned unit development (PUD) project, (c) property address, (d) unit number, (e) total master policy coverage, (f) amount of coverage applying to this loan and (g) indicate that a Notice of Cancellation will be sent to Lender.

TYPE AND AMOUNT OF COVERAGE:

In addition to the above forms of insurance, a Certificate of Insurance indicating that a 30-day prior written notice must be sent to Lender in the event of cancellation, material change or non-renewal regardless of the loan amount.

[X] Building Insurance:

The Course of Construction or Builder's Risk Insurance Policy must be sufficient to rebuild or replace the Improvements at current replacement costs. The policy must insure against the standard perils of fire, extended coverage, vandalism, malicious mischief and it must cover materials on the jobsite.

[X] Business Personal Property:

If this policy is required by Lender, the policy must cover fixtures, furnishings or equipment that constitute part of the loan collateral.

[X] Borrower's Commercial General Liability:

The Borrower's insurance policy must have minimum liability limits of $1,000,000 per occurrence for Borrower's, Landlord's and Tenant's coverage. Lender must be named as Additional Insured. On Borrower/builder projects, the Named Insured must include all names of the legal entities involved.

[X] Contractor's Commercial General Liability:

The contractor's policy must have minimum liability limits of $1,000,000 per occurrence. The policy must include manufacturers and contractors protective coverage, independent contractors and products completed operations coverage, owners and contractors protective coverage and hired car and non-owned auto coverage. Both Lender and the Borrower must be named as Additional Insured by endorsement with the endorsement attached to the policy.

[X] Worker's Compensation:

This policy must be issued at state statutory limits for all employees. Coverage must include Employer's Liability ($1,000,000 minimum) naming Borrower or Contractor.

STANDARD ENDORSEMENTS:

[X] Lender's Loss Payable Endorsement (438 BFU or CP 12-18):

This endorsement is required on Builder's Risk, Course of Construction, Business Personal Property, Flood and Earthquake insurance policies. This endorsement must include standard 438BFU language and cover personal property described in the security instrument(s). This endorsement must contain the following wording: **"With respect to a loss payee designated in this policy, this insurance will continue in force**

throughout the loan term as to only the interest of the loss payee until (a) issuance of a Notice of Cancellation, (b) issuance of a Notice of Intent Not to Renew or (c) issuance of a Notice of Reduction of Coverage".

The endorsement shall be made payable to:

Comerica Lender, its successors and/or assigns
Insurance Service Center
PO Box 863299
Plano, TX 75086-3329

COMERICA MUST BE INCLUDED AS PAYEE ON ANY SETTLEMENT DRAFTS.

[X] Loss of Income aka Loss of Rents or Delay in Occupancy:

This endorsement is required on building insurance policies. Actual loss sustained coverage is preferred. Lender accepts coverage for the annual rental value.

TERM:

Throughout the loan term, the policy term shall not be less than one year prepaid or annual continuous policies.

DEDUCTIBLE:

The deductible for the property insurance shall be no more than **$25,000**. The deductible for liability insurance shall be no more than **$25,000**.

BROKER OF RECORD AUTHORIZATION:

A verbal or signed authorization by Borrower must accompany all mid-term and anniversary date changes in the Lender or broker of record shown in Lender's file.

OTHER MATTERS:

From time to time, Lender may require additional hazard or casualty insurance other than that checked above. Such other insurance on the property shall be in such amounts as may be required by Lender against other insurable hazards or casualties, which at the time are commonly insured against in the case of property similarly situated, due regard being given to the height and type of building construction, location, use and occupancy.

If insurance requirements are not met, Lender has certain rights under the Loan Documents including the right to stop construction disbursements, foreclose and/or the right to order coverage in full or in part. Lender may, at its option, order coverage from any insurance company or agency, including an affiliate of Lender. Borrower will be liable for the expense of the required coverage.

The amount of coverage required by Lender may not adequately protect Borrower's ownership equity in, contents of, or liability concerning the property. Lender has no responsibility to

protect Borrower's interest. Borrower should frequently review its insurance needs to determine that the policies are in effect and that the coverage is adequate.

Lender, at its sole discretion, may change its insurance requirements from time to time without prior written notice.

TEXAS FINANCE CODE NOTICE. TEXAS FINANCE CODE SECTION 307.052 COLLATERAL PROTECTION INSURANCE NOTICE: (A) BORROWER IS REQUIRED TO: (I) KEEP THE PREMISES INSURED AGAINST DAMAGE IN THE AMOUNT REQUIRED BY LENDER; (II) PURCHASE THE INSURANCE FROM AN INSURER THAT IS AUTHORIZED TO DO BUSINESS IN THE STATE OF TEXAS OR AN ELIGIBLE SURPLUS LINES INSURER; AND (III) NAME LENDER AS THE PERSON TO BE PAID UNDER THE POLICY IN THE EVENT OF A LOSS; (B) BORROWER MUST, IF REQUIRED BY LENDER, DELIVER TO LENDER A COPY OF THE POLICY AND PROOF OF THE PAYMENT OF PREMIUMS; AND (C) IF BORROWER FAILS TO MEET ANY REQUIREMENT LISTED IN PARAGRAPH (A) OR (B), LENDER MAY OBTAIN COLLATERAL PROTECTION INSURANCE ON BEHALF OF BORROWER AT BORROWER'S EXPENSE.

EXHIBIT F

Release Parcel

A DESCRIPTION OF 4.322 ACRES OF LAND SITUATED IN THE JOHN MCALLISTER SURVEY NO. 71, TRAVIS COUNTY, TEXAS, BEING A PORTION OF THAT CERTAIN 1021.175 ACRES OF LAND CONVEYED TO STRATUS PROPERTIES OPERATING CO. BY DEEDS RECORDED IN VOLUME 12467, PAGE 391 AND VOLUME 13237, PAGE 79 OF THE REAL PROPERTY RECORDS OF SAID COUNTY, SAID 4.322 ACRES AS SHOWN ON THE ACCOMPANYING SKETCH BEING MORE PARTICULARLY DESCRIBED BY METES AND BOUNDS AS FOLLOWS:

BEGINNING at a 5/8 inch iron rod with plastic cap marked "RPLS 4532" found for the northeast corner on the northerly terminus of William Cannon Drive West a 100 foot wide right-of-way (R.O.W.) dedicated by Barton Creek Section N, Block A, Lot 1, a subdivision of said 1021.175 acres whose plat is recorded in Document No. 200400269 of the Official Public Records of said county;

THENCE crossing said 1021.175 acres, along the proposed east R.O.W. line of said William Cannon Drive West, a distance of 304.52 feet along the arc of a curve to the right whose radius is 1250.00 feet, central angle is 13º57'29" and whose chord bears N2549'42"E, 303.76 feet to a 5/8 inch iron rod with plastic cap marked "RPLS 4532" set for the northwest corner of the herein described 4.322 acres;

THENCE, departing said proposed R.O.W. line, continuing across said 1021.175 acres the following three (3) courses:

1. S67º55'01"E, 629.17 feet to a 5/8 inch iron rod with plastic cap marked "RPLS 4532" set,

2. S3456'24"W, 316.49 feet to a 5/8 inch iron rod with plastic cap marked "RPLS 4532" set, and

3. N67º55'01"W, 578.28 feet to a 5/8 inch iron rod with plastic cap marked "RPLS 4532" set on the existing east R.O.W. line of said William Cannon Drive West from which a 5/8 inch iron rod with plastic cap marked "RPLS 4532" found for a point of tangency on said existing R.O.W. line bears a distance of 200.58 feet along the arc of a curve to the left whose radius is 1250.00 feet, central angle is 09º11'38" and whose chord bears S1406'29"W, 200.36 feet;

THENCE along said existing R.O.W. line a distance of 5.45 feet along the arc of a curve to the right whose radius is 1250.00 feet, central angle is 00º14'58" and whose chord bears N1849'48"E, 5.45 feet to the POINT OF BEGINNING containing 4.322 acres of land more or less.

EXHIBIT G

Retainage Milestones

ITEM NO.#	DESCRIPTION OF WORK	SCHEDULED VALUE
1	BOND	$0.00
2	MOBILIZATION & ACQUISITION	$200,000.00
3	GENERAL CONDITIONS	$1,316,460.00
4	LAYOUT	$71,250.00
5	SITEWORK & EROSION CONTROL	$788,093.00
6	SITE UTILITIES	$855,691.00
7	TERMITE TREATMENT	$12,719.00
8	CONCRETE Paving, Walks, Misc.	$837,000.00
9	CONCRETE SLAB-ON-GRADE	$1,596,241.00
10	GYPCRETE & LT. WT. CONCRETE	$604,500.00
11	RETAINING WALLS	$283,192.00
12	MASONRY/STUCCO/PAREX	$2,976,847.00
13	METAL STAIRS, RAILS, FENCE	$1,049,000.00
14	CARPORTS	$86,500.00
15	ROUGH CARPENTRY-LABOR	$1,600,000.00
16	ROUGH CARPENTRY-MATERIAL	$1,660,000.00
17	WOOD TRUSSES	$885,000.00
18	FINISH CARPENTRY-MATERIAL	$163,990.00
19	FINISH CARPENTRY-LABOR	$133,000.00
20	ROOFING AND SHEET METAL	$865,000.00
21	DAMPPROOFING & CAULK	$57,120.00
22	INSULATION	$350,838.00
23	FIRE CAULK	$35,000.00
24	DOORS AND FRAMES	$346,565.00
25	FINISH HARDWARE	$127,843.00
26	OH DOORS	$10,280.00
27	WINDOWS	$442,742.00
28	ALUMINUM STOREFRONT	$30,000.00
29	MIRRORS & SHOWER DOORS	$136,551.00
30	DRYWALL	$1,153,900.00
31	PAINTING	$388,000.00
32	CARPET &WOOD FLOORING	$555,237.00
33	CERAMIC TILE	$327,000.00
34	STAINED CONCRETE	$126,740.00
35	WIRE SHELVING	$37,065.00
36	SPECIALTIES	$93,350.00
	SUBTOTAL THIS PAGE	$20,202,714.00

ITEM NO.#	DESCRIPTION OF WORK	SCHEDULED VALUE
37	BLINDS	$190,128.00
38	APPLIANCES	$731,737.00
39	CABINETS	$638,000.00
40	GRANITE	$474,500.00
41	PLUMBING	$1,300,000.00
42	FIRE SPRINKLERS	$237,200.00
43	HVAC W/ NEST	$727,388.00
44	ELECTRICAL	$860,092.00
45	TELEPHONE/TV WIRING	$63,300.00
46	DRY UTILITIES	$159,000.00
47	LIGHT FIXTURES & FANS	$522,137.00
48	CLUB LIGHTING ALLOWANCE	$53,763.00
49	FIRE ALARMS	$103,250.00
50	FLAGPOLE	$3,450.00
51	TESTING	$48,069.00
52	G/L INSURANCE	$101,712.00
53	POOL, DECK, ARBOR ALLOW.	$400,000.00
54	PET WASH ALLOWANCE	$10,000.00
55	MONUMENT SIGN ALLOWANCE	$40,000.00
56	18 GARAGES	$285,000.00
57	AT-T DROPS/CELL ENHANCER	$22,000.00
59	OH & PROFIT	$1,318,935.00
	SUBTOTAL THIS PAGE	$8,289,661.00
	TOTALS:	$28,492,375.00

Comerica Bank **Installment Note**
LIBOR-based Rate (Interim Construction/Term Loan)

AMOUNT	**NOTE DATE**	**MATURITY DATE**
$34,148,000.00	January ___, 2015	January ____, 2018

For value received, the undersigned promise(s) to pay to the order of COMERICA BANK (herein called "**Bank**"), at any office of the Bank in the State of Texas, the principal sum of THIRTY-FOUR MILLION ONE HUNDRED FORTY-EIGHT THOUSAND AND NO/100 DOLLARS ($34,148,000.00), or, if less, the total of advances from time to time made hereon and remaining outstanding, together with interest in accordance with the terms and conditions contained herein.

Subject to the terms and conditions of this Note, the unpaid principal balance outstanding under this Note from time to time shall bear interest at the LIBOR-based Rate plus the Applicable Margin, except during any period of time during which, in accordance with the terms and conditions of this Note, the Indebtedness hereunder shall bear interest at the Prime Referenced Rate plus the Applicable Margin.

The LIBOR-based Rate plus the Applicable Margin shall be the Applicable Interest Rate under this Note from the date of this Note, as set forth above, until the end of the Interest Period applicable to such LIBOR-based Rate, which shall be the first Business Day of the next succeeding month following the date of this Note. Effective as of the first Business Day of such next succeeding month, and as of the first Business Day of each succeeding month thereafter, the LIBOR-based Rate for the Interest Period commencing as of each such date shall become effective and such LIBOR-based Rate plus the Applicable Margin shall continue to be the Applicable Interest Rate for and in respect of the unpaid principal Indebtedness from time to time outstanding under this Note during such Interest Period, unless the LIBOR-based Rate is not otherwise available to the undersigned as the basis for the Applicable Interest Rate hereunder for the principal Indebtedness outstanding hereunder in accordance with the terms of this Note, in which case, the Prime Referenced Rate plus the Applicable Margin shall be the Applicable Interest Rate hereunder in respect of such Indebtedness for such period, subject in all respects to the terms and conditions of this Note. The foregoing shall not in any way whatsoever limit or otherwise affect any of Bank's rights or remedies under this Note upon the occurrence of any Default hereunder, or any condition or event which, with the giving of notice or the running of time, or both, would constitute a Default.

Interest accruing hereunder on the basis of the Prime Referenced Rate (to the extent applicable) shall be computed on the basis of a 360-day year, and shall be assessed for the actual number of days elapsed, and in such computation, effect shall be given to any change in the Applicable Interest Rate as a result of any change in the Prime Referenced Rate, on the date of each such change. Interest accruing on the basis of the LIBOR-based Rate shall be computed on the basis of a 360 day year and shall be assessed for the actual number of days elapsed from the first day of the Interest Period applicable thereto but not including the last day thereof.

Payments under this Note shall be first applied to accrued and unpaid interest hereunder and the balance, if any, to principal.

Accrued and unpaid interest hereunder shall be payable monthly, in arrears, on the first (1st) day of each month, commencing on February 1, 2015, and on a like day of each succeeding month thereafter, until the Maturity Date, when the entire unpaid balance of principal and interest under this Note shall be due and payable (unless sooner accelerated in accordance with the terms of this Note). In the event the undersigned extends the Maturity Date pursuant to and in accordance with the First Extension Period (as defined in the Loan Agreement), then commencing on the first (1st) day of the first month after the commencement of the First Extension Period and continuing on the first (1st) day of each month thereafter until the First Extended Maturity Date (as defined in the Loan Agreement), in addition to accrued interest, principal on this Note shall be paid in equal monthly principal installments in an amount equal to the Monthly Principal Installment (as defined in the Loan Agreement). Thereafter, in the event the undersigned further extends the Maturity Date pursuant to and in accordance with the Second Extension Period (as defined in the Loan Agreement), then the undersigned shall continue to pay on the first (1st) day of each month until the Second Extended Maturity Date (as defined in the Loan Agreement), in addition to accrued interest, monthly principal installments in an amount equal to the Monthly Principal Installment. Unless sooner accelerated in accordance with the terms of this Note, the entire remaining unpaid balance of principal and accrued interest on this Note shall be payable on the Maturity Date set forth above.

Subject to the terms and conditions of this Note and the other Loan Documents (defined below), advances of principal may be made hereunder until, but not after, the original Maturity Date, subject to the terms and conditions of the Loan Agreement. The sum of all advances made hereunder shall not exceed the face amount hereof, and amounts repaid may not be reborrowed. The principal amount payable under this Note shall be the sum of all advances made by the Bank to or at the request of the undersigned less principal payments actually received by the Bank. The books and records of the Bank shall be the best evidence of the principal amount and the unpaid interest amount owing at any time under this Note and shall be conclusive absent manifest error.

From and after the occurrence of any Event of Default (as defined in the Loan Agreement), and so long as any such Event of Default remains unremedied or uncured thereafter, the Indebtedness outstanding under this Note shall bear interest at a per annum rate of three percent (3%) above the otherwise Applicable Interest Rate(s) (the "**Default Rate**"), which interest shall be payable upon demand. In addition to the foregoing, a late payment charge equal to five percent (5%) of each late payment hereunder may be charged on any payment not received by Bank within ten (10) calendar days after the payment due date therefor (excluding the final installment due on maturity, whether by acceleration or otherwise), but acceptance of payment of any such charge shall not constitute a waiver of any Event of Default hereunder.

In no event shall the interest payable under this Note at any time exceed the Maximum Rate. The term "**Maximum Rate**", as used herein, shall mean at the particular time in question the maximum nonusurious rate of interest which, under applicable law, may then be charged on this Note. If on any day the Applicable Interest Rate hereunder in respect of any Indebtedness under this Note shall exceed the Maximum Rate for that day, the rate of interest applicable to such Indebtedness shall be fixed at the Maximum Rate on that day and on each day thereafter until the

total amount of interest accrued on the unpaid principal balance of this Note equals the total amount of interest which would have accrued if there had been no Maximum Rate. If such maximum rate of interest changes after the date hereof, the Maximum Rate shall be automatically increased or decreased, as the case may be, without notice to the undersigned from time to time as of the effective date of each change in such maximum rate. For purposes of determining the Maximum Rate under the law of the State of Texas, the applicable interest rate ceiling shall be the "weekly ceiling" from time to time in effect under Chapter 303 of the Texas Finance Code, as amended.

The amount from time to time outstanding under this Note, the Applicable Interest Rate(s), the Interest Period(s), if applicable, and the amount and date of any repayment shall be noted on Bank's records, which records shall be conclusive evidence thereof, absent manifest error; provided, however, any failure by Bank to make any such notation, or any error in any such notation, shall not relieve the undersigned of its obligations to repay Bank all amounts payable by the undersigned to Bank under or pursuant to this Note, when due in accordance with the terms hereof.

Subject to the definition of an "Interest Period" hereunder, in the event that any payment under this Note becomes due and payable on any day which is not a Business Day, the due date thereof shall be extended to the next succeeding Business Day, and, to the extent applicable, interest shall continue to accrue and be payable thereon during such extension at the rates set forth in this Note.

All payments to be made by the undersigned to Bank under or pursuant to this Note shall be in immediately available United States funds, without setoff or counterclaim, and in the event that any payments submitted hereunder are in funds not available until collected, said payments shall continue to bear interest until collected.

In the event that the LIBOR-based Rate plus the Applicable Margin is the Applicable Interest Rate for the principal Indebtedness outstanding under this Note, and any payment or prepayment of any such Indebtedness shall occur on any day other than the last day of the Interest Period applicable thereto (whether voluntarily, by acceleration, required payment or otherwise), or if the undersigned shall fail to make any payment of principal or interest hereunder at any time that the LIBOR-based Rate is the basis for the Applicable Interest Rate hereunder in respect of such Indebtedness, the undersigned shall reimburse Bank, on demand, for any resulting loss, cost or expense incurred by Bank as a result thereof, including, without limitation, any such loss, cost or expense incurred in obtaining, liquidating, employing or redeploying deposits from third parties ("**LIBOR Costs**"). Such amount payable by the undersigned to Bank may include, without limitation, an amount equal to the excess, if any, of (a) the amount of interest which would have accrued on the amount so prepaid, for the period from the date of such prepayment through the last day of the relevant Interest Period, at the applicable rate of interest provided under this Note, over (b) the amount of interest (as reasonably determined by Bank) which would have accrued to Bank on such amount by placing such amount on deposit for a comparable period with leading banks in the interbank eurodollar market. Calculation of any amounts payable to Bank under this paragraph shall be made as though Bank shall have actually funded or committed to fund the relevant Indebtedness hereunder through the purchase of an underlying deposit in an amount equal to the amount of such Indebtedness and having a maturity comparable to the relevant Interest Period; provided, however, that Bank may fund the Indebtedness hereunder in any

manner it deems fit and the foregoing assumptions shall be utilized only for the purpose of the calculation of amounts payable under this paragraph. Upon the written request of the undersigned, Bank shall deliver to the undersigned a certificate setting forth the basis for determining such losses, costs and expenses, which certificate shall be conclusively presumed correct, absent manifest error. The undersigned may prepay all or any part of the outstanding balance of any Indebtedness hereunder at any time without premium or penalty, provided, however, that if the undersigned prepays any part of the outstanding balance of any Indebtedness hereunder which is bearing interest at such time based upon the LIBOR-based Rate, the undersigned shall pay to the Bank LIBOR Costs incurred by the Bank due to such prepayment. Any prepayment hereunder shall also be accompanied by the payment of all accrued and unpaid interest on the amount so prepaid. Partial prepayments hereunder shall be applied to the installments hereunder in the inverse order of their maturities.

For any Indebtedness hereunder for which the Applicable Interest Rate is at any time based upon the LIBOR-based Rate, if Bank shall designate a LIBOR Lending Office which maintains books separate from those of the rest of Bank, Bank shall have the option of maintaining and carrying this Note and the relevant Indebtedness hereunder on the books of such LIBOR Lending Office.

If, at any time, Bank determines that, (a) Bank is unable to determine or ascertain the LIBOR-based Rate, or (b) by reason of circumstances affecting the foreign exchange and interbank markets generally, deposits in eurodollars in the applicable amounts or for the relative maturities are not being offered to Bank for any applicable Interest Period, or (c) the LIBOR-based Rate plus the Applicable Margin will not accurately or fairly cover or reflect the cost to Bank of maintaining any of the Indebtedness under this Note based upon the LIBOR-based Rate, then Bank shall forthwith give notice thereof to the undersigned. Thereafter, until Bank notifies the undersigned that such conditions or circumstances no longer exist, any obligation of the Bank to maintain any of the Indebtedness outstanding under this Note at an Applicable Interest Rate based upon the LIBOR-based Rate shall be suspended, and the Prime Referenced Rate plus the Applicable Margin shall be the Applicable Interest Rate for all Indebtedness hereunder during such period of time.

If any Change in Law shall make it unlawful or impossible for the Bank (or its LIBOR Lending Office) to maintain any of the Indebtedness under this Note with interest based upon the LIBOR-based Rate, Bank shall forthwith give notice thereof to the undersigned. Thereafter, (a) until Bank notifies the undersigned that such conditions or circumstances no longer exist, any obligation of the Bank to maintain any of the Indebtedness hereunder at an Applicable Interest Rate based upon the LIBOR-based Rate shall be suspended, and thereafter, the Prime Referenced Rate plus the Applicable Margin shall be the Applicable Interest Rate for the Indebtedness hereunder during such period of time, and (b) if Bank may not lawfully continue to maintain the Indebtedness hereunder at an Applicable Interest Rate based upon the LIBOR-based Rate to the end of the then current Interest Period applicable thereto, the Prime Referenced Rate plus the Applicable Margin shall be the Applicable Interest Rate for the remainder of such Interest Period.

If any Change in Law: (a) shall subject Bank (or its LIBOR Lending Office) to any tax, duty or other charge with respect to this Note or any Indebtedness hereunder, or shall change the basis of taxation of payments to Bank (or its LIBOR Lending Office) of the principal of or interest under this Note or any other amounts due under this Note in respect thereof (except for changes in the

rate of tax on the overall net income of Bank or its LIBOR Lending Office imposed by the jurisdiction in which Bank's principal executive office or LIBOR Lending Office is located); or (b) shall impose, modify or deem applicable any reserve (including, without limitation, any imposed by the Board of Governors of the Federal Reserve System), special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by Bank (or its LIBOR Lending Office), or shall impose on Bank (or its LIBOR Lending Office) or the foreign exchange and interbank markets any other condition affecting this Note or the Indebtedness hereunder; and the result of any of the foregoing is to increase the cost to Bank of maintaining any part of the Indebtedness hereunder or to reduce the amount of any sum received or receivable by Bank under this Note by an amount deemed by the Bank to be material, then the undersigned shall pay to Bank, within fifteen (15) days of the undersigned's receipt of written notice from Bank demanding such compensation, such additional amount or amounts as will compensate Bank for such increased cost or reduction. A certificate of Bank, prepared in good faith and in reasonable detail by Bank and submitted by Bank to the undersigned, setting forth the basis for determining such additional amount or amounts necessary to compensate Bank shall be conclusive and binding for all purposes, absent manifest error.

In the event that any Change in Law affects or would affect the amount of capital required or expected to be maintained by Bank (or any corporation controlling Bank), and Bank determines that the amount of such capital is increased by or based upon the existence of any obligations of Bank hereunder or the maintaining of any Indebtedness hereunder, and such increase has the effect of reducing the rate of return on Bank's (or such controlling corporation's) capital as a consequence of such obligations or the maintaining of such Indebtedness hereunder to a level below that which Bank (or such controlling corporation) could have achieved but for such circumstances (taking into consideration its policies with respect to capital adequacy), then the undersigned shall pay to Bank, within fifteen (15) days of the undersigned's receipt of written notice from Bank demanding such compensation, additional amounts as are sufficient to compensate Bank (or such controlling corporation) for any increase in the amount of capital and reduced rate of return which Bank reasonably determines to be allocable to the existence of any obligations of the Bank hereunder or to maintaining any Indebtedness hereunder. A certificate of Bank as to the amount of such compensation, prepared in good faith and in reasonable detail by the Bank and submitted by Bank to the undersigned, shall be conclusive and binding for all purposes absent manifest error.

This Note and any other indebtedness and liabilities of any kind of the undersigned to the Bank, and any and all modifications, renewals or extensions of it, whether joint or several, contingent or absolute, now existing or later arising, and however evidenced and whether incurred voluntarily or involuntarily, known or unknown, or originally payable to the Bank or to a third party and subsequently acquired by Bank including, without limitation, any late charges; loan fees or charges; overdraft indebtedness; costs incurred by Bank in establishing, determining, continuing or defending the validity or priority of any security interest, pledge or other lien or in pursuing any of its rights or remedies under any Loan Document (or otherwise) or in connection with any proceeding involving the Bank as a result of any financial accommodation to the undersigned; and reasonable costs and expenses of attorneys and paralegals, whether inside or outside counsel is used, and whether any suit or other action is instituted, and to court costs if suit or action is instituted, and whether any such fees, costs or expenses are incurred at the trial court level or on appeal, in bankruptcy, in administrative proceedings, in probate proceedings or otherwise (collectively "**Indebtedness**") are secured by and the Bank is granted a security

interest in and lien upon all items deposited in any account of the undersigned with the Bank and by all proceeds of these items (cash or otherwise), all account balances of the undersigned from time to time with the Bank, by all property of the undersigned from time to time in the possession of the Bank and by any other collateral, rights and properties described in each and every deed of trust, mortgage, security agreement, pledge, assignment and other security or collateral agreement which has been, or will at any time(s) later be, executed by the undersigned to or for the benefit of the Bank (collectively "**Collateral**"). Notwithstanding the above, (i) to the extent that any portion of the Indebtedness is a consumer loan, that portion shall not be secured by any deed of trust or mortgage on or other security interest in the undersigned's principal dwelling or in the undersigned's real property which is not a purchase money security interest as to that portion, unless expressly provided to the contrary in another place, or (ii) if the undersigned has (have) given or give(s) the Bank a deed of trust or mortgage covering real property which, under Texas law, constitutes the homestead of such person, that deed of trust or mortgage shall not secure this Note or any other indebtedness of the undersigned unless expressly provided to the contrary in another place.

If an Event of Default (as defined in the Loan Agreement) occurs and is continuing, then the Bank may, at its option and without prior notice to the undersigned, declare any or all of the Indebtedness to be immediately due and payable (notwithstanding any provisions contained in the evidence of it to the contrary), sell or liquidate all or any portion of the Collateral, set off against the Indebtedness any amounts owing by the Bank to the undersigned, charge interest at the Default Rate and exercise any one or more of the rights and remedies granted to the Bank by any Loan Document or given to it under applicable law.

The undersigned authorize(s) the Bank to charge any account(s) of the undersigned with the Bank for any and all sums due hereunder when due; provided, however, that such authorization shall not affect the undersigned's obligation to pay to the Bank all amounts when due, whether or not any such account balances that are maintained by the undersigned with the Bank are insufficient to pay to the Bank any amounts when due, and to the extent that are insufficient to pay to the Bank all such amounts, the undersigned shall remain liable for any deficiencies until paid in full.

This Note shall bind the undersigned, and the undersigned's respective heirs, personal representatives, successors and assigns.

Except as specifically set forth in a Loan Documents, the undersigned waive(s) presentment, demand, protest, notice of dishonor, notice of demand or intent to demand, notice of acceleration or intent to accelerate, and all other notices, and agree(s) that no extension or indulgence to the undersigned or release, substitution or nonenforcement of any security, or release or substitution of the undersigned, any guarantor or any other party, whether with or without notice, shall affect the obligations of the undersigned. The undersigned waive(s) all defenses or right to discharge available under Section 3-605 of the Texas Uniform Commercial Code and waive(s) all other suretyship defenses or right to discharge. The undersigned agree(s) that the Bank has the right to sell, assign, or grant participations or any interest in, any or all of the Indebtedness, and that, in connection with this right, but without limiting its ability to make other disclosures to the full extent allowable, the Bank may disclose all documents and information which the Bank now or later has relating to the undersigned or the Indebtedness. The undersigned agree(s) that the Bank

may provide information relating to this Note or relating to the undersigned to the Bank's parent, affiliates, subsidiaries and service providers.

The undersigned agree(s) to pay or reimburse Bank, or any other holder or owner of this Note, on demand, for any and all costs and expenses (including, without limit, court costs, legal expenses and reasonable attorneys' fees, whether inside or outside counsel is used, whether or not suit is instituted, and, if suit is instituted, whether at the trial court level, appellate level, in a bankruptcy, probate or administrative proceeding or otherwise) incurred in connection with the preparation, execution, delivery, amendment, administration, and performance of this Note and the related documents, or incurred in collecting or attempting to collect this Note or the Indebtedness or incurred in any other matter or proceeding relating to this Note or the Indebtedness.

The undersigned acknowledge(s) and agree(s) that there are no contrary agreements, oral or written, establishing a term of this Note and agree(s) that the terms and conditions of this Note may not be amended, waived or modified except in a writing signed by an officer of the Bank expressly stating that the writing constitutes an amendment, waiver or modification of the terms of this Note. As used in this Note, the word "undersigned" means, individually and collectively, each maker, accommodation party, endorser and other party signing this Note in a similar capacity. If any provision of this Note is unenforceable in whole or part for any reason, the remaining provisions shall continue to be effective. Chapter 346 of the Texas Finance Code (and as the same may be incorporated by reference in other Texas statutes) shall not apply to the Indebtedness evidenced by this Note. **THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF TEXAS, WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES.**

This Note and all other documents, instruments and agreements evidencing, governing, securing, guaranteeing or otherwise relating to or executed pursuant to or in connection with this Note or the Indebtedness evidenced hereby (whether executed and delivered prior to, concurrently with or subsequent to this Note), as such documents may have been or may hereafter be amended from time to time (collectively, the "**Loan Documents**") are intended to be performed in accordance with, and only to the extent permitted by, all applicable usury laws. If any provision hereof or of any of the other Loan Documents or the application thereof to any person or circumstance shall, for any reason and to any extent, be invalid or unenforceable, neither the application of such provision to any other person or circumstance nor the remainder of the instrument in which such provision is contained shall be affected thereby and shall be enforced to the greatest extent permitted by law. It is expressly stipulated and agreed to be the intent of the holder hereof to at all times comply with the usury and other applicable laws now or hereafter governing the interest payable on the indebtedness evidenced by this Note. If the applicable law is ever revised, repealed or judicially interpreted so as to render usurious any amount called for under this Note or under any of the other Loan Documents, or contracted for, charged, taken, reserved or received with respect to the indebtedness evidenced by this Note, or if Bank's exercise of the option to accelerate the maturity of this Note, or if any prepayment by the undersigned or prepayment agreement results (or would, if complied with, result) in the undersigned having paid, contracted for or being charged for any interest in excess of that permitted by law, then it is the express intent of the undersigned and Bank that this Note and the other Loan Documents shall be limited to the extent necessary to prevent such result and all excess amounts theretofore collected by Bank shall be credited on the principal balance of this

Note or, if fully paid, upon such other Indebtedness as shall then remain outstanding (or, if this Note and all other Indebtedness have been paid in full, refunded to the undersigned), and the provisions of this Note and the other Loan Documents shall immediately be deemed reformed and the amounts thereafter collectable hereunder and thereunder reduced, without the necessity of the execution of any new document, so as to comply with the then applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder or thereunder. All sums paid, or agreed to be paid, by the undersigned for the use, forbearance, detention, taking, charging, receiving or reserving of the indebtedness of the undersigned to Bank under this Note or arising under or pursuant to the other Loan Documents shall, to the maximum extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of such indebtedness until payment in full so that the rate or amount of interest on account of such indebtedness does not exceed the usury ceiling from time to time in effect and applicable to such indebtedness for so long as such indebtedness is outstanding. To the extent federal law permits Bank to contract for, charge or receive a greater amount of interest, Bank will rely on federal law instead of the Texas Finance Code, as supplemented by Texas Credit Title, for the purpose of determining the Maximum Rate. Additionally, to the maximum extent permitted by applicable law now or hereafter in effect, Bank may, at its option and from time to time, implement any other method of computing the Maximum Rate under the Texas Finance Code, as supplemented by Texas Credit Title, or under other applicable law, by giving notice, if required, to the undersigned as provided by applicable law now or hereafter in effect. Notwithstanding anything to the contrary contained herein or in any of the other Loan Documents, it is not the intention of Bank to accelerate the maturity of any interest that has not accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

For the purposes of this Note, the following terms have the following meanings:

"**Applicable Interest Rate**" means, in respect of all or any part of the Indebtedness hereunder, either the LIBOR-based Rate plus the Applicable Margin or (subject to the terms of this Note) the Prime Referenced Rate plus the Applicable Margin, as determined in accordance with the terms and conditions of this Note.

"**Applicable Margin**" means, (i) with respect to any principal accruing interest at the LIBOR-based Rate, two and one-half percent (2.5%) per annum, or (ii) with respect to any principal accruing interest at the Prime Referenced Rate, three-quarters of one percent (0.75%) per annum.

"**Business Day**" means any day, other than a Saturday, Sunday or any other day designated as a holiday under Federal or applicable State statute or regulation, on which Bank is open for all or substantially all of its domestic and international business (including dealings in foreign exchange) in Dallas, Texas, and, in respect of notices and determinations relating to the LIBOR-based Rate, also a day on which dealings in dollar deposits are also carried on in the London interbank market and on which banks are open for business in London, England.

"**Change in Law**" means the occurrence, after the date hereof, of any of the following: (i) the adoption or introduction of, or any change in any applicable law, treaty, rule or regulation (whether domestic or foreign) now or hereafter in effect and whether or not applicable to Bank on such date, or (ii) any change in interpretation, administration or implementation of any such law, treaty, rule or regulation by any Governmental Authority, or (iii) the issuance, making or implementation by any Governmental Authority of any interpretation, administration, request,

regulation, guideline, or directive (whether or not having the force of law), including any risk-based capital guidelines. For purposes of this definition, (x) a change in law, treaty, rule, regulation, interpretation, administration or implementation shall include, without limitation, any change made or which becomes effective on the basis of a law, treaty, rule, regulation, interpretation, administration or implementation then in force, the effective date of which change is delayed by the terms of such law, treaty, rule, regulation, interpretation, administration or implementation, and (y) the Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub. L. 111-203, H.R. 4173) and all requests, rules, regulations, guidelines, interpretations or directives promulgated thereunder or issued in connection therewith shall be deemed to be a "Change in Law", regardless of the date enacted, adopted, issued or promulgated, whether before or after the date hereof, and (z) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States regulatory authorities, in each case pursuant to Basel III, shall each be deemed to be a "Change in Law", regardless of the date enacted, adopted, issued or implemented.

"**Governmental Authority**" means the government of the United States of America or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including, without limitation, any supranational bodies such as the European Union or the European Central Bank).

"**Interest Period**" means a period of one (1) month (or such shorter period as may be acceptable to Bank in its sole discretion). The initial Interest Period hereunder shall commence as of the date of the first advance under this Note, and shall end on the first Business Day of the next succeeding month following the date of such advance. The next occurring Interest Period, and each succeeding Interest Period, shall commence on the first Business Day of the month and shall end on the first Business Day of the next succeeding month; provided, however, that no Interest Period shall extend beyond the Maturity Date.

"**LIBOR-based Rate**" means a per annum interest rate which is equal to the quotient of the following:

(a) the LIBOR Rate;

divided by

(b) 1.00 minus the maximum rate (expressed as a decimal) during such Interest Period at which Bank is required to maintain reserves on "Euro-currency Liabilities" as defined in and pursuant to Regulation D of the Board of Governors of the Federal Reserve System or, if such regulation or definition is modified, and as long as Bank is required to maintain reserves against a category of liabilities which includes eurodollar deposits or includes a category of assets which includes eurodollar loans, the rate at which such reserves are required to be maintained on such category.

"**LIBOR Lending Office**" means Bank's office located in the Cayman Islands, British West Indies, or such other branch of Bank, domestic or foreign, as it may hereafter designate as its LIBOR Lending Office by notice to the undersigned.

"**LIBOR Rate**" means, with respect to any Indebtedness outstanding under this Note bearing interest on the basis of the LIBOR-based Rate, the per annum rate of interest determined on the basis of the rate for deposits in United States Dollars for a period equal to the relevant Interest Period for such Indebtedness, commencing on the first day of such Interest Period, appearing on Page BBAM of the Bloomberg Financial Markets Information Service as of 11:00 a.m. (Dallas, Texas time) (or as soon thereafter as practical), two (2) Business Days prior to the first day of such Interest Period. In the event that such rate does not appear on Page BBAM of the Bloomberg Financial Markets Information Service (or otherwise on such Service), the "LIBOR Rate" shall be determined by reference to such other publicly available service for displaying eurodollar rates as may be reasonably selected by Bank, or, in the absence of such other service, the "LIBOR Rate" shall, instead, be determined based upon the average of the rates at which Bank is offered dollar deposits at or about 11:00 a.m. (Dallas, Texas time) (or as soon thereafter as practical), two (2) Business Days prior to the first day of such Interest Period in the interbank eurodollar market in an amount comparable to the amount of the outstanding Indebtedness hereunder which is to bear interest on the basis of such LIBOR-based Rate and for a period equal to the relevant Interest Period.

"**Loan Agreement**" means that certain Construction Loan Agreement dated of even date herewith, executed by and between the undersigned and Bank.

"**Prime Rate**" means the per annum interest rate established by Bank as its prime rate for its borrowers, as such rate may vary from time to time, which rate is not necessarily the lowest rate on loans made by Bank at any such time.

"**Prime Referenced Rate**" means a per annum interest rate which is equal to the Prime Rate.

No delay or failure of Bank in exercising any right, power or privilege hereunder shall affect such right, power or privilege, nor shall any single or partial exercise thereof preclude any further exercise thereof, or the exercise of any other power, right or privilege. The rights of Bank under this Note are cumulative and not exclusive of any right or remedies which Bank would otherwise have, whether by other instruments or by law.

THE UNDERSIGNED AND BANK, BY ACCEPTANCE OF THIS NOTE, ACKNOWLEDGE THAT THE RIGHT TO TRIAL BY JURY IS A CONSTITUTIONAL ONE, BUT THAT IT MAY BE WAIVED UNDER CERTAIN CIRCUMSTANCES. TO THE EXTENT PERMITTED BY LAW, EACH PARTY, AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF THEIR CHOICE, KNOWINGLY AND VOLUNTARILY, AND FOR THEIR MUTUAL BENEFIT, WAIVES ANY RIGHT TO TRIAL BY JURY IN THE EVENT OF LITIGATION REGARDING THE PERFORMANCE OR ENFORCEMENT OF, OR IN ANY WAY RELATED TO, THIS NOTE OR THE INDEBTEDNESS.

THIS WRITTEN LOAN AGREEMENT (AS DEFINED BY SECTION 26.02 OF THE TEXAS BUSINESS AND COMMERCE CODE) REPRESENTS THE FINAL

AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

[signature page follows]

[signature page to Installment Note]

BARTON CREEK TECOMA I, L.L.C.,
a Texas limited liability company

By: STRS L.L.C., a Delaware limited liability company, Manager

By: Stratus Properties Inc., a Delaware corporation, Sole Member

By: /s/ Erin D. Pickens
Erin D. Pickens, Senior Vice President

212 Lavaca Boulevard, Suite 300 Austin Texas 78701
street address city state zip code

For Bank Use Only				
OFFICER INITIALS	LOAN GROUP NAME	OBLIGOR NAME		
OFFICER ID NO.	LOAN GROUP NO.	OBLIGOR NO.	NOTE NO.	AMOUNT

Stratus properties inc.
2013 STOCK INCENTIVE PLAN

SECTION 1

Purpose. The purpose of the Stratus Properties Inc. 2013 Stock Incentive Plan (the "Plan") is to increase stockholder value and advance the interests of the Company and its Subsidiaries by furnishing a variety of equity incentives designed to (i) attract, retain, and motivate key employees, officers, and directors of the Company and consultants and advisers to the Company and (ii) strengthen the mutuality of interests among such persons and the Company's stockholders.

SECTION 2

Definitions. As used in the Plan, the following terms shall have the meanings set forth below:

"Award" shall mean any Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, or Other Stock-Based Award.

"Award Agreement" shall mean any written or electronic notice of grant, agreement, contract, or other instrument or document evidencing any Award, which the Company may, but need not, require a Participant to execute, acknowledge, or accept.

"Board" shall mean the Board of Directors of the Company.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Committee" refers to the Compensation Committee of the Board, the Nominating and Corporate Governance Committee of the Board, or both of these committees, as the context indicates.

"Common Stock" shall mean the Company's common stock, $0.01 par value per share.

"Company" shall mean Stratus Properties Inc.

"Designated Beneficiary" shall mean the beneficiary designated by the Participant, in a manner determined by the Committee, to receive the benefits due the Participant under the Plan in the event of the Participant's death. In the absence of an effective designation by the Participant, Designated Beneficiary shall mean the Participant's estate.

"Eligible Individual" shall mean (i) any person providing services as an officer of the Company or a Subsidiary, whether or not employed by such entity, including any such person who is also a director of the Company; (ii) any employee of the Company or a Subsidiary, including any director who is also an employee of the Company or a Subsidiary; (iii) Outside Directors; (iv) any officer or employee of an entity with which the Company has contracted to receive executive, management, or legal services who provides services to the Company or a Subsidiary through such arrangement; (v) any consultant or adviser to the Company, a

Subsidiary, or to an entity described in clause (iv) hereof who provides services to the Company or a Subsidiary through such arrangement; and (vi) any person who has agreed in writing to become a person described in clauses (i), (ii), (iii), (iv) or (v) within not more than 30 days following the date of grant of such person's first Award under the Plan.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time.

"Immediate Family Members" shall mean the spouse and natural or adopted children or grandchildren of the Participant and his or her spouse.

"Incentive Stock Option" shall mean an option granted under Section 6 of the Plan that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

"Nonqualified Stock Option" shall mean an option granted under Section 6 of the Plan that is not intended to be an Incentive Stock Option.

"Option" shall mean an Incentive Stock Option or a Nonqualified Stock Option.

"Other Stock-Based Award" shall mean any right or award granted under Section 10 of the Plan.

"Outside Directors" shall mean members of the Board who are not employees of the Company, and shall include non-voting advisory directors to the Board.

"Participant" shall mean any Eligible Individual granted an Award under the Plan.

"Person" shall mean any individual, corporation, partnership, limited liability company, association, joint-stock company, trust, unincorporated organization, government or political subdivision thereof, or other entity.

"Restricted Stock" shall mean any restricted stock granted under Section 8 of the Plan.

"Restricted Stock Unit" shall mean any restricted stock unit granted under Section 9 of the Plan.

"Section 162(m)" shall mean Section 162(m) of the Code and all regulations and guidance promulgated thereunder as in effect from time to time.

"Section 409A" shall mean Section 409A of the Code and all regulations and guidance promulgated thereunder as in effect from time to time.

"Shares" shall mean the shares of Common Stock and such other securities of the Company or a Subsidiary as the Committee may from time to time designate.

"Stock Appreciation Right" shall mean any right granted under Section 7 of the Plan.

"Subsidiary" shall mean (i) any corporation or other entity in which the Company possesses directly or indirectly equity interests representing at least 50% of the total ordinary

voting power or at least 50% of the total value of all classes of equity interests of such corporation or other entity and (ii) any other entity in which the Company has a direct or indirect economic interest that is designated as a Subsidiary by the Committee.

SECTION 3

(a) Administration. The Plan shall generally be administered by the Compensation Committee. The Nominating and Corporate Governance Committee of the Board shall administer the Plan with respect to grants to Outside Directors. Members of the Compensation Committee and the Nominating and Corporate Governance Committee shall qualify as "non-employee directors" under Rule 16b-3 under the 1934 Act.

(b) Authority. Subject to the terms of the Plan and applicable law, and in addition to other express powers and authorizations conferred on the Committee by the Plan, the Nominating and Corporate Governance Committee (with respect to Outside Directors) and the Compensation Committee (with respect to all other Eligible Individuals) shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to an Eligible Individual; (iii) determine the number of Shares to be covered by, or with respect to which payments, rights, or other matters are to be calculated in connection with, Awards; (iv) determine the terms and conditions of any Award; (v) determine whether, to what extent, and under what circumstances Awards may be settled or exercised in cash, whole Shares, other whole securities, other Awards, other property, or other cash amounts payable by the Company upon the exercise of that or other Awards, or canceled, forfeited, or suspended and the method or methods by which Awards may be settled, exercised, canceled, forfeited, or suspended; (vi) determine whether, to what extent, and under what circumstances cash, Shares, other securities, other Awards, other property, and other amounts payable by the Company with respect to an Award shall be deferred either automatically or at the election of the holder thereof or of the Committee; (vii) interpret and administer the Plan and any instrument or agreement relating to, or Award made under, the Plan; (viii) establish, amend, suspend, or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (ix) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan.

(c) Effect of Committee's Determinations. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations, and other decisions under or with respect to the Plan or any Award shall be within the sole discretion of the applicable Committee, may be made at any time and shall be final, conclusive, and binding upon all Persons, including the Company, any Subsidiary, any Participant, any holder or beneficiary of any Award, any stockholder of the Company, and any Eligible Individual.

(d) Delegation. Subject to the terms of the Plan and applicable law, the Committee may delegate to one or more officers of the Company the authority, subject to such terms and limitations as the Committee shall determine, to grant and set the terms of, to cancel, modify, or waive rights with respect to, or to alter, discontinue, suspend, or terminate Awards held by Eligible Individuals who are not officers or directors of the Company for purposes of Section 16 of the Exchange Act, or any successor section thereto, or who are otherwise not subject to such

Section; provided, however, that the per share exercise price of any Option granted under this Section 3(d) shall be equal to the fair market value of the underlying Shares on the date of grant.

SECTION 4

Eligibility. The Committee, in accordance with Section 3(a), may grant an Award under the Plan to any Eligible Individual.

SECTION 5

(a) Shares Available for Awards. Subject to adjustment as provided in Section 5(b):

(i) Calculation of Number of Shares Available.

(A) Subject to the other provisions of this Section 5(a), the number of Shares with respect to which Awards payable in Shares may be granted under the Plan shall be 180,000. Awards that by their terms may be settled only in cash shall not be counted against the maximum number of Shares provided herein.

(B) The number of Shares that may be issued pursuant to Incentive Stock Options may not exceed 180,000.

(C) To the extent any Shares covered by an Award are not issued because the Award is forfeited or canceled or the Award is settled in cash, such Shares shall again be available for grant pursuant to new Awards under the Plan.

(D) In the event that Shares are issued as Restricted Stock or Other Stock-Based Awards under the Plan and thereafter are forfeited or reacquired by the Company pursuant to rights reserved upon issuance thereof, such Shares shall again be available for grant pursuant to new Awards under the Plan. If Shares are delivered or withheld in payment of an Option or delivered or withheld from payment of an Award to satisfy tax obligations with respect to the Award, such shares of Common Stock may not again be granted under the Plan. With respect to Stock Appreciation Rights, if the Award is payable in Shares, all Shares to which the Award relates are counted against the Plan limits, rather than the net number of Shares delivered upon exercise of the Award.

(E) The maximum value of an Other Stock-Based Award that is valued in dollars (whether or not paid in Common Stock) scheduled to be paid out to any one Participant in any calendar year shall be $750,000.

(ii) Shares Deliverable Under Awards. Any Shares delivered pursuant to an Award may consist of authorized and unissued Shares or of treasury Shares, including Shares held by the Company or a Subsidiary and Shares acquired in the open market or otherwise obtained by the Company or a Subsidiary. The issuance of Shares may be effected on a non-certificated basis, to the extent not prohibited by applicable law or the applicable rules of any stock exchange.

(iii) Individual Limits. Except with respect to awards to Outside Directors, the maximum number of Shares that may be covered by Awards, including Options and Stock Appreciation Rights, granted under the Plan to any Participant during a calendar year shall be 50,000 Shares, and the maximum number of Shares that may be covered by Awards granted under the Plan to Outside Directors during a calendar year shall be 20,000. The foregoing provision shall be construed in a manner consistent with Section 162(m).

(iv) Use of Shares. Subject to the terms of the Plan and the overall limitation on the number of Shares that may be delivered under the Plan, the Committee may use available Shares as the form of payment for compensation, grants, or rights earned or due under any other compensation plans or arrangements of the Company or a Subsidiary, including, but not limited to, the Company's annual incentive plan and the plans or arrangements of the Company or a Subsidiary assumed in business combinations.

(b) Adjustments. In the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Shares, Subsidiary securities, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company, or other similar corporate transaction or event affects the Shares such that an adjustment is determined by the Committee to be appropriate to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and type of Shares (or other securities or property) with respect to which Awards may be granted, (ii) the number and type of Shares (or other securities or property) subject to outstanding Awards, and (iii) the grant or exercise price with respect to any Award and, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award and, if deemed appropriate, adjust outstanding Awards to provide the rights contemplated by Section 11(b) hereof; provided, in each case, that with respect to Awards of Incentive Stock Options no such adjustment shall be authorized to the extent that such authority would cause the Plan to violate Section 422(b)(1) of the Code or any successor provision thereto and, with respect to all Awards under the Plan, no such adjustment shall be authorized to the extent that such authority would be inconsistent with the requirements for full deductibility under Section 162(m); and provided further that the number of Shares subject to any Award denominated in Shares shall always be a whole number.

(c) Performance Goals for Section 162(m) Awards. The Committee shall determine at the time of grant if the grant of Restricted Stock, Restricted Stock Units, or an Other Stock-Based Award is intended to qualify as "performance-based compensation" as that term is used in Section 162(m). Any such grant shall be conditioned on the achievement of one or more performance measures. The performance measures pursuant to which Restricted Stock, Restricted Stock Units, and Other Stock-Based Awards shall vest shall be any or a combination of the following: earnings per share, return on assets, an economic value added measure, stockholder return, earnings, share price, return on equity, return on investment, return on fully-employed capital, reduction of expenses, containment of expenses within budget, cash provided by operating activities or increase in cash flow or increase in revenues of the Company, a division of the Company or a Subsidiary. For any performance period, such performance

objectives may be measured on an absolute basis or relative to a group of peer companies selected by the Committee, relative to internal goals or relative to levels attained in prior years. For grants of Restricted Stock, Restricted Stock Units, and Other Stock-Based Awards intended to qualify as "performance-based compensation," the grants and the establishment of performance measures shall be made during the period required by Section 162(m).

SECTION 6

(a) Stock Options. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Eligible Individuals to whom Options shall be granted, the number of Shares to be covered by each Option, the option price thereof, the conditions and limitations applicable to the exercise of the Option, and the other terms thereof. The Committee shall have the authority to grant Incentive Stock Options, Nonqualified Stock Options, or both. In the case of Incentive Stock Options, the terms and conditions of such grants shall be subject to and comply with such rules as may be required by Section 422 of the Code, as from time to time amended, and any implementing regulations. Except in the case of an Option granted in assumption of or substitution for an outstanding award of a company acquired by the Company or with which the Company combines, the exercise price of any Option granted under this Plan shall not be less than 100% of the fair market value of the underlying Shares on the date of grant.

(b) Exercise. Each Option shall be exercisable at such times and subject to such terms and conditions as the Committee may, in its sole discretion, specify in the applicable Award Agreement or thereafter, provided, however, that in no event may any Option granted hereunder be exercisable after the expiration of 10 years after the date of such grant. The Committee may impose such conditions with respect to the exercise of Options, including without limitation, any condition relating to the application of Federal or state securities laws, as it may deem necessary or advisable. An Option may be exercised, in whole or in part, by giving written notice to the Company, specifying the number of Shares to be purchased. The exercise notice shall be accompanied by the full purchase price for the Shares.

(c) Payment. The Option price shall be payable in United States dollars and may be paid by (i) cash or cash equivalent; (ii) delivery of shares of Common Stock, which shares shall be valued for this purpose at the fair market value (valued in accordance with procedures established by the Committee) as of the effective date of such exercise; (iii) delivery of irrevocable written instructions to a broker approved by the Company (with a copy to the Company) to immediately sell a portion of the shares issuable under the Option and to deliver promptly to the Company the amount of sale proceeds to pay the exercise price; (iv) if approved by the Committee, through a net exercise procedure whereby the Participant surrenders the Option in exchange for that number of shares of Common Stock with an aggregate fair market value equal to the difference between the aggregate exercise price of the Options being surrendered and the aggregate fair market value of the shares of Common Stock subject to the Option; or (v) in such other manner as may be authorized from time to time by the Committee. Prior to the issuance of Shares upon the exercise of an Option, a Participant shall have no rights as a shareholder.

SECTION 7

(a) Stock Appreciation Rights. A Stock Appreciation Right shall entitle the holder thereof to receive upon exercise, for each Share to which the Stock Appreciation Right relates, an amount equal to the excess, if any, of the fair market value of a Share on the date of exercise of the Stock Appreciation Right over the grant price.

(b) Terms and Conditions. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Eligible Individuals to whom Stock Appreciation Rights shall be granted, the number of Shares to be covered by each Award of Stock Appreciation Rights, the grant price thereof, the conditions and limitations applicable to the exercise of the Stock Appreciation Right and the other terms thereof. Stock Appreciation Rights may be granted in tandem with another Award, in addition to another Award, or freestanding and unrelated to any other Award. Stock Appreciation Rights granted in tandem with or in addition to an Option or other Award may be granted either at the same time as the Option or other Award or at a later time. Stock Appreciation Rights shall not be exercisable after the expiration of 10 years after the date of grant. Except in the case of a Stock Appreciation Right granted in assumption of or substitution for an outstanding award of a company acquired by the Company or with which the Company combines, the grant price of any Stock Appreciation Right granted under this Plan shall not be less than 100% of the fair market value of the Shares covered by such Stock Appreciation Right on the date of grant or, in the case of a Stock Appreciation Right granted in tandem with a then outstanding Option or other Award, on the date of grant of such related Option or Award.

(c) Committee Discretion to Determine Form of Payment. The Committee shall determine at the time of grant of a Stock Appreciation Right whether it shall be settled in cash, Shares, or a combination of cash and Shares.

SECTION 8

(a) Restricted Stock. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Eligible Individuals to whom Restricted Stock shall be granted, the number of Shares to be covered by each Award of Restricted Stock and the terms, conditions, and limitations applicable thereto. An Award of Restricted Stock may be subject to the attainment of specified performance goals or targets, restrictions on transfer, forfeitability provisions and such other terms and conditions as the Committee may determine, subject to the provisions of the Plan. An award of Restricted Stock may be made in lieu of the payment of cash compensation otherwise due to an Eligible Individual. To the extent that Restricted Stock is intended to qualify as "performance-based compensation" under Section 162(m), it must be made subject to the attainment of one or more of the performance goals specified in Section 5(c) hereof and meet the additional requirements imposed by Section 162(m).

(b) The Restricted Period. At the time that an Award of Restricted Stock is made, the Committee shall establish a period of time during which the transfer of the Shares of Restricted Stock shall be restricted (the "Restricted Period"). Each Award of Restricted Stock may have a different Restricted Period. Except with respect to Awards of Restricted Stock to Outside Directors, a Restricted Period of at least three years is required with incremental vesting of the

Award over the three-year period permitted. If the grant or vesting of the Shares is subject to the attainment of specified performance goals, a Restricted Period of at least one year with incremental vesting is permitted. The expiration of the Restricted Period shall also occur as provided in the Award Agreement in accordance with Section 12(a) hereof.

(c) Escrow. The Participant receiving Restricted Stock shall enter into an Award Agreement with the Company setting forth the conditions of the grant. Certificates representing Shares of Restricted Stock shall be registered in the name of the Participant and deposited with the Company, together with a stock power endorsed in blank by the Participant. Each such certificate shall bear a legend in substantially the following form:

> The transferability of this certificate and the shares of Common Stock represented by it are subject to the terms and conditions (including conditions of forfeiture) contained in the Stratus Properties Inc. 2013 Stock Incentive Plan (the "Plan") and a notice of grant issued thereunder to the registered owner by Stratus Properties Inc. Copies of the Plan and the notice of grant are on file at the principal office of Stratus Properties Inc.

Alternatively, in the discretion of the Company, ownership of the Shares of Restricted Stock and the appropriate restrictions shall be reflected in the records of the Company's transfer agent and no physical certificates shall be issued prior to vesting.

(d) Dividends on Restricted Stock. Any and all cash and stock dividends paid with respect to the Shares of Restricted Stock shall be subject to any restrictions on transfer, forfeitability provisions or reinvestment requirements as the Committee may, in its discretion, prescribe in the Award Agreement.

(e) Forfeiture. In the event of the forfeiture of any Shares of Restricted Stock under the terms provided in the Award Agreement (including any additional Shares of Restricted Stock that may result from the reinvestment of cash and stock dividends, if so provided in the Award Agreement), such forfeited shares shall be surrendered and any certificates canceled. The Participants shall have the same rights and privileges, and be subject to the same forfeiture provisions, with respect to any additional Shares received pursuant to Section 5(b) or Section 11(b) due to a recapitalization, merger or other change in capitalization.

(f) Expiration of Restricted Period. Upon the expiration or termination of the Restricted Period and the satisfaction of any other conditions prescribed by the Committee or at such earlier time as provided in the Award Agreement or an amendment thereto, the restrictions applicable to the Restricted Stock shall lapse and a stock certificate for the number of Shares of Restricted Stock with respect to which the restrictions have lapsed shall be delivered or book or electronic entry evidencing ownership shall be provided, free of all such restrictions and legends, except any that may be imposed by law, to the Participant or the Participant's estate, as the case may be.

(g) Rights as a Stockholder. Subject to the terms and conditions of the Plan and subject to any restrictions on the receipt of dividends that may be imposed in the Award

Agreement, each Participant receiving Restricted Stock shall have all the rights of a stockholder with respect to Shares of stock during any period in which such Shares are subject to forfeiture and restrictions on transfer, including without limitation, the right to vote such Shares.

SECTION 9

(a) Restricted Stock Units. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Eligible Individuals to whom Restricted Stock Units shall be granted, the number of Shares to be covered by each Award of Restricted Stock Units and the terms, conditions, and limitations applicable thereto. An Award of Restricted Stock Units is a right to receive shares of Common Stock in the future and may be subject to the attainment of specified performance goals or targets, restrictions on transfer, forfeitability provisions and such other terms and conditions as the Committee may determine, subject to the provisions of the Plan. An award of Restricted Stock Units may be made in lieu of the payment of cash compensation otherwise due to an Eligible Individual. To the extent that an Award of Restricted Stock Units is intended to qualify as "performance-based compensation" under Section 162(m), it must be made subject to the attainment of one or more of the performance goals specified in Section 5(c) hereof and meet the additional requirements imposed by Section 162(m).

(b) The Vesting Period. At the time that an Award of Restricted Stock Units is made, the Committee shall establish a period of time during which the Restricted Stock Units shall vest. Each Award of Restricted Stock may have a different vesting period. Except with respect to Awards of Restricted Stock Units to Outside Directors, a vesting period of at least three years is required with incremental vesting of the Award over the three-year period permitted. If the grant or vesting is subject to the attainment of specified performance goals, a vesting period of at least one year with incremental vesting is permitted. The expiration of the vesting period shall also occur as provided in the Award Agreement in accordance with Section 12(a) hereof.

(c) Rights as a Stockholder. Subject to the terms and conditions of the Plan and subject to any restrictions that may be imposed in the Award Agreement, each Participant receiving Restricted Stock Units shall have no rights as a stockholder with respect to such Restricted Stock Units until such time as Shares are issued to the Participant.

SECTION 10

(a) Other Stock-Based Awards. The Committee is hereby authorized to grant to Eligible Individuals an "Other Stock-Based Award," which shall consist of an Award that is not an instrument or Award specified in Sections 6 through 9 of this Plan, the value of which is based in whole or in part on the value of Shares. Other Stock-Based Awards may be awards of Shares or may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares (including, without limitation, securities convertible or exchangeable into or exercisable for Shares), as deemed by the Committee consistent with the purposes of the Plan. The Committee shall determine the terms and conditions of any such Other Stock-Based Award and may provide that such awards would be payable in whole or in part in cash. To the extent that an Other Stock-Based Award is intended to qualify as "performance-based compensation" under Section 162(m), it must be made subject to the attainment of one or

more of the performance goals specified in Section 5(c) hereof and meet the additional requirements imposed by Section 162(m).

(b) Outside Directors. If the Company permits Outside Directors to elect to receive some or all of their cash compensation in the form of Common Stock, then the Shares issued pursuant to any such elections shall be considered "Other Stock-Based Awards" issued under the terms of this Plan.

(c) The Vesting Period. At the time that an Other Stock-Based Award is granted, the Committee shall establish a period of time during which the Award shall vest. Each Award may have a different vesting period. Except with respect to Other Stock-Based Awards granted to Outside Directors, a vesting period of at least three years is required with incremental vesting of the Award over the three-year period permitted. If the grant or vesting is subject to the attainment of specified performance goals, a vesting period of at least one year with incremental vesting is permitted. The expiration of the vesting period shall also occur as provided in the Award Agreement in accordance with Section 12(a) hereof.

(d) Dividend Equivalents. In the sole and complete discretion of the Committee, an Award, whether made as an Other Stock-Based Award under this Section 10 or as an Award granted pursuant to Sections 8 and 9 hereof, may provide the holder thereof with dividends or dividend equivalents, payable in cash, Shares, Subsidiary securities, other securities or other property on a current or deferred basis.

SECTION 11

(a) Amendment or Discontinuance of the Plan. The Board may amend or discontinue the Plan at any time; provided, however, that no such amendment may

(i) without the approval of the stockholders, (A) increase, subject to adjustments permitted herein, the maximum number of shares of Common Stock that may be issued through the Plan, (B) materially increase the benefits accruing to Participants under the Plan, (C) materially expand the classes of persons eligible to participate in the Plan, (D) expand the types of Awards available for grant under the Plan, (E) materially extend the term of the Plan, (F) materially change the method of determining the exercise price of Options or Stock Appreciation Rights, or (G) amend Section 11(c) to permit a reduction in the exercise price of Options; or

(ii) materially impair, without the consent of the recipient, an Award previously granted.

(b) Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. The Committee is hereby authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 5(b) hereof) affecting the Company, or the financial statements of the Company or any Subsidiary, or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

(c) Cancellation. Any provision of this Plan or any Award Agreement to the contrary notwithstanding, the Committee may cause any Award granted hereunder to be canceled in consideration of a cash payment or alternative Award made to the holder of such canceled Award equal in value to such canceled Award. Notwithstanding the foregoing, except for adjustments permitted under Sections 5(b) and 11(b), no action by the Committee shall, unless approved by the stockholders of the Company, (i) cause a reduction in the exercise price of Options granted under the Plan or (ii) permit an outstanding Option with an exercise price greater than the current fair market value of a Share to be surrendered as consideration for a new Option with a lower exercise price, shares of Restricted Stock, Restricted Stock Units, and Other Stock-Based Award, a cash payment, or Common Stock. The determinations of value under this subparagraph shall be made by the Committee in its sole discretion.

SECTION 12

(a) Award Agreements. Each Award hereunder shall be evidenced by an agreement or notice delivered to the Participant (by paper copy or electronically) that shall specify the terms and conditions thereof and any rules applicable thereto, including but not limited to the effect on such Award of the death, retirement or other termination of employment or cessation of consulting or advisory services of the Participant and the effect thereon, if any, of a change in control of the Company.

(b) Withholding.

(i) A Participant shall be required to pay to the Company, and the Company shall have the right to deduct from all amounts paid to a Participant (whether under the Plan or otherwise), any taxes required by law to be paid or withheld in respect of Awards hereunder to such Participant. The Committee may provide for additional cash payments to holders of Awards to defray or offset any tax arising from the grant, vesting, exercise or payment of any Award.

(ii) At any time that a Participant is required to pay to the Company an amount required to be withheld under the applicable tax laws in connection with the issuance of Shares under the Plan, the Participant may, if permitted by the Committee, satisfy this obligation in whole or in part by delivering currently owned Shares or by electing (the "Election") to have the Company withhold from the issuance Shares, which Shares shall have a value equal to the minimum amount required to be withheld. The value of the Shares delivered or withheld shall be based on the fair market value of the Shares on the date as of which the amount of tax to be withheld shall be determined in accordance with applicable tax laws (the "Tax Date").

(iii) Each Election to have Shares withheld must be made prior to the Tax Date. If a Participant wishes to deliver Shares in payment of taxes, the Participant must so notify the Company prior to the Tax Date.

(c) Transferability.

(i) No Awards granted hereunder may be sold, transferred, pledged, assigned, or otherwise encumbered by a Participant except:

(A) by will;

(B) by the laws of descent and distribution;

(C) pursuant to a domestic relations order, as defined in the Code, if permitted by the Committee and so provided in the Award Agreement or an amendment thereto; or

(D) if permitted by the Committee and so provided in the Award Agreement or an amendment thereto, Options may be transferred or assigned (1) to Immediate Family Members, (2) to a partnership in which Immediate Family Members, or entities in which Immediate Family Members are the owners, members or beneficiaries, as appropriate, are the partners, (3) to a limited liability company in which Immediate Family Members, or entities in which Immediate Family Members are the owners, members or beneficiaries, as appropriate, are the members, or (4) to a trust for the benefit of Immediate Family Members; provided, however, that no more than a *de minimis* beneficial interest in a partnership, limited liability company, or trust described in (2), (3) or (4) above may be owned by a person who is not an Immediate Family Member or by an entity that is not beneficially owned solely by Immediate Family Members.

(ii) To the extent that an Incentive Stock Option is permitted to be transferred during the lifetime of the Participant, it shall be treated thereafter as a Nonqualified Stock Option. Any attempted assignment, transfer, pledge, hypothecation or other disposition of Awards, or levy of attachment or similar process upon Awards not specifically permitted herein, shall be null and void and without effect. The designation of a Designated Beneficiary shall not be a violation of this Section 12(c).

(d) Share Certificates. Any certificates or book or electronic entry ownership evidence for Shares or other securities delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Shares or other securities are then listed, and any applicable federal or state laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(e) No Limit on Other Compensation Arrangements. Nothing contained in the Plan shall prevent the Company from adopting or continuing in effect other compensation arrangements, which may, but need not, provide for the grant of options, stock appreciation rights, restricted stock, and other types of Awards provided for hereunder (subject to stockholder approval of any such arrangement if approval is required), and such arrangements may be either generally applicable or applicable only in specific cases.

(f) No Right to Employment. The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ of or as a consultant or adviser to the Company or any Subsidiary or in the employ of or as a consultant or adviser to any other entity providing services to the Company. The Company or any Subsidiary or any such entity may at

any time dismiss a Participant from employment, or terminate any arrangement pursuant to which the Participant provides services to the Company or a Subsidiary, free from any liability or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Award Agreement. No Eligible Individual or other person shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of Eligible Individuals, Participants or holders or beneficiaries of Awards.

(g) Governing Law. The validity, construction, and effect of the Plan, any rules and regulations relating to the Plan and any Award Agreement shall be determined in accordance with the laws of the State of Delaware.

(h) Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any Person or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Person or Award and the remainder of the Plan and any such Award shall remain in full force and effect.

(i) No Trust or Fund Created. Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company.

(j) No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash, other securities or other property shall be paid or transferred in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be canceled, terminated, or otherwise eliminated.

(k) Compliance with Law. The Company intends that Awards granted under the Plan, or any deferrals thereof, will comply with the requirements of Section 409A to the extent applicable.

(l) Deferral Permitted. Payment of cash or distribution of any Shares to which a Participant is entitled under any Award shall be made as provided in the Award Agreement. Payment may be deferred at the option of the Participant if provided in the Award Agreement.

(m) Headings. Headings are given to the subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

(n) Recovery Policy. Each Award Agreement shall contain a provision permitting the Company to recover any Award granted under the Plan if (i) the Company's financial statements are required to be restated at any time within the three-year period following the final payout of the Award and the Participant is determined to be responsible, in whole or in part, for the restatement, or (ii) the Award is subject to any clawback policies the Company may adopt in

order to conform to the requirements of Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and any resulting rules issued by the SEC or national securities exchanges thereunder. All determinations regarding the applicability of these provisions shall be in the discretion of the Committee.

SECTION 13

Term of the Plan. Subject to Section 11(a), no Awards may be granted under the Plan after May 23, 2023, which is ten years after the date the Plan was last approved by the Company's stockholders; provided, however, that Awards granted prior to such date shall remain in effect until such Awards have either been satisfied, expired or canceled under the terms of the Plan, and any restrictions imposed on Shares in connection with their issuance under the Plan have lapsed.

Stratus properties inc.
2010 STOCK INCENTIVE PLAN

SECTION 1

Purpose. The purpose of the Stratus Properties Inc. 2010 Stock Incentive Plan (the "Plan") is to increase stockholder value and advance the interests of the Company and its Subsidiaries by furnishing a variety of equity incentives designed to (i) attract, retain, and motivate key employees, officers, and directors of the Company and consultants and advisers to the Company and (ii) strengthen the mutuality of interests among such persons and the Company's stockholders.

SECTION 2

Definitions. As used in the Plan, the following terms shall have the meanings set forth below:

"Award" shall mean any Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, or Other Stock-Based Award.

"Award Agreement" shall mean any written or electronic notice of grant, agreement, contract, or other instrument or document evidencing any Award, which the Company may, but need not, require a Participant to execute, acknowledge, or accept.

"Board" shall mean the Board of Directors of the Company.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Committee" refers to the Compensation Committee of the Board, the Nominating and Corporate Governance Committee of the Board, or both of these committees, as the context indicates.

"Common Stock" shall mean the Company's common stock, $0.01 par value per share.

"Company" shall mean Stratus Properties Inc.

"Designated Beneficiary" shall mean the beneficiary designated by the Participant, in a manner determined by the Committee, to receive the benefits due the Participant under the Plan in the event of the Participant's death. In the absence of an effective designation by the Participant, Designated Beneficiary shall mean the Participant's estate.

"Eligible Individual" shall mean (i) any person providing services as an officer of the Company or a Subsidiary, whether or not employed by such entity, including any such person who is also a director of the Company; (ii) any employee of the Company or a Subsidiary, including any director who is also an employee of the Company or a Subsidiary; (iii) Outside Directors; (iv) any officer or employee of an entity with which the Company has contracted to receive executive, management, or legal services who provides services to the Company or a Subsidiary through such arrangement; (v) any consultant or adviser to the Company, a

Subsidiary, or to an entity described in clause (iv) hereof who provides services to the Company or a Subsidiary through such arrangement; and (vi) any person who has agreed in writing to become a person described in clauses (i), (ii), (iii), (iv) or (v) within not more than 30 days following the date of grant of such person's first Award under the Plan.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time.

"Immediate Family Members" shall mean the spouse and natural or adopted children or grandchildren of the Participant and his or her spouse.

"Incentive Stock Option" shall mean an option granted under Section 6 of the Plan that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

"Nonqualified Stock Option" shall mean an option granted under Section 6 of the Plan that is not intended to be an Incentive Stock Option.

"Option" shall mean an Incentive Stock Option or a Nonqualified Stock Option.

"Other Stock-Based Award" shall mean any right or award granted under Section 10 of the Plan.

"Outside Directors" shall mean members of the Board who are not employees of the Company, and shall include non-voting advisory directors to the Board.

"Participant" shall mean any Eligible Individual granted an Award under the Plan.

"Person" shall mean any individual, corporation, partnership, limited liability company, association, joint-stock company, trust, unincorporated organization, government or political subdivision thereof, or other entity.

"Restricted Stock" shall mean any restricted stock granted under Section 8 of the Plan.

"Restricted Stock Unit" shall mean any restricted stock unit granted under Section 9 of the Plan.

"Section 162(m)" shall mean Section 162(m) of the Code and all regulations and guidance promulgated thereunder as in effect from time to time.

"Section 409A" shall mean Section 409A of the Code and all regulations and guidance promulgated thereunder as in effect from time to time.

"Shares" shall mean the shares of Common Stock and such other securities of the Company or a Subsidiary as the Committee may from time to time designate.

"Stock Appreciation Right" shall mean any right granted under Section 7 of the Plan.

"Subsidiary" shall mean (i) any corporation or other entity in which the Company possesses directly or indirectly equity interests representing at least 50% of the total ordinary

voting power or at least 50% of the total value of all classes of equity interests of such corporation or other entity and (ii) any other entity in which the Company has a direct or indirect economic interest that is designated as a Subsidiary by the Committee.

SECTION 3

(a) Administration. The Plan shall generally be administered by the Compensation Committee. The Nominating and Corporate Governance Committee of the Board shall administer the Plan with respect to grants to Outside Directors. Members of the Compensation Committee and the Nominating and Corporate Governance Committee shall qualify as "non-employee directors" under Rule 16b-3 under the 1934 Act.

(b) Authority. Subject to the terms of the Plan and applicable law, and in addition to other express powers and authorizations conferred on the Committee by the Plan, the Nominating and Corporate Governance Committee (with respect to Outside Directors) and the Compensation Committee (with respect to all other Eligible Individuals) shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to an Eligible Individual; (iii) determine the number of Shares to be covered by, or with respect to which payments, rights, or other matters are to be calculated in connection with, Awards; (iv) determine the terms and conditions of any Award; (v) determine whether, to what extent, and under what circumstances Awards may be settled or exercised in cash, whole Shares, other whole securities, other Awards, other property, or other cash amounts payable by the Company upon the exercise of that or other Awards, or canceled, forfeited, or suspended and the method or methods by which Awards may be settled, exercised, canceled, forfeited, or suspended; (vi) determine whether, to what extent, and under what circumstances cash, Shares, other securities, other Awards, other property, and other amounts payable by the Company with respect to an Award shall be deferred either automatically or at the election of the holder thereof or of the Committee; (vii) interpret and administer the Plan and any instrument or agreement relating to, or Award made under, the Plan; (viii) establish, amend, suspend, or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (ix) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan.

(c) Effect of Committee's Determinations. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations, and other decisions under or with respect to the Plan or any Award shall be within the sole discretion of the applicable Committee, may be made at any time and shall be final, conclusive, and binding upon all Persons, including the Company, any Subsidiary, any Participant, any holder or beneficiary of any Award, any stockholder of the Company, and any Eligible Individual.

(d) Delegation. Subject to the terms of the Plan and applicable law, the Committee may delegate to one or more officers of the Company the authority, subject to such terms and limitations as the Committee shall determine, to grant and set the terms of, to cancel, modify, or waive rights with respect to, or to alter, discontinue, suspend, or terminate Awards held by Eligible Individuals who are not officers or directors of the Company for purposes of Section 16 of the Exchange Act, or any successor section thereto, or who are otherwise not subject to such

Section; provided, however, that the per share exercise price of any Option granted under this Section 3(d) shall be equal to the fair market value of the underlying Shares on the date of grant.

SECTION 4

Eligibility. The Committee, in accordance with Section 3(a), may grant an Award under the Plan to any Eligible Individual.

SECTION 5

(a) Shares Available for Awards. Subject to adjustment as provided in Section 5(b):

(i) Calculation of Number of Shares Available.

(A) Subject to the other provisions of this Section 5(a), the number of Shares with respect to which Awards payable in Shares may be granted under the Plan shall be 140,000. Awards that by their terms may be settled only in cash shall not be counted against the maximum number of Shares provided herein.

(B) The number of Shares that may be issued pursuant to Incentive Stock Options may not exceed 140,000.

(C) To the extent any Shares covered by an Award are not issued because the Award is forfeited or canceled or the Award is settled in cash, such Shares shall again be available for grant pursuant to new Awards under the Plan.

(D) In the event that Shares are issued as Restricted Stock or Other Stock-Based Awards under the Plan and thereafter are forfeited or reacquired by the Company pursuant to rights reserved upon issuance thereof, such Shares shall again be available for grant pursuant to new Awards under the Plan. With respect to Stock Appreciation Rights, if the Award is payable in Shares, all Shares to which the Award relates are counted against the Plan limits, rather than the net number of Shares delivered upon exercise of the Award.

(E) The maximum value of an Other Stock-Based Award that is valued in dollars (whether or not paid in Common Stock) scheduled to be paid out to any one Participant in any calendar year shall be $750,000.

(ii) Shares Deliverable Under Awards. Any Shares delivered pursuant to an Award may consist of authorized and unissued Shares or of treasury Shares, including Shares held by the Company or a Subsidiary and Shares acquired in the open market or otherwise obtained by the Company or a Subsidiary. The issuance of Shares may be effected on a non-certificated basis, to the extent not prohibited by applicable law or the applicable rules of any stock exchange.

(iii) Individual Limits. The maximum number of Shares that may be covered by Awards granted under the Plan to any Participant during a calendar year shall be 50,000 Shares.

(iv) Use of Shares. Subject to the terms of the Plan and the overall limitation on the number of Shares that may be delivered under the Plan, the Committee may use available Shares as the form of payment for compensation, grants, or rights earned or due under any other compensation plans or arrangements of the Company or a Subsidiary, including, but not limited to, the Company's annual incentive plan and the plans or arrangements of the Company or a Subsidiary assumed in business combinations.

(b) Adjustments. In the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Shares, Subsidiary securities, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company, or other similar corporate transaction or event affects the Shares such that an adjustment is determined by the Committee to be appropriate to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and type of Shares (or other securities or property) with respect to which Awards may be granted, (ii) the number and type of Shares (or other securities or property) subject to outstanding Awards, and (iii) the grant or exercise price with respect to any Award and, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award and, if deemed appropriate, adjust outstanding Awards to provide the rights contemplated by Section 11(b) hereof; provided, in each case, that with respect to Awards of Incentive Stock Options no such adjustment shall be authorized to the extent that such authority would cause the Plan to violate Section 422(b)(1) of the Code or any successor provision thereto and, with respect to all Awards under the Plan, no such adjustment shall be authorized to the extent that such authority would be inconsistent with the requirements for full deductibility under Section 162(m); and provided further that the number of Shares subject to any Award denominated in Shares shall always be a whole number.

(c) Performance Goals for Section 162(m) Awards. The Committee shall determine at the time of grant if the grant of Restricted Stock, Restricted Stock Units, or an Other Stock-Based Award is intended to qualify as "performance-based compensation" as that term is used in Section 162(m). Any such grant shall be conditioned on the achievement of one or more performance measures. The performance measures pursuant to which Restricted Stock, Restricted Stock Units, and Other Stock-Based Awards shall vest shall be any or a combination of the following: earnings per share, return on assets, an economic value added measure, stockholder return, earnings, share price, return on equity, return on investment, return on fully-employed capital, reduction of expenses, containment of expenses within budget, cash provided by operating activities or increase in cash flow or increase in revenues of the Company, a division of the Company or a Subsidiary. For any performance period, such performance objectives may be measured on an absolute basis or relative to a group of peer companies selected by the Committee, relative to internal goals or relative to levels attained in prior years. For grants of Restricted Stock, Restricted Stock Units, and Other Stock-Based Awards intended to qualify as "performance-based compensation," the grants and the establishment of performance measures shall be made during the period required by Section 162(m).

SECTION 6

(a) Stock Options. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Eligible Individuals to whom Options shall be granted, the number of Shares to be covered by each Option, the option price thereof, the conditions and limitations applicable to the exercise of the Option, and the other terms thereof. The Committee shall have the authority to grant Incentive Stock Options, Nonqualified Stock Options, or both. In the case of Incentive Stock Options, the terms and conditions of such grants shall be subject to and comply with such rules as may be required by Section 422 of the Code, as from time to time amended, and any implementing regulations. Except in the case of an Option granted in assumption of or substitution for an outstanding award of a company acquired by the Company or with which the Company combines, the exercise price of any Option granted under this Plan shall not be less than 100% of the fair market value of the underlying Shares on the date of grant.

(b) Exercise. Each Option shall be exercisable at such times and subject to such terms and conditions as the Committee may, in its sole discretion, specify in the applicable Award Agreement or thereafter, provided, however, that in no event may any Option granted hereunder be exercisable after the expiration of 10 years after the date of such grant. The Committee may impose such conditions with respect to the exercise of Options, including without limitation, any condition relating to the application of Federal or state securities laws, as it may deem necessary or advisable. An Option may be exercised, in whole or in part, by giving written notice to the Company, specifying the number of Shares to be purchased. The exercise notice shall be accompanied by the full purchase price for the Shares.

(c) Payment. The Option price shall be payable in United States dollars and may be paid by (i) cash or cash equivalent; (ii) delivery of shares of Common Stock, which shares shall be valued for this purpose at the fair market value (valued in accordance with procedures established by the Committee) as of the effective date of such exercise; (iii) delivery of irrevocable written instructions to a broker approved by the Company (with a copy to the Company) to immediately sell a portion of the shares issuable under the Option and to deliver promptly to the Company the amount of sale proceeds to pay the exercise price; (iv) if approved by the Committee, through a net exercise procedure whereby the Participant surrenders the Option in exchange for that number of shares of Common Stock with an aggregate fair market value equal to the difference between the aggregate exercise price of the Options being surrendered and the aggregate fair market value of the shares of Common Stock subject to the Option; or (v) in such other manner as may be authorized from time to time by the Committee. Prior to the issuance of Shares upon the exercise of an Option, a Participant shall have no rights as a shareholder.

SECTION 7

(a) Stock Appreciation Rights. A Stock Appreciation Right shall entitle the holder thereof to receive upon exercise, for each Share to which the Stock Appreciation Right relates, an amount equal to the excess, if any, of the fair market value of a Share on the date of exercise of the Stock Appreciation Right over the grant price.

(b) Terms and Conditions. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Eligible Individuals to whom Stock Appreciation Rights shall be granted, the number of Shares to be covered by each Award of Stock Appreciation Rights, the grant price thereof, the conditions and limitations applicable to the exercise of the Stock Appreciation Right and the other terms thereof. Stock Appreciation Rights may be granted in tandem with another Award, in addition to another Award, or freestanding and unrelated to any other Award. Stock Appreciation Rights granted in tandem with or in addition to an Option or other Award may be granted either at the same time as the Option or other Award or at a later time. Stock Appreciation Rights shall not be exercisable after the expiration of 10 years after the date of grant. Except in the case of a Stock Appreciation Right granted in assumption of or substitution for an outstanding award of a company acquired by the Company or with which the Company combines, the grant price of any Stock Appreciation Right granted under this Plan shall not be less than 100% of the fair market value of the Shares covered by such Stock Appreciation Right on the date of grant or, in the case of a Stock Appreciation Right granted in tandem with a then outstanding Option or other Award, on the date of grant of such related Option or Award.

(c) Committee Discretion to Determine Form of Payment. The Committee shall determine at the time of grant of a Stock Appreciation Right whether it shall be settled in cash, Shares, or a combination of cash and Shares.

SECTION 8

(a) Restricted Stock. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Eligible Individuals to whom Restricted Stock shall be granted, the number of Shares to be covered by each Award of Restricted Stock and the terms, conditions, and limitations applicable thereto. An Award of Restricted Stock may be subject to the attainment of specified performance goals or targets, restrictions on transfer, forfeitability provisions and such other terms and conditions as the Committee may determine, subject to the provisions of the Plan. An award of Restricted Stock may be made in lieu of the payment of cash compensation otherwise due to an Eligible Individual. To the extent that Restricted Stock is intended to qualify as "performance-based compensation" under Section 162(m), it must be made subject to the attainment of one or more of the performance goals specified in Section 5(c) hereof and meet the additional requirements imposed by Section 162(m).

(b) The Restricted Period. At the time that an Award of Restricted Stock is made, the Committee shall establish a period of time during which the transfer of the Shares of Restricted Stock shall be restricted (the "Restricted Period"). Each Award of Restricted Stock may have a different Restricted Period. A Restricted Period of at least three years is required with incremental vesting of the Award over the three-year period permitted. If the grant or vesting of the Shares is subject to the attainment of specified performance goals, a Restricted Period of at least one year with incremental vesting is permitted. The expiration of the Restricted Period shall also occur as provided in the Award Agreement in accordance with Section 12(a) hereof.

(c) Escrow. The Participant receiving Restricted Stock shall enter into an Award Agreement with the Company setting forth the conditions of the grant. Certificates representing Shares of Restricted Stock shall be registered in the name of the Participant and deposited with

the Company, together with a stock power endorsed in blank by the Participant. Each such certificate shall bear a legend in substantially the following form:

> The transferability of this certificate and the shares of Common Stock represented by it are subject to the terms and conditions (including conditions of forfeiture) contained in the Stratus Properties Inc. 2010 Stock Incentive Plan (the "Plan") and a notice of grant issued thereunder to the registered owner by Stratus Properties Inc. Copies of the Plan and the notice of grant are on file at the principal office of Stratus Properties Inc.

Alternatively, in the discretion of the Company, ownership of the Shares of Restricted Stock and the appropriate restrictions shall be reflected in the records of the Company's transfer agent and no physical certificates shall be issued prior to vesting.

(d) Dividends on Restricted Stock. Any and all cash and stock dividends paid with respect to the Shares of Restricted Stock shall be subject to any restrictions on transfer, forfeitability provisions or reinvestment requirements as the Committee may, in its discretion, prescribe in the Award Agreement.

(e) Forfeiture. In the event of the forfeiture of any Shares of Restricted Stock under the terms provided in the Award Agreement (including any additional Shares of Restricted Stock that may result from the reinvestment of cash and stock dividends, if so provided in the Award Agreement), such forfeited shares shall be surrendered and any certificates canceled. The Participants shall have the same rights and privileges, and be subject to the same forfeiture provisions, with respect to any additional Shares received pursuant to Section 5(b) or Section 11(b) due to a recapitalization, merger or other change in capitalization.

(f) Expiration of Restricted Period. Upon the expiration or termination of the Restricted Period and the satisfaction of any other conditions prescribed by the Committee or at such earlier time as provided in the Award Agreement or an amendment thereto, the restrictions applicable to the Restricted Stock shall lapse and a stock certificate for the number of Shares of Restricted Stock with respect to which the restrictions have lapsed shall be delivered or book or electronic entry evidencing ownership shall be provided, free of all such restrictions and legends, except any that may be imposed by law, to the Participant or the Participant's estate, as the case may be.

(g) Rights as a Stockholder. Subject to the terms and conditions of the Plan and subject to any restrictions on the receipt of dividends that may be imposed in the Award Agreement, each Participant receiving Restricted Stock shall have all the rights of a stockholder with respect to Shares of stock during any period in which such Shares are subject to forfeiture and restrictions on transfer, including without limitation, the right to vote such Shares.

SECTION 9

(a) Restricted Stock Units. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Eligible Individuals to whom Restricted Stock Units shall be granted, the number of Shares to be covered by each Award of Restricted Stock

Units and the terms, conditions, and limitations applicable thereto. An Award of Restricted Stock Units is a right to receive shares of Common Stock in the future and may be subject to the attainment of specified performance goals or targets, restrictions on transfer, forfeitability provisions and such other terms and conditions as the Committee may determine, subject to the provisions of the Plan. An award of Restricted Stock Units may be made in lieu of the payment of cash compensation otherwise due to an Eligible Individual. To the extent that an Award of Restricted Stock Units is intended to qualify as "performance-based compensation" under Section 162(m), it must be made subject to the attainment of one or more of the performance goals specified in Section 5(c) hereof and meet the additional requirements imposed by Section 162(m).

(b) The Vesting Period. At the time that an Award of Restricted Stock Units is made, the Committee shall establish a period of time during which the Restricted Stock Units shall vest. Each Award of Restricted Stock may have a different vesting period. A vesting period of at least three years is required with incremental vesting of the Award over the three-year period permitted. If the grant or vesting is subject to the attainment of specified performance goals, a vesting period of at least one year with incremental vesting is permitted. The expiration of the vesting period shall also occur as provided in the Award Agreement in accordance with Section 12(a) hereof.

(c) Rights as a Stockholder. Subject to the terms and conditions of the Plan and subject to any restrictions that may be imposed in the Award Agreement, each Participant receiving Restricted Stock Units shall have no rights as a stockholder with respect to such Restricted Stock Units until such time as Shares are issued to the Participant.

SECTION 10

(a) Other Stock-Based Awards. The Committee is hereby authorized to grant to Eligible Individuals an "Other Stock-Based Award," which shall consist of an Award that is not an instrument or Award specified in Sections 6 through 9 of this Plan, the value of which is based in whole or in part on the value of Shares. Other Stock-Based Awards may be awards of Shares or may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares (including, without limitation, securities convertible or exchangeable into or exercisable for Shares), as deemed by the Committee consistent with the purposes of the Plan. The Committee shall determine the terms and conditions of any such Other Stock-Based Award and may provide that such awards would be payable in whole or in part in cash. To the extent that an Other Stock-Based Award is intended to qualify as "performance-based compensation" under Section 162(m), it must be made subject to the attainment of one or more of the performance goals specified in Section 5(c) hereof and meet the additional requirements imposed by Section 162(m).

(b) Dividend Equivalents. In the sole and complete discretion of the Committee, an Award, whether made as an Other Stock-Based Award under this Section 10 or as an Award granted pursuant to Sections 8 and 9 hereof, may provide the holder thereof with dividends or dividend equivalents, payable in cash, Shares, Subsidiary securities, other securities or other property on a current or deferred basis.

SECTION 11

(a) Amendment or Discontinuance of the Plan. The Board may amend or discontinue the Plan at any time; provided, however, that no such amendment may

(i) without the approval of the stockholders, (A) increase, subject to adjustments permitted herein, the maximum number of shares of Common Stock that may be issued through the Plan, (B) materially increase the benefits accruing to Participants under the Plan, (C) materially expand the classes of persons eligible to participate in the Plan, (D) expand the types of Awards available for grant under the Plan, (E) materially extend the term of the Plan, (F) materially change the method of determining the exercise price of Options or Stock Appreciation Rights, or (G) amend Section 11(c) to permit a reduction in the exercise price of Options; or

(ii) materially impair, without the consent of the recipient, an Award previously granted.

(b) Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. The Committee is hereby authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 5(b) hereof) affecting the Company, or the financial statements of the Company or any Subsidiary, or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

(c) Cancellation. Any provision of this Plan or any Award Agreement to the contrary notwithstanding, the Committee may cause any Award granted hereunder to be canceled in consideration of a cash payment or alternative Award made to the holder of such canceled Award equal in value to such canceled Award. Notwithstanding the foregoing, except for adjustments permitted under Sections 5(b) and 11(b), no action by the Committee shall, unless approved by the stockholders of the Company, (i) cause a reduction in the exercise price of Options granted under the Plan or (ii) permit an outstanding Option with an exercise price greater than the current fair market value of a Share to be surrendered as consideration for a new Option with a lower exercise price, shares of Restricted Stock, Restricted Stock Units, and Other Stock-Based Award, a cash payment, or Common Stock. The determinations of value under this subparagraph shall be made by the Committee in its sole discretion.

SECTION 12

(a) Award Agreements. Each Award hereunder shall be evidenced by an agreement or notice delivered to the Participant (by paper copy or electronically) that shall specify the terms and conditions thereof and any rules applicable thereto, including but not limited to the effect on such Award of the death, retirement or other termination of employment or cessation of consulting or advisory services of the Participant and the effect thereon, if any, of a change in control of the Company.

(b) Withholding.

(i) A Participant shall be required to pay to the Company, and the Company shall have the right to deduct from all amounts paid to a Participant (whether under the Plan or otherwise), any taxes required by law to be paid or withheld in respect of Awards hereunder to such Participant. The Committee may provide for additional cash payments to holders of Awards to defray or offset any tax arising from the grant, vesting, exercise or payment of any Award.

(ii) At any time that a Participant is required to pay to the Company an amount required to be withheld under the applicable tax laws in connection with the issuance of Shares under the Plan, the Participant may, if permitted by the Committee, satisfy this obligation in whole or in part by delivering currently owned Shares or by electing (the "Election") to have the Company withhold from the issuance Shares, which Shares shall have a value equal to the minimum amount required to be withheld. The value of the Shares delivered or withheld shall be based on the fair market value of the Shares on the date as of which the amount of tax to be withheld shall be determined in accordance with applicable tax laws (the "Tax Date").

(iii) Each Election to have Shares withheld must be made prior to the Tax Date. If a Participant wishes to deliver Shares in payment of taxes, the Participant must so notify the Company prior to the Tax Date.

(c) Transferability.

(i) No Awards granted hereunder may be sold, transferred, pledged, assigned, or otherwise encumbered by a Participant except:

(A) by will;

(B) by the laws of descent and distribution;

(C) pursuant to a domestic relations order, as defined in the Code, if permitted by the Committee and so provided in the Award Agreement or an amendment thereto; or

(D) if permitted by the Committee and so provided in the Award Agreement or an amendment thereto, Options may be transferred or assigned (1) to Immediate Family Members, (2) to a partnership in which Immediate Family Members, or entities in which Immediate Family Members are the owners, members or beneficiaries, as appropriate, are the partners, (3) to a limited liability company in which Immediate Family Members, or entities in which Immediate Family Members are the owners, members or beneficiaries, as appropriate, are the members, or (4) to a trust for the benefit of Immediate Family Members; provided, however, that no more than a *de minimis* beneficial interest in a partnership, limited liability company, or trust described in (2), (3) or (4) above may be owned by a person who is not an Immediate Family Member or by an entity that is not beneficially owned solely by Immediate Family Members.

(ii) To the extent that an Incentive Stock Option is permitted to be transferred during the lifetime of the Participant, it shall be treated thereafter as a Nonqualified Stock Option. Any attempted assignment, transfer, pledge, hypothecation or other disposition of Awards, or levy of attachment or similar process upon Awards not specifically permitted herein, shall be null and void and without effect. The designation of a Designated Beneficiary shall not be a violation of this Section 12(c).

(d) Share Certificates. Any certificates or book or electronic entry ownership evidence for Shares or other securities delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which such Shares or other securities are then listed, and any applicable federal or state laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(e) No Limit on Other Compensation Arrangements. Nothing contained in the Plan shall prevent the Company from adopting or continuing in effect other compensation arrangements, which may, but need not, provide for the grant of options, stock appreciation rights, restricted stock, and other types of Awards provided for hereunder (subject to stockholder approval of any such arrangement if approval is required), and such arrangements may be either generally applicable or applicable only in specific cases.

(f) No Right to Employment. The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ of or as a consultant or adviser to the Company or any Subsidiary or in the employ of or as a consultant or adviser to any other entity providing services to the Company. The Company or any Subsidiary or any such entity may at any time dismiss a Participant from employment, or terminate any arrangement pursuant to which the Participant provides services to the Company or a Subsidiary, free from any liability or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Award Agreement. No Eligible Individual or other person shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of Eligible Individuals, Participants or holders or beneficiaries of Awards.

(g) Governing Law. The validity, construction, and effect of the Plan, any rules and regulations relating to the Plan and any Award Agreement shall be determined in accordance with the laws of the State of Delaware.

(h) Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any Person or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Person or Award and the remainder of the Plan and any such Award shall remain in full force and effect.

(i) No Trust or Fund Created. Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company.

(j) No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash, other securities or other property shall be paid or transferred in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be canceled, terminated, or otherwise eliminated.

(k) Compliance with Law. The Company intends that Awards granted under the Plan, or any deferrals thereof, will comply with the requirements of Section 409A to the extent applicable.

(l) Deferral Permitted. Payment of cash or distribution of any Shares to which a Participant is entitled under any Award shall be made as provided in the Award Agreement. Payment may be deferred at the option of the Participant if provided in the Award Agreement.

(m) Headings. Headings are given to the subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

SECTION 13

Term of the Plan. Subject to Section 11(a), no Awards may be granted under the Plan after August 10, 2020, which is ten years after the date the Plan was last approved by the Company's stockholders; provided, however, that Awards granted prior to such date shall remain in effect until such Awards have either been satisfied, expired or canceled under the terms of the Plan, and any restrictions imposed on Shares in connection with their issuance under the Plan have lapsed.

STRATUS PROPERTIES INC.

NOTICE OF GRANT OF
RESTRICTED STOCK UNITS
UNDER THE
2013 STOCK INCENTIVE PLAN
[Form for Non-Employee Director Grants]

Pursuant to the terms of the Stratus Properties Inc. 2013 Stock Incentive Plan (the "Plan"), _____ (the "Director"), being a non-employee director of Stratus Properties Inc. (the "Company"), was granted effective September 1, 20__ (the "Grant Date") restricted stock units as hereinafter set forth. Defined terms not otherwise defined herein shall have the meanings set forth in Section 2 of the Plan.

1. Subject to all the terms and conditions of the Plan, the Director, as a matter of separate inducement and agreement in connection with his or her services as a director or advisory director of the Company, and not in lieu of any salary or other compensation for the Director's services, is granted, on the terms and conditions set forth in the Plan, 2,000 restricted stock units ("RSUs").

2. Unless the vesting of the RSUs is accelerated pursuant to the terms of the Plan or this Notice, and subject to any other terms of the Plan, the RSUs shall vest in installments as follows:

Vesting Date	Number of RSUs To Vest
September 1, 20__	500
September 1, 20__	500
September 1, 20__	500
September 1, 20__	500

3. Additional Terms and Conditions of Restricted Stock Units.

3.1 Subject to the terms, conditions, and restrictions set forth herein, each RSU represents the right to automatically receive from the Company, on the respective scheduled vesting date for such RSU, one share (a "Share") of Common Stock, free of any restrictions and all cash, securities and property credited to or deposited in the Director's Dividend Equivalent Account (as defined in Section 3.3) with respect to such RSU.

3.2 Except as provided in Section 3.3, an RSU shall not entitle the Director to any incidents of ownership (including, without limitation, dividend and voting rights) (a) in any Share until the RSU shall vest and the Director shall be issued a Share to which such RSU relates nor (b) in any cash, securities or property credited to or deposited in a Dividend Equivalent Account related to such RSU until such RSU vests.

3.3 From and after the Grant Date of an RSU until the issuance of the Share payable in respect of such RSU, the Director shall be credited, as of the payment date therefor, with (a) the amount of any cash dividends and (b) the amount equal to the Fair Market Value of any Shares, securities, or other property distributed or distributable in respect of one share of Common Stock to which the Director would have been entitled had the Director been a record holder of one share of Common Stock at all times from the Grant Date to such issuance date (a "Property Distribution"). All such credits shall be made notionally to a dividend equivalent account (a "Dividend Equivalent Account") established for the Director with respect to all RSUs granted with the same vesting date. All credits to a Dividend Equivalent Account for the Director shall be notionally increased by the Account Rate (as hereinafter defined), compounded quarterly, from and after the applicable date of credit until paid in accordance with the terms of the Plan and this Notice. The "Account Rate" shall be the prime commercial lending rate announced from time to time by JPMorgan Chase Bank or by another major national bank headquartered in New York, New York designated by the Committee. The Committee may, in its discretion, deposit in the Participant's Dividend Equivalent Account the securities or property comprising any Property Distribution in lieu of crediting such Dividend Equivalent Account with the Fair Market Value thereof, or may otherwise adjust the terms of the Award as permitted under Section 5(b) of the Plan. For purposes of this Notice, "Fair Market Value" of a share of Common Stock or any other security shall have the meaning set forth in the Stratus Properties Inc. Policies of the Committee applicable to the Plan, and with respect to any other property, shall mean the value thereof as determined by the Board in connection with the declaration of the dividend or distribution thereof.

3.4 (a) Except as otherwise set forth in Section 3.4(b), all unvested RSUs, all amounts credited to the Director's Dividend Equivalent Account with respect to such RSUs, and all securities and property comprising Property Distributions deposited in such Dividend Equivalent Account with respect to such RSUs shall immediately be forfeited on the date the Director ceases to be an Eligible Individual, unless the Director continues providing services to the Company pursuant to a consulting or other arrangement as set forth in Section 3.4(c).

(b) If the Director ceases to be an Eligible Individual by reason of the Director's death, disability (as defined in Section 3.4(d)), or retirement, any RSUs granted hereunder that are scheduled to vest within one year following the date the Director ceases to be an Eligible Individual, and all amounts credited to or property deposited in the Director's Dividend Equivalent Account with respect to such RSUs shall vest as of the date the Director ceases to be an Eligible Individual.

(c) For purposes of this Section 3.4, if the Director continues to provide services to the Company or a subsidiary of the Company pursuant to a consulting or other arrangement, the Director will not "cease to be an Eligible Individual" until such time as the Director has "separated from service" under Section 409A of the Internal Revenue Code and any related implementing regulations or guidance.

(d) For purposes of this Section 3.4, a "disability" shall have occurred if the Director is (i) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) by reason of any medically determinable physical or mental impairment which can be expected to result in

death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under an accident and health plan covering employees of the Director's employer.

4. **Change in Control.**

4.1 For purposes of this Notice, "Change in Control" means (capitalized terms not otherwise defined will have the meanings ascribed to them in Section 4.2 below):

(a) the acquisition by any Person together with all Affiliates of such Person, of Beneficial Ownership of the Threshold Percentage or more; provided, however, that for purposes of this Section 4.1(a), the following will not constitute a Change of Control:

(i) any acquisition (other than a "Business Combination," as defined below, that constitutes a Change in Control under Section 4.1(c) hereof) of Common Stock directly from the Company,

(ii) any acquisition of Common Stock by the Company or its subsidiaries,

(iii) any acquisition of Common Stock by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation or other entity controlled by the Company, or

(iv) any acquisition of Common Stock pursuant to a Business Combination that does not constitute a Change in Control under Section 4.1(c) hereof; or

(b) individuals who, as of the effective date of this Notice, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the effective date of this Notice whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board will be considered a member of the Incumbent Board, unless such individual's initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or any other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Incumbent Board; or

(c) the consummation of a reorganization, merger or consolidation (including a merger or consolidation of the Company or any direct or indirect subsidiary of the Company), or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"), in each case, unless, immediately following such Business Combination:

(i) the individuals and entities who were the Beneficial Owners of the Company Voting Stock immediately prior to such Business Combination have direct or indirect Beneficial Ownership of more than 50% of the then outstanding shares of common stock, and more than 50% of the combined voting power of the then outstanding voting

securities entitled to vote generally in the election of directors, of the Post-Transaction Corporation, and

(ii) no Person together with all Affiliates of such Person (excluding the Post-Transaction Corporation and any employee benefit plan or related trust of either the Company, the Post-Transaction Corporation or any subsidiary of either corporation) Beneficially Owns 30% or more of the then outstanding shares of common stock of the Post-Transaction Corporation or 30% or more of the combined voting power of the then outstanding voting securities of the Post-Transaction Corporation, and

(iii) at least a majority of the members of the board of directors of the Post-Transaction Corporation were members of the Incumbent Board at the time of the execution of the initial agreement, and of the action of the Board, providing for such Business Combination; or

(d) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

4.2 As used in this Section 4, the following terms have the meanings indicated:

(a) Affiliate: "Affiliate" means a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, another specified Person.

(b) Beneficial Owner: "Beneficial Owner" (and variants thereof), with respect to a security, means a Person who, directly or indirectly (through any contract, understanding, relationship or otherwise), has or shares (A) the power to vote, or direct the voting of, the security, and/or (B) the power to dispose of, or to direct the disposition of, the security.

(c) Company Voting Stock: "Company Voting Stock" means any capital stock of the Company that is then entitled to vote for the election of directors.

(d) Majority Shares: "Majority Shares" means the number of shares of Company Voting Stock that could elect a majority of the directors of the Company if all directors were to be elected at a single meeting.

(e) Person: "Person" means a natural person or entity, and will also mean the group or syndicate created when two or more Persons act as a syndicate or other group (including without limitation a partnership, limited partnership, joint venture or other joint undertaking) for the purpose of acquiring, holding, or disposing of a security, except that "Person" will not include an underwriter temporarily holding a security pursuant to an offering of the security.

(f) Post-Transaction Corporation: Unless a Change in Control includes a Business Combination, "Post-Transaction Corporation" means the Company after the Change of Control. If a Change in Control includes a Business Combination, "Post-Transaction Corporation" will mean the corporation or other entity resulting from the Business Combination

unless, as a result of such Business Combination, an ultimate parent entity controls the Company or all or substantially all of the Company's assets either directly or indirectly, in which case, "Post-Transaction Corporation" will mean such ultimate parent entity.

(g) Threshold Percentage: "Threshold Percentage" means 30% of all then outstanding Company Voting Stock.

4.3 If a Change in Control also qualifies as a change in the ownership of the Company, a change in the effective control of the Company or a change in the ownership of a substantial portion of the assets of the Company under Section 409A of the Internal Revenue Code and any related implementing regulations or guidance, then all outstanding RSUs shall become fully vested upon the Change in Control.

5. The RSUs granted hereunder are not transferable by the Director otherwise than by will or by the laws of descent and distribution.

6. All notices hereunder shall be in writing, and if to the Company, shall be delivered personally to the Secretary of the Company or mailed to its offices located at 1615 Poydras Street, New Orleans, Louisiana 70112, addressed to the attention of the Secretary; and if to the Director, shall be delivered personally or mailed to the Director at the address on file with the Company. Such addresses may be changed at any time by notice from one party to the other.

7. The terms of this Notice shall bind and inure to the benefit of the Director, the Company and the successors and assigns of the Company and, to the extent provided in the Plan and in this Notice, the legal representatives of the Director.

8. This Notice is subject to the provisions of the Plan. The Plan may at any time be amended by the Board, and this Notice may at any time be amended by the Committee provided that no amendment to this Notice that materially impairs the benefits provided to the Director hereunder may be made without the Director's consent. Subject to any applicable provisions of the Company's by-laws or of the Plan, any applicable determinations, orders, resolutions or other actions of the Committee shall be final, conclusive and binding on the Company and the holder of the RSUs granted hereunder.

STRATUS PROPERTIES INC.

By:_____

Exhibit 21.1

List of Subsidiaries of
Stratus Properties Inc.

Entity	Organized	Name Under Which It Does Business
Stratus Properties Operating Co., L.P.	Delaware	Same
CJUF II Stratus® Block 21 LLC	Delaware	Same

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-169057) of our reports dated March 16, 2015 relating to the consolidated financial statements and schedule and the effectiveness of internal control over financial reporting both of which appear in this Form 10-K.

/s/ BKM Sowan Horan, LLP

Austin, Texas

March 16, 2015

Exhibit 24.1

Stratus Properties Inc.

Secretary's Certificate

I, Douglas N. Currault II, Assistant Secretary of Stratus Properties Inc. (the "Corporation"), a corporation organized and existing under the laws of the State of Delaware, do hereby certify that the following resolution was duly adopted by the Board of Directors of the Corporation at a meeting held on February 10, 1993, and that such resolution has not been amended, modified or rescinded and is in full force and effect:

RESOLVED, That any report, registration statement or other form filed on behalf of this corporation pursuant to the Securities Exchange Act of 1934, or any amendment to any such report, registration statement or other form, may be signed on behalf of any director or officer of this corporation pursuant to a power of attorney executed by such director or officer.

IN WITNESS WHEREOF, I have hereunto signed my name and affixed the seal of the Corporation on March 12, 2015.

/s/ Douglas N. Currault II
Douglas N. Currault II
Assistant Secretary

Seal

Exhibit 24.2

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Stratus Properties Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint KENNETH N. JONES, his true and lawful attorney-in-fact with full power of substitution, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 2014, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorney, full power and authority to do and perform each and every act and thing whatsoever that said attorney may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney may do or cause to be done by virtue of this Power of Attorney.

EXECUTED on March 12, 2015.

/s/ William H. Armstrong III

William H. Armstrong III

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Stratus Properties Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint WILLIAM H. ARMSTRONG III and KENNETH N. JONES, and each of them acting individually, his true and lawful attorney-in-fact with power to act without the others and with full power of substitution, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 2014, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever that said attorney or attorneys may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney or attorneys may do or cause to be done by virtue of this Power of Attorney.

EXECUTED on March 12, 2015.

/s/ James C. Leslie

James C. Leslie

POWER OF ATTORNEY

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EXECUTED on March 12, 2015.

/s/ William H. Lenehan IV

William H. Lenehan IV

POWER OF ATTORNEY

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EXECUTED on March 12, 2015.

/s/ Michael D. Madden

Michael D. Madden

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Stratus Properties Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint WILLIAM H. ARMSTRONG III and KENNETH N. JONES, and each of them acting individually, his true and lawful attorney-in-fact with power to act without the others and with full power of substitution, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 2014, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever that said attorney or attorneys may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney or attorneys may do or cause to be done by virtue of this Power of Attorney.

EXECUTED on March 12, 2015.

/s/ Charles W. Porter

Charles W. Porter

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Stratus Properties Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint WILLIAM H. ARMSTRONG III and KENNETH N. JONES, and each of them acting individually, his true and lawful attorney-in-fact with power to act without the others and with full power of substitution, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 2014, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever that said attorney or attorneys may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney or attorneys may do or cause to be done by virtue of this Power of Attorney.

EXECUTED on March 12, 2015.

/s/ C. Donald Whitmire, Jr.

C. Donald Whitmire, Jr.

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in her capacity or capacities as an officer and/or a member of the Board of Directors of Stratus Properties Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint WILLIAM H. ARMSTRONG III and KENNETH N. JONES, and each of them acting individually, her true and lawful attorney-in-fact with power to act without the others and with full power of substitution, to execute, deliver and file, for and on behalf of her, in her name and in her capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 2014, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever that said attorney or attorneys may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney or attorneys may do or cause to be done by virtue of this Power of Attorney.

EXECUTED on March 12, 2015.

/s/ Erin D. Pickens

Erin D. Pickens

Exhibit 31.1

Certification

I, William H. Armstrong III, certify that:

1. I have reviewed this annual report on Form 10-K of Stratus Properties Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2015

/s/ William H. Armstrong III
William H. Armstrong III
Chairman of the Board, President and
Chief Executive Officer

Exhibit 31.2

Certification

I, Erin D. Pickens, certify that:

1. I have reviewed this annual report on Form 10-K of Stratus Properties Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2015

/s/ Erin D. Pickens
Erin D. Pickens
Senior Vice President and
Chief Financial Officer

Exhibit 32.1

Certification Pursuant to 18 U.S.C. Section 1350
(Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Annual Report on Form 10-K of Stratus Properties Inc. (the "Company") for the year ending December 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), William H. Armstrong III, as Chairman of the Board, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 16, 2015

/s/ William H. Armstrong III
William H. Armstrong III
Chairman of the Board, President and
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification shall not be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.

Exhibit 32.2

Certification Pursuant to 18 U.S.C. Section 1350
(Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Annual Report on Form 10-K of Stratus Properties Inc. (the "Company") for the year ending December 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Erin D. Pickens, as Senior Vice President and Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of her knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 16, 2015

/s/ Erin D. Pickens
Erin D. Pickens
Senior Vice President and
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification shall not be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.