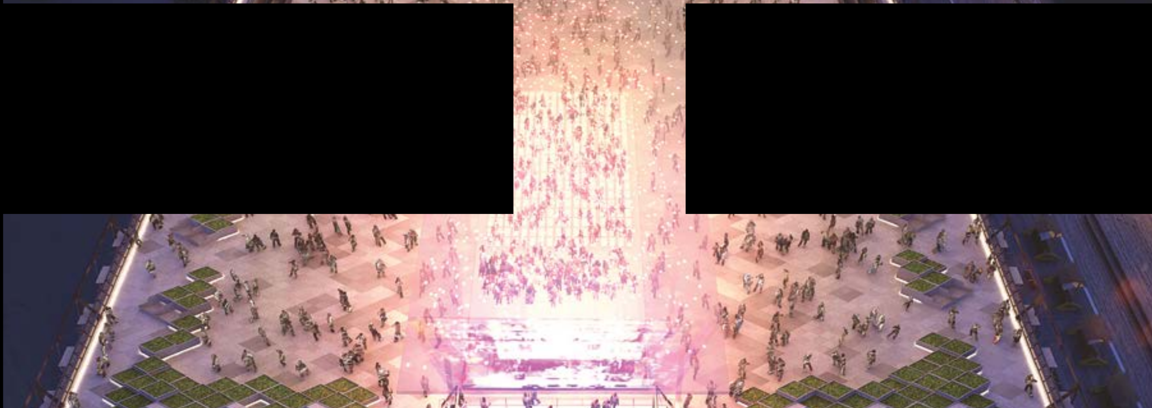
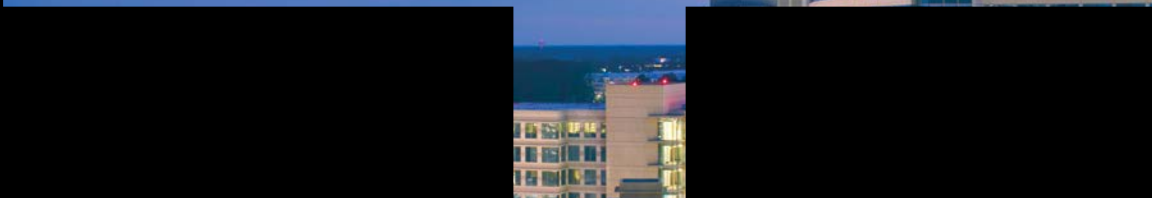
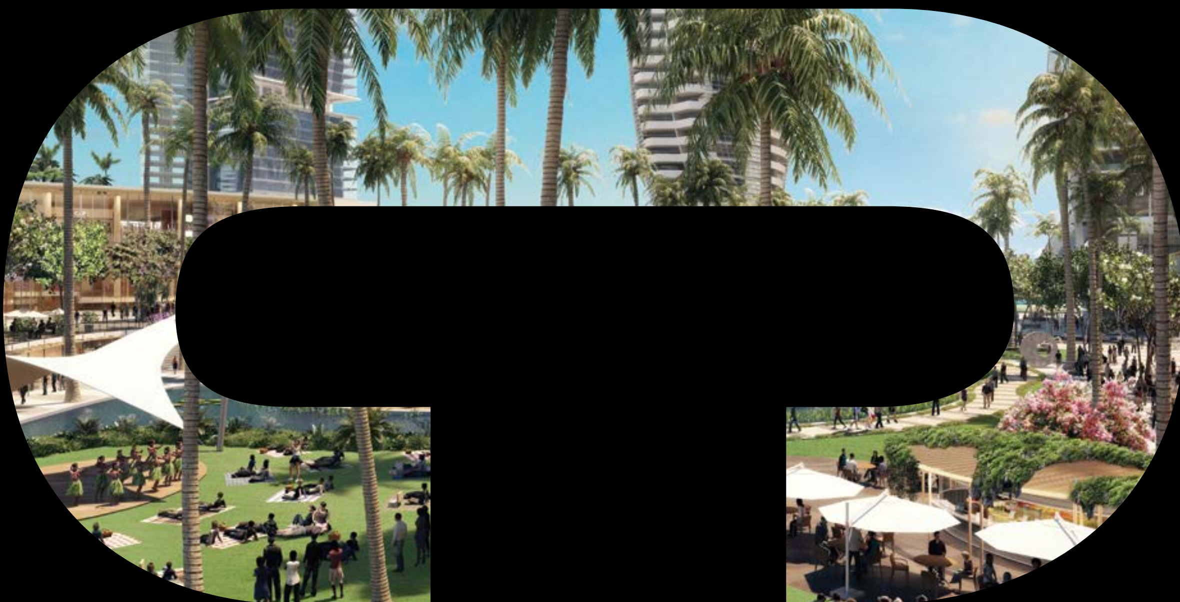
13

# ANNUAL REPORT 2013







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# HHC/13

UNLOCKING VALUE FROM WALL STREET TO WAIKIKI

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Howard Hughes

THE HOWARD HUGHES CORPORATION®

# OUR VISION

## TO THE SHAREHOLDERS OF THE HOWARD HUGHES CORPORATION FROM THE CHIEF EXECUTIVE OFFICER

**MARCH 13, 2014** — During his lifetime, Howard Hughes built a legacy that places him among the greatest entrepreneurs of the 20th century. We are inspired by his namesake and driven by our own sharply focused ambitions. In last year's letter, I compared the development of our company to the process of making a film. In 2012, we wrote the script, scouted locations and cast the talent. In 2013, the cameras began rolling and I am pleased to report from the field that our core developments are off to a strong start. We made substantial progress in creating value at our most important assets, increased the depth of our world-class development team, delivered strong financial results, and generated liquidity that further solidified our balance sheet. The Howard Hughes Corporation had an exceptional year.

We have the preeminent master planned community (MPC) business in the country, and under the skilled stewardship of our MPC leaders, this thriving business was primarily responsible for another year of exemplary financial results. Our consolidated revenues totaled $475 million, of which MPC land sales were up 36% to $246 million, and operating income and income from non-consolidated affiliates totaled $118 million compared to $76 million in 2012. Notwithstanding the fact that many of our most valuable assets are under construction and do not contribute to our bottom line, cash flow from operations was $129 million in 2013. We invested $376 million in pre-development and development to advance our projects to the point at which they will begin to generate recurring cash flow and their intrinsic value can begin to be recognized. We took advantage of low interest rates by raising $750 million of cash through the issuance of covenant-lite bonds which will allow us the flexibility to stay the course in developing assets that will have significant long-term value, regardless of short-term economic or capital markets disruptions during the development cycle. At the end of 2013, we had $895 million of unrestricted cash on hand, and just 28% net debt against the book value of our equity capital base, a value which we believe significantly understates our Company's intrinsic value.

We remain focused on a handful of core assets in which the majority of our value creation potential resides: The South Street Seaport in Lower Manhattan; the master planned communities in Columbia, Maryland, Houston, Texas and Las Vegas, Nevada; the Shops at Summerlin in Las Vegas; and Ward Village, an urban master planned community in Honolulu, Hawai'i. We are also redeveloping several assets that showcase how imaginative thinking can create value. The Outlet Collection at Riverwalk in New Orleans, Louisiana, represents such an example.

We attribute our success in our ongoing progress in unlocking the value of our assets to the dedication and tireless efforts of our exceptionally talented employees, and the ongoing support, guidance and commitment of our board of directors. This year we continued to add talented professionals to our team who share our passion for excellence, have accomplished track records and have made immediate contributions. Together with the board, the senior management team and our 1000+ employees aspire to continue to grow the per-share value of The Howard Hughes Corporation at a high rate over the long term.

# CONSTRUCTION

*An aerial view of The Shops at Summerlin under construction.*

*An aerial view of construction at Hughes Landing.*

# Last year I mentioned that 2013 would be a pivotal year for the company as we transition from planning to building. We did just that by initiating construction from Wall Street to Waikiki:

## THE WOODLANDS

- We completed construction of 3 Waterway Square and One Hughes Landing. Together these office buildings are approximately 430,000 square feet in size and are 98% occupied.
- Two Hughes Landing, a 197,000-square-foot office building, quickly followed on the heels of the two office buildings listed above, is almost complete.
- We began construction of two office buildings totaling 647,000 square feet of which 478,000 square feet have been leased to Exxon Mobil Corporation.
- We commenced construction of our Hughes Landing Retail project, which consists of approximately 122,000 square feet of retail, anchored by a Whole Foods Market.
- In the Village of Creekside Park, we are now under construction on a 75,000-square-foot retail center that will be complete in late 2014.
- We began construction of One Lake's Edge, a 390-unit multifamily project
- We began the redevelopment of The Woodlands Resort and Conference Center, which will be completed by the third quarter of 2014.
- We are approaching completion of Millennium Phase II, 314 apartment units which we are building in a joint venture with The Dinerstein Companies.

## HAWAI'I

- In Hawai'i, we completed the construction of The Ward Village Residential Sales Gallery and the Master Plan Information Center in the iconic IBM Building.
- We completed Phase Two of Ward Village Shops, a 57,000-square-foot retail building now occupied by Nordstrom Rack and Pier One.
- We began construction of One Ala Moana, a 206-unit condominium tower that is 100% sold out and slated for completion at the end of 2014.

## COLUMBIA

- We are continuing the construction of The Metropolitan, a 380-unit multifamily development in Columbia, Maryland. The Metropolitan is being built in partnership with Kettler-Orchard and is expected to begin pre-leasing in the second half of 2014.
- In the fourth quarter of last year we entered into a joint venture with Kettler-Orchard to construct Phase II, a 437-unit apartment building on land currently known as Parcel C.
- We continued the redevelopment and conversion of the old Rouse headquarters into a Whole Foods anchored center.

## LAS VEGAS, NEW ORLEANS AND NEW YORK CITY

- In Summerlin, we are continuing to develop and lease The Shops at Summerlin, a 1.6 million-square-foot retail downtown for the master planned community which we expect to be open for the holiday season.
- In New Orleans, we began construction of the Outlet Collection at Riverwalk. The property is 95% preleased. This will be the first outlet center in the country located in an urban location expected to open in May 2014.
- In New York, we commenced construction of the redevelopment of Pier 17 and the historic (Uplands) district, just west of the FDR Drive.

**In the aggregate, the above developments represent 1.3 million square feet of office, 2.5 million square feet of retail, 1,725 multifamily units and a 406-room renovated hotel with total project costs, excluding the South Street Seaport and the One Ala Moana condominium development, of $1.3 billion. We expect to generate a stabilized yield of approximately 10% from these developments. We have excluded the South Street Seaport because we expect to generate a significantly higher yield on cost than 10% but do not have clear visibility yet.**

# MASTER PLANNED COMMUNITIES

**The Howard Hughes Corporation has the best MPCs in some of the strongest markets in the country. Our seasoned management team took advantage of the continued demand for our land and obtained significant price and volume increases over 2012 thereby delivering outstanding results. This trend is continuing into 2014.**

## THE WOODLANDS

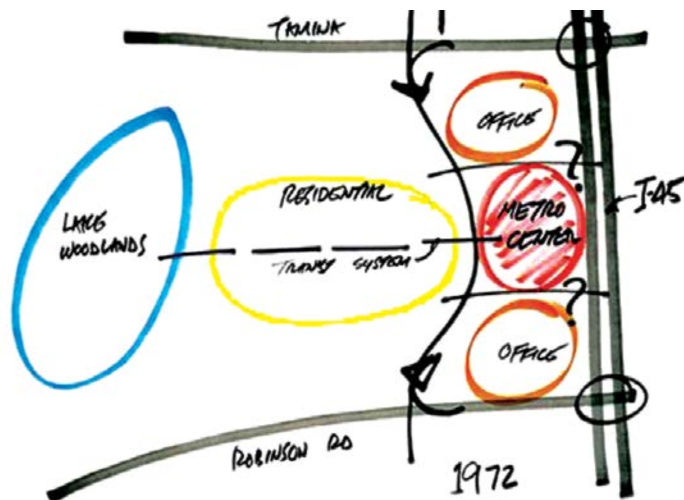
George Mitchell was an icon of the energy industry and the visionary founder of The Woodlands. In the 1960s, he saw the need for a thoughtfully planned community where families and businesses could live in harmony with nature. He used the wealth he amassed in the energy industry to acquire 28,000 acres of raw land north of Houston. In his obituary, his children wrote "He led his life with a winning combination of confidence, risk, intellect, imagination, persistence, integrity and loyalty. He touched the lives of countless people and left the world a better place." Mr. Mitchell's passion and legacy survive as part of the culture of our team, led by Paul Layne – Executive Vice President Master Planned Communities, and Alex Sutton and Tim Welbes – Co-Presidents of The Woodlands.

*The Woodlands Waterway*

The following napkin sketch from 1972 depicts the original town center concept for The Woodlands. The creator of this drawing, Robert Heineman, is still a valued executive with HHC today. In this drawing, the red and orange areas between I-45 on the right and the blue residential plan on the left represent the acreage reserved for commercial development. Commercial buildings were not developed on this site until the 2000s, after a critical mass of residential homes had been built to generate demand for commercial product. Today, the most valuable opportunities still remain in Town Center. George Mitchell possessed the vision, foresight and courage to preserve the most valuable land for development until it really mattered. We continue to be a tremendous beneficiary of Mr. Mitchell's vision.

Demand for residential and commercial property in The Woodlands continues to grow at a tremendous pace, benefitting not only from a regional economic tailwind but also from our team's ability to identify and execute at the highest level on new commercial and residential opportunities.

In 2011, we acquired the remaining 47.5% equity interest in The Woodlands that we did not already own for $117.5 million, implying a $247 million equity value for the entire asset. With the ongoing commercial development and with results from recent land sales, we believe that the equity value of The Woodlands today is far in excess of that valuation. The following table illustrates the different elements of potential value at The Woodlands. Please note that this table does not adjust for the time value of money nor any potential increase in future value of The Woodlands assets and includes several assumptions regarding cap rates, net operating income, development costs and sales prices, which may or may not be accurate. Despite these caveats, we believe this back of the envelope analysis provides a good illustration of the potential magnitude of the value appreciation in this property since our 2011 acquisition.

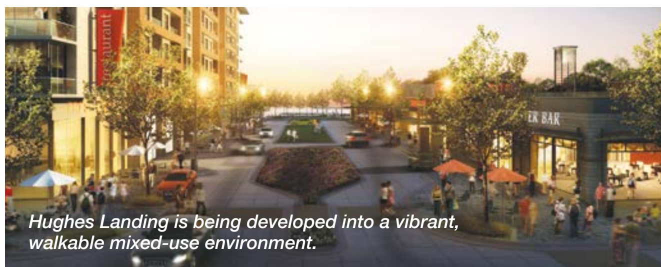


*The vision for The Woodlands Town Center sketched on a napkin.*

## THE WOODLANDS VALUE ESTIMATES

| Asset | | Amount | Valuation Metric | Year Stabilized | | Estimated Value ($MM) |
|---|---|---|---|---|---|---|
| **Land** | | | | | | |
| Residential Land [1] | | 2,064 | Lots | | $ | 316 |
| Commercial Acres [2] | | 791 | Acres | | | 417 |
| **Total Land** | | | | | **$** | **732** |
| **Stabilized Assets** | | | | | | |
| 4 Waterway Square | $ | 5.8 | Projected Annual NOI | 2014 | $ | 83 |
| 3 Waterway Square | | 6.3 | Projected Annual NOI | 2014 | | 90 |
| 9303 New Trails | | 1.8 | Projected Annual NOI | 2014 | | 26 |
| 1400 Woodloch | | 1.5 | Projected Annual NOI | 2014 | | 21 |
| 20/25 Waterway | | 1.5 | Projected Annual NOI | 2014 | | 21 |
| One Hughes Landing | | 5.5 | Projected Annual NOI | 2015 | | 79 |
| Millennium Waterway Apartments | | 4.6 | Projected Annual NOI | 2014 | | 66 |
| Woodlands Resort & Conference Center [3] | | 16.0 | Projected Stabilized NOI | 2016 | | 229 |
| Other Assets | | 0.4 | Projected Annual NOI | 2014 | | 6 |
| **Total Stabilized Assets [4]** | **$** | **43.4** | | | **$** | **620** |
| **Under Construction** | | | | | | |
| Two Hughes Landing | $ | 5.5 | Projected Stabilized NOI | 2015 | $ | 79 |
| Hughes Landing Retail | | 3.5 | Projected Stabilized NOI | 2016 | | 50 |
| One Lake's Edge Multifamily | | 7.8 | Projected Stabilized NOI | 2016 | | 111 |
| Creekside Park Village Center | | 1.9 | Projected Stabilized NOI | 2015 | | 27 |
| Millennium Six Pines Multifamily | | 4.4 | Projected Stabilized NOI | 2015 | | 63 |
| ExxonMobil Build-to-Suit | | 14.4 | Projected Stabilized NOI | 2016 | | 262 |
| **Total Under Construction [5]** | **$** | **37.5** | | | **$** | **592** |
| **Additional Planned Development** | | | | | | |
| Commercial Development [6] | | 7.0 | Square Feet (MM) | | | 1,050 |
| **Total Additional Planned Development** | | **7.0** | | | **$** | **1,050** |
| **Gross Asset Value** | | | | | **$** | **2,994** |
| Less: Cost to Complete [7] | | | | | $ | (428) |
| Less: Existing Debt [8] | | | | | | (407) |
| **Estimated Undiscounted Value [9]** | | | | | **$** | **2,159** |

1. 2013 average price per lot less remaining net development costs.
2. Assumes $12.09 per square-foot. Excludes land in the Town Center.
3. Represents projected stabilized NOI upon completion of the redevelopment. 2013 actual NOI was $10.2 million.
4. Assumes a 7.0% cap rate on Projected Annual NOI.
5. Assumes a 7.0% cap rate on Projected Stabilized NOI excluding ExxonMobil, which assumes a 5.5% cap rate.
6. Future development valued $150 per square-foot net of development costs.
7. Estimated cost to complete projects under construction as of December 31, 2013.
8. Debt as of December 31, 2013.
9. The value derived does not account for timing of future developments or completion of existing developments. Future development projects assumed to be completed in this analysis may or may not actually be completed.



*Hughes Landing is being developed into a vibrant, walkable mixed-use environment.*

*Whole Foods will bring fresh gourmet food options to Hughes Landing.*

## THE WOODLANDS RESIDENTIAL AND COMMERCIAL LAND

In my 2013 shareholder letter, I discussed the results of a competitive bid process for 375 residential lots in which pricing came in 49% higher than sale prices for comparable lots prior to the origination of this process. We continue to obtain competitive bids for residential lots and now command an average price per lot that is 98% higher than before the program was implemented in the second half of 2012. Based on the 2013 average lot price of $155,500 and the uninflated future net cash cost to deliver of approximately $2,600, we estimate a profit of $152,900 on the remaining 2,064 lots. Assuming no further price increases, this results in $316 million in total proceeds from residential lots. If we use the 2013 expected value of $12.09 per square-foot for the 791 acres of our remaining commercial land outside The Woodlands Town Center district, we can expect $417 million in proceeds for a combined undiscounted land value of $732 million.

## THE WOODLANDS COMMERCIAL OPERATING PROPERTIES

We continue to expand the platform of stabilized operating assets in The Woodlands. Our commercial properties currently encompass over 1,000,000 square feet of office space, 50,000 square feet of retail space, 393 luxury multifamily units, a 406-key resort and conference center and a country club. Once redevelopment of The Woodlands Resort & Conference Center has been completed and stabilized, we expect the combined annual NOI from these properties to be in excess of $43 million. Applying a conservative 7.0% cap rate to this portfolio of assets, results in a value before debt of $620 million.

The Woodlands Resort & Conference Center is currently under construction undergoing a $75 million redevelopment. We are adding 184 new rooms and expect to demolish the older 218 rooms, which were built in the 1970s. Our future plans include replacing these at a later date with luxury townhomes. Occupancy prior to the start of construction was approximately 57.6% comprised of 62.9% during the week and 46.3% during the weekend. With the addition of an 865-foot “lazy river” we expect to attract families on the weekend which will increase average occupancy to 67% comprised of 71% during the week and 58% on the weekend. While the property continues to perform well during construction, we expect NOI to increase by over 50% to $16 million once the redevelopment has been completed and occupancy stabilizes.

## THE WOODLANDS COMMERCIAL PROPERTIES UNDER DEVELOPMENT

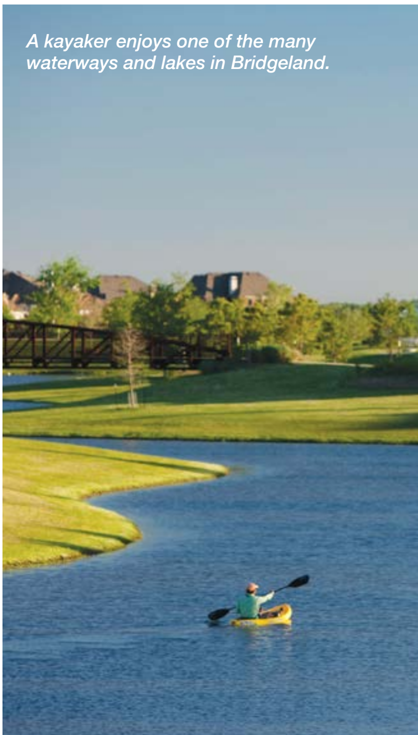
As the demand for commercial space and new amenities continues to exceed supply, we are advancing development plans for several strategic assets located within The Woodlands. Most notably, in July 2012, we announced plans for Hughes Landing, a 66-acre mixed use development located on Lake Woodlands. The development is ultimately planned for 1.6 million square feet of office, 250,000 square feet of retail, restaurant and entertainment space, up to 1,500 multifamily units and a 175-room hotel. We recently announced 650,000 square feet of office currently under construction at Hughes Landing, of which 478,000 square feet were leased to the Exxon Mobil Corporation. Once the commercial properties under development are completed and stabilized, we expect them to generate approximately $37.5 million in NOI and we estimate their value at approximately $600 million.

Due to strong demand for hotel rooms at premium rates, we intend to develop a 300-room hotel located in Town Center. Located adjacent to 4 Waterway Square and across the street from 3 Waterway Square, this hotel will serve as the newest generation Four Diamond hotel in an underserved market and will complement The Woodlands Resort & Conference Center. This $100+ million project is expected to break ground in the first half of 2014 and will welcome its first guests in late 2015.

## THE WOODLANDS COMMERCIAL PROPERTY DEVELOPMENT OPPORTUNITY

The Woodlands commercial office vacancy rate at less than 5% is one of the lowest in the country. In light of this demand, we continue to work to identify future potential development sites in The Woodlands. We have identified an additional seven million square feet of future commercial development opportunities since we obtained 100% ownership of The Woodlands. Using current market values of $400 per square-foot and a cost to complete (excluding land value) of $250 per square-foot, we estimate that we can achieve more than $1 billion of value from these new development opportunities. Strong economic trends are expected to continue to provide us with a unique opportunity to accelerate growth, density and development. The time is now for The Woodlands and we understand the unique opportunity in front of us.

*A block of homes in a Bridgeland residential neighborhood.*



*A kayaker enjoys one of the many waterways and lakes in Bridgeland.*

## BRIDGELAND

Bridgeland finished 2013 with 7,350 residents in 2,100 homes, and demand for finished lots remains robust. While we sold 143 residential lots at an average price of $77,000 and 16.6 commercial acres generating $13.6 million in revenue, we were unable to fully capitalize on demand due to an unforeseen delay in obtaining a development permit from the US Army Corps of Engineers. By comparison, in 2012, we sold 389 lots and generated revenue of $21.9 million. I am pleased to report that on February 27, 2014 we received the development permit. As a result, we should be able to deliver over 500 finished lots to builders within 180 days and develop an additional 806 acres of land in Bridgeland, representing approximately 1,300 finished lots.

There are a few reasons why we are confident that sales momentum will return to Bridgeland and lot sales will accelerate. First, Segment E of the Grand Parkway, which bisects the future downtown of Bridgeland, is now open to vehicular traffic. The Grand Parkway will reduce the commute time between Bridgeland and The Woodlands and other areas of the Houston Metropolitan Statistical Area (MSA). Next, as Houston continues to grow northwest, many of Bridgeland's competitors are running out of lot inventory. With approximately 18,000 remaining developable lots and a 2013 average price per lot of $77,000, we are positioned to capitalize on Bridgeland's potential for growth. Finally, with an increasing number of residents, we continue to invest in infrastructure so that we can stay ahead of expected growth. In 2013, we invested $29.2 million in the development of future residential sections and critical support items such as waste water treatment plants, roads, sewers and community amenities.

# SUMMERLIN

When I became CEO of The Howard Hughes Corporation near the depth of the housing recession in 2010, Summerlin had just $11 million of revenues. At its peak, Summerlin generated $260 million of annual revenues. Because of this potential, we dubbed Summerlin the Sleeping Giant, and in 2013, this Sleeping Giant awoke. Summerlin generated $112 million of land sales in 2013 compared with $32 million in 2012, and the average price per superpad acre increased to $323,000 from $226,000 in 2012. In 2013, Summerlin sold 157 finished lots, nine superpads (totaling 257 acres) and 12 custom lots. At December 31, 2013, Summerlin had ten active subdivisions containing 290 lots, down from 13 at the end of 2012. Summerlin's new home sales increased to 589 in 2013 from 471 in 2012.

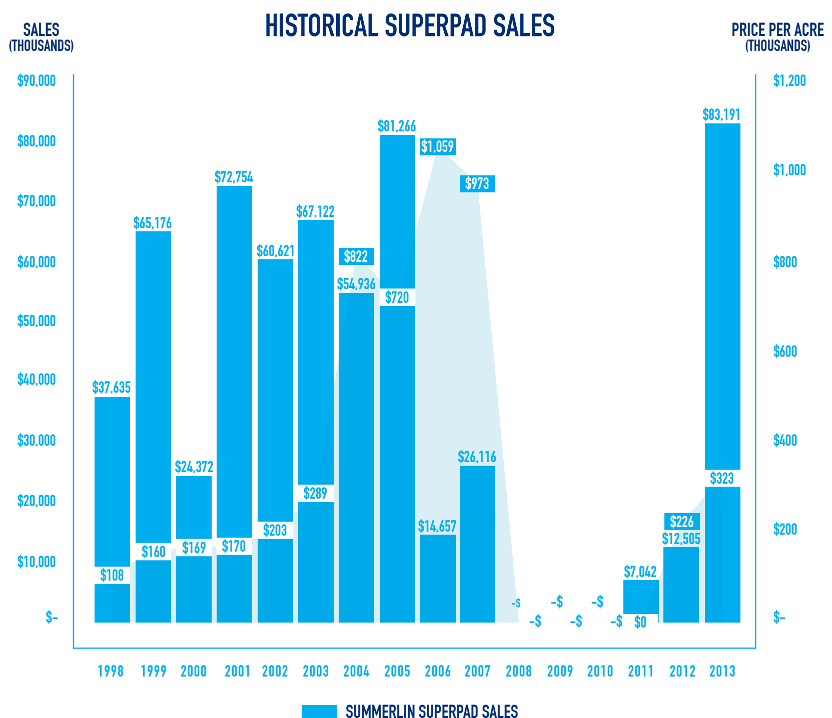
Kevin Orrock, President of Summerlin, and his team are energized by the recovery of this market and growing demand for land in Summerlin. Our patience paid off and now our community is once again blossoming as the premier community where homebuilders want to build. In 2013, median new home sales prices in the Las Vegas Valley increased approximately 37% over the prior year. According to the Las Vegas Review Journal, resale inventory at the end of 2013 represented 2.8 months of inventory, less than half the six-month supply of a normal market. Visitors to the Las Vegas strip were 39.7 million, just shy of the 2012 record. Construction activity is also on the upswing, with almost $8 billion of investment proposed or under construction in Las Vegas.

To give some context to the rebound in values at Summerlin, in 2010 we took an impairment charge against the approximately 2,000 acres in Summerlin South. The $203 million fair value determined at that time for accounting purposes was computed using a discounted cash flow model containing projected future sales prices and costs to deliver parcels to homebuilders. In the second half of 2013, we sold superpads for an average of approximately $365,000 per acre. Our model from 2010 did not assume we would reach this price until 2025, so from a pricing standpoint we are 12 years ahead of our assumptions in the 2010 valuation model. You may remember from our Chairman's letter in 2011, Bill Ackman stated "small changes in assumptions on discount rates, lot pricing and sales velocity, inflation etc. can have an enormous impact on fair value." Calculating the positive impact of pricing increases and sales velocity would dramatically change the carrying value of Summerlin, but under GAAP accounting, we do not "write up" assets if they increase in value. We only write them down if we believe we cannot recover our book value from the future cash flows we expect to receive from the property.

In light of the recent rapid increase in sales prices, one might ask whether we are approaching peak pricing in Summerlin, but we believe we are far from it. The following chart shows historical annual superpad sales and price per acre for superpads. We are now at 2003/2004 pricing levels and one-third of the peak. We also believe that the creation of a downtown in Summerlin will have a substantial positive impact on land values. We believe the future is very bright for Summerlin.

As the Las Vegas economy continues its recovery, we expect Summerlin to further differentiate itself as the top MPC in the region. Summerlin, which is equipped with the best amenities of any MPC in the Las Vegas market, is adjacent to the Red Rock Canyon National Conservation Area and has neighborhoods connected by a 150-mile trail network. The community also boasts the best public and private schools in the state. Eleven out of the 12 public schools in Summerlin received one of two top scores according to the Nevada Department of Education's 2013 statewide assessment.

I believe that anything really worth doing, whether in life or in business, requires persistence and perseverance. Staying the course means having the necessary foresight, capital and, most importantly, courage to stick to your plan. The Shops at Summerlin in Downtown Summerlin was an abandoned mall site that our predecessor had invested over $150 million in infrastructure before suspending construction during the financial crisis. It had an all-star lineup of tenants and if previous management had the capital and courage to stay the course, despite how badly Las Vegas was



hit by the downturn, it would be a fortress mall today. I am excited about launching the development of the downtown in Summerlin because we are not building a mall or a town center but instead a small city just like we did at The Woodlands.

Part of a 400-acre site, this downtown will initially be home to over 1.35 million square feet of national retailers, a 200,000-square-foot Class-A office building, and in the coming years, thousands of residents in apartments and condos in addition to more office buildings to meet the demands of companies wanting to enjoy this world class community where their employees can work, live and play. A 200,000-square-foot Class-A office building, originally begun by our predecessor, will be located in the center of our city. The partially completed structure that we inherited provided us the opportunity to profitably develop this building at an attractive economic return. This building will be a catalyst for additional office development on our site as tenants throughout the Las Vegas Valley are drawn to the amenities offered by our downtown development.

*A view of the Summerlin master planned community in Las Vegas, Nevada.*

Dave Kautz – Senior Vice President of Development, is responsible for building the Downtown Summerlin project. Dave has over 30 years of development experience in a diverse range of retail projects. His talent, enthusiasm, tireless energy and no nonsense approach are a perfect fit for a project of this scale and complexity. When you visit this site, you will find it bustling with activity with as many as 600 workers onsite daily. We expect the opening of The Shops at Summerlin to be a huge success.

## COLUMBIA

In Columbia, Maryland we began construction on the first two important commercial developments in Downtown Columbia. The 50/50 joint venture with Kettler-Orchard to develop a 380-unit Class-A apartment building called The Metropolitan began construction last year and is expected to be completed on schedule by the end of 2014. Kettler-Orchard has been a great partner on the project and we therefore decided to do a 50/50 joint venture with Kettler on a new 437-unit Class-A apartment building adjacent to The Metropolitan. We contributed approximately five acres of land with a book value of $4.0 million at a valuation of $4.8 million per acre, or $53,500 per unit which equates to $23.4 million in total value. We expect construction on this second apartment building to begin in 2014.

The renovation of the Frank Gehry-designed Columbia Headquarters building began in 2013. Anchored by Whole Foods and the Columbia Association, this 89,000-square-foot building, when complete, will re-energize the Downtown Columbia lakefront area. We obtained a $23.0 million non-recourse construction loan at LIBOR plus 2.00% to fund nearly all of the $24.6 million renovation. The project is expected to be completed by the end of 2014 and reach stabilized annual net operating income of $2.1 million in the second quarter of 2015.

John DeWolf, Senior Vice President Development, and his team continue to develop a master plan for the 13 million square feet of entitlements that we have surrounding the Columbia Mall and in the adjacent 40-acre area called the Crescent, which also contains the Merriweather Post Pavilion, ranked the fourth best amphitheater in America by *Rolling Stone Magazine* in 2013.

Columbia is the oldest MPC in our portfolio, and was developed by Jim Rouse in the 1960s and early 1970s. Since that time, very little development has occurred in Columbia and most of its commercial buildings are dated. Rouse is widely recognized as the father of the MPC business, and since Columbia was developed, Howard County, which comprises Columbia, has become the sixth-most affluent county in the U.S. according to Forbes. Downtown Columbia is poised for new development, and during 2014 we expect to unveil our master plan for its redevelopment.

# STRATEGIC DEVELOPMENTS

## WARD VILLAGE

It is critical that we have a strong sense of who we are, both as a company and in our plans for specific markets and developments. This allows us to be authentic to the communities we serve. It is this drive for authenticity that has guided our vision for Ward Village, our vertical master planned community in urban Honolulu.

During 2013, we began the transformation of Ward Centers into Ward Village, an urban master planned community that will include approximately 4,000 residential units and over one million square feet of retail and commercial space. Ward Village will be a vibrant neighborhood complete with diverse retail experiences and exceptional residences set among dynamic public open spaces and pedestrian-friendly streets. We recently completed the redevelopment of the onsite iconic IBM Building into the world-class Ward Village residential sales gallery and master plan information center, which showcases the urban master planned community that we are creating.

In November, Ward Village was awarded LEED Neighborhood Development Platinum certification. Ward Village is the only LEED-ND Platinum-certified project in Hawai'i and the largest LEED-ND Platinum-certified project in the U.S. This designation confirms our commitment to sustainability of the projects that we develop.

Consistent with our goal of creating a thriving community at Ward Village, we established the non-profit Ward Village Foundation with an initial $1 million commitment to support the local community over the next two years, and committed the first $100,000 grant to Kupu, a local non-profit that provides experiential education and life skills development opportunities to help youth and young adults succeed in life and create lifelong community servants. These investments in sustainability and community are long-term investments. We believe that over time this approach will contribute to our goal of making Ward Village the most desirable place to live in Honolulu.

Earlier this year, we began pre-sales of the first two residential towers at Ward Village called Waiea, meaning “water of life” in Hawaiian and Anaha, meaning “reflection of light”. Waiea will contain 171 residential units and Anaha will contain 311 units.

The strong demand for units at ONE Ala Moana and the demand we are experiencing for Waiea and Anaha are consistent with numerous data sources indicating strong housing demand fundamentals in Hawai'i. A study published in February 2014 by The Economic Research Organization at the University of Hawai'i predicts a 35% increase in median condominium pricing by 2018 due to a lack of supply and hurdles to new development.

In addition to strong local demand fundamentals, Hawai'i has strong international appeal to second home buyers. In addition to demand from the mainland U.S. and Japan, visits by Chinese and Korean tourists, which had been small in the past, are increasing substantially. Visits from Korean and Chinese tourists have increased on an annual compounded basis by over 20% since 2007. While still less than 5% of total annual visitors to Hawai'i, many believe that these numbers could become much larger with the establishment of additional non-stop service between Mainland China and Hawai'i. In January 2014, Air China began the first non-stop service between Beijing and Honolulu, and Hawaiian Airlines has announced it will begin non-stop service in April. An influx of tourists from areas of the world, such as China and Korea, that had not traditionally been visitors to Hawai'i in the past, will further increase demand for residential housing.

*The ground floor at one of the two luxury towers in the first phase of Ward Village.*

A view of the FDR entering the Tin Building that will be redeveloped as part of our Seaport master plan.

Pier 17

## SOUTH STREET SEAPORT

The South Street Seaport in Lower Manhattan is one of our most valuable and recognizable assets. The Seaport is an important catalyst for the revitalization of Downtown Manhattan as it continues to recover from Superstorm Sandy. Our vision is to transform the Seaport area into the most vibrant community in Lower Manhattan that will become a premier destination for local New Yorkers and tourists for entertainment, culture, shopping, dining and living.

Lower Manhattan was severely impacted by Superstorm Sandy in October 2012. Many local businesses struggled to re-open or closed permanently, and the area is still recovering to this day. As a result of the storm, last year we created innovative programming called SEE/CHANGE to re-energize and re-activate the Seaport community and create a gathering place for the community that did not exist in the aftermath of the storm. The program includes bringing an array of new retail, culinary and cultural events to the Seaport each season to attract local New Yorkers and tourists, and an intensive social media campaign to advertise the events.

SEE/CHANGE launched Memorial Day weekend with over 30 small businesses opening in containers and pop-up retail spaces for the summer. Between Memorial Day and Labor Day we had approximately 20,000 people attend 30 outdoor movie nights and Smorgasbar, a collection of pop-up restaurants that generated over $2,000 per square-foot in sales. SEE/CHANGE is just the beginning of the transformation of this area into the South Street Seaport District. We donated 100% of SEE/CHANGE revenues to the old Seaport Alliance to help businesses that were hard hit by Sandy and continue to be impacted by the storm. As described in *Travel and Leisure*, "The words South Street Seaport and hip have never been strung together by a New Yorker ... That's changing: the cool factor is rising." This is just the beginning as we have made SEE/CHANGE a part of each season of the year and launched our winter campaign that included an ice-rink and an inflatable cube that can hold several hundred people with live music performances, food and drinks.

Our initial project includes the redevelopment of Pier 17 and renovation of the historic area west of the FDR Drive. During 2013, we obtained all necessary entitlements needed to begin the project and in September, we began construction on the complete transformation of Pier 17. The redevelopment plan balances the pier's iconic waterfront location with its unique ability to provide a much-needed community anchor for the rapidly growing residential population in Lower Manhattan—a population that has nearly tripled in the past 15 years.

Thousands gather for a free movie screening at South Street Seaport Front Row Cinema program.

*12,000 skaters visited the outdoor ice rink at the Seaport.*

The redeveloped pier will be highlighted by a 1.5-acre rooftop that will include a world-class restaurant, two outdoor bars and an amphitheater that will hold up to 4,000 people for concerts and special events, becoming the premier boutique entertainment venue in the world. Larger open spaces on the pier level along with the new rooftop venue will showcase breathtaking views of the city skyline. The structure will contain approximately 182,000 square feet of leasable space, not including the rooftop.

The South Street Seaport District will have a character unique from the rest of Manhattan. Its location and views of the Brooklyn Bridge, the East River and New York Harbor, and its storied history as the birthplace of New York's maritime history, will make the customer experience unique. We are curating a tenant mix that will complement these unique attributes to further differentiate the South Street Seaport District and create a destination unlike any other in the city. One of our new anchor tenants is a great illustration of this strategy. In late 2013, we announced that we will be bringing world-class cinema operator iPic to the Seaport in what will be the first of many tenant announcements. Along with the redevelopment of Pier 17, the theater will be part of a dynamic lineup of retail, dining, entertainment and culture at the Seaport that will transform this district into the most desired place to be in Manhattan. Containing eight-screens and 505 seats, iPic's guests will enjoy reserved luxury seating, in-theater dining, and a level of comfort and service offered nowhere else in Manhattan. The iPic theater will be located in the historic Seaport.

We estimate our initial project will cost approximately $425 million to complete, which includes the costs of fully replacing the concrete Pier 17 structure. We have chosen initially to fund the project from unrestricted cash on an unleveraged basis. We believe that initially developing this project without construction debt provides the most flexibility and allows us to make decisions quickly for this unique project. As development and leasing advances, we expect to obtain project level financing for this development.

In November, we presented to the public preliminary plans for a second project, which, together with our initial project, completes our vision and master plan for transforming the entire South Street Seaport District. Designed by the renowned architectural firm SHoP, led by principal Greg Pasquarelli, the proposed second project is expected to encompass nearly 700,000 square feet of space and will be fully integrated into the East River Esplanade and enhance the neighborhood connectivity to the water while preserving and enhancing views. The project will include a LEED-certified building with hotel and residential uses, the replacement of deteriorated wooden platform piers adjacent to Pier 17, a complete restoration of the historic Tin Building into a world-class food market open to the public seven days a week, and a marina with public access and a myriad of maritime activities.

The South Street Seaport District and Ward Village developments are urban siblings of our core suburban master planned community business. Thoughtful planning, with an emphasis on sustainability, creates a virtuous development cycle where one property type generates demand for other property types, which attracts more residents, creates more demand for development, and so forth. These urban planned communities, containing retail, entertainment, residential, office and hotel with public open spaces, become desirable communities where residents can live, work, learn and play.

*The Seaport will be highlighted by a 1.5-acre rooftop that will include an amphitheater that will hold up to 4,000 people for concerts and special events in becoming the premier boutique entertainment venue in the world.*

# THE OUTLET COLLECTION AT RIVERWALK

The Outlet Collection at Riverwalk demonstrates the creativity and tenacity of our development, leasing, operations and marketing teams in navigating complex projects to drive shareholder value. I discussed the unique attributes of this project in my 2013 letter. The development is slated to become the first upscale urban outlet center in the United States and will be the first, new, large-scale retail development in downtown New Orleans since Hurricane Katrina hit in 2005. The project solidifies Downtown New Orleans' resurgence as a retail destination for residents and tourists alike.

The Outlet Collection is centrally located in New Orleans' business and tourist districts and sits on several long-term ground leases and easements owned and controlled by multiple government and commercial constituencies. Navigating these complexities, the development team successfully entitled the project and the leasing team has executed leases for over 95% of the rentable space. The Outlet Collection will include marquee tenants such as Neiman Marcus Last Call Studio, Forever XXI and Coach.

This development is a case study which demonstrates the potential value that can be created with unconventional and innovative approaches to development. In 2010, we took an impairment charge to write down Riverwalk to its then fair value of $10 million. Its redevelopment into an upscale urban outlet center, which will cost approximately $82 million, will open in 2014 with approximately $8.5 million of annual net operating income. Given the scope of the project, we believe the stabilized value of this asset will approach $150 million.

*A view of the interior of the Outlet Collection at Riverwalk.*

*Spanish Plaza, The Outlet Collection at Riverwalk.*

*The Outlet Collection at Riverwalk is located in the heart of New Orleans' central business and tourist districts.*

# TALENT

I have always believed that all companies need two things to be successful—great assets and great people. We are constantly looking to add world-class talent that share our values and commitment. Both Grant and I spend a great deal of time recruiting top-notch talent to our company. As the lifeblood of any good organization, we have a deep appreciation for the interconnectivity of people and how important chemistry, commitment and character are to executing on our vision. We have embedded in our culture the importance that every current and future employee share our passion and our values. Below I have identified some of our key 2013 recruits.

In preparation for the impending operation and management of our soon-to-be stabilized properties, we hired Sarah Vasquez, Senior Vice President of Management and Operations, in February 2013. Sarah's broad experience managing retail centers at Westfield provides her with an excellent background to effectively and efficiently maximize the operations of our stabilized developments while adhering to and advancing the latest trends in customer service and sustainability. Sarah's electric energy and infectious enthusiasm have already made a huge imprint in the fabric of our organization. It is almost as if she started with the company in November of 2010.

In August 2012, we engaged Cornwell Design, an Australian branding and marketing firm, to develop a brand strategy for our Ward Village development. The work developed by Steven Cornwell, CEO and Founder, and his team gave us insight into his marketing brilliance and showed us the potential impact great content can have in bringing the vision for our properties to life. While working with Steve, I realized that we needed to develop our intellectual property in-house, and that Steve's ability to translate powerful ideas into content would be invaluable to us in unlocking the potential of the Howard Hughes brand. To that end, led by Steve Cornwell, we launched the HHC Studio at the beginning of this year. HHC Studio is our in-house design, marketing and branding group. Steve relocated his family from Australia to New York and HHC Studio will be headquartered at our Seaport offices.

In February of this year we, hired Brent Habeck as EVP Strategic Leasing. Prior to joining our team Brent was directly responsible for leasing the World Trade Center. In partnership with Keith Laird – EVP Leasing, Brent will help uncover the many undiscovered jewels within our portfolio, the results of which will be shared with you in the coming years.

In March of 2013, we received all of the necessary approvals to begin the redevelopment of the South Street Seaport. Our redevelopment efforts began in earnest at the beginning of October but in the interim, we have been hard at work hiring the necessary expertise to ensure that the reconstruction and operation of Pier 17 is in great hands. Phillip St. Pierre joined us as General Manager in March 2013. Previously he was responsible for managing Century City Mall in Los Angeles, California. Phillip has already made a valuable contribution, leading our dynamic SEE/CHANGE programming.

*Tim Welbes, Robert Heineman and Alex Sutton, accept the Vision Award for Exemplary Leadership from the Urban Land Institute in Houston.*

We are actively leasing the Seaport with the help of Jonathan Lauren – Vice President of Leasing who began working for us in January 2014. Jonathan has over 25 years of leasing experience at retail centers such as Century City Mall, Topanga Mall and Valley Fair, all in California. His knowledge of and key relationships with national, international and local retailers will be pivotal as we continue to announce the many outstanding tenants we believe will be part of this iconic project.

Also in New York, Susi Yu joined us as Senior Vice President of Development. In this role, she is leading the planning efforts for the future mixed-use development at the Seaport. Prior to joining Howard Hughes in August, 2013, Susi served as Senior Vice President for Forest City Ratner Companies. During her 12-year tenure with Forest City Ratner, Susi led the development of large scale, mixed-use urban projects, including the development of 8 Spruce Street, a 1.1 million-square-foot, 896-unit rental building designed by Frank Gehry, and the development of B2, the first residential building of Atlantic Yards.

I am pleased that these very talented and accomplished individuals have joined the deep bench we already have in place. I expect that these new additions will make their mark in the coming years and collaborate effectively with our growing family of employees.

*The Board of Directors and HHC executives ring the bell at the New York Stock Exchange in March 2011.*

# A LEADING AMERICAN COMPANY FOR THE 21ST CENTURY

The Howard Hughes Corporation has built the foundation for our future success. Our unique assets have drawn world-class talent to the company who will create a myriad of future possibilities to grow our business. First and foremost, however, there is a lot of work yet to be done to maximize the value of our existing real estate assets. In 2014, you will see ongoing vertical development in our largest core assets as they get closer to completion. We will begin to generate significant stabilized recurring cash flows from our commercial properties and realize sales proceeds from sales of condominiums and residential and commercial land.

At The Howard Hughes Corporation, we love real estate, but our brand is about so much more than bricks and mortar. We are about creating something great and transformational that will outlast us. In order to achieve this, I encourage each of our employees, consultants and partners to THINK BIG. I am grateful for the continued confidence and support you have shown as we continue our mission to create timeless places and memorable experiences that inspire people while driving sustainable, long-term growth and value for our shareholders.

Warm Regards,

David R. Weinreb
**Chief Executive Officer**

Howard Hughes
THE HOWARD HUGHES CORPORATION®

# STRENGTH IN NUMBERS 2013

MARKET CAPITALIZATION

## $4.75B

UP 65% FROM 2012

## $895M

UNRESTRICTED CASH ON HAND

ONLY 28% NET DEBT
AGAINST THE BOOK VALUE OF OUR EQUITY CAPITAL BASE

OUR KEY FOCUS IS ON FULLY UNLOCKING VALUE IN OUR CORE ASSETS

CONSOLIDATED REVENUES OF

**$475M**

**26%**

INCREASE IN NET REVENUE FROM 2012

A PORTFOLIO OF COMMERCIAL REAL ESTATE ASSETS THAT DELIVER RECURRING CASH FLOW

**$246 MILLION**

IN MASTER PLANNED COMMUNITY LAND SALES FOR 2013, OVER A 36% INCREASE FROM 2012.

WE INVESTED $376 MILLION IN PROJECT PRE-DEVELOPMENT AND DEVELOPMENT.

13

B THINKING G

PROJECT H

Howard Hughes

THE HOWARD HUGHES CORPORATION®

# IGHLIGHTS

# FROM WALL STREET TO WAIKIKI

Our portfolio is making a mark on the nation.

# AT A GLANCE

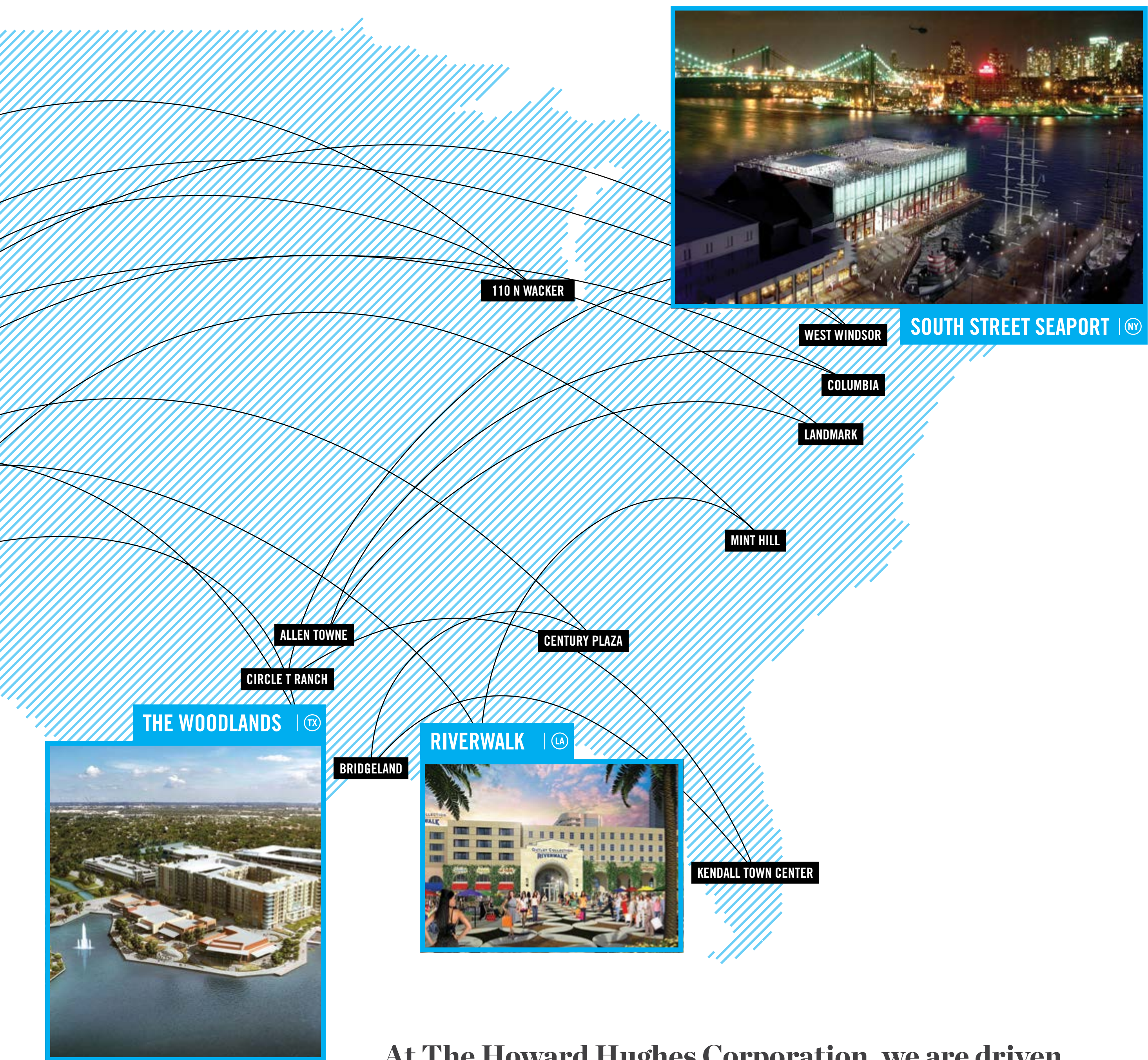
2013 Portfolio Snapshot

### MASTER PLANNED COMMUNITIES

| Project | Location | State | Size | Asset Type |
|---|---|---|---|---|
| **Bridgeland**<br>Master Planned Community<br>Town Center | Houston | TX | 11,400 ACRES<br>800 ACRES | Master Planned Community<br>Mixed-Use |
| **Columbia**<br>Master Planned Community | Washington, DC /Baltimore | MD | 16,450 ACRES | Master Planned Community |
| **Summerlin**<br>Master Planned Community<br>The Shops at Summerlin | Las Vegas | NV | 22,500 ACRES<br>1.6 Million SQ FT | Master Planned Community<br>Mixed-Use |
| **The Woodlands**<br>Master Planned Community<br>Hughes Landing | Houston | TX | 28,400 ACRES<br>66 ACRES | Master Planned Community<br>Mixed-Use |

### KEY PROPERTIES

| Project | Location | State | Size | Asset Type |
|---|---|---|---|---|
| **Cottonwood** | Salt Lake City | UT | 57 ACRES | Mixed-Use |
| **Elk Grove** | Sacramento | CA | 1.1 Million SQ FT | Retail |
| **Kendall Town Center** | Miami | FL | 731,300 SQ FT | Mixed-Use |
| **Landmark** | Alexandria | VA | 879,413 SQ FT | Mixed-Use |
| **ONE Ala Moana** | Honolulu | HI | 280,653 SQ FT | Residential |
| **The Outlet Collection at Riverwalk** | New Orleans | LA | 250,000 SQ FT | Retail |
| **South Street Seaport** | New York | NY | 362,000 SQ FT | Mixed-Use |
| **110 N. Wacker** | Chicago | IL | 226,000 SQ FT | Office |
| **Ward Village** | Honolulu | HI | 9.3 Million SQ FT<br>60 ACRES | Residential / Mixed-Use |
| **West Windsor** | Princeton | NJ | 658 ACRES | Mixed-Use |




**At The Howard Hughes Corporation, we are driven by a passion for excellence. Our mission is to be the pre-eminent developer and operator of master planned communities and mixed-use properties. We create timeless places and memorable experiences that inspire people while driving sustainable, long-term growth and value for our shareholders.**

SEAPORT | NY

# NEW YORK NEW YORK

## CELEBRATING A CITY'S UNIQUE MARITIME HISTORY AND POSITIONING A NEIGHBORHOOD FOR THE FUTURE.

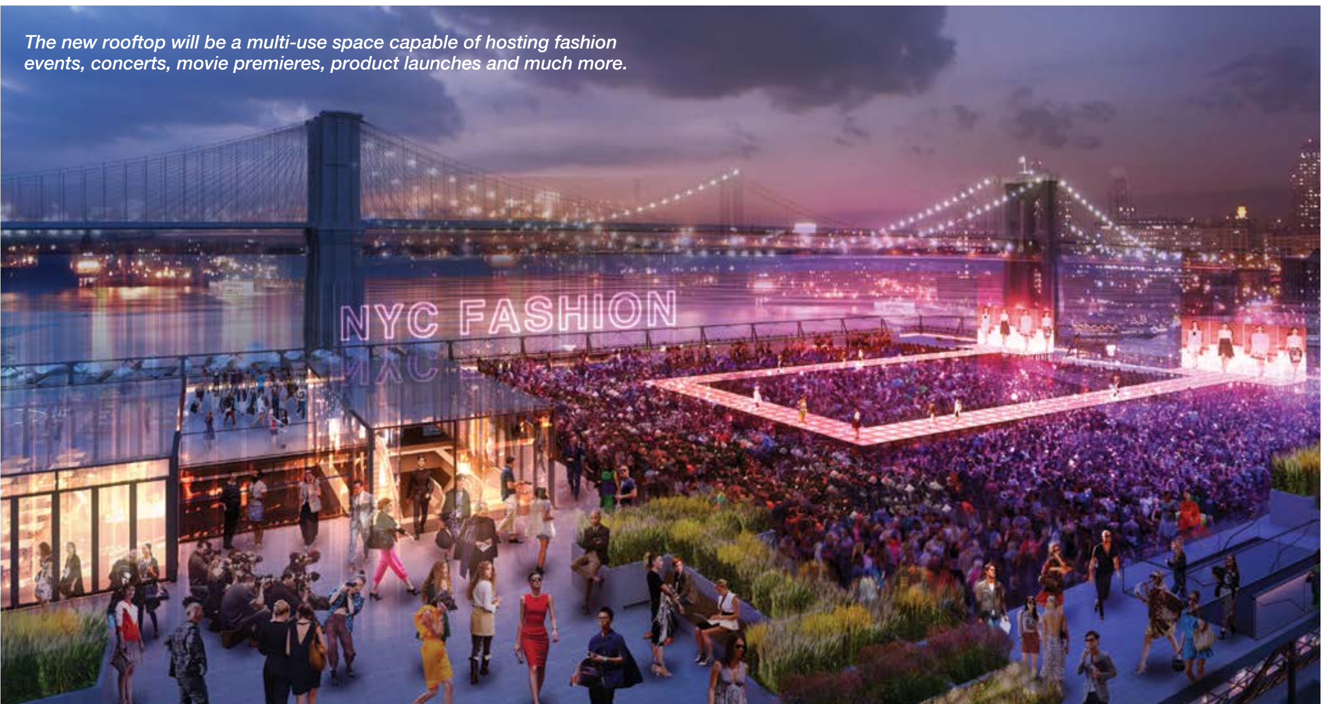
The South Street Seaport has been an essential part of New York's urban fabric for over 400 years and the re-envisioned Seaport will transform over 362,000 square feet on Pier 17 and the Uplands historic district in Lower Manhattan into an unmatched shopping, dining and entertainment destination for residents, workers and visitors alike.

Our objective is to create a unique New York experience that draws the neighborhood's fast growing population and workforce, as well as tourists who already consider the Seaport a vital attraction. To do so, the new Pier 17 building will combine the pier's unique waterfront location with its ability to provide an important anchor for the community.

The Pier 17 building, which had its official groundbreaking in October 2013, will feature a striking glass façade and provide spectacular views of the Brooklyn Bridge, the Statue of Liberty and One World Trade Center. Inside, the cutting-edge marketplace design will offer 180,000 square feet of national and international retail tenants, local boutiques and great dining options, all while embracing the energy of New York street shopping. The redeveloped Pier 17 will be highlighted by a 1.5-acre rooftop that will include a world-class restaurant, two outdoor bars and an amphitheater that will hold up to 4,000 people for concerts and special events—becoming the premier boutique entertainment venue in the world.

The ground floor of Pier 17 offers expansive views of Brooklyn and Lower Manhattan.

*Anchored by its unparalleled rooftop experience, the new South Street Seaport will host live events year round.*




*The new rooftop will be a multi-use space capable of hosting fashion events, concerts, movie premieres, product launches and much more.*

*The Seaport district will become one of the city's most vibrant destinations with the new marina, renovated Pier 17, Tin Building and mixed-use tower.*

In November 2013, we presented to the public preliminary plans for a second project, that, together with our initial project, continues our vision and master plan which will transform the entire area into the South Street Seaport District.

Along with the redevelopment of Pier 17, this project will be part of a world-class, vibrant lineup of retail, dining, entertainment and culture. Designed by the renowned architectural firm SHoP, the proposed second project is expected to encompass nearly 700,000 square feet of space and will be fully integrated into the East River Esplanade and enhance the neighborhood connectivity to the water while preserving and enhancing views. The project will include a LEED-certified building with hotel and residential uses, the replacement of deteriorated wooden platform piers adjacent to Pier 17, a complete restoration of the historic Tin Building into a world-class food market open to the public seven days a week and a marina with public access and a number of maritime activities.

As we move forward with our plans, The Seaport will not only be a place of historical significance but a unique destination that serves as a link between a storied legacy and the future New York experience.

# NEW ENERGY FOR THE WOODLANDS

*The Woodlands Town Center.*

TX

# HUGHES LANDING CONTINUES TO RAPIDLY PROGRESS. THIS DEVELOPMENT INCLUDES THE RECENTLY ANNOUNCED TWO CLASS-A OFFICE TOWERS TOTALING 650,000 SQUARE FEET OF WHICH EXXONMOBIL WILL BE LEASING 74%.

The dynamic Hughes Landing waterfront will include multiple restaurants and entertainment offerings.

A Class-A multi-family development at Hughes Landing.

The Woodlands commercial office vacancy rate at less than 5% is one of the lowest in the country. We have identified an additional seven million square feet of future commercial development opportunities and strong economic trends are expected to continue which provide us with a unique opportunity to accelerate growth, density, and development. The time is now for The Woodlands.

Demand drivers are in place for continued growth at The Woodlands. A key catalyst is the anticipated opening of the 385-acre ExxonMobil campus, which began construction in 2011 and is scheduled for completion in 2015. The new campus, located only a few miles from The Woodlands, is expected to bring 10,000 direct jobs to the area from the relocation of their employees currently working in a number of Houston locations as well as 2,600 jobs to be relocated from Virginia.

Completion of the newest perimeter roadway around Houston, the Grand Parkway, will provide residents of the community even greater accessibility.

Today, numerous businesses are looking for office space in The Woodlands due to its location, rich amenities and highly-educated population. A key to future growth will be development efforts designed to bring these businesses to The Woodlands, which is already home to nearly 1,900 employers and over 54,000 employees. Businesses continue to seek office space in The Woodlands, drawn by its location, skilled workforce and numerous amenities. As the demand for commercial space and new amenities continues to exceed supply, we are advancing development plans for several strategic assets located within The Woodlands. Most notably, in July 2012, we announced plans for Hughes Landing, a 66-acre mixed-use development located on Lake Woodlands. The development is ultimately planned for 1.6 million square feet of office, 250,000 square feet of retail, restaurant and entertainment space, up to 1,500 multifamily units and a 175-room hotel.

Hughes Landing continues to rapidly progress. This development includes the recently announced two Class-A office towers totaling 650,000 square feet of which ExxonMobil will be leasing 74%. In addition, we are currently under construction on Two Hughes Landing, a 197,000-square-foot office building, 390 units of multifamily, as well as a Whole Foods anchored retail center.

A view of Hughes Landing from one of the future office buildings that will be leased by ExxonMobil Corporation.

Hughes Landing.

The redevelopment of the Woodlands Resort and Conference Center will solidify it as the premier resort in the region.

Additional projects, such as 3 and 4 Waterway Square in Town Center, will offer employers a wide range of suitable office space with plenty of room to expand.

As of December 31, 2013, The Woodlands had approximately 623 acres of unsold residential land, representing over 2,000 lots and approximately 791 acres of unsold land designated for commercial use. The Woodlands also has full ownership interests in commercial properties which total over 1,000,000 square feet of office space, 50,000 square feet of retail, a 406-room resort and spa with conference facilities and 393 rental apartment units.

# BRIDG

**As demand for its high quality of life strengthens, Bridgeland is positioned to become Northwest Houston's premier master planned community. It is currently home to 7,350 residents who live in homes ranging in price from $200,000 to $1,000,000, and growth is expected to remain strong. Bridgeland has been acknowledged for its success, receiving The Greater Houston Builders Association "Master Planned Community of the Year" award in 2013.**

TX

Less than 30 miles from Downtown Houston, Bridgeland has 11,400 acres designed to consists of four residential villages, an 800-acre town center and over 3,000 acres of lakes, parks, trails and open spaces. Rich amenities such as pools, playing fields, tennis courts and bike trails, as well as award-winning schools, contribute to an exceptional lifestyle that is projected to draw 65,000 residents over time.

Residents are already close to Houston's important Energy Corridor and will soon have convenient access to downtown and other locations. The Grand Parkway, a major road bisecting Bridgeland, now has parts open to vehicular traffic and will offer residents improved accessibility and an under 30-minute commute to a new ExxonMobil campus as well as The Woodlands.

ALLSUM

SUMMERLIN | NV

*We are making Summerlin the ultimate lifestyle destination in Las Vegas.*

# MERLIN

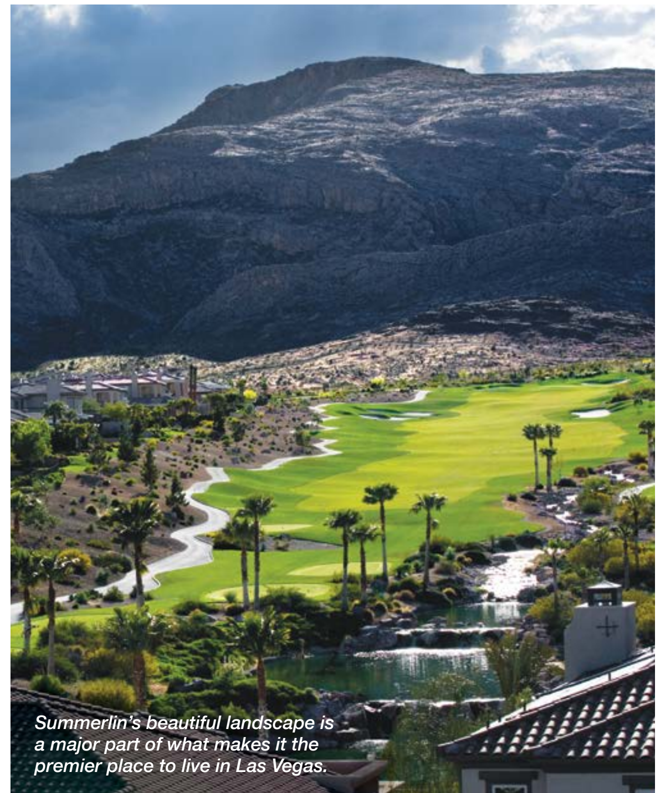
## NEAR THE DEPTH OF THE HOUSING RECESSION IN 2010, SUMMERLIN HAD JUST $11 MILLION OF REVENUES. AT ITS PEAK, SUMMERLIN GENERATED $260 MILLION OF ANNUAL REVENUES. BECAUSE OF THIS POTENTIAL, WE DUBBED SUMMERLIN THE SLEEPING GIANT, AND IN 2013, THIS SLEEPING GIANT AWOKE.

Spanning the western rim of the Las Vegas Valley and located approximately nine miles from the Las Vegas Strip, our 22,500-acre Summerlin master planned community is comprised of planned and developed villages and offers suburban living with accessibility to the key parts of Las Vegas. For much of its 20-year history, Summerlin has consistently ranked in the Robert Charles Lesser annual poll of Top-Selling Master Planned Communities in the nation, ranking 11th in 2013. With 22 public and private schools (K-12), four institutions of higher learning, nine golf courses and a number of cultural facilities, Summerlin is a fully integrated community. The first residents moved into their homes in 1991 and as of December 31, 2013, there were approximately 41,000 homes occupied by approximately 100,000 residents.

A view of the Las Vegas Strip from Summerlin, which is only a short drive away.

Summerlin is comprised of hundreds of neighborhoods located in 19 developed villages, out of 30 currently planned, with nearly 150 neighborhood and village parks that are all connected by a 150-mile long trail system. Summerlin is located adjacent to Red Rock Canyon National Conservation Area, a landmark in southern Nevada, which has become a world-class hiking and rock climbing destination. At the core of Summerlin lies our downtown development, which at completion will significantly increase the value of our surrounding land due to the addition of retail, restaurant and entertainment amenities. Red Rock Casino Resort & Spa, which is adjacent to our site, receives more than one million visitors annually. Summerlin contains approximately 2.1 million square feet of developed retail space, 3.3 million square feet of developed office space, and three hotel properties containing approximately 1,400 hotel rooms. Health and medical centers are also located at Summerlin, including Summerlin Hospital.

As of December 31, 2013, Summerlin had approximately 4,804 residential acres and 873 commercial acres remaining to be sold. Summerlin's population upon full build out is expected to be in excess of 200,000 residents. Summerlin is divided into three separate regions known as Summerlin North, Summerlin West, and Summerlin South. Summerlin North is fully developed and sold out. In Summerlin South, we are entitled to develop 740 acres of commercial property with no square footage restrictions, 355 of such acres are owned by third parties or already committed to commercial development. We also have entitlements for an additional 18,000 residential units yet to be developed in Summerlin South. In Summerlin West, we are entitled to develop 5.85 million square feet of commercial space on up to 508 acres of which 100,000 square feet has already been developed through the construction of a grocery store anchored shopping center. We are also entitled to develop 30,000 residential units in Summerlin West, approximately 24,000 of which remain to be developed. The remaining 42,000 saleable residential lots represent Summerlin's total entitlements, and utilization of these entitlements is based on current and forecasted economic conditions.



Summerlin's beautiful landscape is a major part of what makes it the premier place to live in Las Vegas.

*A view of the Spring Mountains inside Red Rock National Conservation Area in Summerlin.*

*The Shops at Downtown Summerlin will provide residents and visitors with top fashion, shopping, dining and entertainment options.*

*Downtown Summerlin is designed as part of an open-air setting.*

*The Shops at Downtown Summerlin.*

*The urban design seamlessly integrates the community with the Shops at Downtown Summerlin.*

## THE SHOPS AT DOWNTOWN SUMMERLIN

The Shops at Downtown Summerlin, among the nation's premier regional mixed-use developments, will open by October 2014. Located in the heart of the acclaimed Summerlin master planned community, the development will help define Downtown Summerlin and serve the entire Las Vegas Valley.

It will offer retail, restaurant and entertainment choices, forming a dynamic, pedestrian-friendly urban center in the heart of a thriving 22,500-acre master planned community. This nearly 1.6 million-square-foot, 106-acre project will be one of the largest mixed-use developments on the Las Vegas Valley's west side.

Featuring over 125 stores and restaurants, The Shops at Summerlin will have an appealing open-air environment to encourage walking and window shopping. With an abundance of exciting events, luxury dining and shopping options, the contemporary downtown concept will have genuine Las Vegas glamour and sophistication.

Top style-centric brands that will appeal to area fashionistas, including Michael Kors, True Religion, Sephora and Victoria's Secret, are among a strong roster of tenants at the center. Other popular tenants include Regal Theatres, Trader Joe's, American Eagle, The Art of Shaving, Bath & Body Works, Buckle, Clark's, Everything But Water, It'Sugar, Nordstrom Rack, Old Navy, Pandora, Resto Lounge, Sur La Table, Teavana and Ulta.

# A VISION FORWARD

As the 60-acre Ward Centers is transformed into Ward Village over the coming years, a bold vision is being realized that honors traditions of the past. With its ideal location between Waikiki and Downtown Honolulu, Ward Village represents the first urban master planned community on the island and is a major part of the planned revitalization of Kaka'ako.

*The heart of the community will ultimately be the Ward Village Green, a vast multipurpose gathering place where residents and visitors will convene, socialize and enjoy an array of cultural events.*

*Part of our first phase, Waiea features a façade inspired by the essential life-giving role of water in the local landscape—from the fishponds to the vast Pacific Ocean.*

**The Ward Village master plan allows for up to 9.3 million square feet of mixed-use development, spanning over 4,000 residential units and more than one million square feet of retail and other commercial space. This is consistent with the plan approved in 2009 by the Hawai'i Community Development Authority.**

*Residents can lounge in a breathtakingly tranquil and scenic environment on Waiea's amenity deck.*

*Ward Village residences offer expansive views of the Pacific.*

*Ward Village residences all feature premium contemporary design by world-class architects.*

*Anaha Tower—Part of our first phase, Anaha is the Hawaiian phrase for "reflection of light," and describes the building's brilliant, rolling glass façade, which evokes the rippling waves of the nearby Pacific Ocean.*

Part of our first phase, Anaha is pictured above. Anaha is designed around principles of sustainability, respect for culture and an urban-village lifestyle, Ward Village will include high-rise residential towers that will have mauka-makai (mountain-ocean) orientation and showcase breathtaking views. New buildings along Ala Moana Boulevard will be pulled back from the street, establishing a new face for the future neighborhood. The pedestrian-friendly design will encourage walking and biking while other sustainable design strategies will reduce energy and water use. The plans also include open space and greenbelts to bring nature, the beach and ocean across the street and into the community. The redevelopment will also double the current amount of retail, dining and entertainment space, creating a diverse combination of local boutiques, restaurants and national retailers.

Ward Village received a LEED for Neighborhood Development Platinum certification, the highest rating possible. It is the largest U.S. project Platinum-certified and the only one of its kind in Hawai'i.

Residential Sales Center includes (shown clockwise): Gallery Lobby, Courtyard Lanai, Sales Gallery, and Rooftop Lanai.

To introduce Ward Village to the community and the world, in 2013 we largely completed a $24 million renovation of the IBM building into a world-class residential sales gallery and master plan information center that will rival the finest sales experiences in the world. Our vision for the community is beginning to be crystallized. In February of 2014, we launched the first phase of this development, which includes two high rise market rate towers and one reserved housing tower comprising over 900 units.

*The Ward Village Residential Sales Gallery and Master Plan Information Center.*

COLU

*Thousands of people attend a live performance at the Merriweather Post Pavilion, the area's premier music venue.*

# MBIA

# ENCOMPASSING 16,450 ACRES IN THE RAPIDLY GROWING REGION BETWEEN BALTIMORE AND WASHINGTON, D.C., THE MASTER PLANNED COMMUNITIES IN MARYLAND OF COLUMBIA, EMERSON, AND FAIRWOOD OFFER A BLEND OF NATURAL BEAUTY COMBINED WITH METROPOLITAN SOPHISTICATION.

*Downtown Columbia*

Initially opened in the late 1960s by James W. Rouse, considered one of the fathers of the master planned community business, Columbia was created to offer a metropolitan setting that would provide a high quality of life for residents. With parks, lakes, trails and the acclaimed Merriweather Post Pavilion at Symphony Woods, Columbia lives up to its recognition by *Money Magazine* in 2012 as one of the "Best Places to Live."

The convenient location continues to draw highly-educated people to Columbia, with easy access to leading public and private employers and some of the best public schools in the United States. Premier homebuilders and a compelling environment have also led to a growing population. Columbia is located in Howard County, one of the nation's most affluent counties, with a median household income of over $100,000 and population growth above 34% over the past decade.

Downtown Columbia is currently undergoing a major redevelopment, with a new master plan that allows for up to 13 million square feet of mixed-use development, including 5,500 residential units, 1.25 million square feet of retail, 4.3 million square feet of office space and 640 hotel rooms. One of the first steps in the redevelopment recently began with the groundbreaking for The Metropolitan Downtown Columbia, a new luxury apartment development that will be the foundation for significant commercial and residential enhancements in the heart of Columbia. In conjunction with joint venture partner, Kettler-Orchard, The Metropolitan will feature 380 luxury units

*New residents and visitors in Downtown Columbia gather outside a café in a planned mixed-use space.*

with a range of high-end amenities, which include the largest resident clubhouse in Columbia, a fitness center with studio, media and game rooms, a catering kitchen, a courtyard that can serve as an outdoor screening room, and a pool with submerged seating and cabanas. The project is surrounded by ground floor retail, access-controlled garage parking and a public promenade with a play area for children.

Also in Downtown Columbia, Whole Foods Market will be opening a new store in the iconic former Rouse Headquarters Building. The building, designed by internationally renowned architect Frank Gehry, sits on the shore of Lake Kittamaqundi and is a cornerstone of the downtown. Distinguished by its flat roof, terraces and stucco exterior, Whole Foods Market will occupy over 40,000 square feet following a renovation of the structure. The redevelopment of the building will also incorporate an upscale health and fitness center to be run by the Columbia Association. As part of the redevelopment of Downtown Columbia, these initial projects are expected to be completed by late 2014, with future development plans under way.

*A preview of the proposed Columbia redesign shows a series of towers surrounded by lush greenery.*

# THE OUTLET COLLECTION AT RIVERWALK

Soon to be the nation's first urban, upscale outlet center, The Outlet Collection at Riverwalk will be located in the heart of Downtown New Orleans. Targeting both New Orleans residents and visitors alike, The Outlet Collection at Riverwalk will showcase a wide range of national brands including marquis tenants such as Neiman Marcus Last Call Studio, Forever XXI and Coach.

A market that has long been underserved in the retail sector, New Orleans has approximately 30% less square feet of retail per capita than the national average. Beyond providing a compelling shopping experience for the growing population, the property is ideally situated to attract the large number of tourists who visit New Orleans. At the base of Canal and Poydras Streets, the Riverwalk sits next to the recently renovated New Orleans Morial Convention Center, the Hilton Hotel, the Aquarium and Harrah's Casino. It is also steps away from the French Quarter with easy access to virtually every hotel in the area, making it a must-visit destination for tourists. Riverwalk is also connected to the Port of New Orleans, which enjoys a thriving cruise industry. In 2013, New Orleans welcomed over 9 million visitors spending approximately $6 billion. The Outlet Collection at Riverwalk is expected to open in the late spring of 2014.

LA

# ANNUAL REPORT ON FORM 10-K

## DIRECTORS

William A. Ackman
*Chairman of the Board*

Adam R. Flatto

Jeffrey D. Furber

Gary A. Krow

Allen J. Model

R. Scot Sellers

Steven H. Shepsman

Burton M. Tansky

Mary Ann Tighe

David R. Weinreb

## CORPORATE OFFICERS

David R. Weinreb
*Chief Executive Officer*

Grant D. Herlitz
*President*

Andrew C. Richardson
*Chief Financial Officer*

Peter F. Riley
*General Counsel*

## HEADQUARTERS

**One Galleria Tower**
13355 Noel Road, 22nd Floor
Dallas, Texas 75240

*Phone:* 214-741-7744
*Fax:* 214-741-3021

## REGISTRAR AND TRANSFER AGENT

**Computershare**
480 Washington Boulevard
Jersey City, New Jersey 07310-1900

*Phone:* 866-354-3668

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**Ernst & Young LLP**
2323 Victory Avenue, Suite 2000
Dallas, TX 75219

### FORWARD-LOOKING STATEMENTS:

*Certain statement contained herein may be, within the meaning of the federal securities laws, "forward-looking statements," which are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. See the "Cautionary Statement Regarding Forward-Looking Statements" in the Company's Annual Report on Form 10-K included in this annual report to stockholders for additional information.*

### NON-GAAP FINANCIAL MEASURES

*The Company uses net operating income, or NOI, a non-GAAP financial measure, in this annual report to stockholders because we believe that it is a useful supplemental measure of the performance of our Operating Assets because it provides a performance measure that, when compared year over year, reflects the revenues and expenses directly associated with owning and operating real estate properties and the impact on operations from trends in occupancy rates, rental rates, and operating costs. We define NOI as revenues (rental income, tenant recoveries and other income) less expenses (real estate taxes, repairs and maintenance, marketing and other property expenses). NOI also excludes straight line rents and tenant incentives amortization, net interest expense, depreciation, ground rent, demolition costs, other amortization expenses, and equity in earnings from our real estate affiliates.*

*We use NOI to evaluate our operating performance on a property-by-property basis because NOI allows us to evaluate the impact that factors such as lease structure, lease rates and tenant mix, which vary by property, have on our operating results, gross margins and investment returns.*

*Although we believe that NOI provides useful information to the investors about the performance of our Operating Assets due to the exclusions noted above, NOI should only be used as an alternative measure of the financial performance of such assets and not as an alternative to GAAP net income (loss).*

*No reconciliation of projected NOI is included herein because we are unable to quantify certain amounts that would be required to be included in the GAAP financial measure without unreasonable efforts and we believe such reconciliations would imply a degree of precision that would be confusing or misleading to investors.*

*For additional information on non-GAAP financial measures used in this annual report to stockholders, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K included in this annual report to stockholders.*

Howard Hughes

THE HOWARD HUGHES CORPORATION®

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[THE HOWARD HUGHES CORPORATION INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE]

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

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# FORM 10-K

(MARK ONE)
☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2013**

**or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission File Number 001-34856**

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# The Howard Hughes Corporation

**(Exact name of registrant as specified in its charter)**

| **Delaware** | **36-4673192** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| **13355 Noel Road, 22nd Floor, Dallas, Texas** | **75240** |
| (Address of principal executive offices) | (Zip Code) |

**(214) 741-7744**
**(Registrant's telephone number, including area code)**

**Securities Registered Pursuant to Section 12(b) of the Act:**

| Title of Each Class: | |
|---|---|
| **Common Stock, $.01 par value** | **New York Stock Exchange** |

**Securities Registered Pursuant to Section 12(g) of the Act:**
**None**

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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 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 | ☐ (Do not check if a smaller reporting company) | Smaller reporting company | ☐ |

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

As of June 30, 2013, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $4.4 billion based on the closing sale price as reported on the New York Stock Exchange.

As of February 24, 2014, there were 39,498,912 shares of the registrant's common stock outstanding.

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**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement relating to its 2014 Annual Meeting of Stockholders are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K. The registrant intends to file its Proxy Statement with the Securities and Exchange Commission within 120 days of the end of the fiscal year to which this Annual Report on Form 10-K relates.

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K ("Annual Report") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact included in this Annual Report on Form 10-K are forward-looking statements. Forward-looking statements give our current expectations relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to current or historical facts. These statements may include words such as "anticipate," "estimate," "expect," "project," "forecast," "plan," "intend," "believe," "may," "should," "would," "likely," "realize," "transform" and other statements of similar expression. Forward-looking statements should not be relied upon. They give our expectations about the future and are not guarantees. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance and achievements to materially differ from any future results, performance and achievements expressed or implied by such forward-looking statements. These forward-looking statements present our estimates and assumptions only as of the date of this Annual Report on Form 10-K. Except as may be required by law, we undertake no obligation to modify or revise any forward-looking statements to reflect events or circumstances occurring after the date of this report.

Factors that could cause actual results to differ materially from those expressed or implied by forward-looking statements include:

- our inability to obtain operating and development capital, including our inability to obtain debt capital from lenders and the capital markets;
- continued low growth in the national economy and adverse economic conditions in the homebuilding, condominium development and retail sectors;
- our inability to obtain rents sufficient to justify developing our properties and/or the inability of our tenants to pay their contractual rents;
- our inability to compete effectively;
- our directors may be involved or have interests in other businesses, including real estate activities and investments, which may compete with us;
- our inability to control certain of our properties due to the joint ownership of such property and our inability to successfully attract desirable strategic partners; and
- the other risks described in "Item 1A. Risk Factors."

## PART I

Throughout this Annual Report, references to the "Company", "HHC", "we" and "our" refer to The Howard Hughes Corporation and its consolidated subsidiaries, unless the context requires otherwise.

## ITEM 1. BUSINESS

### OVERVIEW

Our mission is to be the preeminent developer of master planned communities and mixed use properties. We create timeless places and memorable experiences that inspire people while driving sustainable, long-term growth and value for our shareholders. We specialize in the development of master planned communities and the ownership, management and the redevelopment or repositioning of real estate assets currently generating revenues, also called Operating Assets, as well as other strategic real estate opportunities in the form of entitled and unentitled land and other development rights, also called Strategic Developments. We are headquartered in Dallas, Texas and our assets are located across the United States.

Unlike most publicly traded real estate companies which are limited in their activities because they have elected to be taxed as a real estate investment trust, we, except for Victoria Ward, Limited, one of our subsidiaries which is a captive REIT, have no restrictions on our operating activities or the types of services that we can offer. We believe our structure provides the greatest flexibility for maximizing the value of our real estate portfolio. As of December 31, 2013, our consolidated debt equaled approximately 33.2% of our total assets, and we had $894.9 million of cash on hand.

Our master planned communities have won numerous awards for, among other things, design and community contribution. We expect the competitive position and desirable locations of our assets (which collectively comprise millions of square feet and thousands of acres of developable land), combined with their operations and long-term opportunity through entitlements, land and home site sales and project developments will drive our long-term growth.

We were incorporated in Delaware in 2010. Through our predecessors, we have been in business for several decades. We operate our business in three segments: Master Planned Communities, Operating Assets and Strategic Developments. Financial information about each of our segments is presented in Note 18 – Segments of our audited financial statements on pages F-48 to F-52.

### Recent Significant Transactions

On October 2, 2013, we issued $750.0 million aggregate principal amount of our 6.875% Senior Notes due 2021 (the "Senior Notes") and received net cash proceeds of $739.6 million. We have and will continue to use the net proceeds for development, acquisitions and other general corporate purposes. Interest is payable semiannually, on April 1 and October 1 of each year starting in April 2014. The Notes contain customary terms and covenants and have no maintenance covenants.

In the fourth quarter of 2012, we retired warrants to purchase 6,083,333 shares of our common stock pursuant to the warrant purchase agreements by and among the Company and affiliates of Brookfield Asset Management, Fairholme Funds and Blackstone Real Estate Partners. We paid a total of $80.5 million in cash and issued 1,525,272 shares of our common stock to Brookfield in connection with the warrant transactions. The warrant transactions reduced diluted common shares outstanding by 9.2%, or 4,558,061 shares, to a total of 45,119,706 shares assuming all stock options and warrants outstanding at December 31, 2012, were exercised.

On July 1, 2011, we acquired our former partner's 47.5% economic interest in The Woodlands pursuant to a Partnership Interest Purchase Agreement. We paid $20.0 million in cash at closing and the remaining $97.5 million of the purchase price was represented by a non-interest bearing promissory note which we repaid from available cash on hand on December 1, 2011. Following the acquisition, we

own 100% of The Woodlands and control all aspects related to the management and development of The Woodlands. Our management and development staff for The Woodlands master planned community also manages the development of Bridgeland, our other Houston, Texas master planned community. We are leveraging The Woodlands' nearly 40 years of master planned community development experience to replicate The Woodlands success at Bridgeland, which is located 40 miles southwest of The Woodlands and is in the early stages of its development life cycle.

**Overview of Business Segments**

***Master Planned Communities.*** Our Master Planned Communities segment consists of the development and sale of residential and commercial land, primarily in large-scale projects. We own four master planned communities (The Woodlands, Summerlin, Bridgeland and Maryland). Our master planned community in Maryland includes four separate communities that are collectively referred to as the "Maryland Communities."

Our master planned communities include over 11,500 acres of land remaining to be sold. Residential sales, which are made primarily to home builders, include standard and custom parcels as well as high density (*e.g.,* condominiums, townhomes and apartments) parcels designated for detached and attached single- and multi-family homes, ranging from entry-level to luxury homes. Commercial sales include land parcels designated for retail, office, resort, services and other for-profit activities, as well as those parcels designated for use by government, schools and other not-for-profit entities.

***Operating Assets.*** Our Operating Assets segment contains 27 properties, investments and other assets that currently generate revenue, consisting primarily of commercial mixed-use, retail, multi-family and office properties. These assets include eight mixed-use and retail properties, nine office properties (the "Columbia Office Properties" contain five separate office buildings), a multi-family apartment building, a resort and conference center, a 36-hole golf and country club, three equity investments and four other assets. We believe that there are opportunities to redevelop or reposition many of these assets, primarily the retail properties, to increase operating performance. These opportunities will require new capital investment and vary in complexity and scale. The redevelopment opportunities range from minimal disruption to the property to the partial or full demolition of existing structures for new construction.

***Strategic Developments.*** Our Strategic Developments segment consists of near, medium and long-term development projects for 24 of our real estate properties. We believe most of these 24 assets will require substantial future development to achieve their highest and best use. We are in various stages of creating or executing strategic plans for many of these assets based on market conditions and availability of capital. In addition to the permitting and approval process attendant to almost all large-scale real estate developments of this nature, we will likely need to obtain financing to realize a development plan for one or more of these assets.

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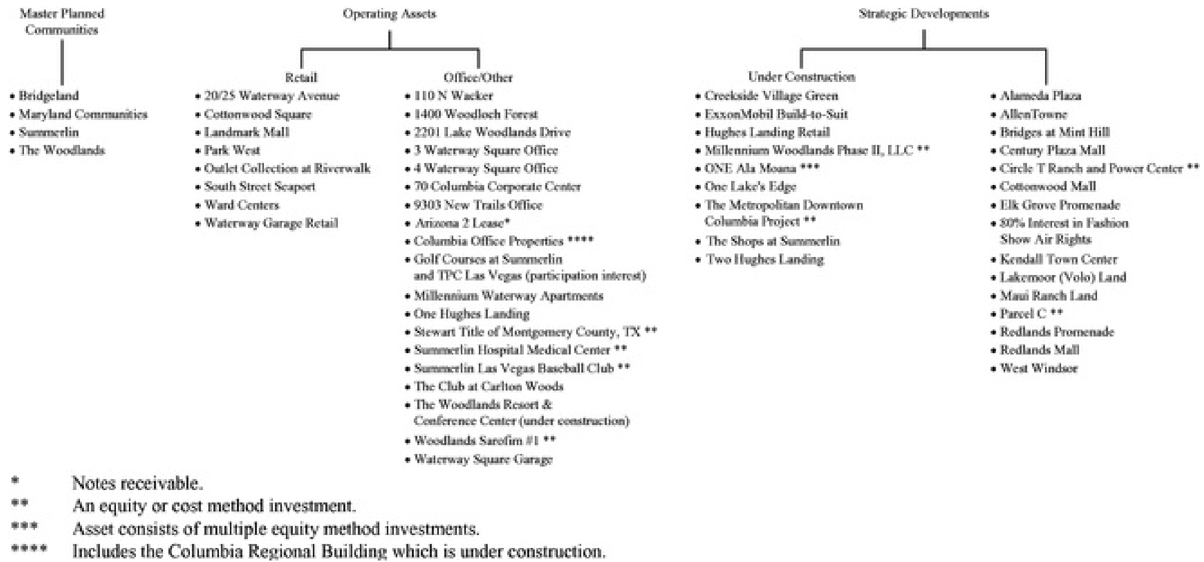
The chart below presents our assets by reportable segment at December 31, 2013.




* Notes receivable.
** An equity or cost method investment.
*** Asset consists of multiple equity method investments.
**** Includes the Columbia Regional Building which is under construction.

## Master Planned Communities

The development of master planned communities requires expertise in large-scale and long-range land use planning, residential and commercial real estate development, sales and other special skills. The development of our large scale master planned communities requires decades of investment and continual focus on the changing market dynamics surrounding these communities. We believe that the long-term value of our master planned communities remains strong because of their competitive and dominant positioning in their respective markets, our expertise and flexibility in land use planning and the fact that we have substantially completed the entitlement process within our communities.

Our Master Planned Communities segment consists of the development and sale of residential land and the development of commercial land to hold, develop or sell. Our master planned communities are located in and around Las Vegas, Nevada; Houston, Texas; and Columbia, Maryland. Residential revenues are generated primarily from the sale of finished lots and undeveloped superpads to residential builders and commercial developers. Revenue is also generated through profit participation with builders. Revenues and net income are affected by factors such as: (1) the availability of construction and permanent mortgage financing to purchasers at acceptable interest rates; (2) consumer and business confidence; (3) regional economic conditions in the areas surrounding the projects, which includes levels of employment and homebuilder inventory; (4) other factors generally affecting the homebuilder business and sales of residential properties; (5) availability of saleable land for particular uses; and (6) our decisions to sell, develop or retain land.

The geographic markets in which our master planned communities operate are experiencing different rates of recovery following the housing market decline that started in 2007. The Woodlands has benefited from companies relocating to Houston and the growth of energy sector companies, particularly with the announcement in 2012 of the new 385-acre Exxon Mobil Corporation ("ExxonMobil") campus located just four miles south of The Woodlands. Bridgeland land sales were adversely affected in 2013 compared to prior years due to a pending wetland permit application from the U.S. Army Corps of Engineers ("USACE"). On February 27, 2014, we received the wetlands permit from USACE and expect to begin delivering new finished lots by mid-2014. The Las Vegas, Nevada market is recovering and our Summerlin Master Planned Community has experienced significant improvement in 2013 land sales compared to the past two years, with the bulk of their land sales coming in the form of superpad sites. The Maryland Communities have no more remaining residential saleable acres and represent primarily a commercial real estate development opportunity.

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The following table summarizes our master planned communities, all of which are wholly owned, as of December 31, 2013:

| | | | | Remaining Saleable Acres | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Community | Location | Total Gross Acres(a) | People Living in Community (Approx. No.) | Residential (b) | Commercial (c) | Total | Other Acres(d) | Remaining Saleable Residential Lots(e) | Projected Community Sell-Out Date |
| Bridgeland | Houston, TX | 11,400 | 7,350 | 3,452 | 1,149 | 4,601 | — | 17,665 | 2036 |
| Maryland | | | | | | | | | |
| Columbia | Howard County | 14,200 | 100,000 | — | — | — | 35 | — | 2022(f) |
| Gateway | Howard County | 630 | — | — | 63 | 63 | 40 | — | 2018 |
| Emerson | Howard County | 520 | 3,400 | — | 34 | 34 | — | — | 2017 |
| Fairwood | Prince George's County | 1,100 | 2,600 | — | 11 | 11 | 24 | — | 2017 |
| Summerlin | Las Vegas, NV | 22,500 | 100,000 | 4,804 | 873 | 5,677 | — | 42,000(g) | 2039 |
| The Woodlands | Houston, TX | 28,400 | 107,800 | 623 | 563 | 1,186 | 290 | 2,064 | 2022 |
| Total | | 78,750 | 321,150 | 8,879 | 2,693 | 11,572 | 389 | 61,729 | |

(a) Encompasses all of the land located within the borders of the master planned community, including parcels already sold, saleable parcels and non-saleable areas, such as roads, parks and recreation and conservation areas.

(b) Includes standard, custom and high density residential land parcels. Standard residential lots are designed for detached and attached single- and multi-family homes, consisting of a broad range, from entry-level to luxury homes. At Summerlin and The Woodlands, we have designated certain residential parcels as custom lots as their premium price reflects their larger size and other distinguishing features – such as being located within a gated community, having golf course access or being located at higher elevations. High density residential includes townhomes, apartments and condominiums. Reflected are the remaining residential acres.

(c) Designated for retail, office, resort, services and other for-profit activities, as well as those parcels allocated for use by government, schools, houses of worship and other not-for-profit entities.

(d) With the exception of Gateway, reflects the number of net developable acres of raw land and subdivided land parcels available for new development, and which we currently intend to hold. In 2013, The Woodlands began developing 26 acres for its own use, which includes three office buildings, an apartment complex and two retail centers.

(e) Includes only parcels that are intended for sale or joint venture. The mix of intended use, as well as the amount of remaining saleable acres, are primarily based on assumptions regarding entitlements and zoning of the remaining project and are likely to change over time as the master plan is refined. Remaining saleable lots are estimates.

(f) We currently intend to develop the land surrounding the Columbia Town Center. The date represents our estimated redevelopment completion date.

(g) Amount represents remaining entitlements, not necessarily the number of lots that will ultimately be developed and sold.

***Bridgeland (Houston, Texas)***

Bridgeland is located near Houston, Texas and consists of approximately 11,400 acres. It was voted "Master Planned Community of the Year" in 2013 by Greater Houston Builders Association and voted by The National Association of Home Builders as the "Master Planned Community of the Year" in 2009. The first residents moved into their homes in June 2006. There were approximately 2,100 homes occupied by approximately 7,350 residents as of December 31, 2013.

We anticipate that the Bridgeland community will eventually accommodate approximately 20,000 homes and 65,000 residents. We further believe that it is poised to be one of the top master planned communities in the nation. The Woodlands senior management team, averages over 25 years each of experience developing master planned communities, is leading the development and marketing of Bridgeland. As of December 31, 2013, Bridgeland had approximately 3,452 residential acres and 1,149 commercial acres remaining to be sold.

Bridgeland's conceptual plan was revised in 2012 and includes four villages – Lakeland Village, Parkland Village, Prairieland Village and Creekland Village. The conceptual plan also includes an 800-acre Town Center mixed-use district and a carefully designed network of trails totaling over 60 miles that will provide pedestrian connectivity to distinct residential villages and neighborhoods and access to recreational, educational, cultural, employment, retail, religious and other offerings.

The conceptual plan also contemplates that the Town Center will be located adjacent to the expansion of State Highway 99 (the "Grand Parkway"), which is a 180-mile circumferential highway traversing seven counties that provides access to southwest, west, northwest, north and northeast Houston. Segment E of the Grand Parkway is a 15-mile four-lane controlled access toll road with intermittent frontage roads from Interstate 10 to Highway 290 through Harris County. Segment E, which has four interchanges serving Bridgeland, provides direct access to the portion of Bridgeland designated for the Town Center and to future residential sections of Bridgeland allowing for enhanced access to the master planned development. Construction on Segment E began in October 2011 and was officially opened for traffic on December 21, 2013. Additional segments are scheduled for completion in 2015 that will connect Bridgeland to The Woodlands, the new ExxonMobil Campus and Houston's George Bush Intercontinental Airport.

Bridgeland's first five neighborhoods are located in Lakeland Village. Bridgeland has many home sites that have views of the water, buried power lines to maximize the views of open space, fiber-optic technology, brick-lined terrace walkways and brick, stone and timber architecture. The prices of the homes range from approximately $200,000 to more than $1.0 million. Lakeland Village is approximately 65% complete. The complex is anchored by a 6,000 square foot community center and features a water park with three swimming pools, two lighted tennis courts and a state-of-the-art fitness room. A grand promenade wrapping around Lake Bridgeland offers a boat dock, canoes, kayaks, sailboats and paddleboats.

We expect Bridgeland to feature more than 3,000 acres of waterways, lakes, trails, parks and open spaces, as well as an expansive Town Center that will provide employment and room for retail, educational and entertainment facilities.

***Maryland Communities***

Our Maryland communities consist of four distinct projects:

- Columbia;
- Gateway;
- Emerson; and
- Fairwood.

*Columbia*

Columbia, located in Howard County, Maryland, is an internationally recognized model of a successful master planned community that began development in the 1960's. As of December 31, 2013, Columbia was home to approximately 100,000 people.

Situated between Baltimore and Washington, D.C., and encompassing 14,200 acres of land, Columbia offers a wide variety of living, business and recreational opportunities. The master planned community's full range of housing options is located in nine distinct, self-contained villages and a Town Center. Columbia has an estimated 5,500 businesses, which occupy approximately 26 million square feet of space and provide more than 63,000 jobs. There is a wide variety of retail options encompassing approximately 4.8 million square feet of retail space in more than 500 stores.

As a result of the 2005 Base Realignment and Closure Commission, additional government agencies have been relocated to Fort George G. Meade, just 11 miles from Downtown Columbia. The overall workforce on the base is projected to be 60,000 people by 2015 due to its role in cyber security and protecting the nation's information technology assets from foreign threats. An economic engine for the region, Fort Meade directly or indirectly supports approximately 170,000 local jobs and growth projections indicate that there will be demand for office space and housing for highly paid personnel.

In downtown Columbia, 1.6 million square feet of office space is located close to shopping, restaurants and entertainment venues. We believe there is significant opportunity to redevelop this area in the future. During 2010, we received entitlements to develop up to 5,500 new residential units, 4.3 million square feet of commercial office space, 1.25 million square feet of retail space and 640 hotel rooms.

In November, 2010, we entered into development agreements with General Growth Properties, Inc. ("GGP") that provide for the division of properties between our Company and GGP in an area within the Mall Ring Road surrounding the Mall in Columbia, which is owned by GGP. We have a preferred residential and office development covenant that provides us the right of first offer for new development densities of residential and office within the Columbia Mall Ring Road. This covenant expires in 2030. The development agreements contain the key terms, conditions, responsibilities and obligations with respect to the future development of this area within the greater Downtown Columbia Redevelopment District. The agreements also provide us with a five-year right of first refusal and a subsequent six-month purchase option to acquire seven office buildings and associated parking lots, totaling approximately 22 acres. In August 2012, we acquired 70 Columbia Corporate Center, a 168,000 square foot office building, one of the buildings associated with our right of first refusal. There are now six office buildings remaining under this right of first refusal.

During 2011, we contributed more than four acres of land to The Metropolitan Downtown Columbia Project for the development of a 380-unit Class A apartment building with a local multi-family developer, Kettler, Inc. ("Kettler"), which is described under "– Strategic Developments".

On October 4, 2013, we entered into a joint venture agreement with Kettler to construct a 437-unit, Class A apartment building with 31,000 square feet of ground floor retail on Parcel C, which is described under "– Strategic Developments".

We also own approximately 35 acres, net of road and related infrastructure improvements, on the land around Merriweather Post Pavilion, an outdoor amphitheater and concert venue, which is south of Columbia Mall. The acreage currently consists of raw land and subdivided land parcels readily available for new development. We held the initial public meeting called for in the county's Final Development Plan (FDP) process and intend to formally submit an FDP application in early 2014. Preliminary plans call for at least four million square feet of development activity, with high-rise buildings encompassing the Central Park-like setting afforded by the Pavilion and its surrounding property.

*Gateway*

Gateway is a 630-acre premier master planned corporate community located in a high traffic area in Howard County, Maryland. Gateway offers quality office space in a campus setting with approximately 63 commercial acres remaining to be sold as of December 31, 2013.

*Emerson*

Emerson is located in Howard County, Maryland and consists of approximately 520 acres. The first residents moved into their homes in 2002. Emerson has a wide assortment of single-family homes and townhomes offered by some of the region's top homebuilders and is located in one of Maryland's top-performing public school districts. As of December 31, 2013, there were approximately 1,210 homes occupied by approximately 3,400 residents with 34 commercial acres remaining to be developed. The remaining commercial land is fully entitled for build-out, subject to meeting local requirements for subdivision and land development permits.

*Fairwood*

Fairwood is a fully developed master planned community located in Prince George's County, Maryland, consisting of approximately 1,100 acres. Fairwood consists of single-family and townhouse lots, as well as undedicated open space and two historic houses. The first residents moved into their single-family

homes in 2002. As of December 31, 2013, there were approximately 1,200 homes occupied by approximately 2,600 residents with 11 commercial acres available for sale. In addition to the commercial acres remaining to be sold, we own a few undedicated open space parcels, and 24 acres of unsubdivided land which cannot be developed as long as the nearby airport is operating.

**Summerlin (Las Vegas, Nevada)**

Spanning the western rim of the Las Vegas Valley and located approximately nine miles from downtown Las Vegas, our 22,500 acre Summerlin Master Planned Community is comprised of planned and developed villages and offers suburban living with accessibility to the Las Vegas Strip. For much of its 20-year history, Summerlin has consistently ranked in the Robert Charles Lesser annual poll of Top-Selling Master Planned Communities in the nation, ranking 11th in 2013. With 22 public and private schools (K-12), four institutions of higher learning, nine golf courses, and cultural facilities, Summerlin is a fully integrated community. The first residents moved into their homes in 1991. As of December 31, 2013, there were approximately 41,000 homes occupied by approximately 100,000 residents.

Summerlin is comprised of hundreds of neighborhoods located in 19 developed villages, out of 30 currently planned, with nearly 150 neighborhood and village parks that are all connected by a 150-mile long trail system. Summerlin is located adjacent to Red Rock Canyon National Conservation Area, a landmark in southern Nevada, which has become a world-class hiking and rock climbing destination. It is also in close proximity to our Shops at Summerlin development site. As described in "Item 7 – Management Discussion and Analysis of Financial Condition and Results of Operations – Strategic Developments", in 2013 we executed agreements with two anchor retailers for approximately 380,000 square feet at The Shops at Summerlin, a 1.6 million square foot mixed-use downtown development. We believe that the completion of the downtown will significantly increase the value of our surrounding land due to the addition of retail, office, restaurant and entertainment amenities. Red Rock Casino Resort & Spa, which is adjacent to our site, receives more than one million visitors annually. Summerlin contains approximately 2.1 million square feet of developed retail space, 3.3 million square feet of developed office space and three hotel properties containing approximately 1,400 hotel rooms. Health and medical centers are also located at Summerlin, including Summerlin Hospital.

Summerlin is divided into three separate regions known as Summerlin North, Summerlin West and Summerlin South. Summerlin North is fully developed and sold out. In Summerlin South, we are entitled to develop 740 acres of commercial property with no square footage restrictions, 355 of such acres are owned by third parties or already committed to commercial development. We also have entitlements for an additional 18,000 residential units yet to be developed in Summerlin South. In Summerlin West, we are entitled to develop 5.85 million square feet of commercial space on up to 508 acres of which 100,000 square feet has already been developed through the construction of a grocery store anchored shopping center. We are also entitled to develop 30,000 residential units in Summerlin West, approximately 24,000 of which remain to be developed. The remaining 42,000 saleable residential lots represent Summerlin's total entitlements, and utilization of these entitlements is based on current and forecasted economic conditions. As of December 31, 2013, Summerlin had approximately 4,804 residential acres and 873 commercial acres remaining to be sold. Summerlin's population upon completion of the project is expected to be in excess of 200,000 residents.

***The Woodlands (Houston, Texas)***

The Woodlands is a 28,400 acre mixed-use self-contained master planned community approximately 1.5 times the size of Manhattan, New York, situated 27 miles north of Houston. The Woodlands provides an exceptional lifestyle and integrates recreational amenities, residential neighborhoods, commercial office space, retail shops and entertainment venues.

During its nearly 40-year history, The Woodlands has won numerous awards, with the most recent being the Urban Land Institute's 2014 "Vision Award for Exemplary Leadership." Past awards include the Master Planned Community of the Year presented by the Greater Houston Builders Association in 2010 for overall planning and design of The Woodlands. The Woodlands has consistently ranked as one of the top master planned communities in the nation and Texas with regard to annual home sales. The Woodlands was ranked 8th nationally and was also ranked 3rd in the Houston area in 2013 for the number of home sales by Robert Charles Lesser.

The Woodlands includes a waterway, outdoor art and an open-air performance pavilion, a resort and conference center, a luxury hotel and convention center, educational opportunities for all ages, hospitals and health care facilities. The Fountains at Waterway Square located on The Woodlands Waterway connects all of the amenities of the community via a water taxi system serving The Woodlands Town Center area and will eventually have connectivity to East Shore and Hughes Landing.

Home site sales began in 1974. To maximize long term values, the development started with residential activity with land reserved for the eventual development of a town center containing office, retail, multi-family and hotel properties to serve the residents. Over time the residential success created demand for commercial development. In recent years, the commercial and residential components have achieved significant appreciation in values and acceleration of development. The development and opening in 2014 of the new ExxonMobil campus four miles south of The Woodlands, should further accelerate commercial development and drive residential pricing and velocity as employees relocate to the ExxonMobil campus and businesses serving ExxonMobil relocate to our commercial properties in order to be close to the campus. Additionally, by virtue of the fact that The Woodlands owns most of the available land, we have substantial influence over the market and our competitors.

As of December 31, 2013, there were approximately 40,618 homes occupied by approximately 107,800 residents and more than 1,900 businesses providing employment for approximately 54,500 people. We estimate that The Woodlands has a jobs to home ratio of approximately 1.34 to 1.00. This ratio implies that many residents also work within the MPC, making it a more attractive place to live compared to purely residential communities by improving quality of life through short commute times.

Approximately 28% of The Woodlands is dedicated to green space, including parks, pathways, open spaces, golf courses and forest preserves. The population is projected to be approximately 130,000 by 2021. The Woodlands has full or partial ownership interests in commercial properties totaling approximately 1,709,782 square feet of office space (of which 865,782 square feet is complete and 844,000 square feet is under construction), 398,632 square feet of retail and service space (of which 201,280 square feet are complete and 197,352 square feet are under construction) and 1,097 rental apartment units (of which 393 units are complete and 704 units are under construction). We also own and operate a 440-room resort and conference center facility, with a second 300-room hotel soon to be under construction, and a 36-hole golf course with a country club facility. These commercial properties are more fully described under "– Operating Assets". As of December 31, 2013, The Woodlands had approximately 623 acres of unsold residential land representing approximately 2,064 lots.

As of December 31, 2013, The Woodlands had 853 acres of land designated for commercial use remaining to be sold or developed, which is currently designated as 563 acres for third-party land sales and 290 acres for development. The 290 acres intended to be developed is comprised of 110 acres for apartments or condominiums, 28 acres for retail development, three acres for hotel facilities, nine acres for mixed-use and 140 acres for office buildings. The Woodlands is well positioned to dominate the commercial market for the next several years because we have the largest inventory of vacant commercial land available in the area and we offer virtually every product type being sought after by our customers. The mix of acreage designated for development versus sale may change over time based on market conditions, projected demand, our view of the economic benefits of developing or selling and other factors.

The ExxonMobil corporate campus that is located on a 385-acre site south of The Woodlands is expected to include approximately 20 buildings, representing three million square feet of space. ExxonMobil expects to begin relocating employees into this new location starting in 2014 and ending in mid-2015. Upon completion of the relocation, ExxonMobil estimates there will be approximately 10,000 employees working at the new campus. We believe that the direct and indirect jobs related to this relocation will have a significant positive impact on The Woodlands and Bridgeland due to increased housing demand, as well as commercial space needs for companies servicing ExxonMobil.

Since inception, The Woodlands has always sought to maintain a wide array of home choices and marketed that information to the realtor community as they are critical in providing guidance to the corporate relocation homebuyer. As a result of this effort, over the last ten years The Woodlands has achieved an average of approximately 42% of new home sales attributable to "Outside of Houston Area" residents. Due to the new ExxonMobil campus that opens in 2014, we are seeing increased home sales to ExxonMobil employees who are relocating to The Woodlands in order to live in closer proximity to the new campus.

We believe the construction of The Grand Parkway linking The Woodlands and Bridgeland to the new ExxonMobil campus and the rest of the greater Houston area will have a positive impact on purchasing decisions for residents in our Houston master planned communities. Construction of the segments of The Grand Parkway that will serve The Woodlands and Bridgeland are expected to be completed in 2015.

## Operating Assets

We own eight mixed-use and retail properties, nine office properties (the Columbia Office Properties contain six separate office buildings, which includes 70 Columbia Corporate Center), a multi-family apartment building, a resort and conference center, a 36-hole golf course and country club, three equity investments and four other assets that generate revenue. Based on a variety of factors, we believe that there are opportunities to redevelop or reposition certain of these assets, primarily the retail and Columbia office properties, to improve their operating performance. These factors include, but are not limited to the following: (1) existing and forecasted demographics surrounding the property; (2) competition related to existing and/or alternative uses; (3) existing entitlements of the property and our ability to change them, (4) compatibility of the physical site with proposed uses; and (5) environmental considerations, traffic patterns and access to the properties. We believe that, subject to obtaining all necessary consents and approvals, these assets have the potential for future growth by means of an improved tenant mix, additional gross leasable area ("GLA"), or repositioning of the asset for alternative use. Redevelopment plans for these assets may include office, retail or residential space, shopping centers, movie theaters, parking complexes and open space. Any future redevelopment will require the receipt of permits, licenses, consents and waivers from various parties. Our retail properties include approximately 2.2 million total square feet of GLA in the aggregate. Our office properties include approximately 1.5 million total square feet of GLA in the aggregate.

### Retail

***20 & 25 Waterway Avenue (The Woodlands, Texas)***

20 & 25 Waterway Avenue are two retail properties located in The Waterway Square commercial district in The Woodlands Town Center. The properties total 49,972 square feet and were completed in 2009 and 2007, respectively. The properties are currently 100% leased as of December 31, 2013.

***Cottonwood Square (Salt Lake City, Utah)***

Cottonwood Square is a 77,079 square foot community center situated in a high traffic area. This site is across from our Cottonwood Mall property, which provides an opportunity for development synergies. The property is currently 94% leased.

***Landmark Mall (Alexandria, Virginia)***

Anchored by Macy's and Sears, Landmark Mall is an 879,413 square foot shopping mall located just nine miles west of Washington, D.C. The mall is within one mile of public rail service on D.C.'s metro blue line. In 2013 we received unanimous rezoning approval from the City of Alexandria for Phase I of the redevelopment which includes converting 11 acres of our 22 acre site, located within the center of the property between Macy's and Sears, from a traditional enclosed mall to a vibrant outdoor mixed-use environment with street retail shops and restaurants and high density residential. The redevelopment requires the consent of Macy's and Sears, and within Phase I of the redevelopment, we will construct approximately 285,000 square feet of new retail including a upscale dine-in movie theater, and up to 400 residential units. Future phases may include the balance of the mall site with mixed-use densities to total up to 5.5 million square feet as prescribed in the City of Alexandria's 2009 Van Dorn Small Area Plan. Future redevelopment will also be subject to approval of the anchor tenants as part of a reciprocal easement agreement that governs the property. We expect to begin redevelopment in 2014.

***Park West (Peoria, Arizona)***

Park West is a 249,184 square foot open-air shopping, dining and entertainment destination which is approximately one mile northwest of the Arizona Cardinals' football stadium and the Phoenix Coyote's hockey arena. Park West has an additional 100,000 square feet of available development rights as permitted for retail, restaurant and hotel uses. On November 5, 2012, we acquired four parcels of land adjacent to our Park West property consisting of approximately 18 acres. The acquisition enhances our control over infrastructure requirements and development rights associated with our property. The property is 76.4% leased as of December 31, 2013.

***South Street Seaport (New York, New York)***

South Street Seaport is comprised of the historic area and Pier 17. The historic area (area west of the FDR Drive) includes three mid-rise buildings and retail condominium space in an adjacent 1.1 million square foot office tower. Pier 17 includes a pavilion shopping center located in a historic waterfront district on the East River in Manhattan. The property is subject to a ground lease expiring in 2072. Upon completion of the Pier 17 Renovation Project ("Renovation Project", as described below), South Street Seaport will have approximately 362,000 square feet of leasable space, substantially all of which is retail.

On November 20, 2013, we announced plans for further redevelopment of the South Street Seaport district. The current zoning will support an additional 700,000 square feet of development. The plan features East River Esplanade improvements, restoration of the historic Tin Building, replacement of the wooden platform piers adjacent to Pier 17 and a mixed-use tower. The plan will need the approval of the New York City Landmarks Preservation Commission and will be subject to a Uniform Land Use Review Procedure ("ULURP") that requires approval by the New York City Council. We expect to begin the ULURP process in 2014.

On June 27, 2013, the City of New York executed the amended and restated ground lease for South Street Seaport, which was the final step necessary for the commencement of the renovation and reconstruction of the existing Pier 17 Building. Simultaneously with the execution of the lease, we executed a completion guaranty which requires us to perform certain obligations under the lease, including the commencement of construction with a scheduled completion date of March 31, 2016. The Renovation Project will increase the leasable area of Pier 17 to approximately 182,000 square feet and features a complete transformation of the Pier 17 building designed to include a vibrant, open rooftop with 40% more open space, upscale retail and outdoor entertainment venues. Construction on this site began during September 2013. In addition to the Renovation Project, we plan to retenant approximately 180,000 square feet of the historic area. The estimated costs for the Renovation Project and retenanting of the historic area are approximately $425 million.

On October 29, 2012, South Street Seaport was heavily impacted by Superstorm Sandy. The storm caused massive flooding in the waterfront areas of Lower Manhattan, including the South Street Seaport historic area. Reconstruction efforts are ongoing and the property is only partially operating.

Please refer to "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations" for further information regarding this redevelopment project.

***Outlet Collection at Riverwalk (New Orleans, Louisiana)***

The Outlet Collection at Riverwalk (formerly known as "Riverwalk Marketplace") is located along the Mississippi River in downtown New Orleans and is adjacent to the New Orleans Memorial Convention Center and the Audubon Aquarium of the Americas. Construction of the Outlet Collection at Riverwalk began in July 2013 and is expected to open in the second quarter of 2014. This redevelopment expands our existing footprint by 50,000 square feet to approximately 250,000 square feet, and the total estimated costs are approximately $82 million (exclusive of our land value).

Please refer to "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations" for further information regarding this redevelopment project.

***Ward Centers (Honolulu, Hawaii)***

Ward Centers is comprised of approximately 60 acres situated along Ala Moana Beach Park and is within one mile of Waikiki and downtown Honolulu. It is also a ten minute walk from Ala Moana Center, Hawaii's largest shopping center. Ward Centers currently includes a 665,000 square foot shopping district containing seven specialty centers and approximately 140 unique shops, a variety of restaurants and an entertainment center which includes a 16-screen movie theater.

In January 2009, the Hawaii Community Development Authority ("HCDA") approved a 15-year master plan, which entitles us to develop a mixed-use development encompassing a maximum of 9.3 million square feet, including up to 7.6 million square feet of residential space. In January 2011, we executed a development agreement with the HCDA which expires in 2024.

During 2011, we completed a 722-stall parking deck that directly serves the Ward Village Shops and the Auahi Shops tenants at a cost of $70.8 million. In 2012, Ward Village Shops was completed consisting of approximately 70,000 square feet at a cost of $32.1 million, and as of December 31, 2013, construction for Auahi Shops consisting of 57,000 square feet was substantially complete and at final completion we expect total costs to approximate $26.0 million. Pier 1 Imports and Nordstrom Rack occupy 100% of this retail center and relocated from their former locations within Ward Centers.

Consistent with the master plan approved by the HCDA, we announced plans in October 2012 to create a world-class urban master planned community that will transform Ward Centers into Ward Village, a vibrant neighborhood offering unique retail experiences, exceptional residences and workforce housing set among dynamic open spaces and pedestrian friendly streets. Ward Village has received LEED Neighborhood Development (LEED-ND) Platinum certification, making the project the nation's largest LEED-ND Platinum certified project, and the only LEED-ND Platinum project in the state of Hawaii. The LEED rating system is the foremost program for buildings, homes, and communities that are designed, constructed, maintained and operated for improved environmental and human health performance. LEED certification is generally important to buyers and users of such facilities because it is a third party certification regarding the facility's water efficiency, energy saving capability, indoor environmental quality, carbon dioxide emissions and resource preservation.

The project is expected to include approximately 4,000 condominium units assuming an average of approximately 1,500 square feet per unit, and over one million square feet of retail and other commercial space.

Phase One of the redevelopment consists of four components on four separate blocks: the renovation of the IBM building, a portion of which will serve as the information center and sales gallery for Ward Village, two mixed-use market rate residential towers and one reserved housing tower.

During 2013, we began the redevelopment of the IBM building, a well-known office building located at Ward Centers, into a world class information center and sales gallery for the entire Ward Village project. The information center and sales gallery will dedicate a section to the history of the land, while another will showcase our vision for Ward Village. The sales center opened in January 2014.

Development permit applications and detailed plans for Phase One, which includes the first three residential towers, were approved by the HCDA in the third quarter of 2013 and condominium documents have been approved by the Hawaii Real Estate Commission for two market rate towers. The first of the two market rate towers, Waiea, is planned to be developed at a surface parking lot on Ala Moana Boulevard and will have 171 market rate condominium units for sale, six levels of parking, and approximately 8,000 square feet of new retail space. Waiea will consist of one, two and three-plus bedroom units ranging from approximately 1,100 to 17,500 square feet.

The second market rate tower, Anaha, is planned for Auahi Street and will have 311 market rate condominium units for sale, six levels of parking, and approximately 17,000 square feet of new retail space. Anaha will consist of studios, one, two and three-bedroom units, townhomes and penthouses ranging from approximately 450 to 6,500 square feet.

Please refer to "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations" for further information regarding this redevelopment project.

***Waterway Garage Retail (The Woodlands, Texas)***

Waterway Garage Retail is attached to The Waterway Square Garage located within The Woodlands Town Center. The 21,513 square feet retail portion of the garage was completed in 2011 and is currently 92.8% leased as of December 31, 2013.

***Rio West Mall (Gallup, New Mexico)***

Rio West Mall, a 521,194 square foot shopping center, is the only enclosed regional shopping center within a 125-mile radius and is easily accessed from Interstate 40 and historic Route 66. On September 30, 2013, we sold the property for $12.0 million and received $10.8 million of net proceeds, inclusive of a credit to the purchaser for certain improvement obligations. The net book value of the property was $10.2 million and we recognized a pre-tax gain of $0.6 million which is included in other income.

**Office Operating Assets**

***110 N. Wacker (Chicago, Illinois)***

The property is a 226,000 square foot office building located at 110 N. Wacker Drive in downtown Chicago. This office building is subject to a ground lease that expires in 2055, and is 100% net leased through October 2019. The tenant has several options to extend their lease through the duration of the ground lease, and we have the right to terminate the lease with six months' notice following the expiration of the initial term in 2019. We receive approximately $6.1 million in annual lease payments. We own a 99% ownership interest in the property which, upon a capital event, entitles us to a 11% preferred return on our invested capital. After we have received the preferred return, and a return of our capital, the excess cash flow is evenly split with our partners.

***The Woodlands (The Woodlands, Texas)***

*1400 Woodloch Forest Drive*

1400 Woodloch Forest Drive is a five-story Class B office building located at the entrance to The Woodlands Town Center. The property totals 95,667 square feet, was completed in 1981 and is 79.4% leased as of December 31, 2013.

*2201 Lake Woodlands Drive*

2201 Lake Woodlands Drive is a two-story Class C office building located in the East Shore commercial district of The Woodlands. The property totals 24,119 square feet, wascompleted in 1994 and was recently vacated by its single tenant who moved to our office building at One Hughes Landing. We are seeking a tenant for this building.

*3 Waterway Square*

In June 2013, we opened an 11-story 232,000 square foot Class A office building located in The Woodlands Town Center and adjacent to the 4 Waterway Square office building. The property is 97.3% leased as of December 31, 2013.

*4 Waterway Square*

4 Waterway Square is a nine-story Class A office building located within The Woodlands Town Center. The property totals 218,551 square feet, was completed in 2010, and is 100% leased as of December 31, 2013.

*9303 New Trails*

9303 New Trails is a four-story Class B office building located within the Research Forest district of The Woodlands. The property totals 97,705 square feet, was completed in 2008, and is 94.3% leased as of December 31, 2013.

*One Hughes Landing*

In September 2013, we opened One Hughes Landing, an eight-story, 197,719 square foot Class A office building set on 2.7 acres, including a 632 space parking garage. One Hughes Landing is the first building to open for the 66-acre mixed-use development site called Hughes Landing on Lake Woodlands. The property is 97.8% leased as of December 31, 2013.

***Columbia Office Properties (Columbia, Maryland)***

We own five office buildings, and are a master tenant of a sixth office building, in downtown Columbia, Maryland. Columbia is located 14 miles from the Baltimore Beltway and 17 miles from the Washington Beltway. The master ground lease under the sixth office building has a 2020 initial expiration and a 2060 final expiration date, including the market renewal options. The buildings, which comprise approximately 491,000 square feet in the heart of downtown Columbia, include: (1) American City Building (master tenant); (2) the Columbia Association Building; (3) 70 Columbia Corporate Center; (4) the Columbia Exhibit Building; (5) the Columbia Regional Office Building and (6) the Ridgley Building. This group also contains the Merriweather Post Pavilion. Both the Columbia Regional Building and Merriweather Post Pavilion were designed by Frank Gehry. The Columbia Regional Office Building is being redeveloped as a mixed-use project. Construction is expected to be completed during the fourth quarter of 2014, and the total development cost is $25 million (exclusive of land value). In July 2012, we executed a lease with Whole Foods Market for 41,000 square feet. In December 2012, we executed a lease with The Columbia Association Inc. for an upscale fitness center comprised of 27,556 square feet. The tenants are expected to take occupancy in the fourth quarter of 2014.

Please refer to "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations" for further information regarding this redevelopment project.

**Multi-family**

***The Millennium Waterway Apartments (The Woodlands, Texas)***

The Millennium Waterway Apartments is a 393-unit apartment building located within The Woodlands Town Center. We acquired our partners' interest on May 31, 2012, and itis now consolidated in our financials. This property was previously an equity investment. As of December 31, 2013, the property is 90.1% leased.

**Resort and Conference Center and Country Club**

***The Woodlands Resort & Conference Center (The Woodlands, Texas)***

The Woodlands Resort & Conference Center is located approximately two miles south of The Woodlands Town Center and consists of 440 hotel rooms and 90,000 square feet of meeting space, including the 30,000 square feet currently leased by ExxonMobil.

In 2013, we announced plans for the redevelopment and expansion of The Woodlands Resort & Conference Center. Completion of the project is expected during the summer of 2014. Total estimated construction costs for this project are approximately $75 million.

Please refer to "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations" for further information regarding this redevelopment project.

***The Club at Carlton Woods (The Woodlands, Texas)***

The Club at Carlton Woods is located within one of the most exclusive communities in The Woodlands. In addition to an 18-hole Jack Nicklaus Signature Golf Course and an 18-hole Tom Fazio Championship Course, it contains two clubhouses, a spa, tennis courts, a golf learning center and fitness facilities totaling approximately 78,000 square feet.

**Other Operating Assets and Investments**

***Waterway Square Garage (The Woodlands, Texas)***

Waterway Square Garage, located within The Woodlands Town Center, is a five-story parking garage that contains 1,933 parking spaces and 21,513 square feet of retail space. The garage was completed in 2009 and is reported separately from the retail space. The retail space is included in our retail operating asset section above.

***Woodlands Sarofim #1 Limited (The Woodlands, Texas)***

We own a 20% interest in three office/industrial buildings located in The Woodlands Research Forest district within The Woodlands. The portfolio contains 129,790 square feet and the various buildings were constructed between the late 1980s and 2002.

***Participation Interest in Golf Courses at TPC Summerlin and TPC Las Vegas, located in the Summerlin Master Planned Community (Las Vegas, Nevada)***

The TPC Summerlin is an 18-hole private championship course designed by golf course architect Bobby Weed with player consultant Fuzzy Zoeller. TPC Las Vegas is an 18-hole public championship course designed by Bobby Weed with player consultant Raymond Floyd. These courses represent the only two golf courses in Nevada that are owned and operated by the Professional Golfers' Association of America (the "PGA").

We are entitled to receive residual payments from the PGA with respect to the two golf courses through October 31, 2021, the termination date of the agreement with the PGA. We receive 75% of the net operating profits and 90% of all profits from membership sales at TPC Summerlin until such time as the original investment in the courses of $23.5 million has been recouped, which is projected to occur no sooner than 2015. Once we have received payments from the PGA totaling $23.5 million, we are entitled to receive 20% of all net operating profits from the two courses through the termination date of the agreement. As of December 31, 2013, the remaining balance of our investment is approximately $5.6 million, approximately $4.4 million greater than our $1.2 million book value.

***Note Approximating Office Lease Payments***

We receive payments approximating the lease revenue that GGP receives from the Arizona 2 Office in Phoenix, Arizona. The right to receive these payments is in the form of a fully amortizing promissory note issued by a subsidiary of GGP. These payments total approximately $6.9 million per year through the end of 2015 and are recorded as interest income and principal amortization. The underlying real property interests in the Arizona 2 Office are owned by GGP, and we will not own or obtain any real property interest therein or have any rights to receive payments after 2015.

***Summerlin Las Vegas Baseball Club***

In 2012, we became a 50% partner in a joint venture, Summerlin Las Vegas Baseball Club, LLC, formed for the purpose of acquiring 100% of the operating assets of the Las Vegas 51s, a Triple-A baseball team which is affiliated with the New York Mets. The Las Vegas 51s is a member of the Pacific Coast League and has been based in Las Vegas for 30 years. In May 2013, the joint venture acquired the team for approximately $21.0 million, of which our 50% share was $10.5 million. The team is located near our Summerlin Master Planned Community. Our strategy in acquiring an ownership interest is to pursue a potential relocation of the team to a stadium which we would then build in our Summerlin Master Planned Community. There can be no assurance that such a stadium will ultimately be built.

***Interest in Stewart Title (The Woodlands, Texas)***

We own a 50% interest in Stewart Title, a real estate services company located in The Woodlands which handles a majority of the residential and commercial land sale closings for The Woodlands.

***Interest in Summerlin Hospital Medical Center (Las Vegas, Nevada)***

We have an indirect ownership interest of approximately 6.8% in the Summerlin Hospital Medical Center. Our ownership interest entitles us to a pro rata share of the cumulative undistributed profit in the hospital and we typically receive a distribution one time per year during the first quarter. The annual distributions have typically been between $2.0 million to $3.0 million, but vary from year to year. This medical center is a 450-bed hospital located on a 32-acre medical campus in our Summerlin Master Planned Community. The hospital completed a major renovation in 2009 that expanded the hospital to 450 beds (from 281 beds) and added a new six-story patient tower, an expanded emergency room, a four-story 80,000 square foot medical office building and a 600-space parking garage. Our interest relates to the contributed land, and Universal Health Services, Inc. provided the funds to build the hospital.

***Interest in Head Acquisition (Hexalon)***

On October 30, 2013, we sold our interest in Head Acquisition, LP ("Head"), a cost basis investment, for cash proceeds of $13.3 million. The sale resulted in a gain of approximately $8.5 million.

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**Strategic Developments**

Our Strategic Developments segment is made up of near, medium and long-term real estate properties and development projects. We continue to advance the development plans for each of these assets based on market conditions and availability of capital. We will likely need to obtain financing to undertake a development plan, in addition to obtaining the proper permits and approvals which are typical of most large-scale real estate developments of this nature. Unless otherwise indicated, estimated costs associated with developments are exclusive of land value because we typically own all of the land underlying our Strategic Developments.

We are continuing to execute our strategic plans to substantially develop several of these assets with construction either under way or pending. The remainder of these assets will require substantial future development to achieve their highest and best use.

The following table summarizes our Operating Assets undergoing redevelopment and our Strategic Development projects, some of which are currently under construction as of December 31, 2013:

| | Location | Size/GLA | Size (Acres) | Net Book Value, December 31, 2013 (Millions) | Acquisition Year |
|---|---|---|---|---|---|
| **Operating Assets Undergoing Redevelopment:** | | | | | |
| Outlet Collection at Riverwalk | New Orleans, LA | 250,000 | 11 | $ 36.4(a) | 2004 |
| South Street Seaport | New York, NY | 362,000 | 11 | 41.0(b) | 2004 |
| The Woodlands Resort & Conference Center (c) | The Woodlands, TX | 440 rooms | 70 | 75.1(d) | 1974 / 2002 |
| **Strategic Developments Under Construction:** | | | | | |
| Columbia Regional Building | Columbia, MD | 89,000 | — | 20.9(e) | 2004 |
| Creekside Village Green | The Woodlands, TX | 74,352 | 7 | 2.9 | — |
| ExxonMobil Build-to-Suit | The Woodlands, TX | 647,000 | 4 | 6.6 | — |
| Hughes Landing Retail | The Woodlands, TX | 123,000 | 9 | 6.2 | — |
| Millennium Woodlands Phase II (f) | The Woodlands, TX | 314 units | 5 | 2.2 | — |
| ONE Ala Moana Condo Project (f) | Honolulu, HI | 206 units | — | 19.9 | 2002 |
| One Lake's Edge | The Woodlands, TX | 390 units / 22,289 retail | 3 | 6.1 | — |
| The Metropolitan Downtown Columbia Project (f) | Columbia, MD | 380 units / 14,000 retail | 4 | 5.0 | 2004 |
| The Shops at Summerlin Center | Las Vegas, NV | 1,600,000 | 106 | 141.4 | 2004 |
| Two Hughes Landing | The Woodlands, TX | 197,000 | 4 | 22.4 | — |
| Ward Sales Center | Honolulu, HI | — | — | 16.0(g) | — |
| **Other Strategic Developments:** | | | | | |
| Alameda Plaza (h) | Pocatello, ID | 65,292 | 7 | 0.7 | 2002 |
| AllenTowne | Allen, TX | — | 238 | 25.5 | 2006 |
| Bridges at Mint Hill (i) | Charlotte, NC | — | 210 | 21.4 | 2007 |
| Century Plaza | Birmingham, AL | 755,573(j) | 63 | 4.5 | 1997 |

| | | | | | |
|---|---|---|---|---|---|
| Circle T Ranch and Power Center (f) | Dallas / Ft. Worth, TX | — | 279 | 9.1 | 2005 |
| Commercial Land (k) | The Woodlands, TX | — | 19 | 14.0 | — |
| Cottonwood Mall | Holladay, UT | 232,843 | 54 | 20.3 | 2002 |
| Elk Grove Promenade | Elk Grove, CA | — | 100 | 6.2 | 2003 |
| Fashion Show Air Rights | Las Vegas, NV | — | — | — | 2004 |
| Kendall Town Center | Kendall, FL | — | 70 | 18.1 | 2004 |
| Lakemoor (Volo) Land | Lakemoor, IL | — | 40 | 0.3 | 1995 |
| Maui Ranch Land | Maui, HI | — | 20(l) | — | 2002 |
| Parcel C (f) | Columbia, MD | 437 units / 31,000 retail | 5 | 5.8 | 2004 |
| Redlands Promenade | Redlands, CA | — | 10 | 3.0 | 2004 |
| Redlands Mall | Redlands, CA | 174,787 | 12(m) | 6.5 | 2004 |
| Ward Condominiums | Honolulu, HI | 906 units | — | 17.1(n) | 2002 |
| West Windsor | West Windsor, NJ | — | 658 | 23.0 | 2004 |
| Total | | | 2,019 | $ 577.6 | |

**Note:** Projects are grouped according to development activity. For the purposes of this table, the assets under or pending construction are grouped first. All other projects under development are grouped alphabetically.

(a) Net Book Value includes $25.0 million of development costs at the Outlet Collection at Riverwalk.

(b) Net Book Value includes $24.2 million of development costs at South Street Seaport.

(c) The Woodlands Resort & Conference Center was built in 1974, expanded in 2002, and is currently being renovated.

(d) Net Book Value includes $27.5 million of development costs at The Woodlands Resort & Conference Center.

(e) Net Book Value includes $16.4 million of development costs at the Columbia Regional Building.

(f) Net Book Value is made up of our investment in the joint venture. Please refer to Note 5 – Real Estate Affiliates, in our Consolidated Financial Statements.

(g) Net Book Value represents development costs at December 31, 2013.

(h) During 2013, we sold 1.3 acres including 10,000 square feet of retail space.

(i) Net Book Value represents net consolidated investment in the joint venture.

(j) Century Plaza square footage represents GLA for entire mall.

(k) Represents land identified for future retail, office, hotel and / or other commercial developments at The Woodlands.

(l) Maui Ranch Land size represents two-10 acre land parcels.

(m) The Village at Redlands acreage represents total mall site inclusive of anchor lots. Five of the twelve acres is owned by us, and the remaining seven acres are parking owned by The City of Redlands.

(n) Net Book Value represents development costs for the first three residential towers approved by the HDCA.

***The Woodlands (The Woodlands, Texas)***

*Creekside Village Green*

Creekside Village Green is located within the 100-acre mixed-use commercial development that is anchored by H-E-B grocery store and will ultimately include 400,000 square feet of retail and office space, 800 units of multi-family, 200 units of senior living facility and an 85,000 square foot campus within the Lone Star College System. Creekside Village Green is a 74,352 square foot retail center which will consist of retail, restaurant and professional office space across two main buildings and a centrally located restaurant building. Creekside Village Green will also include a one-acre tree-lined park designed to be the hub of all activity within the greater 100-acre development. During the fourth quarter 2013, we began construction. Total development costs are expected to be approximately $19 million. We anticipate the project will open in the fourth quarter of 2014. Please refer to "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations" for further information regarding this redevelopment project.

*ExxonMobil Build-to-Suit*

On December 16, 2013 we announced the development of two adjacent Class A office buildings. The building located at 1725 Hughes Landing Boulevard (West Building) will be 12 stories and approximately 318,000 rentable square feet, and the one located at 1735 Hughes Landing Boulevard (East Building) will be 13 stories and 329,000 rentable square feet. A 2,617 space parking garage will also be located on the 4.3 acre site and will be exclusive to the office project. ExxonMobil Corporation has executed leases to occupy the entire West Building for twelve years and 160,000 square feet in the East Building for eight years, with an option to lease the remaining space before the building opens. Total development costs are expected to be approximately $171 million (exclusive of land value) and the project is expected to be completed by the fourth quarter of 2015. Please refer to "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations" for further information regarding this development project.

*Hughes Landing Retail*

During the fourth quarter 2013, we began construction of Hughes Landing Retail, a 123,000 square foot retail component of Hughes Landing. The project will consist of Whole Foods, an anchor tenant with 40,000 square feet of space, 32,900 square feet of retail, and a 50,100 square foot restaurant row. Total development costs are expected to be approximately $36 million, and the project is expected to be completed in the fourth quarter of 2014. The majority of the restaurants on restaurant row will open during the first quarter 2015. Please refer to "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations" for further information regarding this development project.

*Millennium Woodlands Phase II*

On May 14, 2012, we entered into a joint venture, Millennium Woodlands Phase II, LLC ("Millennium Phase II"), with The Dinerstein Companies, for the construction of a 314-unit Class A multi-family complex in The Woodlands Town Center. Total development costs are expected to be $38 million (exclusive of land value), and completion is expected in the second quarter of 2014. Please refer to "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations" for further information regarding this development project.

*One Lake's Edge*

In October 2013, we began construction of an eight-story, Class A, multi-family project within Hughes Landing that will be comprised of 390 multi-family units (averaging 984 square feet per unit), 22,289 square feet of retail and an approximately 750 space parking garage, all situated on 2.92 acres of land. Additionally, the project will feature an amenity deck on the third floor which will house the pool, courtyard and other amenities overlooking Lake Woodlands. Total development costs are expected to be approximately $88 million and completion is expected in the first quarter of 2015. Please refer to "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations" for further information regarding this development project.

*Two Hughes Landing*

During the third quarter 2013, we began construction of Two Hughes Landing, the second Class A office building located in Hughes Landing on Lake Woodlands. Two Hughes Landing will be a 197,000 square foot, eight-story office building with an adjacent 630 space parking garage. The building and the garage will be situated on 3.6 acres of land and is estimated to cost approximately $49 million. Please refer to "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations" for further information regarding this redevelopment project.

***ONE Ala Moana Tower Condo Project (Honolulu, Hawaii)***

In October 2011, we and an entity jointly owned by two local developers, Kobayashi Group and The MacNaughton Group, formed a joint venture called HHMK Development, LLC ("HHMK Development"), to explore the development of a luxury condominium tower above an existing parking structure at Ala Moana Center. We own 50% of the venture and our partner owns the remaining 50%. In June 2012, we formed another 50/50 joint venture, KR Holdings, LLC ("KR Holdings"), with the same two development partners. KR Holdings was responsible for development activities and obtained construction financing for the project. Construction of the 23-story, 206-unit tower consisting of one, two and three-bedroom units ranging from 760 to 4,100 square feet commenced in April of 2013, and we expect completion at the end of 2014. The venture is expected to invest approximately $265.1 million, which includes construction, selling and all financing costs.

During the fourth quarter of 2012, we pre-sold all of the condominium units at an average price of $1.6 million, or approximately $1,170 per square foot and the average unit size is approximately 1,350 square feet.

Please refer to "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations" for further information regarding this development project.

***Parcel C (Columbia, Maryland)***

On October 4, 2013, we entered into a joint venture agreement with a local multi-family developer, Kettler, Inc., ("Kettler") to construct a 437-unit, Class A apartment building with 31,000 square feet of ground floor retail. We contributed approximately five acres of land having an estimated book value of $4.0 million in exchange for a 50% interest in the joint venture. When the joint venture closes on a

construction loan our interest in the joint venture will be stepped up to $23.4 million or $53,500 per constructed unit and our partner will be required to make a cash contribution to the venture, the amount of which will depend on the size of the construction financing obtained for the development. Please refer to "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations" for further information regarding this development project.

***The Metropolitan Downtown Columbia Project (Columbia, Maryland)***

In October 2011, we entered into a joint venture with Kettler to construct an approximate 380-unit Class A apartment building with approximately 10,000 square feet of ground floor retail space in downtown Columbia, Maryland. We contributed a 4.2 acre site, having a $3.0 million book value, in exchange for a 50% interest in the venture. Our partner is responsible for providing construction and property management services, including the funding and oversight of development activities. The venture began construction of The Metropolitan in February 2013. On July 11, 2013, the venture closed on a $64.1 million construction financing. Our contributed land was valued at $20.3 million and Kettler contributed $13.3 million in cash, of which $7.0 million was distributed to us. Total development costs are expected to be $97 million and completion is expected in the third quarter of 2014. Please refer to "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations" for further information regarding this development project.

***The Shops at Summerlin (Las Vegas, Nevada)***

This 106-acre development project is part of a 400-acre mixed-use town center for the Summerlin Master Planned Community and faces Interstate 215 between Sahara Drive and Summerlin Centre Drive, approximately nine miles west of the Las Vegas Strip. The project is planned for approximately 1.6 million square feet of retail and office development. The project consists of retail, office, and anchor space and has the potential for a hotel and multi-family residential units. Construction began again in 2013 with completion anticipated at the end of 2014. Total development costs are expected to be $391 million.

In the fourth quarter of 2013, we sold approximately eight acres of land to Dillard's for the construction of a two-level, 200,000 square foot department store. Also in the fourth quarter, we leased approximately six acres of land to Macy's for the construction of an 180,000 square foot department store. Dillard's and Macy's are two anchor tenants of a total of three planned anchors for The Shops at Summerlin, which is expected to open in late 2014. We are actively pre-leasing the non-anchor space at the property. Please refer to "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations" for further information regarding this development project.

**Other Development Projects**

***Alameda Plaza (Pocatello, Idaho)***

Alameda Plaza is located in Pocatello, Idaho at the intersection of Yellowstone Park Highway and Alameda Road. The approximate 19.7-acre site contains 190,341 square feet of mostly vacant retail space. During 2013, we sold a 1.3 acre site for $1.3 million that had a book value of $0.4 million. During 2012, we sold 11.5 acres, including 104,705 square feet of mostly vacant retail spaces for $4.5 million which had a book value of $1.3 million. We are continuing to explore the sale of the remaining 6.9 acres.

***AllenTowne (Allen, Texas)***

AllenTowne consists of 238 acres located at the high-traffic intersection of Highway 121 and U.S. Highway 75 in Allen, Texas,27 miles northeast of downtown Dallas. We are continuing to consider our plans to best position the property for the opportunities presented by evolving market conditions.

***Bridges at Mint Hill (Charlotte, North Carolina)***

On September 8, 2011, we entered into a joint venture with the owner of land adjacent to our land to develop a shopping center on the combined property located southeast of Charlotte, North Carolina.. On October 30, 2012, we contributed $4.5 million in cash to pay off the existing mortgage on our partner's property, and both parties contributed their respective properties in the venture. Our ownership in the venture increased from 79.0% to 90.5% as a result of the contribution. The combined parcel is now approximately 210 acres consisting of 120 developable acres and is currently zoned for approximately 1.3 million square feet of retail, hotel and commercial development. The land is divided by a small stream known as Goose Creek. The current zoning plan contemplates connecting the resulting parcels with bridges over the creek. Development will require construction of internal roadways, connecting bridges, expansion of roads and an installation of a force main (offsite) for sewer utility.

***Century Plaza (Birmingham, Alabama)***

Century Plaza is located on the southeastern side of Birmingham, Alabama, on U.S. Route 78 (Crestwood Blvd.) near Interstate 20. In May 2009, the mall was shuttered. The site consists of approximately 63 acres with approximately 740,000 square feet of GLA.

***Circle T Ranch and Circle T Power Center (Fort Worth, Texas)***

Located at the intersection of Texas highways 114 and 170, Circle T Ranch is 20 miles north of downtown Fort Worth, in Westlake, Texas. The property is approximately 279 total acres on two parcels. The Circle T Ranch parcel contains 128 acres while the Circle T Power Center parcel contains 151 acres. We have a 50% ownership interest with Hillwood Properties, a local developer, in this joint venture.

***Cottonwood Mall (Holladay, Utah)***

Located 7.5 miles from downtown Salt Lake City, in the city of Holladay, Utah, Cottonwood Mall is a unique infill development opportunity. In 2008, work began on a complete redevelopment of the 54-acre site, but development has been delayed due to the changing economic environment. The original mall was completely demolished with the exception of Macy's which continues to operate as a stand-alone department store on the site. The project is entitled for 575,000 square feet of retail, 195,000 square feet of office and 614 residential units. We are exploring the feasibility of a mixed-use development and are soliciting retailer interest in the site.

***Elk Grove Promenade (Elk Grove, California)***

Elk Grove Promenade was originally planned as a 1.1 million square foot outdoor shopping center on approximately 100 acres. Construction began in 2007, but has been delayed due to changing economic conditions. Located approximately 17 miles southeast of Sacramento, the location affords easy access and visibility from State Highway 99 at Grant Line Road. Plans for the site are being evaluated in light of evolving market conditions.

***Fashion Show Air Rights (Las Vegas, Nevada)***

We entered into a binding set of core principles with GGP pursuant to which we will have the right to acquire for nominal consideration an 80% ownership interest in the air rights above the Fashion Show Mall located on the Las Vegas Strip. This right is contingent upon the satisfaction of a number of conditions and does not become effective unless the existing loans of the Fashion Show Mall and The Shoppes at the Palazzo and related guarantees are settled in full, which is currently expected to occur with GGP's scheduled repayment in May 2017.

***Kendall Town Center (Kendall, Florida)***

Kendall Town Center is a 141 acre mixed-used site located at the intersection of North Kendall Drive and SW 158th, approximately 20 miles southwest of downtown Miami. A 31-acre parcel was sold to Baptist Hospital in March 2008, a 282,000 square foot hospital with 133 beds and a 62,000 square foot medical office building, opened in 2011. In addition, we sold five acres in 2011 and 18 acres in 2009. These 23 acres are expected to include a 120-room hotel with ancillary office and retail space and a senior housing development. Land totaling 14 acres has been deeded to the property owners association and three acres have been deeded to the County. We own the remaining 70 acres, which are currently entitled for 621,300 square feet of retail, 60,000 square feet of office space and a 50,000 square foot community center. We are currently developing a mixed-use program and site plan and expect to submit a rezoning application to permit residential development in 2014.

***Lakemoor (Volo) Land (Lakemoor, Illinois)***

This 40-acre vacant land parcel is located on Route 12 which is 50 miles north of Chicago in a growing suburb. The project has no utilities in place and is currently designated as farmland.

***Maui Ranch Land (Maui, Hawaii)***

This site consists of two, non-adjacent, ten-acre undeveloped land-locked parcels located near the Kula Forest Preserve on the island of Maui, Hawaii. The land currently is zoned for native vegetation. There is no ground right of way access to the land and there is no infrastructure or utilities currently in the surrounding area. Accordingly, only a nominal value was ascribed to these parcels when they were acquired by our predecessors in conjunction with the purchase of Ward Centers.

***Redlands Promenade (Redlands, California)***

Redlands Promenade is a ten-acre site located at Eureka and the Interstate 10 off ramp in Redlands, California. The project is entitled for 125,000 square feet of retail development.

***Redlands Mall (Redlands, California)***

The Redlands Mall is a single-level, 174,787 square foot enclosed shopping center at the intersection of Redlands Boulevard and Orange Street. Currently anchored by CVS, Denny's and Union Bank, the site is located in downtown Redlands two blocks south of the Redlands Promenade site. The interior portion of the mall closed in September 2010. This center is envisioned as a mixed-use retail and residential redevelopment.

***West Windsor (West Windsor, New Jersey)***

West Windsor is a former Wyeth Agricultural Research & Development Campus on Quakerbridge Road and U.S. Route One near Princeton, New Jersey. The land consists of 658 total acres comprised of two large parcels which are bisected by Clarksville Meadows Road and a third smaller parcel. Zoning, environmental and other development factors are currently being evaluated in conjunction with a development feasibility study of the site.

**Competition**

The nature and extent of the competition we face depends on the type of property involved. With respect to our master planned communities segment, we compete with other landholders and residential and commercial property developers in the development of properties within Las Vegas; Nevada, Houston; Texas and the Baltimore/Washington, D.C. markets. Significant factors which we believe allow us to compete effectively in this business include:

- the size and scope of our master planned communities;
- years of experience serving the industry;

- the recreational and cultural amenities available within the communities;
- the commercial centers in the communities, including the retail properties that we own and/or operate or may develop;
- our relationships with homebuilders;
- our level of debt relative to total assets; and
- the proximity of our developments to major metropolitan areas.

With respect to our Operating Assets segment we primarily compete for retail and office tenants, and to a lesser extent, residential tenants. We believe the principal factors that retailers consider in making their leasing decisions include: (1) consumer demographics; (2) quality, design and location of properties; (3) neighboring real estate projects that have been developed by our predecessors or that we, in the future, may develop; (4) diversity of retailers and anchor tenants at shopping center locations; (5) management and operational expertise; and (6) rental rates.

With respect to our Strategic Developments segment, our direct competitors include other commercial property developers, retail mall development and operating companies and other owners of retail real estate that engage in similar businesses.

**Environmental Matters**

Under various federal, state and local laws and regulations, an owner of real estate is liable for the costs of removal or remediation of certain hazardous or toxic substances on such real estate. These laws often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. The costs of remediation or removal of such substances may be substantial, and the presence of such substances, or the failure to promptly remediate such substances, may adversely affect the owner's ability to sell such real estate or to borrow using such real estate as collateral.

Substantially, all of our properties have been subject to Phase I environmental assessments, which are intended to evaluate the environmental condition of the surveyed and surrounding properties. As of December 31, 2013, the assessments have not revealed any known environmental liability that we believe would have a material adverse effect on our overall business, financial condition or results of operations. Nevertheless, it is possible that these assessments do not reveal all environmental liabilities or that the conditions have changed since the assessments were prepared (typically at the time the property was purchased or encumbered with debt). Moreover, no assurances can be given that future laws, ordinances or regulations will not impose any material environmental liability on us, or the current environmental condition of our properties will not be adversely affected by tenants and occupants of the properties, by the condition of properties in the vicinity of our properties (such as the presence on such properties of underground storage tanks) or by third parties unrelated to us.

Future development opportunities may require additional capital and other expenditures to comply with federal, state and local statutes and regulations relating to the protection of the environment. In addition, there is a risk when redeveloping sites, that we might encounter previously unknown issues that require remediation or residual contamination warranting special handling or disposal, which could affect the speed of redevelopment. Where redevelopment involves renovating or demolishing existing facilities, we may be required to undertake abatement and/or the removal and disposal of building materials or other remediation or cleanup activities that contain hazardous materials. We cannot predict with any certainty the magnitude of any such expenditures or the long-range effect, if any, on our operations. Compliance with such laws has not had a material adverse effect on our operating results or competitive position in the past, but could have such an effect on our operating results or competitive position in the future.

**Employees**

As of December 31, 2013, we had approximately 1,000 employees.

**Available Information**

We maintain a website at www.howardhughes.com. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K are available and may be accessed free of charge through the Investors section of our website under the SEC Filings subsection, as soon as reasonably practicable after those documents are filed with, or furnished to, the SEC. Also available through our Investors section of our website are reports filed by our directors and executive officers on Forms 3, 4 and 5, and amendments to those reports. Our website and included or linked information on the website are not intended to be incorporated into this Annual Report on Form 10-K.

## ITEM 1A. RISK FACTORS

*The risks and uncertainties described below are those that we deem currently to be material, and do not represent all of the risks that we face. Additional risks and uncertainties not presently known to us or that we currently do not consider material may in the future become material and impair our business operations. If any of the following risks actually occur, our business could be materially harmed, and our financial condition and results of operations could be materially and adversely affected. Our business, prospects, financial condition or results of operations could be materially and adversely affected by the following:*

**Risks Related to our Business**

***Our performance is subject to risks associated with the real estate industry.***

Our economic performance and the value of our properties are subject to developments that affect real estate generally and that are specific to our properties. If our properties do not generate revenues sufficient to meet our operating expenses, including debt service and capital expenditures, our cash flow will be adversely affected. The following factors, among others, may adversely affect the income generated by our properties:

- downturns in the economic conditions at the national, regional or local levels, particularly a decline in one or more of our primary markets;
- competition from other master planned communities, retail properties, office properties or other commercial space;
- increases in interest rates;
- the availability of financing, including refinancing or extensions of existing mortgage debt, on acceptable terms, or at all;
- increased operating costs, including insurance expense, utilities, real estate taxes, state and local taxes and heightened security costs;
- fluctuating condominium prices and absorption rates;
- vacancies and changes in rental rates;
- declines in the financial condition of our tenants and our ability to collect rents from our tenants;
- declines in consumer confidence and spending that adversely affect our revenue from our retail properties;
- decrease in traffic to our retail properties due to the convenience of other retailing options such as the internet;

- natural disasters or terrorist acts which may result in uninsured or underinsured losses;

- adoption of more restrictive laws and government regulations, including more restrictive zoning, land use or environmental regulations and an increase in real estate taxes; and

- opposition from local community or political groups with respect to the development, construction or operations at a particular site.

***We may face potential difficulties in obtaining operating and development capital.***

The successful execution of our business strategy will require us to obtain substantial amounts of operating and development capital. Sources of such capital could include bank borrowings, public and private offerings of debt or equity, or the sale of certain assets which may include entry into joint ventures with one or more third parties. We may be unable to obtain financing in the future and any financing we are able to secure may only be available on unfavorable terms.

***A downturn in national or regional economic conditions, could adversely impact our business.***

Fluctuations in growth in the national economy may negatively impact our earnings, cash flow and liquidity by weakening demand for our real estate properties.

In addition, the housing market and the demand from builders for lots vary depending on location. Projected lot sales used in our feasibility analyses may not be met. In addition, the success of our master planned communities business is heavily dependent on local housing markets in Las Vegas; Nevada, Houston, Texas; and Baltimore, Maryland/Washington, D.C., which in turn are dependent on the health and growth of the economies and availability of credit in these regions.

***We may be unable to develop and expand our properties.***

Our business objective includes the development and redevelopment of our properties, which we may be unable to do if we do not have or cannot obtain sufficient capital to proceed with planned development, redevelopment or expansion activities. We may be unable to obtain anchor store, mortgage lender and property partner approvals that are required for any such development, redevelopment or expansion. We may abandon redevelopment or expansion activities already under way that we are unable to complete, which may result in charge-offs of costs previously capitalized. In addition, if redevelopment, expansion or reinvestment projects are unsuccessful, the investment in such projects may not be fully recoverable from future operations or sale resulting in impairment charges.

***We are exposed to risks associated with the development or redevelopment of our properties.***

Our development or redevelopment activities entail risks that could adversely impact our results of operations, cash flows and financial condition, including:

- increased construction costs for a project that exceeded our original estimates due to increases in materials, labor or other costs, which could make completion of the project less profitable because market rents may not increase sufficiently to compensate for the increase of construction costs;

- construction delays or cost overruns, which may increase project development costs;

- claims for construction defects after a property has been developed;

- compliance with building codes and other local regulations; and

- an inability to secure tenants necessary to support commercial projects or obtain construction financing for the development or redevelopment of our properties.

***Development of properties entails a lengthy, uncertain and costly entitlement process.***

Approval to develop real property entails an extensive entitlement process involving multiple and overlapping regulatory jurisdictions and often requires discretionary action by local governments. This process is often political and uncertain. Real estate projects must generally comply with local land development regulations and may need to comply with state and federal regulations. In addition, our competitors and local residents may challenge our efforts to obtain entitlements and permits for the development of properties. The process to comply with these regulations is usually lengthy and costly, may not result in the approvals we seek, and can be expected to materially affect our development activities.

***Our development, construction and sale of condominiums are subject to state regulations and may be subject to claims from the homeowners association at each project.***

A portion of our business is dedicated to the formation and sale of condominiums. Condominiums are generally regulated by an agency of the state in which they are located or where the condominiums are marketed to be sold. In connection with our development of condominiums and offering of condominium units for sale, we must submit regulatory filings to various state agencies and engage in an entitlement process by which real property owned under one title is converted into individual units. Any responses or comments on our condominium filings may delay our ability to sell condominiums in certain states and other jurisdictions. Further, we will be required to transfer control of a condominium association's board of directors once we trigger one of several statutory thresholds, with the most likely triggers being tied to the sale of not less than a majority of units to third-party owners. Transfer of control can result in claims with respect to deficiencies in operating funds and reserves, constructions defects and other condominium-related matters by the condominium association and/or third-party condominium unit owners. Any material claims in these areas could negatively affect our reputation in condominium development and ultimately have a material adverse effect on our operations as a whole.

***Purchasers may default on their obligations to purchase condominiums.***

We enter into contracts for the sale of condominium units that generally provide for the payment of a substantial portion of the sales price at closing when a condominium unit is ready to be delivered and occupied. A significant amount of time may pass between the execution of a contract for the purchase of a condominium unit and the closing thereof. Defaults by purchasers to pay any remaining portions of the sales prices for condominium units under contract may have an adverse effect on our financial condition and results of operations.

***Our Master Planned Communities segment is highly dependent on homebuilders.***

We are highly dependent on our relationships with homebuilders to purchase lots at our master planned communities. Our business will be adversely affected if homebuilders do not view our master planned communities as desirable locations for homebuilding operations. Also, some homebuilders may be unwilling or unable to close on previously committed lot purchases. As a result, we may sell fewer lots and may have lower sales revenues, which could have an adverse effect on our financial position and results of operations.

***Our results of operations are subject to significant fluctuation by various factors that are beyond our control.***

Our results of operations are subject to significant fluctuations by various factors that are beyond our control. Fluctuations in these factors may decrease or eliminate the income generated by a property, and include:

- the regional and local economy, which may be negatively impacted by material relocation by residents, industry slowdowns, plant closings, increased unemployment, lack of availability of consumer credit, levels of consumer debt, housing market conditions, adverse weather conditions, natural disasters and other factors;
- strength of the residential housing and condominium markets;
- local real estate conditions, such as an oversupply of, or a reduction in demand for, retail space or retail goods and the availability and creditworthiness of current and prospective tenants;
- perceptions by retailers or shoppers of the safety, convenience and attractiveness of the retail property;
- the convenience and quality of competing retail properties and other retailing options such as the internet;
- our ability to lease space, collect rent and attract new tenants; and
- tenant rental rates, which may decline for a variety of reasons, including the impact of co-tenancy provisions in lease agreements with certain tenants.

A decline in our results of operations could have a negative impact on the trading price of our common stock.

***We may experience construction delays and cost overruns in connection with the construction of our condominium projects and development or redevelopment of our properties.***

Several of our condominium and other development and redevelopment projects are under construction. Construction projects entail significant risks, which can substantially increase costs or delay completion of a project. Such risks include shortages of materials or skilled labor, unforeseen engineering, environmental or geological problems, health and safety incidents and site accidents, poor performance or nonperformance by any of our joint venture partners or other third parties on whom we rely, work stoppages, weather interference and unanticipated cost increases. Most of these factors are beyond our control. Difficulties or delays with respect to construction projects could adversely affect our results of operations.

***Our substantial indebtedness could adversely affect our business, prospects, financial condition or results of operations and prevent us from fulfilling our obligations under the notes.***

We have a significant amount of indebtedness. On October 2, 2013, we issued $750.0 million aggregate principal amount of our 6.875% Senior Notes due 2021 (the "Senior Notes") and received net cash proceeds of $739.6 million. As of December 31, 2013, our total consolidated debt was approximately $1,514.6 million (excluding an undrawn balance of $103.3 million under our revolving facilities) of which $778.3 million was recourse to the Company. In addition, we have $32.2 million of recourse guarantees associated with undrawn construction financing commitments as of December 31, 2013. As of December 31, 2013, our share of the debt of our RealEstate Affiliates was $39.0 million based upon our economic ownership which is non-recourse to us.

Subject to the limits contained in the indenture governing the Senior Notes and any limits under our other debt agreements, we may be able to incur substantial additional indebtedness from time to time, including project indebtedness at our subsidiaries. If we do so, the risks related to our level of

indebtedness could intensify. Specifically, a high level of indebtedness could have important consequences to holders of the notes and equity holders, including:

- making it more difficult for us to satisfy our obligations with respect to the notes and our other debt;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, debt service requirements, execution of our business strategy or other general corporate requirements, or requiring us to make non-strategic divestitures, particularly when the availability of financing in the capital markets is limited;
- requiring a substantial portion of our cash flow to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flow available for working capital, capital expenditures, acquisitions, dividends and other general corporate purposes;
- increasing our vulnerability to general adverse economic and industry conditions, including increases in interest rates, particularly given that certain indebtedness bears interest at variable rates;
- limiting our ability to capitalize on business opportunities, reinvest in and develop properties, and to react to competitive pressures and adverse changes in government regulations;
- placing us at a disadvantage compared to other, less leveraged competitors;
- limiting our ability, or increasing the costs, to refinance indebtedness; and
- resulting in an event of default if we fail to satisfy our obligations under the notes or our other debt or fail to comply with the financial and other restrictive covenants contained in the indenture governing the notes or our other debt, which event of default could result in the notes and all of our debt becoming immediately due and payable and, in the case of our secured debt, could permit the lenders to foreclose on our assets securing such debt.

***The indenture governing our Senior Notes contains, and our other debt agreements contain, restrictions which may limit our ability to operate our business.***

The indenture governing our Senior Notes contains, and some of our other debt agreements contain, certain restrictions. These restrictions limit our ability or the ability of certain of our subsidiaries to, among other things:

- pay dividends on, redeem or repurchase capital stock or make other restricted payments;
- make investments;
- incur indebtedness or issue certain equity;
- create certain liens;
- incur obligations that restrict the ability of our subsidiaries to make dividend or other payments to us;
- consolidate, merge or transfer all or substantially all of our assets;
- enter into transactions with our affiliates; and
- create or designate unrestricted subsidiaries.

Additionally, certain of our debt agreements also contain various restrictive covenants, including minimum net worth requirements, maximum payout ratios on distributions, minimum debt yield ratios, minimum fixed charge coverage ratios, minimum interest coverage ratio and maximum leverage ratios.

The restrictions under the indenture and or other debt agreements could limit our ability to finance our future operations or capital needs, make acquisitions or pursue available business opportunities.

We may be required to take action to reduce our debt or act in a manner contrary to our business objectives to meet such ratios and satisfy the covenants in our debt agreements. Events beyond our control, including changes in economic and business conditions in the markets in which we operate, may affect our ability to do so. We may not be able to meet the ratios or satisfy the covenants in our debt agreements, and we cannot assure you that our lenders will waive any failure to do so. A breach of any of the covenants in, or our inability to maintain the required financial ratios under, our debt agreements could result in a default under such debt agreements, which could lead to that debt becoming immediately due and payable and, if such debt is secured, foreclosure on our assets that secure such debt. A breach of any of the covenants in, or our inability to maintain the required financial ratios under, our debt agreements also would prevent us from borrowing additional money under such agreements that include revolving lending facilities. A default under any of our debt agreements could, in turn, result in defaults under other obligations and result in other creditors accelerating the payment of other obligations and foreclosing on assets securing such obligations, if any.

Any such defaults could materially impair our financial condition and liquidity. In addition, if the lenders under any of our debt agreements or other obligations accelerate the maturity of those obligations, we cannot assure you that we will have sufficient assets to satisfy our obligations under the notes or our other debt.

***We may be unable to renew leases or re-let space as leases expire.***

When a lease expires, a tenant may elect not to renew it. We may not be able to re-let the property on similar terms, if we are able to re-let the property at all. The terms of renewal or re-lease (including the cost of required tenant improvements, renovations and/or concessions to tenants) may be less favorable to us than the prior lease. If we are unable to re-let all or a substantial portion of our properties, or if the rental rates upon such re-letting are significantly lower than expected, our cash generated before debt repayments and capital expenditures and our ability to make expected distributions, may be adversely effected.

***The Houston, Texas economy is highly dependent on the energy sector.***

The greater Houston area is home to a large number of energy companies. A decline in the energy sector could have a significant negative effect on the performance of energy companies and may lead to layoffs. A decrease in economic activity and increased unemployment levels in Houston may negatively affect The Woodlands and Bridgeland by decreasing demand for housing and commercial space.

***Significant competition could have an adverse effect on our business.***

The nature and extent of the competition we face depends on the type of property. With respect to our master planned communities, we compete with other landholders and residential and commercial property developers in the development of properties within the Las Vegas, Nevada; Houston, Texas; and Baltimore/Washington, D.C. markets. A number of residential and commercial developers, some with greater financial and other resources, compete with us in seeking resources for development and prospective purchasers and tenants. Competition from other real estate developers may adversely affect our ability to attract purchasers and sell residential and commercial real estate, sell undeveloped rural land, attract and retain experienced real estate development personnel, or obtain construction materials and labor. These competitive conditions can make it difficult to sell land at desirable prices and can adversely affect our results of operations and financial condition.

There are numerous shopping facilities that compete with our operating retail properties in attracting retailers to lease space. In addition, retailers at these properties face continued competition from other retailers, including retailers at other regional shopping centers, outlet malls and other discount

shopping centers, discount shopping clubs, catalog companies, internet sales and telemarketing. Competition of this type could adversely affect our results of operations and financial condition.

In addition, we will compete with other major real estate investors with significant capital for attractive investment and development opportunities. These competitors include REITs and private institutional investors.

***Our business model includes entering into joint venture arrangements with strategic partners. This model may not be successful and our business could be adversely affected if we are not able to successfully attract desirable strategic partners or complete agreements with strategic partners or if our strategic partners fail to satisfy their obligations to the joint venture.***

We currently have and intend to enter into future joint venture partnerships. These joint venture partners may bring local market knowledge and relationships, development experience, industry expertise, financial resources, financing capabilities, brand recognition and credibility or other competitive assets. In the future, we may not have sufficient resources, experience and/or skills to locate desirable partners. We also may not be able to attract partners who want to conduct business in the locations where our properties are located, and who have the assets, reputation or other characteristics that would optimize our development opportunities.

While we generally participate in making decisions for our jointly owned properties and assets, we might not always have the same objectives as the partner in relation to a particular asset, and we might not be able to formally resolve any issues that arise. In addition, actions by a partner may subject property owned by the joint venture to liabilities greater than those contemplated by the joint venture agreements, be contrary to our instructions or requests or result in adverse consequences. We cannot control the ultimate outcome of any decision made, which may be detrimental to our interests. Some of our interests, such as the Summerlin Medical Hospital Center are controlled entirely by our partners.

The bankruptcy of one of the other investors in any of our joint ventures could materially and adversely affect the relevant property or properties. If this occurred, we would be precluded from taking some actions affecting the estate of the other investor without prior court approval which would, in most cases, entail prior notice to other parties and a hearing. At a minimum, the requirement to obtain court approval may delay the actions we would or might want to take. If the relevant joint venture through which we have invested in a property has incurred recourse obligations, the discharge in bankruptcy of one of the other investors might result in our ultimate liability for a greater portion of those obligations than would otherwise be required.

***If the recoverable values of our real estate assets were to drop below the book value of those properties, we would be required to write-down the book value of those properties, which would have an adverse effect on our balance sheet and our earnings.***

Adverse market conditions, in certain circumstances, may require the book value of real estate assets to be decreased, often referred to as a "write-down" or "impairment." A write-down of an asset would decrease the value of the asset on our balance sheet and would reduce our earnings for the period in which the write-down is recorded.

***The derivative instruments that we may use to hedge against interest rate fluctuations may not be successful in mitigating our risks associated with interest rates.***

We sometimes seek to manage our exposure to interest rate volatility by using interest rate hedging arrangements, such as interest rate swap agreements. There cannot be any assurance that our hedging strategy and the derivatives that we use will adequately offset the risk of interest rate volatility or that our hedging of these transactions will not result in losses. Our policy is to use derivatives only to hedge

interest rate risks related to our borrowings, not for speculative or trading purposes, and to enter into contracts only with major financial institutions based on their credit ratings and other factors. These hedging arrangements, which could include a number of counterparties, may expose us to additional risks, including failure of any of our counterparties to perform under these contracts, and may involve extensive costs, such as transaction fees or breakage costs, if we terminate them. Failure to hedge effectively against interest rate changes may materially adversely affect our results of operations.

In addition, hedging instruments involve risks because the business failure of a hedging counterparty with whom we entered into a hedging transaction will most likely result in the counterparty's default on its obligation to pay. Further, the credit quality of the counterparty owing money on the hedge may be downgraded to such an extent that it impacts our ability to sell or assign our side of the hedging transaction.

***We may not realize the value of our tax assets.***

Certain provisions of the Internal Revenue Code could limit our ability to fully utilize the tax assets if we were to experience a "change of control". If such an event were to occur, the cash flow benefits we might otherwise have received would be eliminated. We currently have approximately $95 million of federal net operating loss carryforwards, of which $25 million are subject to the separate return year limitation rules. A change of control could limit our ability to use our net operating losses prior to their expiration.

***Some of our directors are involved in other businesses including real estate activities and public and/or private investments and, therefore, may have competing or conflicting interests with us.***

Certain of our directors have and may in the future have interests in other real estate business activities, and may have control or influence over these activities or may serve as investment advisors, directors or officers. These interests and activities, and any duties to third parties arising from such interests and activities, could divert the attention of such directors from our operations. Additionally, certain of our directors are engaged in investment and other activities in which they may learn of real estate and other related opportunities in their non-director capacities. Our Code of Business Conduct and Ethics applicable to our directors expressly provides, as permitted by Section 122(17) of the Delaware General Corporation Law (the "DGCL"), that our non-employee directors are not obligated to limit their interests or activities in their non-director capacities or to notify us of any opportunities that may arise in connection therewith, even if the opportunities are complementary to, or in competition with, our businesses. Accordingly, we have no expectation that we will be able to learn of or participate in such opportunities. If any potential business opportunity is expressly presented to a director exclusively in his or her director capacity, the director will not be permitted to pursue the opportunity, directly or indirectly through a controlled affiliate in which the director has an ownership interest, without the approval of the independent members of our board of directors.

***We are a holding company and depend on our subsidiaries for cash.***

We are a holding company, with no operations of our own. In general, we rely on our subsidiaries for cash and our operations are conducted almost entirely through our subsidiaries. Our ability to generate cash to pay our operating expenses is dependent on the earnings of and the receipt of funds from subsidiaries through dividends and distributions. The ability of our subsidiaries to pay dividends or to make distributions or other payments to us will depend on their respective operating results and may be restricted by, among other things, the laws of their respective jurisdiction of organization, regulatory requirements, agreements entered into by those operating subsidiaries and the covenants of any existing or future outstanding indebtedness that we or our subsidiaries may incur.

***We may face potential successor liability.***

We may be subject to successor liability based on previous actions of our predecessors. Such liability may arise in a number of circumstances, such as: (1) if a creditor of our predecessors did not receive proper notice of the pendency of the GGP bankruptcy proceedings or the deadline for filing claims; (2) the injury giving rise to, or source of, a creditor's claim did not manifest itself in time for the creditor to file the creditor's claim; (3) a creditor did not timely file the creditor's claim in such bankruptcy case due to excusable neglect; (4) we are found liable for our predecessors' tax liabilities under a federal and/or state theory of successor liability; or (5) the order of confirmation for the GGP bankruptcy plan is found to be procured by fraud. If we should become subject to such successor liability, it could materially adversely affect our business, financial condition and results of operations.

***Ineffective internal controls could impact the Company's business and results of operations.***

Our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in our implementation, our business and operating results could be harmed and we could fail to meet our financial reporting obligations.

***Some of our properties are subject to potential natural or other disasters.***

A number of our properties are located in areas which are subject to natural or other disasters, including hurricanes, floods, earthquakes and oil spills. Some of our properties, including Ward Centers, South Street Seaport and the Outlet Collection at Riverwalk are located in coastal regions, and could therefore be affected by increases in sea levels, the frequency or severity of hurricanes and tropical storms, or environmental disasters, whether such events are caused by global climate changes or other factors.

***Some potential losses are not insured.***

We carry comprehensive liability, fire, flood, earthquake, terrorism, extended coverage and rental loss insurance on all of our properties. We believe the policy specifications and insured limits of these policies are adequate and appropriate. There are some types of losses, including lease and other contract claims, which generally are not insured. If an uninsured loss or a loss in excess of insured limits occurs, we could lose all or a portion of the capital invested in a property, as well as the anticipated future revenue from the property. If this happens, we might remain obligated for any mortgage debt or other financial obligations related to the property.

***A downgrade or financial failure of our insurance carrier may have an adverse impact on our financial condition.***

The insurance carriers that we utilize had satisfactory financial ratings at the time the policies were placed and made effective based on various insurance carrier rating agencies commonly used in the insurance industry. We cannot assure our investors that these financial ratings will remain satisfactory or constant throughout the policy period. There is a risk that these financial ratings may be downgraded throughout the policy period or that the insurance carriers may experience a financial failure. A downgrade or financial failure of our insurance carriers may result in their inability to pay current and future claims. This inability to pay claims may have an adverse impact on our financial

condition. In addition, a downgrade or a financial failure of our insurance carriers may cause our insurance renewal or replacement policy costs to increase.

***Possible terrorist activity or other acts of violence could adversely affect our financial condition and results of operations.***

Future terrorist attacks in the United States or other acts of violence may result in declining economic activity, which could harm the demand for goods and services offered by tenants and the value of our properties and might adversely affect the value of an investment in our securities. Such a resulting decrease in retail demand could make it difficult to renew or re-lease properties at lease rates equal to or above historical rates. Terrorist activities or violence also could directly affect the value of our properties through damage, destruction or loss, and the availability of insurance for such acts, or of insurance generally, might be lower or cost more, which could increase our operating expenses and adversely affect our financial condition and results of operations. To the extent that tenants are affected by future attacks, their businesses similarly could be adversely affected, including their ability to continue to meet obligations under their existing leases. These acts might erode business and consumer confidence and spending and might result in increased volatility in national and international financial markets and economies. Any one of these events might decrease demand for real estate, decrease or delay the occupancy of new or redeveloped properties, and limit access to capital or increase the cost of capital.

***We may be subject to potential costs to comply with environmental laws.***

Future development opportunities may require additional capital and other expenditures to comply with laws and regulations relating to the protection of the environment. Under various federal, state or local laws, ordinances and regulations, a current or previous owner or operator of real estate may be required to investigate and clean up hazardous or toxic substances released at a property and may be held liable to a governmental entity or to third parties for property damage or personal injuries and for investigation and clean-up costs incurred by the parties in connection with the contamination. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of the hazardous or toxic substances. The presence of contamination or the failure to remediate contamination may adversely affect the owner's ability to sell or lease real estate or to borrow using the real estate as collateral. Other federal, state and local laws, ordinances and regulations require abatement or removal of asbestos-containing materials in the event of demolition or certain renovations or remodeling, the cost of which may be substantial for certain redevelopments, and also govern emissions of and exposure to asbestos fibers in the air. Federal and state laws also regulate the operation and removal of underground storage tanks. In connection with our ownership, operation and management of certain properties, we could be held liable for the costs of remedial action with respect to these regulated substances or tanks or related claims.

We cannot predict with any certainty the magnitude of any expenditures relating to the environmental compliance or the long-range effect, if any, on our operations. Compliance with such laws has not had a material adverse effect on our operating results or competitive position in the past, but could have such an effect on our operating results and competitive position in the future.

***There is a risk of investor influence over our company that may be adverse to our best interests and those of our other stockholders.***

Pershing Square Capital Management, L.P. ("Pershing Square") beneficially owns 9.0% of our outstanding common stock (excluding shares issuable upon the exercise of warrants) as of December 31, 2013. Under the terms of our stockholder agreements, Pershing Square currently has the ability to designate three members of our board of directors.

Although Pershing Square has entered into a standstill agreement to limit its influence over us, the concentration of ownership of our outstanding common stock held by Pershing Square and other substantial stockholders may make some transactions more difficult or impossible without the support of these stockholders, or more likely with the support of these stockholders. The interests of our substantial stockholders could conflict with or differ from the interests of our other stockholders. For example, the concentration of ownership held by Pershing Square and other substantial stockholders, even if these stockholders are not acting in a coordinated manner, could allow Pershing Square and other substantial stockholders to influence our policies and strategy and could delay, defer or prevent a change of control or impede a merger, takeover or other business combination that may otherwise be favorable to us and our other stockholders.

***Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.***

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our tenants and business partners and personally identifiable information of our employees on our networks. The secure processing, maintenance and transmission of this information is critical to our operations. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks, and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings and liability under laws that protect the privacy of personal information, which could adversely affect our business.

**Risks Related to Spin-off**

***We may be required to pay substantial U.S. federal income taxes related to certain prior sales of assets in our Master Planned Communities segment.***

In connection with the spin-off, GGP has agreed to indemnify us from and against 93.75% of any losses, claims, damages, liabilities and reasonable expenses to which we become subject, in each case solely to the extent attributable to certain taxes related to sales of certain assets in our Master Planned Communities segment prior to March 31, 2010, in an amount equal to a maximum of $303.8 million, plus applicable interest. We will be responsible for the remainder of any such taxes. GGP may not have sufficient cash to reimburse us for its share of these taxes described above. As of December 31, 2013, the maximum amount covered by the GGP indemnity is $282.3 million plus applicable interest. We have ongoing litigation related to the foregoing taxes that, whether resolved in our favor or otherwise, could impact the timing of the items subject to indemnification by GGP. In addition, if the IRS were successful in litigation with respect to such audits, we may be required to change our method of tax accounting for certain transactions, which could affect the timing of our future tax payments, increasing our tax payments in the short term relative to our current tax cost projections.

**Risks Related to Our Common Stock**

***The trading price of our common stock may fluctuate widely.***

We cannot predict the prices at which our common stock may trade. The market price of our common stock may fluctuate widely, depending upon many factors, some of which may be beyond our control, including:

- our quarterly or annual earnings, or those of other comparable companies;

- actual or anticipated fluctuations in our operating results and other factors related to our business;
- announcements by us or our competitors of significant acquisitions or dispositions;
- the failure of securities analysts to cover our common stock;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- the operating and stock price performance of other comparable companies;
- our ability to implement our business strategy;
- our tax payments;
- our ability to raise capital;
- overall market fluctuations; and
- general economic conditions.

Further, Pershing Square and other substantial shareholders may hold their investments for an extended period of time, thereby decreasing the number of shares available in the market and creating artificially low supply for, and trading prices of our common stock. If one or more of these principal holders sell a significant amount of our common stock, it could decrease the price of our common stock.

***Provisions in our certificate of incorporation, our by-laws, Delaware law, stockholders rights agreement and certain other agreements may prevent or delay an acquisition of us, which could decrease the trading price of our common stock.***

Our certificate of incorporation and bylaws contain the following limitations:

- the inability of our stockholders to act by written consent;
- restrictions on the ability of stockholders to call a special meeting without 15% or more of the voting power of the issued and outstanding shares entitled to vote generally in the election of our directors;
- rules regarding how stockholders may present proposals or nominate directors for election at stockholder meetings; and
- the right of our board of directors to issue preferred stock without stockholder approval.

We have also implemented a so-called poison pill by adopting our stockholders rights agreement. The poison pill assists in the preservation of our valuable tax attributes by significantly increasing the costs that would be incurred by an unwanted third party acquirer if such party owns or announces its intent to commence a tender offer for the Threshold Percentage or more of our securities. The stockholders rights agreement expires on March 14, 2015. All of these provisions could limit the price that investors might be willing to pay in the future for shares of our common stock.

***There may be dilution of our common stock from the exercise of outstanding warrants, which may materially adversely affect the market price of our common stock and negatively impact a holder's investments.***

The exercise of some or all of the outstanding warrants to purchase shares of our common stock held by Pershing Square and certain members of our management would materially dilute the ownership interest of our existing stockholders. Likewise, any additional issuances of common stock, through The Howard Hughes Corporation Amended and Restated 2010 Incentive Plan or otherwise, will dilute the ownership interests of our existing stockholders. Any sales in the public market of such additional

common stock could adversely affect prevailing market prices of the outstanding shares of our common stock. In addition, the existence of our outstanding warrants may encourage short selling or arbitrage trading activity by market participants because the exercise of our warrants could depress the price of our common stock.

***Additional issuances and sales of our capital stock or securities convertible into or exchangeable for our capital stock, or the perception that such issuances and sales could occur, may cause prevailing market prices for our common stock to decline and may adversely affect our ability to raise additional capital in the financial markets at a favorable time and price.***

Certain of our substantial stockholders, including Pershing Square, have the right to purchase the number of our shares as necessary to allow the stockholder to maintain its proportionate ownership interest on a fully diluted basis, for so long as the stockholder beneficially owns at least 5% of our outstanding common stock on a fully-diluted basis.

In most circumstances, stockholders will not be entitled to vote on whether or not additional capital stock or securities convertible into or exchangeable for our capital stock is issued. In addition, depending on the terms and pricing of an additional offering of common stock or securities convertible into or exchangeable for our capital stock, and the value of our properties, stockholders may experience dilution in both the book value and the market value of their shares.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

Our principal executive offices are located in Dallas, Texas where we lease approximately 34,932 square feet under an arrangement that expires in 2021. We also maintain offices at certain of our properties as well as in The Woodlands, Texas, New York, New York, and Los Angeles, California. We believe our present facilities are sufficient to support our operations.

Our Master Planned Communities, Operating Assets, and our Strategic Developments assets are described above in "Item 1. Business Overview of Business Segments". Leases with tenants at our retail operating asset locations generally include base rent and common area maintenance charges.

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The following table summarizes certain metrics of the retail properties within our Operating Assets segment as of December 31, 2013.

| | | | | | Year Ended December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Property | Location | Existing Gross Leasable Area | Size (Acres) | Net Book Value, December 31, 2013 (Millions) | Average Annual Tenant Sales per Square Foot(a) | Mall and Other Rental NOI (000)(b) | Average Sum of Rent and Recoverable Common Area Costs per Square Foot(c) | Occupancy Cost(d) | NOI Margin(e) | Year Built / Acquired |
| 20/25 Waterway Avenue | The Woodlands, TX | 49,972 | 1 | $ 10.9 | $ 385 | $ 1,640 | $ 51 | 13.2% | 63.5% | 2007/2009 |
| Cottonwood Square (f) | Salt Lake City, UT | 77,079(g) | 7(h) | 5.4 | n.a. | 451 | n.a. | n.a. | 66.4% | 2002 |
| Landmark Mall | Alexandria, VA | 440,476(i) | 22 | 33.8(j) | 351 | 491 | 21 | 6.0% | 11.0% | 2004 |
| Park West | Peoria, AZ | 249,184 | 66 | 79.0(k) | 363 | 1,608 | 22 | 6.1% | 43.8% | 2006 |
| South Street Seaport (l) | New York, NY | 88,419(m)(n) | 11 | 41.0(o) | n.a. | (8,980) | n.a. | n.a. | n.a. | 2004 |
| Outlet Collection at Riverwalk | New Orleans, LA | 6,735(p) | 11 | 36.4(q) | 826 | (763) | 49 | 5.9% | n.a. | 2004 |
| Ward Centers | Honolulu, HI | 1,289,714 | 60 | 370.9(r) | 533 | 24,144 | 55 | 10.3% | 55.5% | 2002 |
| Waterway Garage Retail (s) | The Woodlands, TX | 21,513(t) | — | 6.3 | n.a. | 370 | 42 | n.a. | 57.9% | 2011 |
| Total | | 2,223,092 | 178 | $ 583.7 | | $ 18,961 | | | | |

n.a. – not available

(a) Average Annual Tenant Sales per Square Foot is calculated by the sum of all comparable sales for the year ended December 31, 2013 for tenants that are contractually obligated to report sales data, divided by the comparable square footage for the same period. When calculating comparable sales and comparable square footage, we include all tenants that have operated for the entire year, under a lease agreements less than 30,000 square feet except for tenants whereby we do not maintain their premises.

(b) Mall and Other Rental NOI includes mall and other rental revenue and expenses according to accounting principles generally accepted in the United States of America ("GAAP"), excludes straight-line rent, market lease amortization, depreciation and other amortization expense. For the year ended December 31, 2013, tenant recoveries represented approximately 23.5% of total revenue for the above mentioned retail properties only. The impact of concessions, such as free rent and new tenant inducements, are not significant to our business.

(c) Average Sum of Rent and Recoverable Common Area Costs per Square Foot is calculated as the sum of total rent and tenant recoveries for the year ended December 31, 2013 for the tenant base used to calculate (a), divided by the total square footage occupied by the above mentioned tenant base.

(d) Occupancy Cost is calculated by dividing (c) Average Sum of Rent and Recoverable Common Area Costs per Square Foot by (a) Average Annual Tenant Sales per Square Foot.

(e) NOI Margin is calculated by dividing NOI by total contractual and other property revenue. Please refer to "Item 7 – MD&A" for definition of NOI.

(f) Tenants at Cottonwood Square are not required to report sales.

(g) 41,612 square feet of the Existing Gross Leasable Area is part of a ground lease where we are the ground lessee. The ground lease payments are paid by the current tenant directly to the ground lessor.

(h) Cottonwood Square includes only seven acres; three acres of which we are a ground lessee, and four acres of which we own fee-simple.

(i) Excludes 438,937 square feet that is owned and occupied by Sears and Macy's.

(j) Net Book Value includes $13.8 million of development costs at Landmark Mall.

(k) Net Book Value includes $0.5 million of development costs at Park West.

(l) As a result of Super Storm Sandy, tenants did not operate for an entire twelve month period and therefore; (a) Average Annual Tenant Sales per Square Foot, (c) Average Sum of Rent and Recoverable Common Area Costs per Square Foot, and (d) Occupancy Costs are incalculable.

(m) All of the project is on a ground lease where we are the ground lessee, except for 6,513 square feet.

(n) Reflects square footage in service as of December 31, 2013. Upon completion of the redevelopment, South Street Seaport will be approximately 362,000 square feet.

(o) Net Book Value includes $33.0 million of development costs at South Street Seaport.

(p) Reflects square footage in service as of December 31, 2013. Upon completion of the redevelopment of the Outlet Collection at Riverwalk, gross leasable area will be approximately 250,000 square feet.

(q) Net Book Value includes $25.0 million of development costs at the Outlet Collection at Riverwalk.

(r) Net Book Value includes $16.0 million of development costs at Ward Centers.

(s) Ground floor retail space attached to the Waterway Square Garage.

(t) Waterway Garage Retail has two retail tenants that are not required to report sales data.

With respect to certain of our office properties, we enter into triple net leases. These leases typically include provisions whereby tenants are required to pay their pro-rata share of certain property operating costs such as real estate taxes, utilities and insurance.

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The following table summarizes certain metrics of our office assets within our Operating Assets Segment as of December 31, 2013:

| Asset | Economic Ownership % | Existing Gross Leasable Area | % Leased | Average Effective Annual Rent per Square Foot(a) | Year Built / Acquired | Net Book Value, December 31, 2013 (Millions) |
|---|---|---|---|---|---|---|
| 3 Waterway Square | 100% | 232,021 | 97.3% | $ 28.19(b) | 2013 | $ 41.8 |
| 4 Waterway Square | 100% | 218,551 | 100.0% | 36.51 | 2010 | 54.8 |
| 70 Columbia Corporate Center | 100% | 167,858 | 96.8% | 18.77 | 2012 | 20.3 |
| 110 N. Wacker (Chicago, IL) | 99% | 226,000 | 100.0% | 27.08 | 1957 | 21.9 |
| 1400 Woodloch Forest | 100% | 95,667 | 79.4% | 24.14 | 1981 | 8.8 |
| 2201 Lake Woodlands Drive | 100% | 24,119 | 0.0% | — | 1994 | 3.8 |
| 9303 New Trails | 100% | 97,705 | 94.3% | 26.64 | 2008 | 14.8 |
| Columbia Office Properties (c) | 100% | 224,550 | 59.6% | 21.62 | 1969/1972 | 23.2 |
| One Hughes Landing | 100% | 197,719 | 97.8% | 28.78(b) | 2013 | 35.5 |
| Total | | 1,484,190 | | | | $ 224.9 |

(a) Average Effective Annual Rent per Square Foot is equal to the sum of base minimum rent and tenant reimbursements divided by the average occupied square feet. For the year ended December 31, 2013, tenant reimbursements represented approximately 17.6% of total revenue. The impact of concessions, such as free rent and new tenant inducements, are not significant to our business.

(b) 3 Waterway Square opened in June 2013 and One Hughes Landing opened in September 2013. The amounts included in the table represent leases in place as of December 31, 2013 as if the leases were in place as of January 1, 2013.

(c) % Leased is computed based on the weighted average square feet of each office building. At December 31, 2013 the occupancies of each building were as follows: 70 Columbia Corporate Center – 96.8%; American City Building – 17.0%; Columbia Association Building – 100.0% Columbia Exhibit Building – 100.0%; Ridgely Building – 70.5%.

The following table summarizes certain metrics of our other Operating Assets (exclusive of owned retail and office properties) as of December 31, 2013:

| Other than Owned Retail and Office Operating | Economic Ownership % | Property Type | Square Feet / Keys / Other | % Leased | Year Built | Net Book Value, December 31, 2013 (Millions) |
|---|---|---|---|---|---|---|
| Arizona 2 Office Lease | 100% | Note | — | — | — | $ 13.2 |
| Golf Courses at Summerlin and TPC Las Vegas | Participation | Golf | — | — | — | 1.2 |
| Howard Hughes Management Services | | Management | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Company | 100% | Company | — | — | — | — |
| Millennium Waterway Apartments | 100% | Apartments | 393 units | 90.1% | 2010 | 68.3 |
| Stewart Title of Montgomery Company | 50% | Title Company | — | — | — | 2.2 |
| Summerlin Baseball Club, LLC | 50% | Athletic Team | — | — | — | 10.6 |
| Summerlin Hospital Medical Center | 7% | Hospital | — | — | 1997 | 4.1 |
| The Club at Carlton Woods | 100% | Country Club | 36 holes | — | 2001 | 15.9 |
| The Woodlands Parking Garages | 100% | Garage | 2,988 spaces | — | 2008/2009(a) | 6.0 |
| The Woodlands Resort & Conference Center | 100% | Hotel | 440 rooms | — | 1974/2002(b) | 75.1 |
| Woodlands Sarofim #1 Ltd. | 20% | Industrial | 129,790 | 91.3% | late 1980s | 2.6 |
| Total Net Book Value | | | | | | $ 199.2 |

(a) The Woodlands Parking Garages consist of two garages; Woodloch Forest Garage built in 2008, and Waterway Square Garage built in 2009.

(b) The Woodlands Resort & Conference Center was built in 1974, expanded in 2002, and is currently being renovated.

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The following table summarizes our retail and office lease expirations:

| Year | Number of Expiring Leases | Total Square Feet Expiring | Total Annualized Base Rent Expiring (Thousands) | % of Total Annual Gross Rent Expiring |
|---|---|---|---|---|
| 2014 (a) | 206 | 498,973 | $ 4,700 | 8.0% |
| 2015 | 82 | 249,367 | 4,203 | 7.2% |
| 2016 | 59 | 247,512 | 9,211 | 15.7% |
| 2017 | 45 | 209,127 | 4,856 | 8.3% |
| 2018 | 64 | 274,608 | 6,348 | 10.8% |
| 2019 | 19 | 97,061 | 1,621 | 2.8% |
| 2020 | 38 | 196,149 | 4,571 | 7.8% |
| 2021 | 13 | 217,340 | 3,569 | 6.1% |
| 2022 | 17 | 294,917 | 5,428 | 9.3% |
| 2023 | 23 | 274,908 | 7,010 | 12.0% |
| 2024+ | 84 | 1,230,171 | 6,995 | 12.0% |
| | 650 | 3,790,133 | $ 58,512 | 100.0% |

(a) Includes 136 specialty leases which expire in less than 365 days.

The following table sets forth the occupancy rates, for each of the last five years for our wholly owned retail and office properties:

| | Occupancy as of December 31, 2013 | Annual Weighted Average Occupancy Rates(a) | | | | |
|---|---|---|---|---|---|---|
| | | 2013 | 2012 | 2011 | 2010 | 2009 |
| **Retail:** | | | | | | |
| 20/25 Waterway Avenue (b) | 100.0% | 94.2% | 95.6% | 91.7% | 64.2% | 51.8% |
| Cottonwood Square | 94.0% | 86.5% | 74.1% | 73.8% | 78.2% | 73.8% |
| Landmark Mall (c) | 77.1% | 79.2% | 75.0% | 73.7% | 76.0%(d) | 85.5% |
| Park West | 77.2% | 72.1% | 65.1% | 64.6% | 62.5% | 63.6% |
| South Street Seaport (e) | 33.0% | 46.5% | 92.1% | 89.7% | 89.7% | 91.3% |
| Outlet Collection at Riverwalk (f) | 100.0% | 56.2% | 92.2% | 89.9% | 87.9% | 84.5% |
| Ward Centers | 84.4% | 90.8% | 89.5% | 90.1% | 90.0% | 88.6% |
| Waterway Garage Retail (g) | 92.8% | 68.4% | 24.8% | 19.3% | n.a. | n.a. |
| **Office:** | | | | | | |
| 110 N. Wacker | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| 1400 Woodloch Forest | 79.4% | 85.7% | 100.0% | 78.3% | 94.2% | 100.0% |
| 2201 Lake Woodlands | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Drive | — | 66.7% | 83.4% | 100.0% | 100.0% | 100.0% |
| 3 Waterway Square (h) | 97.3% | 84.9% | n.a. | n.a. | n.a. | n.a. |
| 4 Waterway Square | 100.0% | 100.0% | 99.3% | 59.8% | 25.7% | n.a. |
| 9303 New Trails | 94.3% | 94.3% | 99.0% | 78.8% | 73.8% | 52.4% |
| Columbia Office Properties (i) | 70.5% | 63.2% | 76.6%(j) | 89.3% | 89.9% | 89.9% |
| One Hughes Landing (k) | 47.6% | 36.1% | n.a. | n.a. | n.a. | n.a. |

n.a. – not available

(a) Occupancy rates represent the weighted average square footage occupied during the year divided by total GLA.

(b) 25 Waterway opened in February 2007 and 20 Waterway opened in May 2009.

(c) Occupancy rates exclude 438,937 square feet that is owned and occupied by Sears and Macy's.

(d) Reflects the loss of permanent and specialty tenants in 2010 due to potential redevelopment.

(e) Occupancy rates are lower in 2013 due to the effects of Superstorm Sandy and potential redevelopment efforts.

(f) Occupancy rates are lower in 2013 due to redevelopment efforts. Occupancy as of December 31, 2013 is based on 15,812 square feet that was in service as of the end of the year.

(g) Waterway Garage Retail opened in July 2011.

(h) 3 Waterway Avenue opened in June 2013.

(i) % Leased is computed based on the weighted average square feet of each office building. At December 31, 2013 the occupancies of each building were as follows: 70 Columbia Corporate Center – 96.8%; American City Building – 17.0%; Columbia Association Building – 100.0% Columbia Exhibit Building – 100.0%; Ridgely Building – 70.5%.

(j) Decrease in occupancy is attributed to acquisition of 70 Columbia Corporate Center, which was 44.1% occupied upon acquisition.

(k) One Hughes Landing opened in September 2013 and is 97.8% leased as of December 31, 2013.

## ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of our business, we are from time to time involved in legal proceedings related to the ownership and operations of our properties. Neither we nor any of our Real Estate Affiliates is currently involved in any legal or administrative proceedings that we believe are likely to have a material adverse effect on our business, results of operations or financial condition.

## ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

***Market Information***

The Company's common stock is traded on the New York Stock Exchange (the "NYSE") under the symbol "HHC". The following table shows the high and low sales prices of the Company's common stock on NYSE, as reported in the consolidated transaction reporting system for each quarter of fiscal 2013 and 2012.

| | Common Stock Price Range | |
|---|---|---|
| | High | Low |
| **Year Ended December 31, 2013** | | |
| Fourth Quarter | $ 121.68 | $ 105.51 |
| Third Quarter | $ 118.86 | $ 100.35 |
| Second Quarter | $ 113.79 | $ 82.72 |
| First Quarter | $ 84.42 | $ 70.74 |
| **Year Ended December 31, 2012** | | |
| Fourth Quarter | $ 76.71 | $ 67.43 |
| Third Quarter | $ 73.88 | $ 60.85 |
| Second Quarter | $ 68.94 | $ 55.36 |
| First Quarter | $ 65.63 | $ 44.02 |

No dividends have been declared or paid in 2013 or 2012. Any future determination related to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including future earnings, capital requirements, restrictions under debt agreements, financial condition and future prospects and other factors the board of directors may deem relevant.

***Number of Holders of Record***

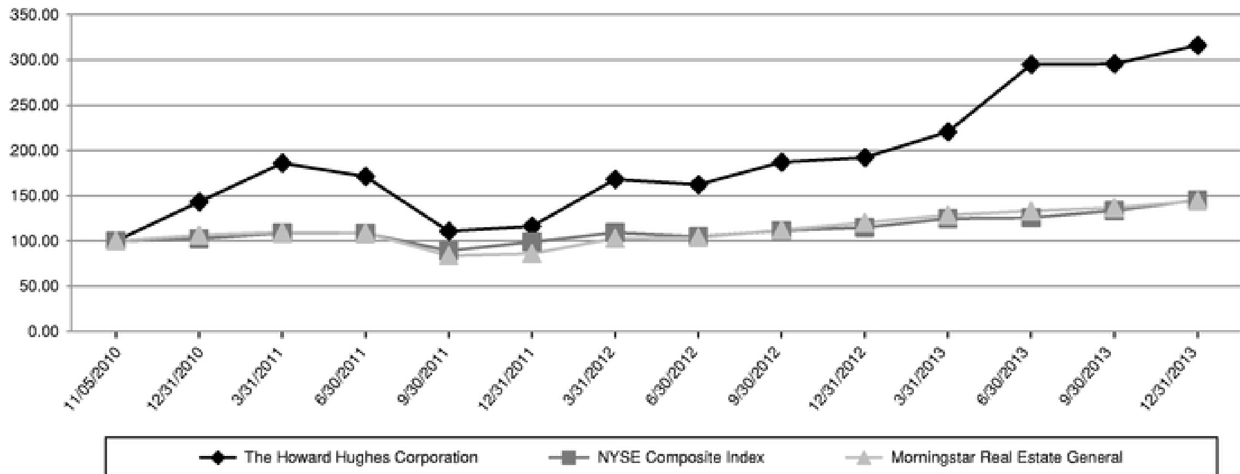
As of February 24, 2014, there were 2,409 stockholders of record of the Company's common stock.

***Performance Graph***

The following performance graph compares the monthly dollar change in the cumulative shareholder return on our common stock with the cumulative total returns of the NYSE Composite Index and the group of companies in the Morningstar Real Estate – General Index. The graph was prepared on the following assumptions:

- Dividends have been reinvested subsequent to the initial investment.

**Cumulative Total Return**
**Assumes Initial Investment of $100**
**on November 5, 2010**




## ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth the selected consolidated financial and other data of our business for the most recent five years. We were formed in 2010 to receive certain assets and liabilities of our predecessors in connection with their emergence from bankruptcy. We did not conduct any business and did not have any material assets or liabilities until our spin-off from GGP was completed on November 9, 2010.

Our selected historical data for 2013, 2012 and 2011, which is presented in accordance with GAAP is not comparable to prior periods due to the acquisition of our partner's 47.5% economic interest in The Woodlands on July 1, 2011. As of the acquisition date, we consolidated The Woodlands' financial results. Prior to the acquisition, we accounted for our investment in The Woodlands using the equity method.

The selected historical financial data as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012, and 2011 has been derived from our audited Consolidated Financial Statements, which are included in this Annual Report as referenced in the index on page F-1.

The selected historical combined financial data as of and for the year ended December 31, 2011 has been derived from our audited Consolidated Financial Statements which are not included in this Annual Report.

The selected historical combined financial data as of and for the years ended December 31, 2010 and 2009 have been derived from our audited Consolidated and Combined Financial Statements which are not included in this Annual Report. Our spin-off did not change the carrying value of our assets and liabilities. Operations for 2010 are presented as the aggregation of the combined results from January 1, 2010 to November 9, 2010 and the consolidated results from November 10, 2010 to December 31, 2010.

Prior to the spin-off, our combined financial statements were carved out from the financial books and records of GGP at a carrying value reflective of historical cost in GGP's records. Our historical financial results for these periods reflect allocations for certain corporate costs, and we believe such allocations are reasonable. Such results do not reflect what our expenses would have been had we been operating as a separate, stand-alone publicly traded company. The historical combined financial information presented for periods prior to our separation from GGP are not indicative of the results of operations, financial position or cash flows that would have been obtained if we had been an independent, stand-alone entity during such periods.

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The historical results set forth below do not indicate results expected for any future periods. The selected financial data set forth below are qualified in their entirety by, and should be read in conjunction with, "Item 7- Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements and related notes thereto included on pages F-2 to F-56 in this Annual Report on Form 10-K.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| | (In thousands, except per share amounts) | | | | |
| **Operating Data:** | | | | | |
| Revenues | $ 474,610 | $ 376,886 | $ 275,689 | $ 142,718 | $ 136,348 |
| Depreciation and amortization | (33,845) | (24,429) | (16,782) | (16,563) | (19,841) |
| Provisions for impairment | — | — | — | (503,356) | (680,349) |
| Other property operating costs | (329,551) | (279,992) | (231,442) | (134,666) | (128,833) |
| Interest (expense) income, net | (6,574) | 8,473 | 9,876 | (2,053) | 712 |
| Reorganization items | — | — | — | (57,282) | (6,674) |
| Warrant liability gain (loss) | (181,987) | (185,017) | 101,584 | (140,900) | — |
| Benefit from (provision for) income taxes | (9,570) | (6,887) | 18,325 | 633,459 | 23,969 |
| Reduction in tax indemnity receivable | (1,206) | (20,260) | — | — | — |
| Equity in income (loss) of Real Estate Affiliates | 14,428 | 3,683 | 8,578 | 9,413 | (28,209) |
| Investment in real estate affiliate basis adjustment | — | — | (6,053) | — | — |
| Early extinguishment of debt | — | — | (11,305) | — | — |
| Income (loss) from continuing operations | (73,695) | (127,543) | 148,470 | (69,230) | (702,877) |
| Discontinued operations – loss on dispositions | — | — | — | — | (939) |
| Net income (loss) | (73,695) | (127,543) | 148,470 | (69,230) | (703,816) |
| Net (income) loss attributable to noncontrolling interests | (95) | (745) | (1,290) | (201) | 204 |
| Net income (loss) attributable to common stockholders | $ (73,790) | $ (128,288) | $ 147,180 | $ (69,431) | $ (703,612) |
| **Basic Earnings (Loss) Per Share:** | | | | | |
| Continuing operations | $ (1.87) | $ (3.36) | $ 3.88 | $ (1.84) | $ (18.64) |
| Discontinued operations | — | — | — | — | (0.02) |
| Total basic income (loss) per share | $ (1.87) | $ (3.36) | $ 3.88 | $ (1.84) | $ (18.66) |
| **Diluted Earnings (Loss) Per Share:** | | | | | |
| Continuing operations | $ (1.87) | $ (3.36) | $ 1.17 | $ (1.84) | $ (18.64) |
| Discontinued operations | — | — | — | — | (0.02) |
| Total diluted income (loss) per share | $ (1.87) | $ (3.36) | $ 1.17 | $ (1.84) | $ (18.66) |
| **Cash dividends per common share** | $ — | $ — | $ — | $ — | $ — |

**Year Ended December 31,**

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| | (In thousands, except per share amounts) | | | | |
| **Cash Flow Data:** | | | | | |
| Operating activities | $ 129,332 | $ 153,064 | $ 86,508 | $ (67,899) | $ (17,870) |
| Investing activities | (294,325) | (81,349) | (39,680) | (111,829) | (21,432) |
| Financing activities | 830,744 | (70,084) | (103,944) | 461,206 | 37,543 |

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| | (In thousands) | | | | |
| **Balance Sheet Data:** | | | | | |
| Investments in real estate – cost | $ 3,085,854 | $ 2,778,775 | $ 2,648,520 | $ 2,311,520 | $ 2,822,692 |
| Total assets | 4,567,868 | 3,503,042 | 3,399,593 | 3,022,707 | 2,905,227 |
| Total debt | 1,514,623 | 688,312 | 606,477 | 318,660 | 342,833 |
| Total equity | 2,245,146 | 2,310,997 | 2,329,599 | 2,179,107 | 1,503,520 |

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this Annual Report. This discussion contains forward-looking statements that involve risks, uncertainties, assumptions and other factors, including those described in Part I, "Item 1A. Risk Factors" and elsewhere in this Annual Report. These factors could cause our actual results in 2014 and beyond to differ materially from those expressed in, or implied by, those forward-looking statements. You are cautioned not to place undue reliance on this information which speaks only as of the date of this report. We are not obligated to update this information, whether as a result of new information, future events or otherwise, except as may be required by law.*

*All references to numbered Notes are to specific Notes to our Consolidated Financial Statements included in this Annual Report on Form 10-K and which descriptions are incorporated into the applicable response by reference. Capitalized terms used, but not defined, in this Management's Discussion and Analysis of Financial Condition and Results of Operation ("MD&A") have the same meanings as in such Notes.*

### Overview

Our mission is to be the preeminent developer and operator of master planned communities and mixed-use and other real estate properties. We create timeless places and memorable experiences that inspire people while driving sustainable, long-term growth and value for our shareholders. We specialize in the development of master planned communities, the redevelopment or repositioning of real estate assets currently generating revenues, also called operating assets, and other strategic real estate opportunities in the form of entitled and unentitled land and other development rights. Our assets are located across the United States. We expect to drive income and growth through entitlements, land and home site sales and project developments. We are focused on maximizing value from our assets, and we continue to develop and refine business plans to achieve that goal.

We operate our business in three segments: Master Planned Communities ("MPCs"), Operating Assets and Strategic Developments. Unlike real estate companies that are limited in their activities because they have elected to be taxed as real estate investment trusts, we, except for Victoria Ward, Limited, one of our subsidiaries which is a captive REIT, have no restrictions on our operating activities or types of services that we can offer. We believe our structure provides the greatest flexibility for maximizing the value of our real estate portfolio.

We believe many of our operating and strategic development assets require repositioning or redevelopment to maximize their value. We have commenced construction on certain key assets, and we are continuing to develop plans for other strategic development assets for which no formal plans had been previously established.

The development and redevelopment process for each specific asset is complex and takes several months to several years prior to the commencement of actual construction. We must study each local market, determine the highest and best use of the land and improvements, obtain entitlements and permits, complete architectural design, construction drawings and plans, secure tenant commitments and commit sources of capital. During this period, these activities generally have very little impact on our operations relative to the activity and effort involved in the development process.

Significant milestones achieved during 2013:

- Generated a $68.6 million increase in MPC land sales revenue for 2013, a 37.5% increase compared to 2012.
- Increased average price per lot sold at The Woodlands by 51.9% to $156,000, and increased the average price per superpad acre sold at Summerlin by 42.9% to $323,000, compared to 2012.

- Completed two Class A office towers in The Woodlands, 3 Waterway and One Hughes Landing, totaling approximately 429,000 square feet. Both buildings are 98% leased and combined will generate annual NOI of approximately $11.7 million upon stabilization in 2014.

- Began construction of three Class A office towers in The Woodlands. Two Hughes Landing is a 197,000 square foot multi-tenant building scheduled for completion in second quarter 2014. Two build-to-suit buildings totaling 647,000 square feet are being constructed at Hughes Landing and are scheduled for completion in the first quarter of 2015. Exxon Mobil Corporation ("ExxonMobil") has pre-leased 478,000 square feet and has an option on the remaining space.

- Commenced construction of a 123,000 square foot Whole Foods-anchored retail center at Hughes Landing scheduled for completion in the first quarter of 2015.

- Launched construction of One Lake's Edge, a 390-unit Class A apartment building located in Hughes Landing which will open in the first quarter of 2015.

- Began the $75.4 million redevelopment of The Woodlands Resort & Conference Center which will be completed in the third quarter of 2014.

- Obtained all entitlements, including approval from the New York City Council, and began construction to transform Pier 17. The Pier will have a vibrant open rooftop and a glass façade encompassing dynamic retail space filled with destination stores, restaurants and neighborhood shops. Pre-leased a portion of the Fulton Market building to iPic Entertainment, which will be the first luxury movie theater in Manhattan. The new Pier 17, containing approximately 182,000 square feet, is expected to open in 2016 and the renovation of the historic area, containing approximately 180,000 square feet, is expected to be completed in 2015.

- Began construction of the 1.6 million square foot Shops at Summerlin mixed-use development, which is expected to open by the fourth quarter of 2014.

- Commenced the redevelopment of the Outlet Collection at Riverwalk into the nation's first upscale urban outlet center. The 250,000 square foot project is 95.1% pre-leased and expected to be completed in May 2014. Closed on a $64.4 million construction loan. The project is expected to generate approximately $7.8 million of stabilized annual NOI based on leases in place.

- Received approval for two market rate and one workforce housing condominium towers at Ward Village and inFebruary 2014, commenced public presales of the two market rate condominium towers.

- Substantially completed the transformation of the IBM building at Ward Village into a world-class information center and sales gallery.

- Began the redevelopment of the 89,000 square foot Columbia Regional Building, anchored by Whole Foods Market, Inc. and The Columbia Association, located in downtown Columbia, MD.

- Continued construction at The Metropolitan Downtown Columbia Project, a 380-unit multi-family project under a 50/50 joint venture and obtained $64.1 million non-recourse construction financing for this project. Entered into a second 50/50 joint venture with the same partner to develop Parcel C, an adjacent 437-unit Class A apartment building on five acres. The land will be contributed to the venture at a $23.4 million valuation, which is approximately 585% of book value, or $53,500 per unit.

- Received unanimous approval from the City of Alexandria for a zoning change for the Landmark Mall. The site will be transformed into an open-air, mixed-use community with retail, residential and entertainment components designed to create an urban village.

- Sold the One Ala Moana condominium rights into our 50/50 development joint venture for $47.5 million, and closed on a $132.0 million non-recourse construction loan and $40.0 million in

mezzanine financing. The condo rights had a $22.8 million book value. The expected completion date for the sold out 206-unit project is the fourth quarter of 2014.

- Extended and modified The Woodlands Master Credit Facility to reduce its interest rate to one-month LIBOR plus 2.75% with no minimum rate from one-month LIBOR plus 4.00% with a 5.00% minimum rate. The final maturity was extended to August 2018 from March 2015.

- Issued $750.0 million of Senior Notes, raising $739.6 million of net cash proceeds. The notes bear interest at 6.875% and mature October 1, 2021.

- Obtained $768.0 million of other aggregate financings in addition to our Senior Notes noted above.

- Sold our Head Acquisition investment for $13.3 million, generating a $8.5 million pre-tax gain.

- Sold Rio West Mall for net cash proceeds of $10.8 million, generating a $0.6 million pre-tax gain.

***Real Estate Property Earnings Before Taxes***

We use a number of operating measures for assessing operating performance of our communities, assets, properties and projects within our segments, some of which may not be common among all three of our segments. We believe that investors may find some operating measures more useful than others when separately evaluating each segment. One common operating measure used to assess operating results for our business segments is Real Estate Property Earnings Before Taxes ("REP EBT"). We believe REP EBT provides useful information about our operating performance because it excludes certain non-recurring and non-cash items, which we believe are not indicative of our core business. REP EBT may be calculated differently by other companies in our industry, limiting its usefulness as a comparative measure.

REP EBT, as it relates to our business, is defined as net income (loss) excluding general and administrative expenses, corporate interest income, corporate interest and depreciation expense, provision for income taxes, warrant liability gain (loss) and the increase (reduction) in tax indemnity receivable. We present REP EBT because we use this measure, among others, internally to assess the core operating performance of our assets. We also present this measure because we believe certain investors use it as a measure of a company's historical operating performance and its ability to service and incur debt. We believe that the inclusion of certain adjustments to net income (loss) to calculate REP EBT is appropriate to provide additional information to investors. A reconciliation of REP EBT to consolidated net income (loss) as computed in accordance with GAAP has been presented in Note 18 – Segments.

REP EBT should not be considered as an alternative to GAAP net income (loss) attributable to common stockholders or GAAP net income (loss), as it has limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of the limitations of this metric are that it does not include the following:

- cash expenditures, or future requirements for capital expenditures or contractual commitments;

- corporate general and administrative expenses;

- interest expense on our corporate debt;

- income taxes that we may be required to pay;

- any cash requirements for replacement of depreciated or amortized assets or take into account that these assets have different useful lives;

- limitations on, or costs related to, transferring earnings from our Real Estate Affiliates to us.

***Operating Assets Net Operating Income***

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

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

**Results of Operations**

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

On July 1, 2011, we acquired our partner's economic interest in The Woodlands located near Houston, Texas. As a result of the acquisition, we consolidated The Woodlands' operations in our Consolidated Financial Statements. Consequently, our consolidated statements of operations and cash flows for the years ended December 31, 2013 and 2012, respectively, are not comparableto the same period in 2011. Prior to such acquisition, The Woodlands was presented as a Real Estate Affiliate and accounted for using the equity method. The Woodlands operating results for periods prior to July 1, 2011 when this investment was a Real Estate Affiliate are presented on a consolidated basis for the purposes of this MD&A and segment reporting, in order to provide comparability between periods for analyzing operating results. For a reconciliation of REP EBT to net income (loss) see Note 18 – Segments to the Consolidated Financial Statements.

Consolidated revenues for the year ended December 31, 2013 increased $97.7 million or 25.9% to $474.6 million from $376.9 million for the year ended December 31, 2012. The increase is primarily due to higher revenues in our MPCs and Strategic Developments segments. MPC segment land sale revenues increased $68.6 million for the year ended December 31, 2013 compared to the year ended December 31, 2012, due to the higher demand for our residential superpad sites in Summerlin and finished lots in The Woodlands. Strategic Developments revenue increased $34.5 million for the year ended December 31, 2013, respectively, compared to the year ended December 31, 2012, due primarily to the recognition of$33.0 million of revenue from the sale of our ONE Ala Moana condominium rights into a 50/50 joint venture in the second quarter of 2013.

Consolidated revenues for the year ended December 31, 2012 increased $101.2 million or 36.7% to $376.9 million from $275.7 million for the year ended December 31, 2011. The increase is primarily due to the inclusion of $83.3 million of revenue from The Woodlands for the first half of 2012 compared to no revenues for the same period in 2011 because we did not begin consolidating The Woodlands operations until July 1, 2011. Master Planned Community land sales and builder price participation increased $27.5 million primarily due to price increases and accelerated lot sales at The Woodlands resulting from an auction of 375 lots in August 2012. Minimum rents and tenant recoveries increased

$8.8 million primarily due to the acquisition of our partner's interest in, and consolidation of, Millennium Waterway apartments, 4 Waterway reaching stabilization in 2012, improved occupancy at Ward Centers and 1400 Woodloch Forest slightly offset by lost revenue due to Superstorm Sandy at South Street Seaport. The Woodlands Resort & Conference Center revenues increased $2.4 million primarily due to higher revenue per available room. Condominium unit sales decreased $21.8 million in 2012 compared to 2011 due to the sale of the last two units in the first quarter of 2012.

Net loss attributable to common stockholders was $73.8 million for the year ended December 31, 2013 compared to net loss attributable to common stockholders of $128.3 million for 2012. The $54.5 million decrease in net loss for 2013 as compared to 2012 was primarily due to higher earnings from our MPC segment of $39.0 million, higher earnings from our Strategic Developments segment of $27.7 million, lower warrant liability loss of $3.0 million, a $19.1 million lower reduction in tax indemnity receivable, and $23.7 million increase in other income. These were offset by lower earnings in our Operating Assets segment of $22.0 million, higher interest expense of $20.7 million, mainly due to the issuance of our Senior Notes, higher income tax expense of $2.7 million, a decrease in net income attributable to noncontrolling interests of $0.7 million, along with additional corporate general and administrative expenses of $11.9 million primarily due to higher headcount. The lower earnings in our Operating Assets segment was mainly due to increased interest expense of $2.9 million, increased depreciation and amortization of $8.1 million, increased other property operating costs of $4.5 million, and decreased revenues of $4.5 million principally caused by the effects of Superstorm Sandy at the South Street Seaport and redevelopment of the Outlet Collection at Riverwalk. Please refer to the individual segment operations sections and the general and administrative section for explanations of these variances.

Net loss attributable to common stockholders was $128.3 million for the year ended December 31, 2012 compared to net income attributable to common stockholders of $147.2 million for the same period in 2011. The net loss in 2012 is primarily due to the $185.0 million warrant liability loss related to the increase in value of the Sponsors and Management warrants in 2012 compared to the $101.6 million warrant liability gain in 2011. Land sales, builder price participation and other land sales revenue net of cost of sales and MPC operations improved $32.9 million in 2012 compared to 2011 primarily due to higher lot prices and lower cost of sales for The Woodlands MPC in 2012. The Woodlands also contributed $17.1 million to net income during the first half of 2012 as compared to $3.7 million during the first half of 2011 when it was an equity investment. The increases in income were somewhat offset by income taxes of $6.1 million attributable to our higher earnings, the reduction in tax indemnity receivable of $20.3 million related to our utilization of tax assets and the profit contribution from Nouvelle at Natick decreasing by $7.4 million due to the sale of the two remaining units in the first quarter of 2012.

**Master Planned Communities**

MPC revenues vary between periods based on economic conditions and several factors such as, but not limited to, location, availability of land for sale, development density and residential or commercial use. Although our business does not involve the sale or resale of homes, we believe that net new home sales are an important indicator of future demand for our superpad sites and lots; therefore, we use this statistic in the discussion of our MPCs below. Net new home sales reflect home sales made by home builders, less cancelations. Cancelations occur when a home buyer signs a contract to purchase a home, but later fails to qualify for a home mortgage or is unable to provide an adequate down payment to complete the home sale. Reported results may differ significantly from actual cash flows generated principally because cost of sales for GAAP purposes is derived from margins calculated using carrying values, projected future improvements and other capitalized project costs in relation to projected future land sale revenues. Carrying values, generally, represent acquisition and development costs less adjustment for previous impairment charges. Development expenditures are capitalized and generally not reflected in the Consolidated Statements of Operations in the current year.

## MPC Sales Summary

| | Land Sales | | | Acres Sold | | | Number of Lots/Units | | | Price per acre | | | Price per lot | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Year Ending December 31, | | | | | | | | | | | | | | |
| | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 |
| | ($ In thousands) | | | | | | | | | | | | | | |
| **Maryland** | | | | | | | | | | | | | | | |
| Residential | | | | | | | | | | | | | | | |
| Single family – detached | $ — | $ — | $ 1,480 | — | — | 1.4 | — | — | 7 | $ — | $ — | $1,057 | $ — | $ — | $211 |
| Townhomes | — | 4,156 | 5,538 | — | 1.2 | 1.8 | — | 28 | 39 | — | 3,463 | 3,077 | — | 148 | 142 |
| Commercial | | | | | | | | | | | | | | | |
| Office and other | 13,000 | — | — | 56.2 | — | — | — | — | — | 231 | — | — | — | — | — |
| Apartments | — | 5,300 | — | — | 18.7 | — | — | — | — | — | 283 | — | — | — | — |
| | 13,000 | 9,456 | 7,018 | 56.2 | 19.9 | 3.2 | — | 28 | 46 | 231 | 475 | 2,193 | — | 148 | 153 |
| **Bridgeland** | | | | | | | | | | | | | | | |
| Residential | | | | | | | | | | | | | | | |
| Single family – detached | 10,974 | 21,875 | 16,707 | 33.2 | 80.5 | 63.2 | 143 | 389 | 318 | 331 | 272 | 264 | 77 | 56 | 53 |
| Commercial | | | | | | | | | | | | | | | |
| Apartments | 2,636 | — | — | 16.6 | — | — | — | — | — | 159 | — | — | — | — | — |
| | 13,610 | 21,875 | 16,707 | 49.8 | 80.5 | 63.2 | 143 | 389 | 318 | 273 | 272 | 264 | 77 | 56 | 53 |
| **Summerlin** | | | | | | | | | | | | | | | |
| Residential | | | | | | | | | | | | | | | |
| Single family – detached | 18,038 | 14,394 | 30,247 | 23.4 | 20.7 | 83.5 | 157 | 158 | 419 | 771 | 695 | 362 | 115 | 91 | 72 |
| Custom lots | 4,813 | 4,141 | 679 | 5.3 | 5.3 | 1.0 | 12 | 10 | 2 | 908 | 781 | 679 | 401 | 414 | 340 |
| Superpad Sites | 83,191 | 12,505 | — | 257.3 | 55.3 | — | 1,164 | 232 | — | 323 | 226 | — | 71 | 54 | — |
| Commercial | | | | | | | | | | | | | | | |
| Office and other | 4,526 | — | — | 7.3 | — | — | — | — | — | 620 | — | — | — | — | — |
| Retail | — | 784 | | | 1.0 | | | | | | 784 | | | | |
| Not-for-profit | 1,334 | — | 3,616 | 5.9 | — | 16.1 | — | — | — | 226 | — | 225 | — | — | — |
| Other | 575 | — | — | 17.2 | — | — | — | — | — | 33 | — | — | — | — | — |
| | 112,477 | 31,824 | 34,542 | 316.4 | 82.3 | 100.6 | 1,333 | 400 | 421 | 355 | 387 | 343 | 80 | 78 | 73 |
| **The Woodlands** | | | | | | | | | | | | | | | |
| Residential | | | | | | | | | | | | | | | |
| Single family – detached | 100,142 | 100,235 | 76,362 | 162.8 | 241.6 | 210.4 | 589 | 979 | 826 | 615 | 415 | 363 | 170 | 102 | 92 |
| Single family – attached | 3,897 | — | 1,235 | 7.1 | — | 3.0 | 80 | — | 46 | 549 | — | 409 | 49 | — | 27 |
| Commercial | | | | | | | | | | | | | | | |
| Office and other | 1,500 | 9,069 | 6,213 | 2.1 | 14.2 | 14.0 | — | — | — | 714 | 639 | 449 | — | — | — |
| Retail | 1,261 | 7,904 | 6,365 | 1.6 | 18.4 | 12.0 | — | — | — | 788 | 430 | 547 | — | — | — |
| Other | 135 | 50 | 1,839 | 0.7 | 0.8 | 5.0 | — | — | — | 193 | 63 | 348 | — | — | — |
| | 106,935 | 117,258 | 92,014 | 174.3 | 275.0 | 244.4 | 669 | 979 | 872 | 614 | 426 | 376 | 156 | 102 | 89 |
| Total acreage sales revenue | 246,022 | 180,413 | 150,281 | 596.7 | 457.7 | 411.4 | 2,145 | 1,796 | 1,657 | | | | | | |
| Deferred revenue | (12,451) | (2,092) | 5,680 | | | | | | | | | | | | |
| Special Improvement District revenue | 17,646 | 4,322 | 5,420 | | | | | | | | | | | | |
| Total segment land sale revenues | 251,217 | 182,643 | 161,381 | | | | | | | | | | | | |
| Less: Real Estate Affiliates land sales revenue | — | — | (46,771) | | | | | | | | | | | | |
| Total land | | | | | | | | | | | | | | | |

| | | | |
|---|---|---|---|
| sales revenue – GAAP basis | $251,217 | $182,643 | $114,610 |

MPC land sales increased 37.5%, or $68.6 million to $251.2 million for the year ended December 31, 2013 as compared to $182.6 million for the year ended December 31, 2012. MPC land sales increased 59.4% or $68.0 million to $182.6 million for the year ended December 31, 2012 as compared to $114.6 million for the year ended December 31, 2011. Land sales for the year ended December 31, 2013, including Special Improvement District ("SID") revenues and reimbursements and deferred revenue, increased at Summerlin and Maryland by 200.3%, or $87.2 million to $130.7 million, and decreased by $8.3 million at Bridgeland and $10.3 million at The Woodlands. The increase in land sales is primarily due to the low inventory of homes for sale and strong homebuilder demand for superpad sites at Summerlin.

For large MPCs such as ours, sales prices on a per lot basis and per acre basis generally increase as the size of the developed lot grows. This increase is because smaller lots are more commodity-like and larger lots may have more unique features. Additionally, the average homebuyer finds more competition for new and resale homes on the lower end of the price range in the broader residential market. As lot sizes and prices increase, the number of potential customers and developers decreases. Barring a softening in market conditions, when a MPC reaches the level whereby land is relatively scarce, pricing begins to escalate on a per lot and per acre basis due to a scarcity premium resulting from the market's realization that new home site inventory will be depleted, as is being experienced at The Woodlands.

*Maryland*

Maryland's land sales increased 37.5%, or $3.5 million to $13.0 million for the year ended December 31, 2013 as compared to $9.5 million for the year ended December 31, 2012 due to a 56.2 acre commercial land sale at Emerson. Maryland's land sales increased 34.7%, or $2.4 million to $9.5 million for the year ended December 31, 2012 as compared to 2011, primarily due to an 18.7 acre apartment site sale.

*The Woodlands and Bridgeland*

The Woodlands land sales decreased 8.8%, or $10.3 million to $106.9 million for the year ended December 31, 2013 as compared to $117.3 million for the year ended December 31, 2012. The decrease was primarily due to approximately $14.2 million lower commercial land sales. In 2013 we began emphasizing holding land for development rather than selling. This decrease was partially offset by an approximately $3.8 million increase in residential land sales. For the year ended December 31, 2013, The Woodlands sold 169.9 residential acres compared to 241.6 acres in 2012, but average price per residential acre (single-family – detached) increased 48.2% to $615,000 compared to $415,000 in 2012. The Woodlands land sales increased 27.4%, or $25.2 million to $117.3 million, for the year ended December 31, 2012 as compared to $92.0 million for the year ended December 31, 2011 due to the continued strong housing market.

In recognition of the pent up demand for lots in The Woodlands, a competitive bid process was introduced in August 2012. During the period from August 2012 through December 31, 2013, The Woodlands sold 1,077 residential lots of which 786 have closed, providing total revenues of $81.4 million and $38.5 million for the years ended December 31, 2013 and 2012, respectively. The remaining 291 lots are expected to close in 2014 and 2015 providing an estimated $53.2 million of revenues. We plan to continue the bid process for future sections to ensure we maximize values; however, we expect that the bid process will result in a slower pace of annual lot sales. With the anticipated slower lot sales pace, our current projections indicate a complete sell-out of all lots within five to six years. As of December 31, 2013, we estimate the cash costs to complete and deliver the remaining lots, net of expected future collections from municipal district receivables, to be approximately $2,600 per lot.

Bridgeland's land sales decreased 37.8%, or $8.3 million, to $13.6 million for the year ended December 31, 2013, as compared to land sales of $21.9 million and $16.7 million for the years ended

December 31, 2012 and 2011, respectively. The decrease in lot sales revenues for the year ended December 31, 2013, as compared to the same periods in 2012 and 2011, relates primarily to the availability of lot inventory. Bridgeland's inventory levels are low due to the inability to develop finished lots in 2013 pending obtaining wetlands permits from the U.S. Army Corps of Engineers ("USACE"), we expect to have the right to build on 806 acres of land. Bridgeland offered 32 lots for sale in October 2013 in a competitive bid process. These lot sales closed in December 2013 at an average lot price of $115,000, which was 105.0%, or $59,000 higher than the average lot price of $56,000 as of December 31, 2012. On February 27, 2014, we obtained the needed permits from USACE to develop 806 acres of land, and expect to begin delivering new finished lots by mid-2014. Land sales for the year ended December 31, 2013 include a $2.6 million sale of a commercial parcel.

The average price per residential acre at Bridgeland increased 21.3%, or $59,000, to $331,000 for the year ended December 31, 2013, as compared to $272,000 and $265,000 per acre, for the years ended December 31, 2012 and 2011, respectively. The average lot price for the year ended December 31 2013 increased 36.5% or $21,000 to $77,000 as compared to $56,000 and $53,000 for the years ended December 31, 2012 and 2011, respectively. The 2013 average lot price increase relates to a 10% lot price increase implemented in late 2012 that benefitted the 2013 average lot prices, the competitive bid process implemented in the fourth quarter of 2013 and the sale of more higher priced lots. There were 11 finished lots remaining at Bridgeland available for sale as of December 31, 2013.

The Houston, Texas area continues to benefit from a strong energy sector. Additionally, we expect the completion of construction of the Grand Parkway to positively impact the surrounding areas. The Grand Parkway is an approximate 180-mile circumferential highway traversing seven counties and encircling the Greater Houston region. Construction of segment E of the Grand Parkway, which bisects Bridgeland, (from IH 10 to US 290) was completed and open to the public on December 21, 2013, and segments F1 (from US 290 to SH 249) and F2 (from SH 249 to IH 45) are scheduled for completion in 2015. Completion of these segments will improve travel patterns for residents living in The Woodlands and Bridgeland. In addition, we believe the Grand Parkway was instrumental in ExxonMobil's decision to relocate and construct a large corporate campus on a 385-acre site just south of The Woodlands. The site is expected to include approximately 20 buildings, representing three million square feet of space, and we believe it is one of the largest construction projects currently under way in the United States. ExxonMobil expects to begin relocating employees to this new location starting in early 2014 and ending in 2015. Upon completion of the relocation, ExxonMobil expects approximately 10,000 employees will be employed at the new campus. The direct and indirect jobs related to this relocation are positively impacting The Woodlands and Bridgeland due to increased housing demand, as well as commercial space needs for companies servicing ExxonMobil.

As more fully discussed in the Strategic Developments segment, ExxonMobil has pre-leased 478,000 square feet in two to-be-constructed Class A office buildings at Hughes Landing in The Woodlands.

*Summerlin*

Summerlin's land sales increased 253.4%, or $80.7 million, to $112.5 million for the year ended December 31, 2013, compared to $31.8 million and $34.5 million for the years ended December 31, 2012 and 2011, respectively. This increase was primarily due to increasing new home demand and low new home sales inventory, resulting in significantly higher sales of superpad sites to homebuilders in terms of volume and price per acre. Superpad sites are generally 20-acre parcels of unimproved land where we develop and construct the major utilities (water, sewer and drainage) and roads to the borders of the parcel and the homebuilder completes the on-site utilities, roads and finished lots. The average price per acre for superpads increased 42.9%, or $97,000 to $323,000 for the year ended December 31, 2013 when compared to 2012. The increase in average price per acre is primarily due to a scarcity of attractive developable residential land in the market and the improving new housing demand. The volume of lot sales increased 233.3%, or 933 lots, to 1,333 lots for the year ended December 31, 2013 as compared to 400 lots for 2012. Summerlin had 421 lot sales during 2011. As of

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December 31, 2013, Summerlin had 152 residential lots under contract of which 60 lots are scheduled to close in 2014, providing an estimated $11.2 million of revenues. The remaining 92 lots are scheduled to close in 2015, providing an estimated $16.9 million of revenues.

Builder and new home sales activity continues to improve in Summerlin with 566 new home sales for the year ended December 31, 2013, representing a 20.2% increase as compared to the 471 and 215 new home sales for the years ended December 31, 2012 and 2011, respectively. Inventory levels for both the new home segment and the resale market continue to decline, resulting in increasing home pricing, which we believe will translate to higher per acre land prices in the future. As new home prices increase, we also earn higher builder price participation revenue from the home builders, and the value of our land inventory also increases. Furthermore, as more fully discussed in our Strategic Developments segment, we are constructing the 1.6 million square foot Shops at Summerlin development on 106 acres in the future downtown of Summerlin. We believe this destination for shopping and entertainment will further increase residential sales and pricing when completed in the fourth quarter of 2014.

**Master Planned Communities Revenues and Expenses (*)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 (**) |
| | | (In thousands) | |
| Land sales | $ 251,217 | $ 182,643 | $ 161,383 |
| Builder price participation | 9,356 | 5,747 | 4,924 |
| Other land sale revenues | 14,197 | 18,649 | 17,730 |
| Total revenues | 274,770 | 207,039 | 184,037 |
| Cost of sales – land | 124,040 | 89,298 | 94,040 |
| Land sales operations | 38,414 | 40,375 | 41,584 |
| Depreciation and amortization | 32 | 72 | 48 |
| Interest expense, net (***) | (18,694) | (14,643) | (10,296) |
| Total expenses | 143,792 | 115,102 | 125,376 |
| Venture partner share of The Woodlands EBT | — | — | (7,949) |
| MPC REP EBT | $ 130,978 | $ 91,937 | $ 50,712 |

(*) For a detailed breakdown of our Master Planned Communities segment EBT, refer to Note 18 – Segments.

(**) Amounts include The Woodlands as if consolidated.

(***) Negative interest expense amounts relate to interest capitalized on debt assigned to our Operating Assets segment and Corporate.

Land sales increased $68.6 million to $251.2 for the year ended December 31, 2013 as compared to $182.6 million for the year ended December 31, 2012. The increase for the year ended December 31, 2012, as compared to 2011 was $21.3 million. These year-over-year increases were due to factors described more fully above.

Builder price participation represents the contractual amount we collect from home builders when the homes they have constructed sell for more than an agreed upon amount when the land was sold to them. Builder price participation increased $3.6 million to $9.4 million for the year ended December 31, 2013, as compared to $5.7 million in 2012, primarily due to increased home closings at higher prices at Summerlin and increased participation fees at The Woodlands due to home sales price appreciation since initial lot closing. Builder price participation increased $0.8 million to $5.7 million for the year ended December 31, 2012 as compared to 2011.

Other land revenues decreased 23.9%, or $4.5 million, to $14.2 million for the year ended December 31, 2013, as compared to $18.6 million and $17.7 million in 2012 and 2011, respectively. The primary reasons for the decrease were the land use modification fees collected in 2012 that were not repeated in 2013 and the termination of a contract in June 2012 that provided easement fee revenues to The Woodlands during 2011 and the first half of 2012.

Land sales margins, which include builder price participation, were 52.4%, 52.6% and 43.5% for the years ended December 31, 2013, 2012 and 2011, respectively. The margin increase in 2012 as compared to 2011 was principally caused by a lower cost of sales percentage attributed to The Woodlands sales in 2012 as compared to 2011 because the majority of The Woodlands third and fourth quarter cost of sales for 2011 reflected their finished lots at the fair value established in connection with our acquisition of our partner's interest.

Cost of sales – land increased $34.7 million to $124.0 million for the year ended December 31, 2013, as compared to $89.3 million and $94.0 million in 2012 and 2011, respectively, primarily due to higher land sales revenue. Cost of land sales is based on cost ratios which are determined as a specified percentage of land sales revenues for each master planned community project. The cost ratios are based on actual costs incurred and estimates of development costs and sales revenues for completion of each project.

Land sales operations expenses decreased 4.9%, or $2.0 million, to $38.4 million for the year ended December 31, 2013, as compared to $40.4 million and $41.6 million for the years ended December 31, 2012 and 2011, respectively. The majority of the decrease in 2013 relates to reduced advertising and marketing costs, commissions, closing costs, sale incentives and real estate taxes. The fewer commercial land sales in 2013 resulted in lower commissions and selling expenses, and co-branding for The Woodlands and Bridgeland resulted in lower advertising and marketing expenses.

Interest expense, net reflects the amount of interest that is capitalized at the project level. Interest expense, net increased by 27.7%, or $4.1 million, to $18.7 million for the year ended December 31, 2013, as compared to $14.6 million and $10.3 million for the years ended December 31, 2012 and 2011 respectively. The increase in 2013 was related primarily to higher consolidated company debt levels which resulted in increased capitalized interest.

In addition to REP EBT for the MPCs, we believe that certain investors measure the value of the assets in this segment based on their contribution to liquidity and capital available for investment. MPC Net Contribution is defined as MPC REP EBT, plus MPC cost of sales and depreciation and amortization reduced by MPC development and acquisition expenditures. Although MPC Net Contribution can be computed from GAAP elements of income and cash flows, it is not a GAAP-based operational metric and should not be used to measure operating performance of the MPC assets as a substitute for GAAP measures of such performance. A reconciliation of REP EBT to consolidated net income (loss) as computed in accordance with GAAP is presented in Note 18 – Segments.

The following table sets forth the MPC Net Contribution for the years ended December 31, 2013, 2012 and 2011.

**MPC Net Contribution**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 (**) |
| | | (In thousands) | |
| MPC REP EBT (*) | $ 130,978 | $ 91,937 | $ 50,712 |
| Plus: | | | |
| Cost of sales – land | 124,040 | 89,298 | 82,672 |
| Depreciation and amortization | 32 | 72 | 26 |
| Less: | | | |
| MPC land/residential development and acquisition expenditures | 139,257 | 107,144 | 97,216 |
| MPC Net Contribution | $ 115,793 | $ 74,163 | $ 36,194 |

(*) For a detailed breakdown of our Master Planned Communities segment EBT, refer to Note 18 – Segments.

(**) Amounts include The Woodlands as if consolidated.

The MPC Net Contribution increased by 56.1%, or $41.6 million, to $115.8 million for the year ended December 31, 2013 as compared to $74.2 million in 2012. The MPC Net Contribution increased 104.9%, or $38.0 million, to $74.2 million for the year ended December 31, 2012 as compared to $36.2 million for 2011. The increase in MPC Net Contribution was primarily attributable to increased land sales at Summerlin, partially offset by increased development expenditures at Bridgeland, Summerlin and The Woodlands to produce inventory to meet expected future demand. MPC land and residential development expenditures consist primarily of land development costs, such as water, sewer, drainage and paving.

**Operating Assets**

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

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## Operating Assets NOI and REP EBT

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| **Retail** | | | |
| Cottonwood Square | $ 451 | $ 432 | $ 380 |
| Landmark Mall (a) | 491 | 923 | 737 |
| Park West (b) | 1,608 | 830 | 576 |
| South Street Seaport (c) | (8,980) | 639 | 5,650 |
| Outlet Collection at Riverwalk (c) | (763) | 221 | 418 |
| Ward Centers (d) | 24,144 | 22,045 | 21,481 |
| 20/25 Waterway Avenue | 1,640 | 1,582 | 1,310 |
| Waterway Garage Retail | 370 | 97 | 7 |
| Total Retail | 18,961 | 26,769 | 30,559 |
| **Office** | | | |
| 70 Columbia Corporate Center (e) | 757 | 140 | — |
| Columbia Office Properties (f) | 1,151 | 2,304 | 2,649 |
| 2201 Lake Woodlands Drive | (167) | 53 | 332 |
| 9303 New Trails | 1,679 | 1,819 | 742 |
| 110 N. Wacker | 6,023 | 6,073 | 6,115 |
| One Hughes Landing (g) | (139) | — | — |
| 3 Waterway Square (g) | 2,059 | — | — |
| 4 Waterway Square | 5,886 | 5,544 | 1,639 |
| 1400 Woodloch Forest (h) | 1,160 | 1,995 | 649 |
| Total Office | 18,409 | 17,928 | 12,126 |
| Millennium Waterway Apartments (i) | 4,457 | 2,589 | — |
| The Woodlands Resort & Conference Center | 10,167 | 10,670 | 7,726 |
| **Total Retail, Office, Multi-family, Resort & Conference Center** | 51,994 | 57,956 | 50,411 |
| The Club at Carlton Woods (j) | (5,241) | (4,242) | (5,126) |
| The Woodlands Ground leases | 444 | 404 | 403 |
| The Woodlands Parking Garages | (749) | (1,128) | (1,204) |
| Other Properties (k) | (41) | 1,749 | 1,463 |
| Total Other | (5,587) | (3,217) | (4,464) |
| **Operating Assets NOI – Consolidated and Owned as of December 31, 2013** | 46,407 | 54,739 | 45,947 |
| **Dispositions:** | | | |
| Rio West Mall (l) | 790 | 1,250 | 1,319 |
| Head Acquisition (m) | — | (46) | 67 |
| Total Operating Asset Dispositions | 790 | 1,204 | 1,386 |
| Total Operating Assets NOI– Consolidated | 47,197 | 55,943 | 47,333 |
| Straight–line lease amortization | 1,759 | (736) | 918 |
| Early extinguishment of debt | — | — | (11,305) |
| Demolition costs | (2,078) | — | — |

| | | | |
|---|---|---|---|
| Depreciation and amortization | (31,427) | (23,318) | (20,309) |
| Write-off of lease intangibles and other | (2,884) | — | — |
| Equity in earnings from Real Estate Affiliates | 3,893 | 3,683 | 3,926 |
| Interest, net | (19,011) | (16,104) | (12,775) |
| Less: Partners' share of Operating Assets REP EBT | — | — | 425 |
| Total Operating Assets REP EBT (n) | $ (2,551) | $ 19,468 | $ 8,213 |

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| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| **Operating Assets NOI – Equity and Cost Method Investments** | | | |
| Millennium Waterway Apartments (i) | $ — | $ 1,768 | $ 2,571 |
| Millennium Woodlands Phase II | (74) | — | — |
| Summerlin Baseball Club Member, LLC | (13) | — | — |
| Stewart Title (title company) | 2,514 | 1,876 | 1,069 |
| Woodlands Sarofim # 1 | 1,417 | 621 | 1,489 |
| **Same Operating Assets NOI – equity investees** | 3,844 | 4,265 | 5,129 |
| **Operating Asset Dispositions** | | | |
| Forest View/Timbermill Apartments (o) | — | 487 | 1,826 |
| Total Operating Asset Dispositions NOI – equity investees | — | 487 | 1,826 |
| Total NOI – equity investees | 3,844 | 4,752 | 6,955 |
| Adjustments to NOI (p) | (77) | (1,476) | (3,862) |
| Equity Method Investments REP EBT | 3,767 | 3,276 | 3,093 |
| Less: Joint Venture Partner's Share of REP EBT | (2,377) | (1,969) | (3,061) |
| Equity in earnings from Real Estate Affiliates | 1,390 | 1,307 | 32 |
| Distributions from Summerlin Hospital Investment | 2,503 | 2,376 | 3,894 |
| Segment equity in earnings from Real Estate Affiliates | $ 3,893 | $ 3,683 | $ 3,926 |
| **Company's Share of Equity Method Investments NOI** | | | |
| Millennium Waterway Apartments (i) | $ — | $ 1,477 | $ 2,148 |
| Millennium Woodlands Phase II | — | — | — |
| Summerlin Baseball Club Member, LLC | (7) | — | — |
| Stewart Title (title company) | 1,257 | 938 | 535 |
| Woodlands Sarofim # 1 | 283 | 124 | 298 |
| | 1,533 | 2,539 | 2,981 |
| **Operating Assets Sold During Periods Presented** | | | |
| Forest View/Timbermill Apartments (o) | — | 244 | 913 |
| Total Operating Assets Sold During Periods Presented | — | 244 | 913 |
| Total NOI – equity investees | $ 1,533 | $ 2,783 | $ 3,894 |

| | Economic Ownership | December 31, 2013 | |
|---|---|---|---|
| | | Debt | Cash |
| | | (In thousands) | |
| Woodlands Sarofim #1 | 20.00% | $ 6,546 | $ 895 |
| Stewart Title(title company) | 50.00% | — | 1,064 |
| Summerlin Las Vegas Baseball Club | 50.00% | — | 376 |

(a) The NOI decrease for Landmark Mall for the year ended December 31, 2013 compared to 2012 is due to reduced rental rates on renewals as a

result of the upcoming redevelopment.

(b) The NOI increase for Park West for the year ended December 31, 2013 compared to 2012 is due to additional leasing at the property.

(c) South Street Seaport and the Outlet Collection at Riverwalk are in redevelopment as of December 31, 2013. Please refer to discussion in the section following the table.

(d) The NOI increase for Ward Centers for the year ended December 31, 2013 compared to 2012 was primarily attributable to additional leasing and utility savings at the property.

(e) 70 Columbia Corporate Center was acquired on August 15, 2012. Please refer to discussion in the section following the table.

(f) The NOI decrease for Columbia Office Properties for the year ended December 31, 2013 compared to 2012 is due to relocation of a major tenant to 70 Columbia Corporate Center.

(g) Both One Hughes Landing and 3 Waterway Square were placed in service during 2013. Please refer to discussion in the section following the table.

(h) The NOI decrease for 1400 Woodloch for the year ended December 31, 2013 compared to 2012 was primarily related to the planned relocation of one 22,459 square foot tenant to 3 Waterway Square in June 2013. Approximately 9,000 of the square feet of the space vacated by the tenant remains vacant as of December 31, 2013.

(i) On May 31, 2012, we acquired our partner's interest in the 393-unit Millennium Waterway Apartments.

(j) Please refer to discussion in the section following the table. During 2013, 2012 and 2011 the Club at Carlton Woods collected $4.3 million, $5.5 million and $2.9 million, respectively of membership deposits not included in NOI because they are not recognized as revenue when collected, but are recognized over the expected life of the membership which is estimated to be a 12 year period.

(k) The decrease of NOI in other properties is due to lower easement fee revenues in The Woodlands. The contract that provided easement fees in The Woodlands expired June 2012.

(l) Rio West Mall was sold on September 30, 2013.

(m) Head Acquisition was sold on October 30, 2013.

(n) For a detailed breakdown of our Operating Asset segment REP EBT, please refer to Note 18 – Segments in the Consolidated Financial Statements.

(o) On April 19, 2012, the joint ventures owning the Forest View and Timbermill Apartments completed their sale to a third party. Our share of the distributable cash after repayment of debt and transaction expenses was $8.6 million.

(p) Adjustments to NOI include straight-line and market lease amortization, depreciation and amortization and non-real estate taxes.

**Reconciliation of Operating Assets Segment Equity in Earnings**

| | December 31, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| | (In thousands) | | |
| Equity Method investments | 1,390 | 1,307 | 4,685 |
| Cost basis investments and dividends | 2,503 | 2,376 | 3,893 |
| Operating Assets segment Equity in Earnings from Real Estate Affiliates | 3,893 | 3,683 | 8,578 |
| Strategic Developments segment Equity in Earnings from Real Estate Affiliates | 10,535 | — | — |
| Equity in Earnings from Real Estate Affiliates | $ 14,428 | $ 3,683 | $ 8,578 |

**Retail Properties**

Retail NOI for the year ended December 31, 2013 decreased $7.8 million to $19.0 million as compared to $26.8 million for the same period in 2012. The decrease was primarily attributable to South Street Seaport and the Outlet Collection at Riverwalk. NOI at South Street Seaport and the Outlet Collection at Riverwalk decreased $9.6 million and $1.0 million, respectively, for the year ended December 31, 2013, compared to the same periods in 2012. For further details related to this variance, please refer to the South Street Seaport and the Outlet Collection at Riverwalk discussions hereinafter.

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The following table summarizes the leases we executed at our retail properties during the year ended December 31, 2013:

| | | | | Per Square Foot | | | Annual (millions) | | |
|---|---|---|---|---|---|---|---|---|---|
| Retail Properties | Total Executed | Avg. Lease Term (Months) | Total Leased Square Footage | Avg. Starting Rents per Annum | Total Tenant Improvements | Total Leasing Commissions | Avg. Starting Rents | Tenant Improvements | Leasing Commissions |
| Pre-leased (a) | 89 | 110 | 489,855 | $ 27.71 | $ 79.61 | $ 7.97 | $ 13.6 | $ 34.2 | $ 2.3 |
| Comparable (b) | 51 | 43 | 130,466 | 20.92 | 10.38 | 20.20 | 2.7 | 0.3 | 0.2 |
| Non-comparable (c) | 13 | 75 | 34,883 | 26.01 | 26.10 | 7.86 | 0.9 | 0.7 | 0.1 |
| Total | | | 655,204 | | | | $ 17.2 | $ 35.2 | $ 2.6 |

(a) Pre-leased information is associated with projects under development at December 31, 2013.

(b) Comparable information is associated with stabilized assets whereby the square footage was occupied by a tenant within 12 months prior to the executed agreement. These leases represent an increase in cash rents from $19.95 per square foot to $20.92 per square foot, or 4.9% over previous rents.

(c) Non-comparable information is associated with stabilized assets whereby the square footage was previously vacant for more than 12 months or has never been occupied.

*Landmark Mall*

During 2013, we reached an agreement with Lord & Taylor for the early termination of its leasehold interest and we received unanimous rezoning approval from the City of Alexandria for Phase I of the redevelopment which includes converting 11 acres of our 22 acre site, located within the center of the property between Macy's and Sears, from a traditional enclosed mall to a vibrant outdoor mixed-use environment with street retail shops and restaurants with high density residential. The redevelopment requires the consent of Macy's and Sears, and within Phase I we expect to construct approximately 285,000 square feet of a new retail upscale dine-in movie theater, and up to 400 residential units. Future phases may include the balance of the mall site with mixed-use densities to total up to 5.5 million square feet as prescribed in the City of Alexandria's 2009 Van Dorn Small Area Plan. Future redevelopment will also be subject to approval of the anchor tenants as part of a reciprocal easement agreement that governs the property. We expect to begin redevelopment in 2014. We have submitted a development permit application and anticipate approval later in 2014 from the City of Alexandria. As of December 31, 2013, we have incurred $13.8 million of development costs on this project, including the early termination of the anchor lease. On January 24, 2014, an agreement was reached with the City of Alexandra regarding the tax assessment for years 2007, 2010, 2011 and 2013. As a result of the settlement we were awarded a tax credit of $0.7 million. This credit will be used to offset future real estate taxes for this property.

*Rio West Mall*

On September 30, 2013, we sold the property for $12.0 million and received $10.8 million of net proceeds. The net book value of the property was $10.2 million and we recognized a pre-tax gain of $0.6 million which is included in other income.

*South Street Seaport*

NOI for the year ended December 31, 2013 decreased $9.6 million to $(9.0) million as compared to $0.6 million for the same period in 2012. NOI for 2013 and 2012 includes the negative impact of $15.2 million and $5.6 million respectively, resulting from the closure of a majority of the property due to Superstorm Sandy in October 2012. During 2014 the Pier will be demolished for redevelopment, and the majority of the historic area will undergo renovations. We also incurred a $1.2 million charge related to an early lease termination.

On October 29, 2012, as a result of Superstorm Sandy, the historic area of South Street Seaport (area west of the FDR Drive) suffered significant damages due to flooding. During 2013, we filed a claim with our insurance carriers for property damages, lost income and other expenses resulting from the storm and we believe insurance will cover substantially all of these losses. We are continuing to work through the claims process with the insurance carriers and have collected $20.5 million in insurance proceeds through December 31, 2013. Insurance recoveries to date have exceeded the book value of the buildings and equipment at the date of the storm. For the year ended December 31, 2013, we have recorded a $12.2 million gain in Other Income, which is excluded from NOI.

During the first half of 2013, we established the SEE/CHANGE program in an effort to revitalize the South Street Seaport following the losses sustained by Superstorm Sandy. SEE/CHANGE is an innovative seasonal program developed by us to re-energize and re-activate the Seaport area and to create a gathering place for the community that did not exist in the aftermath of the storm. The program includes bringing to the Seaport for each season an array of new retail, culinary and cultural events to attract local New Yorkers and tourists, and an intensive social media campaign to advertise the events. During the year ended December 31, 2013, SEE/CHANGE-related expenses were approximately $3.8 million and are included in Other Property Operating Costs.

As more fully described in "Note 10 – Commitments and Contingencies", on June 27, 2013, the City of New York executed the amended and restated ground lease for South Street Seaport and we provided a completion guarantee to New York City for the Renovation Project (as defined below). Pursuant to the amended and restated ground lease, annual ground rent will be fixed at $1.2 million with an escalation of 3.0% compounded annually. The execution of the amended and restated ground lease was the final step necessary for the commencement of the renovation and reconstruction of the existing Pier 17 Building ("Renovation Project"). The redevelopment of Pier 17 and renovation of the historic area is expected to cost approximately $425 million, $11.0 million of which are demolition costs that will be expensed as incurred. As of December 31, 2013, we have incurred $25.7 million of development costs on this project, which includes $0.4 million of demolition costs and $1.0 million of marketing costs. Construction began during September 2013 and is expected to conclude in 2016.

The Renovation Project will increase the leasable area of Pier 17 to approximately 182,000 square feet, features a complete transformation of the Pier 17 building and is designed to include a vibrant, open rooftop with 40% more open space, upscale retail, outdoor entertainment venues and a dynamic food market. Additionally, we plan to retenant a significant portion of the 180,000 square feet of retail space in the historic area. On December 11, 2013, we executed a 20-year lease with iPic Entertainment for 46,145 square feet in the Fulton Market Building located in the historic area.

On November 20, 2013, we announced plans for further redevelopment of the South Street Seaport district which includes approximately 700,000 square feet of additional space, East River Esplanade improvements, a marina, restoration of the historic Tin Building and replacement of wooden platform piers adjacent to Pier 17 and a mixed-use building. The plan will need the approval of the New York City Landmarks Preservation Commission and will be subject to a Uniform Land Use Review Procedure ("ULURP") that requires approval by the New York City Council. We expect to begin the ULURP process in early 2014.

*Outlet Collection at Riverwalk*

The $1.0 million NOI decrease for the year ended December 31, 2013, respectively, as compared to 2012 was primarily attributable to vacating tenants in June 2013 to transform the property into the Outlet Collection at Riverwalk, an urban upscale outlet center located in New Orleans, Louisiana. The Outlet Collection at Riverwalk will be the nation's first outlet center located in the downtown of a major city. The redevelopment will feature a tenant mix of top national retailers with established outlet stores, local retailers and several dining and entertainment options. We plan to expand the current leasable area by approximately 50,000 square feet to 250,000 square feet. Total development costs are

expected to be approximately $82 million (exclusive of our land value), with an expected opening date in May 2014. As of December 31, 2013, we have incurred $28.9 million of development costs on this project of which $1.0 million are demolition costs. On October 24, 2013, we closed on a $64.4 million partial recourse construction loan bearing interest at one-month LIBOR plus 2.75% with an initial maturity date of October 24, 2016 with two one-year extension options.

Approximately 95.1% of the space has been pre-leased and during the redevelopment, approximately 6,735 square feet of space has remained occupied and operating. We have commitments from a strong roster of retailers and restaurants, including Last Call Studio by Neiman Marcus, Coach and Coach Men's Factory Store, Forever 21, Tommy Bahama, Toby Keith's I Love This Bar & Grill, U.S. PoloAssn. Outlet, Guess, American Eagle, Charlotte Russe, Café Du Monde, GAP, and New Balance Factory Stores. When stabilized, the project is expected to reach annual NOI of $7.8 million based on leases in place.

*Ward Centers*

During 2012, we substantially completed The Ward Village Shops consisting of approximately 70,000 square feet for a total cost of $32.1 million. The 36,000 square foot upper level was placed in service in May 2012 when TJ Maxx took occupancy. We are in discussions with a potential tenant for the lower level space.

In November of 2013, we substantially completed construction of the Auahi Shops, a 57,000 square foot, two-story retail center. We expect our final investment to be approximately $26.0 million on this project and as of December 31, 2013, we have incurred $23.6 million. Pier 1 Imports and Nordstrom Rack occupy 100% of this retail center and have relocated from other areas within Ward Centers. Pier 1 Imports and Nordstrom Rack are expected to contribute an incremental $1.0 million of combined annual NOI. The Pier 1 Imports former location is the site of one of the first two planned market rate condominium towers for which we have begun pre-sales.

In October 2012, we announced plans to transform Ward Centers into Ward Village, a vibrant neighborhood offering unique retail experiences, dining and entertainment, along with exceptional residences and workforce housing set among open public spaces and pedestrian-friendly streets. Our master plan development agreement with the Hawaii Community Development Authority ("HCDA") allows for up to 9.3 million square feet, including up to 7.6 million square feet of residential (approximately 4,000 units which are initially estimated to average approximately 1,500 square feet per unit), and over 1.7 million square feet of retail, office, commercial and other uses. Full build-out is estimated to occur over 15 years, but will ultimately depend on market absorption and many other factors that are difficult to estimate.

The first phase of the master plan includes the renovation of the IBM Building and the development of approximately 482 condominium units in two mixed-use residential towers and development of a workforce residential tower having unit sale prices lower than the market rate towers. We expect the first two market rate towers to be completed in 2016.

During the first quarter of 2013, we began redevelopment of the IBM building, a well-known office building located at Ward Centers, into a world class information center and sales gallery for the entire Ward Village project. The sales center will dedicate a section to telling the story of the history of the land, while another will showcase our vision for Ward Village. The sales center opened in January 2014. As of December 31, 2013, we have incurred $19.9 million of costs on this project, and at final completion in the first quarter of 2014 total costs are expected to be $24.4 million.

Development permit applications and detailed plans for Phase One, which includes the first three residential towers, were approved by the HCDA in the third quarter of 2013 and condominium documents have been approved by the Hawaii Real Estate Commission for two market rate towers. The first of the two market rate towers, Waiea, meaning "water of life" in Hawaiian, is planned to be

developed at a surface parking lot on Ala Moana Boulevard and will have 171 market rate condominium units for sale, six levels of parking, and approximately 8,000 square feet of new retail space. Waiea will consist of one, two and three-plus bedroom units ranging from approximately 1,100 to 17,500 square feet. Construction is expected to commence in 2014 with projected completion by the end of 2016. As of December 31, 2013, we have incurred $9.0 million of development costs on this project.

The second market rate tower, Anaha, meaning "reflection of light," is planned for Auahi Street and will have 311 market rate condominium units for sale, six levels of parking, and approximately 17,000 square feet of new retail space. Anaha will consist of studios, one, two and three-bedroom units, townhomes and penthouses ranging from approximately 450 to 6,500 square feet. Construction is expected to commence in 2014 with projected completion by the end of 2016. As of December 31, 2013, we have incurred $8.1 million of development costs on this project.

We launched public pre-sales of both market rate towers on February 1, 2014.

The workforce housing tower is planned for a site on Ward Avenue and current designs include 424 condominium units, including 375 reserved condominium units that can be used to meet reserved housing provisions, and 49 market rate units, six levels of parking and approximately 25,000 square feet of new retail space. Plans for this tower are being finalized. As of December 31, 2013 we have incurred $1.9 million in costs on this project.

**Office Properties**

All of the office properties listed in the NOI schedule, except for 110 N. Wacker, the Columbia Office Properties and 70 Columbia Corporate Center ("70 CCC") are located in The Woodlands. Leases related to our office properties, except those located in Columbia, Maryland, are generally triple net leases. Triple net leases typically require tenants to pay their pro-rata share of certain property operating costs, such as real estate taxes, utilities and insurance.

Office property NOI was flat for the year ended December 31, 2013, respectively, as compared to 2012. NOI for The Woodlands office properties increased for the year ended December 31, 2013, due primarily to 3 Waterway Square being placed in service. Combined NOI for the Columbia Office Properties and 70 CCC decreased for the year ended December 31, 2013, as compared to the same period in 2012 due to a decrease in leased square footage of a major tenant.

The following table summarizes our executed office property leases during the year ended December 31, 2013:

| | | | | Per Square Foot | | | Annual (millions) | | |
|---|---|---|---|---|---|---|---|---|---|
| Office Properties | Total Executed | Avg. Lease Term (Months) | Total Leased Square Footage | Avg. Starting Rents per Annum | Total Tenant Improvements | Total Leasing Commissions | Avg. Starting Rents | Tenant Improvements | Leasing Commissions |
| Pre-leased (a) | 2 | 120 | 478,122 | $ 22.00 | $ 40.00 | $ 14.11 | $ 10.5 | $ 19.1 | $ 6.7 |
| First generation (b) | 14 | 98 | 156,297 | 27.55 | 58.93 | 21.22 | 4.3 | 9.2 | 3.3 |
| Comparable (c) | 12 | 52 | 63,581 | 23.50 | 7.12 | 7.62 | 1.5 | 0.4 | 0.5 |
| Non-comparable (d) | 2 | 98 | 74,591 | 26.28 | 46.35 | 15.95 | 2.0 | 3.5 | 1.2 |
| Total | | | 772,591 | | | | $ 18.3 | $ 32.2 | $ 11.7 |

(a) Pre-leased information is associated with projects under development at December 31, 2013.

(b) First generation information is associated with space for buildings which were constructed and placed in service on or before December 31, 2013.

(c) Comparable information is associated with stabilized assets whereby the square footage was occupied by a tenant within 12 months prior to the executed agreement. These leases represent an increase in cash rents from $21.17 per square foot to $23.50 per square foot, or 11.0% over previous rents.

(d) Non-comparable information is associated with stabilized assets whereby the square footage was previously vacant for more than 12 months or has never been occupied.

*The Woodlands*

During September 2013, we substantially completed and opened One Hughes Landing, the first office building in Hughes Landing, a 66-acre, mixed-use development situated on the 200-acre Lake Woodlands. One Hughes Landing is a 197,719 square foot Class A office building that is 97.8% leased as of December 31, 2013. Based on leases in place, we expect the property to reach stabilized annual NOI of approximately $5.6 million by the second quarter of 2014. Total estimated costs for this project are approximately $50 million. As of December 31, 2013, we have incurred $37.6 million (exclusive of land value) of which the remaining amounts to be spent represent tenant improvements. The project is financed by a $38.0 million non-recourse mortgage at one-month LIBOR plus 2.65% with an initial maturity date of November 14, 2015 with two one-year extension options.

During June 2013, we substantially completed the construction of 3 Waterway Square, a 232,000 square foot Class A office building at a cost of $51.4 million. The building is 98.4% leased as of December 31, 2013. Based on leases in place, we expect the property to reach stabilized annual NOI of $6.1 million by first quarter 2014.

*Columbia Office Properties*

In March 2013, we began a complete restoration and redevelopment of the Columbia Regional Building, which we believe will serve as a catalyst for future development in the Columbia Town Center. Construction remains on pace and we anticipate completion of the renovation during the fourth quarter of 2014. Total development costs are expected to be $25 million (exclusive of land value), and we have incurred $17.8 million as of December 31, 2013. The project is financed by a $23.0 million construction loan bearing interest at one-month LIBOR plus 2.0% and having an initial maturity of March 15, 2016, with two one-year extension options. We have executed leases with Whole Foods Market, Inc. and The Columbia Association for the majority of the approximately 89,000 square foot building and we expect to reach annual NOI of $2.1 million in the second quarter of 2015.

On August 15, 2012, we acquired 70 CCC, a 168,000 square foot Class A office building located in Columbia, Maryland by assuming a $16.0 million mortgage at 4.25%. In February 2013, we executed a lease for 63,640 square feet that increased occupancy to approximately 94.7% when the tenant took possession in July 2013. We expect annual NOI to increase to approximately $2.5 million by fourth quarter 2015 based on leases in place as of December 31, 2013.

**Multi-family**

On May 31, 2012, we acquired our partner's interest in Millennium Waterway Apartments at a negotiated $72.0 million valuation of the property and consolidated the asset after the purchase. This property is a stabilized Class A multi-family property located in The Woodlands Town Center. The NOI increase of $1.9 million for the year ended December 31, 2013 as compared to 2012 is primarily due to increased rental income offset by higher property taxes, due to a higher assessed value, and an increase in operating costs due to a full year of operations. The property is 90.1% occupied as of December 31, 2013. In conjunction with this acquisition, we entered into a joint venture agreement with our partner to construct a 314-unit Class A multi-family property as more fully discussed under our Strategic Developments segment.

**The Woodlands Resort & Conference Center**

The Woodlands Resort & Conference Center's NOI of $10.2 million for the year ended December 31, 2013, decreased $0.5 million compared to $10.7 million for the year ended December 31, 2012 primarily due to lower banquet and catering revenues caused by the ongoing renovation project. NOI of $10.7 million in 2012 increased $2.9 million as compared to 2011 primarily due to an increase in RevPAR to $109.84 from $95.73, or 14.7%. RevPAR is defined as the average daily room rate multiplied by average occupancy. During the first quarter of 2013, we announced the expansion and

redevelopment of The Woodlands Resort and Conference Center and construction is expected to be completed during the summer of 2014. The renovation will encompass 222 existing guest rooms, the replacement of 218 rooms with a new wing consisting of 184 guest rooms and suites, a new lobby, an update of the 13,000 square foot spa facility, the revitalization of 60,000 square feet of meeting and event facilities, and the development of a 1,000 foot long lazy river. We expect the renovation, when complete, will have a significant positive impact on NOI due to the replacement of a majority of the older rooms which have the lowest RevPAR and the addition of amenities such as the lazy river and renovated spa which should increase weekend occupancy. Construction costs are expected to total approximately $75 million and as of December 31, 2013, we have incurred $27.5 million. Additionally, during the first quarter of 2013, we closed on a $95.0 million non-recourse mortgage bearing interest at one-month LIBOR plus 3.5% and having an initial maturity date of February 8, 2016 with three, one-year extensions at our option. The mortgage refinanced the existing $36.1 million mortgage and will provide the majority of the funding for this redevelopment.

**Other**

The Club at Carlton Woods (the "Club") is a 36-hole golf and country club at The Woodlands with 699 total members as of December 31, 2013 consisting of 576 golf memberships and 123 sports memberships. The Club sold 94 new golf memberships during the year ended December 31, 2013. We estimate the Club requires approximately 800 golf members to achieve break-even NOI, and therefore we expect to continue to incur NOI losses for the foreseeable future. The Club had a $5.2 million NOI loss for the year ended December 31, 2013, an increase in loss of $1.1 million as compared to the $4.2 million NOI loss in 2012. The decrease in NOI is due primarily to increased payroll and related costs. A significant portion of membership deposits are not recognized as revenue when collected, but are recognized over the estimated 12-year life of a membership. Prior to 2013, membership deposits were refundable and therefore no revenue was recognized. For the years ended December 31, 2013, 2012 and 2011, cash membership deposits collected but not recognized in revenue or included in NOI were $4.3 million, $5.5 million and $2.9 million respectively.

The Woodlands Parking Garages comprise nearly 3,000 parking spaces in two separate parking structures. The Waterway Square Garage has 1,933 spaces and is located in The Woodlands Town Center. The Waterway Square Garage has excess parking capacity for future commercial development. Woodloch Forest garage has approximately 1,000 total spaces with 300 spaces available for future adjacent office development.

**Partially Owned**

During the first quarters of 2013 and 2012, we received distributions of $2.5 million and $2.4 million, respectively, from our Summerlin Hospital investment. Distributions from the Summerlin Hospital are typically made one time per year in the first quarter.

In 2012, we became a 50% partner in a joint venture formed for the purpose of acquiring 100% of the operating assets of the Las Vegas 51s, a Triple-A baseball team which is a member of the Pacific Coast League. In May 2013, the joint venture acquired the team for approximately $21.0 million, and our share of the purchase price was $10.5 million. Our strategy in acquiring an ownership interest is to pursue a potential relocation of the team to a stadium which we would then build in our Summerlin master planned community. There can be no assurance that such a stadium will ultimately be built.

**Operating Assets Revenues and Expenses (*)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | | (In thousands) | |
| Minimum rents | $ 80,124 | $ 81,140 | $ 72,405 |
| Tenant recoveries | 20,901 | 23,210 | 20,254 |
| Resort and conference center revenues | 39,201 | 39,782 | 34,850 |
| Other rental and property revenues | 20,360 | 20,959 | 21,064 |
| Total revenues | 160,586 | 165,091 | 148,573 |
| Other property operating costs | 64,608 | 60,072 | 55,745 |
| Rental property real estate taxes | 12,065 | 11,292 | 10,638 |
| Rental property maintenance costs | 7,552 | 8,073 | 6,922 |
| Resort and conference center operations | 29,454 | 29,112 | 27,124 |
| Provisions for (recovery of) doubtful accounts | 835 | 1,335 | (107) |
| Demolition costs | 2,078 | — | — |
| Depreciation and amortization | 31,427 | 23,318 | 20,309 |
| Interest expense, net | 19,011 | 16,104 | 12,775 |
| Early extinguishment of debt | — | — | 11,305 |
| Equity in Earnings (loss) from Real Estate Affiliates | (3,893) | (3,683) | (3,926) |
| Total expenses | 163,137 | 145,623 | 140,785 |
| Venture partner share of The Woodlands | — | — | 425 |
| Operating Assets REP EBT | $ (2,551) | $ 19,468 | $ 8,213 |

(*) For a detailed breakdown of our Operating Assets segment EBT, refer to Note 18 – Segments.

Minimum rents for the year ended December 31, 2013 of $80.1 million decreased $1.0 million compared to 2012. The decrease was primarily due to lower minimum rents for the year ended December 31, 2013 at South Street Seaport of $7.5 million resulting from Superstorm Sandy and at the Outlet Collection at Riverwalk of $3.3 million resulting from vacating tenants due to the redevelopment. These decreases were partially offset by increased rents for the year ended December 31, 2013 of $6.8 million related to the acquisition of our partner's interest in Millennium Waterway Apartments in May 2012, the opening of 3 Waterway Square and One Hughes Landing during 2013, which collectively contributed $3.6 million, and a $2.5 million increase at Ward Centers primarily related to the opening of Bed, Bath, & Beyond in April 2013, a full year operations of TJ Maxx and the relocation and expansion of Nordstrom Rack in November 2013.

Tenant recoveries for the year ended December 31, 2013 of $20.9 million, decreased $2.3 million compared to 2012. The decrease was primarily due to lower tenant recoveries at South Street Seaport of $2.6 million related to the property being vacant as a result of Superstorm Sandy and the closing of Pier 17 for redevelopment in September 2013, and at Riverwalk Marketplace of $0.9 million as a result of its redevelopment. These decreases were partially offset by $0.5 million due to the opening of 3 Waterway Square in 2013 and $0.3 million at Waterway Square Garage due to an increase in tenant occupancy.

Other property operating costs increased $4.5 million to $64.6 million for the year ended December 31, 2013 as compared to 2012. The increase for the year ended December 31, 2013 primarily resulted from increased costs of $4.0 million relating to the Club at Carlton Woods as well as 3 Waterway Square and One Hughes Landing being placed in service in 2013. Other property operating costs generally include recoverable and non-recoverable costs such as utilities and property management expenses relating to our operating assets, with the exception of real estate taxes and maintenance which are shown separately.

The provision for doubtful accounts decreased for the year ended December 31, 2013 by $0.5 million as compared to 2012 primarily due to bad debt charges at South Street Seaport in 2012 related to Superstorm Sandy which resulted in several tenant terminations.

The $2.1 million in demolition costs for the year ended December 31, 2013 are due to costs to demolish a portion of the existing structures at our Riverwalk, Columbia Regional Building and South Street Seaport construction projects.

Depreciation expense for the year ended December 31, 2013 increased $8.1 million as compared to 2012 primarily due to $1.3 million related to opening of 3 Waterway Square and approximately $6.3 million of increased depreciation recorded as a result of the decrease in estimated useful lives of certain assets on land approved for redevelopment at Columbia Office, Landmark and Ward Centers.

Net interest expense increased $2.9 million for the year ended December 31, 2013 compared to 2012. The increase is mostly due to an increase of $1.4 million related to 70 CCC lender's participation right in the property and higher average debt balances in 2013. The participation right is remeasured each quarter based on the estimated fair value of the property and the change in the value of the participation right is recorded through interest expense. We executed a new 63,985 square foot tenant lease in the first quarter of 2013, which increased the estimated value of the lender's participation.

**Strategic Developments**

Our Strategic Development assets generally require substantial future development to achieve their highest and best use. For our redevelopment and development projects, the total estimated costs of a project including the construction costs are exclusive of our land value unless otherwise noted. Most of the properties and projects in this segment generate no revenues with the exception of our future condominium projects for which we will likely recognize revenue on a percentage of completion basis. Our expenses relating to these assets are primarily related to carrying costs, such as property taxes and insurance, and other ongoing costs relating to maintaining the assets in their current condition. If we decide to redevelop or develop a Strategic Development asset, we would expect that, upon completion of development, the asset would either be sold or reclassified to the Operating Assets segment and NOI would become an important measure of its operating performance.

**Strategic Developments Revenues and Expenses (*)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Minimum rents | $ 763 | $ 905 | $ 917 |
| Condominium rights and unit sales | 32,969 | 267 | 22,067 |
| Other land, rental and property revenues | 5,522 | 3,584 | 1,876 |
| Total revenues | 39,254 | 4,756 | 24,860 |
| Condominium rights and unit cost of sales | 16,572 | 96 | 14,465 |
| Rental and other property operations | 11,335 | 6,027 | 6,703 |
| Provision for (recovery of) doubtful accounts | 1 | (111) | (137) |
| Depreciation and amortization | 189 | 225 | 234 |
| Interest (income) expense, net | (4,318) | 219 | 323 |
| Equity in Earnings from Real Estate Affiliates | (10,535) | — | — |
| Total expenses | 13,244 | 6,456 | 21,588 |
| Strategic Developments EBT | $ 26,010 | $ (1,700) | $ 3,272 |

(*) For a detailed breakdown of our Strategic Developments segment of EBT, please refer to Note 18 – Segments.

Revenues increased $34.5 million to $39.3 million for the year ended December 31, 2013 as compared to December 31, 2012 and decreased $20.1 million to $4.8 million for the year ended December 31, 2012 as compared to December 31, 2011. The increase in 2013 is primarily due to the May 2013 sale of our condominium rights related to the ONE Ala Moana project. The decrease between 2011 and 2012 is caused by the sale of the remaining two condominium units at Nouvelle at Natick in 2012 compared to selling 57 units in 2011. The condominium rights and unit sales and related cost of sales for the year ended December 31, 2013 represents partial recognition of the gain on sale of the condominium rights to the joint venture in which we have a 50% interest and the portion of the deferred sale relating to our ongoing interest in the condominium rights that we recognized on the percentage of completion basis. Condominium rights and unit cost of sales decreased $14.4 million for the year ended December 31, 2012 as compared to the same period in 2011, respectively, primarily due to the Nouvelle at Natick project noted above.

Other land, rental and property revenues primarily consist of the sale of land parcels (at our various projects) to joint ventures in which we are a partner or to third parties. Revenues vary year to year depending on the number of parcels sold and the selling price.

Rental and other property operations expenses increased $5.3 million for the year ended December 31, 2013 as compared to December 31, 2012. During 2013, we expensed $2.5 million in marketing costs related to our Ward Village and South Street Seaport development projects. The balance is primarily due to the $3.2 million cost associated with the sale of land to The Metropolitan Downtown Columbia Project.

Net interest (income) expense improved for the year ended December 31, 2013 as compared to prior periods due to higher capitalized interest from projects under construction. In addition, the Equity in Earnings from Real Estate Affiliates includes our share of the profit from the ONE Ala Moana condominium venture.

The following describes the status of our active Strategic Development projects as of December 31, 2013:

***The Woodlands***

*Hughes Landing*

During the third quarter 2013, we began construction of Two Hughes Landing, the second Class A office building in Hughes Landing and anticipate completion of construction by the second quarter of 2014. Two Hughes Landing will be a 197,000 square foot, eight-story office building with an adjacent parking garage containing approximately 630 spaces. The building and the garage will be situated on 3.6 acres of land and are estimated to cost approximately $49 million. As of December 31, 2013 we have incurred $20.7 million of costs on this project, The project is financed by a $41.2 million non-recourse construction loan bearing interest at one-month LIBOR plus 2.65% with an initial maturity date of September 11, 2016, with two one-year extension options.

In October 2013, we began construction of an eight-story, Class A, multi-family project within Hughes Landing called One Lake's Edge and anticipate completion of construction in the first quarter of 2015. One Lake's Edge will be comprised of 390 multi-family units (averaging 984 square feet per unit), 22,289 square feet of retail and a 750 space parking garage, all situated on 2.92 acres of land. Additionally, the project will feature an amenity deck on the third floor which will house the pool, courtyard and other amenities overlooking Lake Woodlands. Total development costs are expected to be approximately $88 million. As of December 31, 2013, we have incurred $5.9 million on this project. On November 25, 2013, we closed on a $73.5 million non-recourse construction loan bearing interest at one-month LIBOR plus 2.50% with an initial maturity date of November 25, 2016, with two one-year extension options.

During the fourth quarter 2013, we began construction of Hughes Landing Retail, the 123,000 square foot retail component of Hughes Landing. The project will consist of Whole Foods, an anchor tenant with 40,000 square feet of space, 32,900 square feet of retail, and a 50,100 square foot restaurant row. Total development costs are expected to be approximately $36 million and as of December 31, 2013 we have incurred $1.6 million of development costs on this project. On December 20, 2013, we closed on a $36.6 million non-recourse construction loan bearing interest at one-month LIBOR plus 1.95% with an initial maturity date of December 20, 2016, with two one-year extension options. The project is expected to be completed in the fourth quarter of 2014. The majority of the restaurants on restaurant row will open during the first quarter 2015. We have pre-leased 43.6% of the project as of December 31, 2013.

On December 16, 2013, we announced that we would begin construction on a Class A office project comprised of two adjacent buildings for Exxon Mobil Corporation ("ExxonMobil"). The project is expected to be completed by the fourth quarter of 2015. The West Building will be 12-stories and approximately 318,000 leasable square feet and the East Building will be 13-stories and 329,000 leasable square feet. A 2,617-car structured parking garage will also be located on the 4.3 acre site and will be exclusive to the office project. Total development costs are expected to be approximately $172 million. As of December 31, 2013, we have incurred $8.3 million of development costs on this project of which $6.7 million is related to leasing. ExxonMobil has executed leases to occupy the entire West Building for twelve years, and 160,000 square feet in the East Building for eight years with an option to lease the remaining space before the building opens. We expect to reach stabilized NOI, based on ExxonMobil's current 478,000 square foot commitment, of $10.7 million in 2018. If ExxonMobil exercises their option for the remaining space, stabilized annual NOI will increase to approximately $14.5 million.

*Creekside Village Green*

Creekside Village Green is located within the 100-acre mixed-use commercial development that is anchored by H-E-B grocery store and will ultimately include 400,000 square feet of retail and office

space, 800 units of multi-family, 200 units of senior living facility and an 85,000 square foot campus within the Lone Star College System. Creekside Village Green is a 74,352 square foot retail center which will consist of retail, restaurant and professional office space across two main buildings and a centrally located restaurant building. Creekside Village Green will also include a one-acre tree-lined park designed to be the hub of all activity within the greater 100-acre development. During the fourth quarter 2013 we began construction, and we anticipate the project will open in the fourth quarter of 2014. Total development costs are expected to be approximately $19 million.

As of December 31, 2013, we have incurred $1.9 million of costs. We plan to fund development by using The Woodlands Master Credit Facility (Described in Note 8 – Mortgages, Notes and Loan Payable). We have pre-leased 32.6% of the project as of December 31, 2013.

***Millennium Woodlands Phase II***

Millennium Woodlands Phase II, a joint venture with The Dinerstein Companies, began construction of a 314-unit Class A multi-family complex in The Woodlands Town Center in the second quarter of 2012. On July 5, 2012, Millennium Phase II was capitalized by our contribution of 4.8 acres of land valued at $15.5 million (compared to $2.2 million book value), our partner's contribution of $3.0 million in cash and a construction loan in the amount of $37.7 million, which is guaranteed by our partner. Construction is expected to be completed in the second quarter of 2014. Construction costs are estimated to be approximately $38 million and as of December 31, 2013, the project has incurred $23.7 million.

***ONE Ala Moana Tower Condominium Project***

In 2011, we and an entity jointly owned by two local development partners formed a joint venture called HHMK Development, LLC ("HHMK Development") to explore the development of a luxury condominium tower above an existing parking structure at Ala Moana Center, a highly successful regional mall owned by a third party. We own 50% and our partner owns the remaining 50% of HHMK Development. In 2012, we formed another 50/50 joint venture, KR Holdings, LLC ("KR Holdings"), with the same development partner. The venture was responsible for development activities and in 2013 closed on construction financing for the project. Construction of the 23-story, 206-unit tower consisting of one, two and three-bedroom units ranging from 760 to 4,100 square feet commenced in April of 2013 and is expected to be completed by the end of 2014. The venture expects to invest a total of $265.1 million, which includes construction, selling and all financing costs. As of December 31, 2013 the venture had incurred $109.4 million (inclusive of land value) of total costs. The project is financed by a $132.0 million construction loan. The loan is non-recourse, bears interest at one-month LIBOR plus 3.00%, is secured by the condominiums and buyers' deposits, and matures May 15, 2016, with the option to extend for one year. Additionally, two $20.0 million non-recourse mezzanine loan commitments with List Island Properties and A&B Properties were drawn in full on May 15, 2013. These loans have a blended interest rate of 12% and mature on April 30, 2018 with the option to extend for one year. In addition to the mezzanine loans, A&B Properties and List Island Properties both have a profit interest in KR Holdings, which entitles them to receive a share of the profit, after a return of our capital plus a 13% preferred return on our capital. A&B Properties' participation is capped at $3.0 million.

Upon closing of the construction loan on May 15, 2013 and pursuant to the terms of the venture agreement, we sold our condominium rights to KR Holdings for $47.5 million and received net cash proceeds of $30.8 million and an equity interest of 50% in KR Holdings. Our partner contributed cash of $16.8 million for its 50% equity interest. Additionally, KR Holdings reimbursed HHMK Development for its development expenditures related to the project. We also received a cash distribution from HHMK Development in the amount of $3.1 million representing the return of our investment. Due to our continuing involvement in KR Holdings, we accounted for the transaction as a partial sale representing 50% of the $47.5 million sales value of the condominium rights, and

accordingly, we recognized net profit of $11.8 million. The remaining $23.7 million sales value of the condominium rights will be recognized on the same percentage of completion basis as KR Holdings. As of December 31, 2013, the project was considered to be 38.8% complete, and we recognized an additional $4.6 million of profit on the sale for the year ended December 31, 2013.

During the fourth quarter of 2012, we sold all of the condominium units at an average price of $1.6 million, or approximately $1,170 per square foot and as of July 1, 2013, the venture had collected $66.2 million of buyer deposits, representing 20% of contracted sales prices.

***The Shops at Summerlin***

During the second quarter of 2013, we commenced construction of The Shops at Summerlin, an approximate 106-acre project within our 400-acre site located in downtown Summerlin and anticipate completion at the end of 2014. The Shops at Summerlin will be approximately 1.6 million square feet and will consist of a 1.1 million square foot Fashion Center which is designed to have three anchor tenants, small-shop retail and restaurants. Additionally, the project will include an approximate 200,000 square foot office building and approximately 280,000 square feet of big box and junior anchor retail space adjacent to the Fashion Center. Total estimated costs are $391 million and as of December 31, 2013, we have incurred $107.4 million on this project (exclusive of land value). During 2013, we executed agreements with two major department store anchors, Macy's and Dillard's, for approximately 380,000 square feet.

***The Metropolitan Downtown Columbia Project***

On April 12, 2012, Columbia Parcel D venture, in which we are a 50% partner with Kettler, received approval of the final development plan component of the entitlement process for the first phase. The entitlement provides a density plan for up to 817 residential units, and up to 76,000 square feet of retail to be developed on two parcels. One parcel includes The Metropolitan (Parcel D) which will be a 380-unit apartment building, and the second parcel will include a 437-unit apartment building (Parcel C).

The venture began construction of The Metropolitan in February 2013 and completion is expected in the fourth quarter of 2014. The total estimated development costs are approximately $97 million including land value and as of December 31, 2013 the venture has incurred $36.8 million of development costs and our total net investment for this project is $4.9 million.

On July 11, 2013, the joint venture closed a $64.1 million construction loan which is non-recourse to us. The loan bears interest at one-month LIBOR plus 2.4% and matures in July 2020. At loan closing, our land contribution was valued at $20.3 million and Kettler contributed $13.3 million in cash, of which $7.0 million was distributed to us. Both we and Kettler were required to each make future contributions of $3.1 million to the joint venture in accordance with the loan agreement, thus increasing our total capital account to $16.4 million. This transaction was accounted for as a partial sale of the land for which we recognized a net profit of $0.7 million. As of December 31, 2013, we have contributed the $3.1 million to the joint venture.

On October 4, 2013, we entered into a joint venture agreement with Kettler to construct a 437-unit, Class A apartment building with 31,000 square feet of ground floor retail on Parcel C. We contributed approximately five acres of land having a book value of $4.0 million, in exchange for a 50% interest in the venture. Our partner will provide construction and property management services, including the funding and oversight of development activities, as well as obtaining construction financing. When the joint venture closes on a construction loan our interest in the joint venture will be increased to $23.4 million or $53,500 per constructed unit. As of December 31, 2013, our total net investment for this project is $5.8 million.

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The following table summarizes our projects under construction, and related debt, for Operating Assets and Strategic Developments as of December 31, 2013. As further described in the footnotes below, we are currently documenting construction financing approximating $312.0 million for our Summerlin project and are currently seeking construction financing of $143.0 million for our ExxonMobil Build-to-Suit project. We expect to close construction financing on both of these projects by the end of the second quarter of 2014.

**($ in thousands)**

| Announced Project | Total Estimated Costs(a) | Costs Paid Through December 31, 2013(b) | Estimated Remaining to be Spent | Committed/ Allocated Debt(c) | Amount Drawn Through 12/31/13 | Remaining Debt to be Drawn | Estimated Costs Remaining in Excess of Remaining Financing to be Drawn(d) | Estimated Completion Date |
|---|---|---|---|---|---|---|---|---|
| **Operating Assets** | **(A)** | **(B)** | **(A) - (B) = (C)** | **(D)** | **(E)** | **(D) - (E) = (F)** | **(C) - (F) = (G)** | |
| Columbia Regional Building | $ 24,616 | $ 11,525 | $ 13,091 | $ 23,008 | $ 9,207 | $ 13,801 | $ (710) | Q4 2014 |
| One Hughes Landing | 49,615 | 36,014 | 13,601 | 38,000 | 19,538 | 18,462 | (4,861) | Complete(e) |
| Outlet Collection at Riverwalk | 81,778 | 22,073 | 59,705 | 60,000 | — | 60,000 | (295) | Q2 2014 |
| Seaport – Pier 17 | 424,880 | 17,636 | 407,244 | — | — | — | 407,244(f) | Q4 2016 |
| The Woodlands Resort and Conference Center | 75,375 | 23,746 | 51,629 | 48,900 | — | 48,900 | 2,729 | Q3 2014 |
| Ward Sales Center | 24,412 | 11,365 | 13,047 | — | — | — | 13,047 | Q1 2014 |
| Total Operating Assets | 680,676 | 122,359 | 558,317 | 169,908 | 28,745 | 141,163 | 417,154 | |
| **Strategic Developments** | | | | | | | | |
| Two Hughes Landing | 48,603 | 9,475 | 39,128 | 41,230 | 10 | 41,220 | (2,092) | Q2 2014 |
| Creekside Park Village Center | 18,536 | 764 | 17,772 | 18,536 | — | 18,536 | (764)(g) | Q4 2014 |
| Exxon Mobil Corp Build-to-Suit | 171,489 | 4,295 | 167,194 | — | — | — | 167,194(h) | Q4 2015 |
| Hughes Landing Retail | 36,207 | 1,369 | 34,838 | 36,575 | 913 | 35,662 | (824) | Q4 2014 |
| One Lake's Edge | 88,493 | 4,044 | 84,449 | 73,525 | — | 73,525 | 10,924 | Q1 2015 |
| The Shops at Summerlin | 391,369 | 59,458 | 331,911 | — | — | — | 331,911(i) | Q4 2014 |
| Total Strategic Developments | 754,697 | 79,405 | 675,292 | 169,866 | 923 | 168,943 | 506,349 | |
| **Strategic Development – Joint Ventures (j)** | | | | | | | | |
| Metropolitan Downtown Columbia Project | 97,632 | 35,093 | 62,539 | 64,100 | 2,303 | 61,797 | 742 | Q4 2014 |
| Millennium Phase II | 38,405 | 20,453 | 17,952 | 37,700 | 20,339 | 17,361 | 591 | Q2 2014 |
| One Ala Moana | 265,088 | 109,447 | 155,641 | 172,000 | 40,000 | 132,000 | 23,641 | Q4 2014 |
| Total Strategic Developments – Joint Ventures | 401,125 | 164,993 | 236,132 | 273,800 | 62,642 | 211,158 | 24,974 | |
| Combined Total at December 31, 2013 | $1,836,498 | $ 366,757 | $1,469,741 | $ 613,574 | $ 92,310 | $ 521,264 | $ 948,477 | |

|  |  |  |  |  |  |  |  |
|---|---|---|---|---|---|---|---|
| 2013 | $1,836,498 | $ 366,757 | $1,469,741 | $ 613,574 | $ 92,310 | $ 521,264 | $ 948,477 |
| **Projects For Which We Are Seeking Financing:** |  |  |  |  |  |  |  |
| Exxon Mobil Corp Build-to-Suit |  |  |  |  |  |  | 142,900(h) |
| The Shops at Summerlin |  |  |  |  |  |  | 311,800(i) |
| Estimated costs to be funded, net of financings, assuming closing on Exxon Mobil Corp Build-to-Suit and The Shops at Summerlin |  |  |  |  |  |  | $ 493,777 |

(a) Total Estimated Costs include all costs to be incurred on the project which includes, construction costs, demolition costs, marketing costs, capitalized leasing and deferred financing.

(b) Includes construction costs, demolition costs, marketing costs, capitalized leasing and deferred financing costs, but excludes retainage payable and indirect corporate project costs.

(c) Committed Debt details:

– Riverwalk – total commitment is $64,400 which includes $60,000 for construction and a $4,400 earnout which is available after completion and the achievement of operational covenants.

– The Woodlands Resort & Conference Center – total commitment is $95,000 which includes $48,900 for construction, a $10,000 earnout and $36,100 which refinanced prior mortgage debt.

(d) Negative balances represent cash to be drawn from financing in excess of Estimated Remaining to be Spent. This is caused primarily by December vendor payments made by us for which we have not yet been reimbursed by the lenders.

(e) This project was placed in service during 2013 but still requires some remaining capital to be invested.

(f) We will likely seek project financing for the development when a significant portion of the project is pre-leased.

(g) This project will be financed by The Woodlands master credit facility.

(h) We are currently seeking financing and expect to close on a $143 million construction loan during the second quarter of 2014.

(i) We are currently documenting construction financing approximating $312 million and expect to close during the second quarter of 2014 when a significant portion of the project is pre-leased.

(j) Strategic Development – Joint Ventures amounts are representative of the total project, not just HHC's investment. Estimated costs remaining in excess of financing are the responsibility of our partners.

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**General and Administrative and Other Expenses**

The following table contains certain significant expenses on a consolidated basis that are not otherwise included within the segment analyses. Variances related to income and expenses included in NOI or EBT are explained within the previous segment discussion. Significant variances for consolidated expenses not included in NOI or REP EBT are described below.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | | (In thousands) | |
| General and administrative | $ (48,466) | $ (36,548) | $ (32,342) |
| Other income | 25,869 | 2,125 | — |
| Depreciation and amortization | (33,845) | (24,429) | (16,782) |
| Early extinguishment of debt | — | — | (11,305) |
| Warrant liability gain (loss) | (181,987) | (185,017) | 101,584 |
| Reduction in tax indemnity receivable | (1,206) | (20,260) | — |
| Provision (benefit) from income taxes | 9,570 | 6,887 | (18,325) |
| Equity in earnings from Real Estate Affiliates | 14,428 | 3,683 | 8,578 |

General and administrative expenses increased $11.9 million during the year ended December 31, 2013 as compared to 2012 primarily due to increased compensation and benefits of approximately $7.4 million resulting from our increased headcount, incentive stock amortization and director fees, all of which total approximately $2.6 million, and additional professional fees of $2.3 million.

Other income for the year ended December 31, 2013 includes a $12.2 million pre-tax gain recognized on insurance proceeds received relating to South Street Seaport, an $8.5 million pre-tax gain recognized on the sale of our Head Acquisition, LP interest, a $4.5 million favorable legal settlement relating to the British Petroleum oil spill in the Gulf of Mexico in 2010 and a $0.6 million gain from the sale of Rio West Mall.

The warrant liability loss for the years ended December 31, 2013 and 2012 was due to appreciation in our stock price, thereby increasing the values of the warrants. The warrant liability gain during 2011 resulted from a decrease in stock price during the year. During the fourth quarter of 2012, we retired $6.1 million Sponsor Warrants. Please refer to Footnote 3 – Sponsor and Management Warrants for more information.

The reduction in tax indemnity receivable of $1.2 million for the year ended December 31, 2013 relates to the utilization of tax assets. Please refer to Note 9 – Income Taxes for more information.

The increase in provision for income taxes of $2.7 million for the year ended December 31, 2013 was attributable to increases in operating income as compared to 2012, the recording of a $53.9 million deferred tax liability in our captive REIT, and other permanent items, partially offset by an $88.8 million tax benefit from the release of valuation allowances.

We have significant permanent differences, primarily from warrant liability gains and losses, interest income on the tax indemnity receivable, and changes in valuation allowances that cause our effective tax rate to deviate greatly from statutory rates. The effective tax rates based upon actual operating results were (14.2)% for the year ended December 31, 2013 compared to (6.4)% for the year ended December 31, 2012. The changes in the tax rate were primarily attributable to the changes in the warrant liability, the valuation allowance, and the deferred tax liability recorded in our captive REIT.

The equity in earnings from Real Estate Affiliates of $14.4 million for the year ended December 31, 2013 increased over 2012 primarily due to the recognition of $10.7 million representing our share of the profit related to the ONE Ala Moana condominium project.

The following table represents our capitalized internal costs by segment for the years ended December 31, 2013 and 2012:

| | Capitalized internal costs | | Capitalized internal costs related to compensation costs | |
|---|---|---|---|---|
| | Year Ended December 31, | | Year Ended December 31, | |
| | 2013 | 2012 | 2013 | 2012 |
| | (In millions) | | (In millions) | |
| MPC segment | $ 8.9 | $ 7.7 | $ 5.6 | $ 5.0 |
| Operating Assets segment | 5.1 | 3.5 | 4.3 | 2.6 |
| Strategic Developments segment | 4.4 | 2.7 | 3.7 | 2.1 |

***Impairments***

We evaluate our real estate assets for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Recoverability in this context means that the expected cumulative undiscounted future cash flows of an asset are less than its carrying value. The recoverability analysis, as an accounting concept, considers hold periods, but ignores when the future cash flows are expected to be received within that hold period and whether we currently expect to receive an above or below market rate of return over our anticipated holding period. If expected cumulative undiscounted cash flows are less than the carrying value, then we are required to record the asset at the lower of its carrying value or fair value. The process for deriving fair value involves discounting the expected future cash flows at a rate of return that we believe an investor would require based on the risk profile of the cash flows and returns available in the market for other investments having similar risk. We may also use other inputs such as appraisals and recent transactions for comparable properties, if appropriate. Book value for assets that have been recently impaired from an accounting perspective may more likely reflect market value than book values of assets that have not been impaired; consequently, unimpaired assets may be expected to generate above or below market returns relative to their respective book values. The lower book basis resulting from an impairment charge increases reported profitability from the asset in future periods, but has no impact on cash flow. For the years ended December 31, 2013, 2012 and 2011, we evaluated whether impairment indicators existed at all of our assets. In most instances, we concluded no impairment indicators were present. When indicators of impairment were present, we reconsidered expected cash flows and concluded that there were no impairments.

*Master Planned Communities Impairments*

Our Master Planned Communities comprise thousands of acres that include four distinct communities, Maryland, Bridgeland, Summerlin and The Woodlands. Master Planned Community assets by their nature have characteristics that may create a wider range of outcomes in an impairment analysis compared to other types of real estate such as office, retail and industrial properties. Unlike operating assets, master planned community assets have extended life cycles that may last 20 to 40 years and have few long-term contractual cash flows (such as operating lease revenue). Further, the majority of the master planned community assets generally have minimal to no residual values because of their liquidating characteristics and development periods often occur through several economic cycles. Subjective factors such as the expected timing of property development and sales, optimal development density and sales strategy impact the timing and amount of expected future cash flows and fair value.

Based on our development strategies, we may perform a separate impairment evaluation for regions or projects within a single master planned community if we believe the cash flows for those assets are independent from other regions or projects within the community. Separating master planned

communities into multiple regions or projects for impairment testing may result in a different accounting conclusion than if the community was evaluated as a whole; however, the accounting has no impact on economic value or fair value. The significant assumptions in our Master Planned Communities segment relate to future sales prices of land and future development costs needed to prepare land for sale, over the planned life of the project, which are based, in part, on assumptions regarding sales pace, timing of related development costs, and the impact of inflation and other market factors. There were no impairments for our master planned communities during the years ended December 31, 2013, 2012 or 2011.

*Operating Assets Impairments*

There were no impairment charges for the years ended December 31, 2013, 2012 and 2011.

*Strategic Developments Impairments*

There were no impairments recorded for our Strategic Development properties the years ended December 31, 2013, 2012 or 2011.

**Liquidity and Capital Resources**

Our primary sources of cash include cash flow from land sales in our MPC segment, cash generated from our operating assets, first mortgage financings secured by our assets and the proceeds from the issuance of the Senior Notes. Our primary uses of cash include working capital, overhead, debt service, property improvements, and development costs. We believe that our sources of cash, including existing cash on hand, will provide sufficient liquidity to meet our existing non-discretionary obligations and anticipated ordinary course operating expenses for at least the next twelve months. The development and redevelopment opportunities in our Operating Assets and Strategic Developments segments are capital intensive and will require significant additional funding. Most of these costs are currently discretionary, which means that we could discontinue spending on these activities if our liquidity profile, economic conditions or the feasibility of projects changes. To the extent we decide to raise capital in the future, it will likely be comprised of a mix of construction, bridge and long-term financings, by entering into joint venture arrangements and the sale of non-core assets.

Total outstanding debt was $1,514.6 million as of December 31, 2013. Our share of the debt of our Real Estate Affiliates totaled $39.0 million. Please refer to Note 8 – Mortgages, Notes and Loans Payable to our Consolidated Financial Statements for a table showing our debt maturity dates.

On October 2, 2013, we issued $750.0 million in aggregate principal amount of 6.875% Senior Notes due 2021. We have used and will continue to use the net proceeds for development, acquisitions and other general corporate purposes. Interest is payable semiannually, on April 1 and October 1 of each year starting in April 2014. The Notes contain customary terms and covenants including events of default.

The following table summarizes our Net Debt on a segment basis as of December 31, 2013. Net Debt is defined as our share of mortgages, notes and loans payable, at our ownership share, reduced by short-term liquidity sources to satisfy such obligations such as our ownership share of cash and cash equivalents and SID receivables. Although Net Debt is not a recognized GAAP financial measure, it is

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readily computable from existing GAAP information and we believe, as with our other non-GAAP measures, that such information is useful to our investors and other users of our financial statements.

| Segment Basis (a) | Master Planned Communities | Operating Assets | Strategic Developments | Segment Totals | Non-Segment Amounts | Total December 31, 2013 |
|---|---|---|---|---|---|---|
| | | | (In thousands) | | | |
| Mortgages, notes and loans payable | $ 223,808 | $515,282(b) | $ 51,866(c) | $ 790,956 | $ 762,691 | $1,553,647 |
| Less: Cash and cash equivalents | (33,739) | (44,602)(d) | (20,361)(e) | (98,702) | (799,311) | (898,013) |
| Special Improvement District receivables | (39,688) | — | — | (39,688) | — | (39,688) |
| Municipal Utility District receivables | (125,830) | — | — | (125,830) | — | (125,830) |
| Net debt | $ 24,551 | $470,680 | $ 31,505 | $ 526,736 | $ (36,620) | $ 490,116 |

(a) Please refer to Note 18 – Segments.

(b) Includes our $1.3 million share of debt of our Real Estate Affliates in Operating Assets segment (Woodlands-Sarofim #1).

(c) Includes our $37.7 million share of debt of our Real Estate Affliates in Strategic Developments segment (KR Holdings, LLC, Millennium Woodlands Phase II, and The Metropolitan Downtown Columbia Project).

(d) Includes our $0.9 million share of cash and cash equivalents of our Real Estate Affliates in Operating Assets segment (Woodlands-Sarofim #1, Summerlin Las Vegas Baseball Club, LLC, and Stewart Title).

(e) Includes our $2.2 million share of cash and cash equivalent of our Real Estate Affliates in Strategic Developments segment (KR Holdings, LLC, HHMK Development, LLC and The Metropolitan Downtown Columbia Project).

**Cash Flows**

Cash flow activities include the consolidated cash flow of The Woodlands from the date of acquisition, July 1, 2011, through December 31, 2013.

*Operating Activities*

Master Planned Community development has a significant impact on our business. The cash flows and earnings from the business can be much more variable than from our operating assets because the MPC business generates revenues from land sales rather than recurring contractual revenues from operating leases. MPC Land sales are a substantial portion of our cash flows from operating activities and are partially offset by MPC expenditures.

Net cash provided by operating activities was $129.3 million for the year ended December 31, 2013, compared to net cash provided by operating activities of $153.1 million for the year ended December 31, 2012, and $86.5 million for the year ended December 31, 2011.

The $23.7 million decrease in cash provided by operating activities for the year ended December 31, 2013 compared to the same period in 2012 was primarily the result of increased MPC development and condominium expenditures of $47.7 million and $5.7 million of land acquisition costs, higher leasing commissions at our projects under development of $15.0 million, higher compensation and benefit costs of $7.4 million as well as lower MUD collections of $33.0 million and lower Operating Assets segment earnings of $8.7 million. These decreases were partially offset by the collection of $47.5 million related to the sale of our condominium rights to KR Holdings, $36.0 million increase in MPC segment

earnings due to higher land sales, $20.5 million in proceeds received through December 31, 2013 from our insurance carriers related to the Superstorm Sandy claim at South Street Seaport of which $3.3 million is included in net operating property improvements within the investing sections in 2013 and $5.0 million was received in 2012.

The $66.6 million increase in cash provided by operating activities for the year ended December 31, 2012 compared to 2011 was primarily a result of a $68.0 million increase in MPC land sales and more operating asset earnings, partially offset by lower condominium sales at Natick and increased MPC and development expenditures.

*Investing Activities*

Net cash used in investing activities was $294.3 million, $81.3 million and $39.7 million for the years ended December 31, 2013, 2012 and 2011, respectively. Cash used for development of real estate and property expenditures was $270.1 million, $74.4 million and $44.4 million for the years ended December 31, 2013, 2012 and 2011, respectively. The increased development expenditures in 2013 compared to 2012 and 2011 relate primarily to the construction of The Shops at Summerlin, One Hughes Landing, Two Hughes Landing, 3 Waterway Square, Ward Centers, South Street Seaport, Columbia Office Properties, and the Outlet Collection at Riverwalk.

*Financing Activities*

Net cash provided by financing activities was $830.7 million for the year ended December 31, 2013. Cash provided by financing activities for 2013 includes loan proceeds of $380.5 million from the issuance of mortgages, notes and loans payable, and $739.6 million from issuance of our Senior Notes. The proceeds partially funded development activity at the Bridgeland MPC, 3 Waterway Square, One Hughes Landing and The Shops at Summerlin, and refinanced existing debt to extend maturities and to take advantage of lower interest rates. Comparatively, for the year ended December 31, 2012, we received loan proceeds of $68.4 million and made a net payment of $80.5 million to retire Sponsors Warrants to purchase 6,083,333 shares of our common stock. Net cash used in financing activities was $103.9 million for the year ended December 31, 2011 and includes repayment of a $96.5 million acquisition note relating to the acquisition of our partner's interest in The Woodlands.

Principal payments on mortgages, notes and loans payable were $279.7 million, $55.8 million and $407.0 million for the years ended December 31, 2013, 2012 and 2011,respectively.

**Contractual Cash Obligations and Commitments**

The following table aggregates our contractual cash obligations and commitments as of December 31, 2013:

| | 2014 | 2015 | 2016 | 2017 | 2018 | Subsequent / Other | Total |
|---|---|---|---|---|---|---|---|
| | | | | In thousands | | | |
| Mortgages, notes and loans payable (a) | $ 5,462 | $ 26,958 | $470,784 | $ 25,885 | $ 26,683 | $ 958,851 | $1,514,623 |
| Interest payments (b) | 99,842 | 98,321 | 91,240 | 79,691 | 77,336 | 189,202 | 635,632 |
| Ground lease and other leasing commitments | 5,152 | 7,152 | 8,787 | 7,883 | 6,744 | 332,867 | 368,585 |
| Total | $110,456 | $132,431 | $570,811 | $113,459 | $110,763 | $1,480,920 | $2,518,840 |

(a) Based on initial maturity, not including extension options.

(b) Interest is based on the borrowings that are presently outstanding and current floating interest rates.

We lease land or buildings at certain properties from third parties. The leases generally provide us with a right of first refusal in the event of a proposed sale of the property by the landlord. Rental payments are expensed as incurred and have been, to the extent applicable, straight-lined over the term of the lease. Contractual rental expense, including participation rent, was $6.3 million, $5.4 million and $5.2 million for 2013, 2012 and 2011, respectively. The amortization of above and below-market ground leases and straight-line rents included in the contractual rent amount were not significant.

**Off-Balance Sheet Financing Arrangements**

We do not have any material off-balance sheet financing arrangements. Although we have interests in certain property owning non-consolidated ventures which have mortgage financing, the financings are non-recourse to us and totaled $69.1 million as of December 31, 2013.

**REIT Requirements**

In order for Victoria Ward to remain qualified as a REIT for federal income tax purposes, Victoria Ward must meet a number of organizational and operational requirements, including a requirement that it distribute or pay tax on 100% of its capital gains and distribute at least 90% of its ordinary taxable income to its stockholders, including us. We intend to revoke Victoria Ward's REIT status sometime in the next three years, at such time Victoria Ward will become a regular "C" corporation subsidiary. Please refer to Note 9 – Income Taxes for more detail on Victoria Ward's ability to remain qualified as a REIT.

**Seasonality**

Generally, revenues from our Operating Assets segment, Master Planned Communities segment and Strategic Developments segment are not subject to seasonal variations; however, rental revenues for certain retail tenants are subject to overage rent terms, which are based on tenant sales. These retail tenants are generally subject to seasonal variations, with a significant portion of their sales and earnings occurring during the last two months of the year. As such, our rental income is typically higher in the fourth quarter of each year.

**Critical Accounting Policies**

Critical accounting policies are those that are both significant to the overall presentation of our financial condition and results of operations and require management to make difficult, complex or subjective judgments. Our critical accounting policies are those applicable to the following:

***Impairment – Properties, Developments and Master Planned Communities Assets***

We review our real estate assets, including Operating Assets, land held for development and sale and developments in progress, for potential impairment indicators whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment indicators for our Master Planned Communities segment are assessed separately for each community and in certain circumstances, regions or projects within the community, and include, but are not limited to, significant decreases in sales pace and decreasing average selling prices. We also monitor local economic conditions and other factors that may relieve demand expectation.

Impairment indicators for development costs incurred during the beginning stages of a potential development and developments in progress are assessed by project and include, but are not limited to, significant changes in projected completion dates, revenues or cash flows, development costs, market factors and feasibility.

Impairment indicators for our Operating Assets segment are assessed separately for each property and include, but are not limited to, significant decreases in net operating income, significant decreases in occupancy or low occupancy and significant net operating losses.

Impairment indicators for our Strategic Developments segment are assessed separately for each property and include, but are not limited to, significant decreases in comparable property sale prices.

If an indicator of potential impairment exists, the asset is tested for recoverability by comparing its carrying amount to the estimated future undiscounted cash flow. Significant assumptions used in the estimation of future undiscounted cash flow include, for the master planned communities, estimates of future lot sales, costs to complete and sales pace, and for properties in our Operating Assets segment and Strategic Developments segment, future market rents, renewals and capital expenditures. Historical experience in such matters and future economic projections were used to establish these assumptions. These significant assumptions are estimates and are subject to uncertainty. Actual results could differ from these estimates. A real estate asset is considered to be impaired when its carrying amount cannot be recovered through estimated future undiscounted cash flows and the carrying value is less than the fair value. To the extent an impairment provision is necessary, the excess of the carrying amount of the asset over its estimated fair value is charged to operations. In addition, the impairment is allocated proportionately to adjust the carrying amount of the asset. The adjusted carrying amount for operating assets, which represents the new cost basis of the asset, is depreciated over the remaining useful life of the asset. The adjusted carrying amount for master planned communities is recovered through future land sales.

***Deferred Taxes and Tax Contingencies***

As of December 31, 2013 and 2012, we had gross deferred tax assets totaling $336.6 million and $410.5 million, and gross deferred tax liabilities of $413.4 million and $386.1 million, respectively. We have established a valuation allowance in the amount of $12.6 million and $101.5 million asof December 31, 2013 and 2012, respectively, against certain deferred tax assets forwhich it is more likely than not that such deferred tax assets will not be realized. Deferred tax assets in the amount of $76.4 million that we previously believed had only a remote possibility of realization were recorded in 2012 due to tax planning that made realization possible. Because significant uncertainty existed as to whether the tax planning would result in realization of the deferred tax assets we established a 100% valuation allowance. During the fourth quarter of 2013 we executed certain tax planning strategies and were able to realize over 90% of this deferred tax asset and concluded that a valuation allowance was not needed for the amount remaining.

The deferred tax liability associated with the master planned communities is largely attributable to the difference between the basis and value determined as of the date of the acquisition by our predecessors of The Rouse Company ("TRC") in 2004 adjusted for sales that have occurred since that time. The cash cost related to this deferred tax liability is dependent upon the sales price of future land sales and the method of accounting used for income tax purposes. The deferred tax liability related to deferred income is the difference between the income tax method of accounting and the financial statement method of accounting for prior sales of land in our master planned communities. Due to Tax Court litigation described below we have moved a significant portion of the deferred income from a deferred tax liability to uncertain tax position liability on our balance sheet.

One of our consolidated entities, Victoria Ward, Limited, elected to be taxed as a REIT and intended to continue to operate so as to qualify as a REIT going forward. Consequently, deferred taxes were not recorded on book and tax basis differences of Victoria Ward, Limited as it was believed these differences would ultimately be realized at a zero percent tax rate. In connection with the planned condominium development of Victoria Ward that was approved by the Hawaii Real Estate Commission during the fourth quarter of 2013, the Company now intends to revoke its REIT election within the next few years, before future phases of condominium developments commence. The Company now believes that the book and tax basis differences in the land and buildings of Victoria Ward, Limited will

be realized after such time REIT status is revoked and will be taxed at the applicable corporate tax rates. As a result of these fourth quarter events, deferred tax liabilities of $48.0 million have been recorded due to the excess book over tax basis relating to land and buildings as of December 31, 2013.

Two of our subsidiaries are involved in a dispute with the IRS relating to years in which those subsidiaries were owned by GGP. On May 6, 2011, GGP filed Tax Court petitions on behalf of these former taxable REIT subsidiaries seeking a redetermination of federal income tax for the years 2007 and 2008. The petitions seek to overturn determinations by the IRS that the taxpayers were liable for combined deficiencies totaling $144.1 million. On October 20, 2011, GGP filed a motion in the United States Tax Court to consolidate the cases of the two former taxable REIT subsidiaries of GGP subject to litigation with the Internal Revenue Service due to the common nature of the cases' facts and circumstances and the issues being litigated. The United States Tax Court granted the motion to consolidate. The case was heard by The United States Tax Court in November of 2012. We expect the tax court to rule on the case within the next twelve months.

In connection with the deferred gain that is the subject of the aforementioned litigation, GGP has provided us with an indemnity against certain potential tax liabilities. Pursuant to the Tax Matters Agreement, GGP has indemnified us from and against 93.75% of any and all losses, claims, damages, liabilities and reasonable expenses to which we become subject (the "Tax Indemnity"), in each case solely to the extent directly attributable to certain taxes related to sales of certain assets in our Master Planned Communities segment prior to March 31, 2010 ("MPC Taxes"), in an amount up to $303.8 million. Under certain circumstances, GGP has also agreed to be responsible for interest or penalties attributable to such MPC Taxes in excess of the $303.8 million ("Indemnity Cap") to the extent assessed by the IRS. As of the spinoff date, we recorded the Tax Indemnity receivable at the Indemnity Cap of $303.8 million, plus interest of $28.0 million, which is based upon the definition in the Tax Matters Agreements of "MPC Taxes" which includes 93.75% of the deferred tax liability associated with the gains deferred for tax on closed land sales prior to March 31, 2010 that are accounted for tax purposes under the percentage of completion and the completed contract methods of accounting as of March 31, 2010. The tax liability amount for book includes more than just the amounts for which the timing of the recognition for tax is being challenged by the IRS. The total tax liability associated with the deferred gains on these land sales is reflected on the balance sheet in two lines; Deferred tax liabilities (primarily described as deferred income of $227.4 million and $213.2 million as of December 31, 2013 2012,respectively, in the temporary difference summary in this Note 9) and Uncertain tax position liability of $129.2 million and $132.5 million as of December 31, 2013 and 2012, respectively. The unrecognized tax benefits and related accrued interest through December 31, 2013 are primarily related to the taxes that are the subject of the Tax Indemnity. We have recorded interest income receivable on the Tax Indemnity receivable in the amounts of $38.6 million and $36.4 million as of December 31, 2013 and 2012, respectively.

The timing of the utilization of the tax assets attributable to indemnified and non-indemnified gains results in changes to the Tax Indemnity receivable and is dependent on numerous future events, such as the timing of recognition of indemnified and non-indemnified gains, the amount of each type of gain recognized in each year, the use of specific deductions and the ultimate amount of indemnified gains recognized. These non-cash changes could be material to our financial statements. Resolution of the Tax Court case noted above could also result in changes to the master planned community deferred gains and the timing of utilization of the tax assets, both of which could result in changes to the Tax Indemnity receivable. We record the Tax Indemnity receivable based on the amounts indemnified which are determined in accordance with the provisions set forth in ASC 740 (Income Taxes).

During the twelve months ended December 31, 2013, the reduction in tax indemnity receivable of $1.2 million was attributable to our utilization of tax assets that contractually limit the amount we can receive pursuant to the Tax Matters Agreement and changes to our deferred tax liability for the MPC Taxes.

During the year ended December 31, 2012, the reduction in the Tax Indemnity receivable of $20.3 million, $8.8 million of which related to 2011 and to a lesser extent 2010, related to our utilization of tax assets that contractually limit the amount we can receive pursuant to the Tax Matters Agreement and changes to our deferred tax liability for the MPC Taxes.

***Capitalization of development and leasing costs***

We capitalize costs related to our development and leasing activities. Development costs, like planning, engineering, design and construction that are directly related to a development project are capitalized. Capitalization commences when the development activities begin and ceases when a project is completed, put on hold or it is determined we will not move forward with a project. Capitalized costs related to a project where we have determined not to move forward are expensed. Additionally, certain internal costs like payroll are capitalized and allocated to projects based on the amount of time employees spend on a project. We also will capitalize real estate taxes and allocated interest costs associated with development once construction commences. Leasing costs like commissions or tenant improvements are capitalized and allocated over the life of the lease or average life of a group of leases if appropriate. We do not capitalize any internal leasing costs.

***Revenue recognition and related matters***

Revenues from land sales are recognized using the full accrual method provided that various criteria relating to the terms of the transactions and our subsequent involvement with the land sold are met. Revenues relating to transactions that do not meet the established criteria are deferred and recognized when the criteria are met or using the installment or cost recovery methods, as appropriate, in the circumstances. In addition, in certain land sale transactions, we also share in a percentage of the builders' finished home sales revenue, which we term builder's price participation. For land sale transactions in which we are required to perform additional services and incur significant costs after title has passed, revenues and cost of sales are recognized on a percentage of completion basis.

Cost ratios for land sales are determined as a specified percentage of land sales revenues recognized for each master planned community project. The cost ratios used are based on actual costs incurred and estimates of development costs and sales revenues through completion of each project. The ratios are reviewed regularly and revised for changes in sales and cost estimates or development plans. Significant changes in these estimates or development plans, whether due to changes in market conditions or other factors, could result in changes to the cost ratio used for a specific project. The specific identification method is used to determine cost of sales for certain parcels of land, including acquired parcels we do not intend to develop or for which development is complete at the date of acquisition.

Minimum rent revenues are recognized on a straight-line basis over the terms of the related leases. Minimum rent revenues also include amounts collected from tenants to allow the termination of their leases prior to their scheduled termination dates and accretion related to above and below-market tenant leases on acquired properties. Straight-line rents receivable represent the current net cumulative rents recognized prior to when billed and collectible as provided by the terms of the leases. Overage rent is recognized on an accrual basis once tenant sales exceed contractual tenant lease thresholds. Recoveries from tenants are established in the leases or computed based upon a formula related to real estate taxes, insurance and other shopping center operating expenses and are generally recognized as revenues in the period the related costs are incurred.

**Recently Issued Accounting Pronouncements and Developments**

Please refer to Note 2 – Summary of Significant Accounting Policies for additional information about new accounting pronouncements.

**Inflation**

Revenue from our Operating Assets may be impacted by inflation. In addition, materials and labor costs relating to our development activities may significantly increase in an inflationary environment. Finally, inflation poses a risk to us due to the possibility of future increases in interest rates in the context of loan refinancings.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to interest rate risk with respect to our variable rate financings in that increases in interest rates will increase our payments under these variable rates. With respect to fixed rate financings, increases in interest rates could make it more difficult to refinance such debt when due. As of December 31, 2013, we had $509.7 million of variable rate debt outstanding of which $172.0 million has been swapped to a fixed-rate. Approximately $176.7 million of the $337.7 million of total variable rate debt that has not been swapped to a fixed rate is represented by the Master Credit Facility at The Woodlands. Due to the revolving nature of this type of debt, it is generally inefficient to use interest rate swaps as a hedging instrument; rather, we have purchased an interest rate cap having a $100.0 million notional amount for this facility to mitigate our exposure to rising interest rates. We also did not swap to a fixed rate $95.7 million of the outstanding balance on the Victoria Ward financing because it is structured to permit partial repayments to release collateral for redevelopment. Due to the uncertain timing of such partial repayments, hedging this portion of the outstanding balance is inefficient. As of December 31, 2013, annual interest costs would increase approximately $3.3 million for every 1.00% increase in floating interest rates. Generally, our interest costs are capitalized due to the level of assets we currently have under development; therefore, the impact of a change in our interest rate on our Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income (Loss) is expected to be minimal, but we would incur higher payments. For additional information concerning our debt and management's estimation process to arrive at a fair value of our debt as required by GAAP, please refer to the Liquidity and Capital Resources section of "Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations", Note 2 – Summary of Significant Accounting Policies to our Consolidated Financial Statements, Note 8 – Mortgages, Notes and Loans Payable and Note 13 – Derivative Instruments and Hedging Activities. We intend to manage a portion of our variable interest rate exposure by using interest rate swaps and caps.

The following table summarizes principal cash flows on our debt obligations and related weighted-average interest rates by expected maturity dates as of December 31, 2013:

| | Contractual Maturity Date | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | Thereafter | Total |
| | (In thousands) | | | | | | |
| Mortgages, notes and loans payable | $5,462 | $26,958 | $470,784 | $25,885 | $26,683 | $958,851 | $1,514,623 |
| Weighted-average interest rate | 5.25% | 5.28% | 6.24% | 6.28% | 6.35% | 6.35% | |

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information with respect to this Item is set forth beginning on page F-1. See "Item 15 – Exhibits and Financial Schedule" below.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) that are designed to provide reasonable assurance that information required to be disclosed in our reports to the SEC is recorded, processed, summarized and reported within the time periods specified

in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and our principal financial and accounting officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by SEC rules, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and our principal financial and accounting officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2013, the end of the period covered by this report. Based on the foregoing, our principal executive officer and principal financial and accounting officer concluded that our disclosure controls and procedures were effective as of December 31, 2013.

**Internal Controls over Financial Reporting**

There have been no changes in our internal controls during our most recently completed fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**Management's Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining a system of internal control over financial reporting designed to provide reasonable assurance that transactions are executed in accordance with management authorization and that such transactions are properly recorded and reported in the financial statements, and that records are maintained so as to permit preparation of the financial statements in accordance with U.S. generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of the Company's internal control over financial reporting utilizing the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework (1992 Framework). Management concluded, based on its assessment, that The Howard Hughes Corporation's internal control over financial reporting was effective as of December 31, 2013. Ernst & Young, LLP, an independent registered public accounting firm, has audited the Company's internal control over financial reporting as of December 31, 2013, as stated in their report which is included in this Annual Report on Form 10-K.

**Attestation Report of the Independent Registered Public Accounting Firm**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of
The Howard Hughes Corporation

We have audited The Howard Hughes Corporation's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). The Howard Hughes Corporation'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 included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and 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 assets 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, The Howard Hughes Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of The Howard Hughes Corporation as of December 31, 2013, and the related consolidated statements of operations, comprehensive income (loss), equity and cash flows for the year then ended of The Howard Hughes Corporation and our report dated February 27, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Dallas, TX
February 27, 2014

**ITEM 9B. OTHER INFORMATION**

None.

## PART III

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by Item 10 is incorporated by reference to the relevant information included in our proxy statement for our 2014 Annual Meeting of Stockholders.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by Item 11 is incorporated by reference to the relevant information included in our proxy statement for our 2014 Annual Meeting of Stockholders.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by Item 12 is incorporated by reference to the relevant information included in our proxy statement for our 2014 Annual Meeting of Stockholders.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by Item 13 is incorporated by reference to the relevant information included in our proxy statement for our 2014 Annual Meeting of Stockholders.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by Item 14 is incorporated by reference to the relevant information included in our proxy statement for our 2014 Annual Meeting of Stockholders.

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE

(a) Financial Statements and Financial Statement Schedule.

The Consolidated Financial Statements and Schedule listed in the accompanying Index to Consolidated Financial Statements and Financial Statement Schedule are filed as part of this Annual Report. No additional financial statement schedules are presented since the required information is not present or not present in amounts sufficient to require submission of the schedule or because the information required is enclosed in the Consolidated Financial Statements and notes thereto.

(b) Exhibits.

(c) Separate financial statements.

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## 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.

**THE HOWARD HUGHES CORPORATION**

/s/ David R. Weinreb

David R. Weinreb
*Chief Executive Officer* February 27, 2014

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 dates indicated.

| Signature | Title | Date |
|---|---|---|
| * <br> William Ackman | Chairman of the Board and Director | February 27, 2014 |
| /s/ David R. Weinreb <br> David R. Weinreb | Director and Chief Executive Officer (Principal Executive Officer) | February 27, 2014 |
| /s/ Andrew C. Richardson <br> Andrew C. Richardson | Chief Financial Officer (Principal Financial and Accounting Officer) | February 27, 2014 |
| * <br> Adam Flatto | Director | February 27, 2014 |
| * <br> Jeffrey Furber | Director | February 27, 2014 |
| * <br> Gary Krow | Director | February 27, 2014 |
| * <br> Allen Model | Director | February 27, 2014 |
| * <br> R. Scot Sellers | Director | February 27, 2014 |
| * <br> Steven Shepsman | Director | February 27, 2014 |
| * <br> Burton M. Tansky | Director | February 27, 2014 |
| * | Director | February 27, 2014 |

Mary Ann Tighe

*/s/ David R. Weinreb

David R. Weinreb
Attorney-in-fact

**THE HOWARD HUGHES CORPORATION**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**
**AND FINANCIAL STATEMENT SCHEDULE**


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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of
The Howard Hughes Corporation

We have audited the accompanying consolidated balance sheet of The Howard Hughes Corporation (the "Company") as of December 31, 2013, and the related consolidated statements of operations, comprehensive income (loss), equity and cash flows for the year then ended. Our audit also included the financial statement schedule listed in the Index at Item 15(a) as it relates to information included therein as of and for the year ended December 31, 2013. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule 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 the financial statements are free of material misstatement. An audit also 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Howard Hughes Corporation at December 31, 2013, and the consolidated results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the information as of and for the year ended December 31, 2013 included in 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), the Company's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 27, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Dallas, TX
February 27, 2014

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of
The Howard Hughes Corporation

We have audited the accompanying consolidated balance sheet of The Howard Hughes Corporation and subsidiaries (the "Company") as of December 31, 2012, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for the years ended December 31, 2012 and 2011. Our audits also included the financial statement schedule listed in the Index at Item 15 as it relates to information included therein as of and for the years ended December 31, 2012 and 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements 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, such consolidated financial statements present fairly, in all material respects, the financial position of The Howard Hughes Corporation and subsidiaries as of December 31, 2012, and the results of their operations and their cash flows for the years ended December 31, 2012 and 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule as it relates to information included therein as of and for the years ended December 31, 2012 and 2011, when considered in relation to the basic consolidated and combined financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Deloitte & Touche LLP

Dallas, Texas
February 28, 2013

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## THE HOWARD HUGHES CORPORATION

## CONSOLIDATED BALANCE SHEETS

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| | (In thousands, except share amounts) | |
| **Assets:** | | |
| Investment in real estate: | | |
| Master Planned Community assets | $ 1,537,758 | $ 1,563,122 |
| Land | 244,041 | 252,593 |
| Buildings and equipment | 754,878 | 657,268 |
| Less: accumulated depreciation | (111,728) | (112,491) |
| Developments | 488,156 | 273,613 |
| Net property and equipment | 2,913,105 | 2,634,105 |
| Investment in Real Estate Affiliates | 61,021 | 32,179 |
| Net investment in real estate | 2,974,126 | 2,666,284 |
| Cash and cash equivalents | 894,948 | 229,197 |
| Accounts receivable, net | 21,409 | 13,905 |
| Municipal Utility District receivables, net | 125,830 | 89,720 |
| Notes receivable, net | 20,554 | 27,953 |
| Tax indemnity receivable, including interest | 320,494 | 319,622 |
| Deferred expenses, net | 36,567 | 12,891 |
| Prepaid expenses and other assets, net | 173,940 | 143,470 |
| Total assets | $ 4,567,868 | $ 3,503,042 |
| **Liabilities:** | | |
| Mortgages, notes and loans payable | $ 1,514,623 | $ 688,312 |
| Deferred tax liabilities | 89,365 | 77,147 |
| Warrant liabilities | 305,560 | 123,573 |
| Uncertain tax position liability | 129,183 | 132,492 |
| Accounts payable and accrued expenses | 283,991 | 170,521 |
| Total liabilities | 2,322,722 | 1,192,045 |
| Commitments and Contingencies (see Note 10) | | |
| **Equity:** | | |
| Preferred stock: $.01 par value; 50,000,000 shares authorized, none issued | — | — |
| Common stock: $.01 par value; 150,000,000 shares authorized, 39,576,344 shares issued and outstanding as of December 31, 2013 and 39,498,912 shares issued and outstanding as of December 31, 2012 | 396 | 395 |
| Additional paid-in capital | 2,829,813 | 2,824,031 |
| Accumulated deficit | (583,403) | (509,613) |
| Accumulated other comprehensive loss | (8,222) | (9,575) |
| Total stockholders' equity | 2,238,584 | 2,305,238 |
| Noncontrolling interests | 6,562 | 5,759 |
| Total equity | 2,245,146 | 2,310,997 |
| Total liabilities and equity | $ 4,567,868 | $ 3,503,042 |

See Notes to Consolidated Financial Statements.

**THE HOWARD HUGHES CORPORATION**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands, except per share amounts) | | |
| **Revenues:** | | | |
| Master Planned Community land sales | $ 251,217 | $ 182,643 | $ 114,610 |
| Builder price participation | 9,356 | 5,747 | 3,816 |
| Minimum rents | 81,668 | 82,621 | 71,178 |
| Tenant recoveries | 21,068 | 23,351 | 19,323 |
| Condominium rights and unit sales | 32,969 | 267 | 22,067 |
| Resort and conference center revenues | 39,201 | 39,782 | 15,744 |
| Other land revenues | 17,315 | 18,073 | 13,133 |
| Other rental and property revenues | 21,816 | 24,402 | 15,818 |
| Total revenues | 474,610 | 376,886 | 275,689 |
| **Expenses:** | | | |
| Master Planned Community cost of sales | 124,040 | 89,298 | 70,108 |
| Master Planned Community operations | 38,414 | 40,506 | 33,647 |
| Other property operating costs | 73,186 | 63,035 | 50,549 |
| Rental property real estate taxes | 14,291 | 13,643 | 10,270 |
| Rental property maintenance costs | 8,083 | 8,655 | 7,076 |
| Condominium rights and unit cost of sales | 16,572 | 96 | 14,465 |
| Resort and conference center operations | 29,454 | 29,112 | 13,220 |
| Provision for (recovery of) doubtful accounts | 836 | 1,224 | (235) |
| Demolition costs | 2,078 | — | — |
| General and administrative | 48,466 | 36,548 | 32,342 |
| Other income | (25,869) | (2,125) | — |
| Depreciation and amortization | 33,845 | 24,429 | 16,782 |
| Total expenses | 363,396 | 304,421 | 248,224 |
| Operating income | 111,214 | 72,465 | 27,465 |
| Interest income | 3,185 | 9,437 | 9,876 |
| Interest expense | (9,759) | (964) | — |
| Warrant liability gain (loss) | (181,987) | (185,017) | 101,584 |
| Reduction in tax indemnity receivable | (1,206) | (20,260) | — |
| Equity in earnings from Real Estate Affiliates | 14,428 | 3,683 | 8,578 |
| Investment in Real Estate Affiliate basis adjustment | — | — | (6,053) |
| Early extinguishment of debt | — | — | (11,305) |
| Income (loss) before taxes | (64,125) | (120,656) | 130,145 |
| Provision (benefit) for income taxes | 9,570 | 6,887 | (18,325) |
| Net income (loss) | (73,695) | (127,543) | 148,470 |
| Net income attributable to noncontrolling interests | (95) | (745) | (1,290) |
| Net income (loss) attributable to common stockholders | $ (73,790) | $ (128,288) | $ 147,180 |
| Basic earnings (loss) per share: | $ (1.87) | $ (3.36) | $ 3.88 |

| | | | |
|---|---|---|---|
| Diluted earnings (loss) per share: | $ (1.87) | $ (3.36) | $ 1.17 |

See Notes to Consolidated Financial Statements.

**THE HOWARD HUGHES CORPORATION**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| | (In thousands, except per share amounts) | | |
| Comprehensive income (loss), net of tax: | | | |
| Net income (loss) | $ (73,695) | $ (127,543) | $ 148,470 |
| Other comprehensive income (loss): | | | |
| Interest rate swaps (a) | 2,542 | (2,770) | (3,351) |
| Capitalized swap interest (b) | (1,189) | (1,227) | (600) |
| Other comprehensive income (loss) | 1,353 | (3,997) | (3,951) |
| Comprehensive income (loss) | (72,342) | (131,540) | 144,519 |
| Comprehensive income attributable to noncontrolling interests | (95) | (745) | (1,290) |
| Comprehensive income (loss) attributable to common stockholders | $ (72,437) | $ (132,285) | $ 143,229 |

(a) Net of deferred tax expense of $0.5 million, and deferred tax benefit of $0.1 million, and $0.1 million for the years ended December 31, 2013, 2012 and 2011, respectively.

(b) Net of deferred tax benefit of $0.6 million, $0.7 million, and $0.4 million for the years ended December 31, 2013, 2012 and 2011, respectively.

See Notes to Consolidated Financial Statements.

## THE HOWARD HUGHES CORPORATION

## CONSOLIDATED STATEMENTS OF EQUITY

| | Shares | Common Stock | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interests | Total Equity |
|---|---|---|---|---|---|---|---|
| | (In thousands, except shares) | | | | | | |
| **Balance January 1, 2011** | 37,904,506 | $ 379 | $2,708,036 | $ (528,505) | $ (1,627) | $ 824 | $2,179,107 |
| Net income | | — | — | 147,180 | — | 1,290 | 148,470 |
| Adjustment to noncontrolling interests | | — | — | — | — | 3,700 | 3,700 |
| Acquisitions | | — | — | — | — | (777) | (777) |
| Preferred dividend payment on behalf of subsidiary | | — | — | — | — | (23) | (23) |
| Interest rate swaps, net of tax $1,016 | | — | — | — | (3,351) | — | (3,351) |
| Capitalized swap interest, net of tax $358 | | — | — | — | (600) | — | (600) |
| Stock plan activity | 41,201 | — | 3,073 | — | — | — | 3,073 |
| **Balance, December 31, 2011** | 37,945,707 | $ 379 | $2,711,109 | $ (381,325) | $ (5,578) | $ 5,014 | $2,329,599 |
| Net income (loss) | | — | — | (128,288) | — | 745 | (127,543) |
| Interest rate swaps, net of tax $55 | | — | — | — | (2,770) | — | (2,770) |
| Capitalized swap interest, net of tax $724 | | — | — | — | (1,227) | — | (1,227) |
| Warrants exercised | 1,525,272 | 15 | 108,645 | — | — | — | 108,660 |
| Stock plan activity | 27,933 | 1 | 4,277 | — | — | — | 4,278 |
| **Balance, December 31, 2012** | 39,498,912 | $ 395 | $2,824,031 | $ (509,613) | $ (9,575) | $ 5,759 | $2,310,997 |
| Net income (loss) | | — | — | (73,790) | — | 95 | (73,695) |
| Adjustment to noncontrolling interest | | — | — | — | — | 720 | 720 |
| Preferred dividend payment on behalf of subsidiary | | — | — | — | — | (12) | (12) |
| Interest rate swaps, net of tax ($486) | | — | — | — | 2,542 | — | 2,542 |
| Capitalized swap interest, net of tax $635 | | — | — | — | (1,189) | — | (1,189) |
| Stock plan activity | 77,432 | 1 | 5,782 | — | — | — | 5,783 |
| **Balance, December 31, 2013** | 39,576,344 | $ 396 | $2,829,813 | $ (583,403) | $ (8,222) | $ 6,562 | $2,245,146 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **2013** | 39,576,344 | $ 396 | $2,829,813 | $ (583,403) | $ (8,222) | $ 6,562 | $2,245,146 |

See Notes to Consolidated Financial Statements.

# THE HOWARD HUGHES CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| **Cash Flows from Operating Activities:** | | | |
| Net income (loss) | $ (73,695) | $ (127,543) | $ 148,470 |
| Adjustments to reconcile net income (loss) to cash provided by operating activities: | | | |
| Depreciation | 29,637 | 19,455 | 14,012 |
| Amortization | 4,208 | 4,974 | 2,770 |
| Amortization of deferred financing costs and debt market rate adjustments, net | 2,952 | 1,418 | 1,771 |
| Amortization of intangibles other than in-place leases | 213 | 96 | 297 |
| Straight-line rent amortization | (3,652) | (757) | (1,060) |
| Deferred income taxes | 8,352 | 4,448 | (19,200) |
| Gain on disposal of investment in Real Estate Affiliate | (8,483) | — | — |
| Restricted stock and stock option amortization | 5,782 | 4,277 | 3,073 |
| Warrant liability gain (loss) | 181,987 | 185,017 | (101,584) |
| Reduction in tax indemnity receivable | 1,206 | 20,260 | — |
| Equity in earnings from Real Estate Affiliates, net of distributions | (7,121) | (35) | (4,410) |
| Investment in Real Estate Affiliate basis adjustment | — | — | 6,053 |
| Provision for doubtful accounts | 836 | 1,224 | (235) |
| Master Planned Community land acquisitions | (5,667) | — | — |
| Master Planned Community development expenditures | (133,590) | (107,144) | (90,078) |
| Master Planned Community cost of sales | 112,695 | 87,499 | 65,379 |
| Condominium development expenditures | (21,213) | — | — |
| Condominium and other cost of sales | 16,572 | 96 | 14,465 |
| Deferred revenue from sale of condominium rights | 14,531 | — | — |
| Net changes *: | | | |
| Accounts and notes receivable | 3,857 | 43,460 | 27,500 |
| Prepaid expenses and other assets | (1,591) | 4,110 | 2,036 |
| Deferred expenses | (19,364) | (1,995) | 404 |
| Accounts payable and accrued expenses | 20,333 | 15,112 | 19,502 |
| Other | 547 | (908) | (2,657) |
| Cash provided by operating activities | 129,332 | 153,064 | 86,508 |
| **Cash Flows from Investing Activities:** | | | |
| Property and equipment expenditures | (31,768) | (1,226) | (690) |
| Operating property improvements, net | (17,231) | (14,201) | (8,498) |
| Operating property redevelopments | (221,071) | (58,940) | (35,192) |
| Cash acquired from The Woodlands acquisition, net of cash consideration | — | — | 5,493 |
| Reimbursement for infrastructure improvements from municipality | — | — | 5,560 |
| Proceeds from dispositions | — | — | 1,429 |
| Consideration paid to acquire Millennium Waterway Apartments, net of cash acquired | — | (2,721) | — |
| Distribution from Millennium Waterway Apartments | — | 6,876 | — |
| Proceeds from sales of investment in Real Estate Affiliates | 13,270 | 8,579 | — |
| Proceeds from sales of operating assets | 10,814 | — | — |
| Investment in Summerlin Las Vegas Baseball Club, LLC | (10,350) | — | — |
| Investment in KR Holdings, LLC | (16,750) | — | — |
| Investment in Real Estate Affiliates, net | (4,035) | (4,552) | — |
| Change in restricted cash | (17,204) | (15,164) | (7,782) |
| Cash used in investing activities | (294,325) | (81,349) | (39,680) |
| **Cash Flows from Financing Activities:** | | | |
| Proceeds from issuance of mortgages, notes and loans payable | 1,120,102 | 68,410 | 304,911 |
| Principal payments on mortgages, notes and loans payable | (279,721) | (55,832) | (407,027) |
| Deferred financing costs | (6,594) | (2,114) | (3,828) |
| Preferred dividend payment on behalf of REIT subsidiary | (12) | — | — |
| Distributions to noncontrolling interests | (3,031) | — | — |
| Proceeds from issuance of Management warrants | — | — | 2,000 |
| Purchase of Sponsors Warrants | — | (80,548) | — |
| Cash provided by (used in) financing activities | 830,744 | (70,084) | (103,944) |
| Net change in cash and cash equivalents | 665,751 | 1,631 | (57,116) |
| Cash and cash equivalents at beginning of year | 229,197 | 227,566 | 284,682 |
| Cash and cash equivalents at end of year | $ 894,948 | $ 229,197 | $ 227,566 |

**THE HOWARD HUGHES CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | | (In thousands) | |
| **Supplemental Disclosure of Cash Flow Information:** | | | |
| Interest paid | $ 30,600 | $ 28,857 | $ 22,158 |
| Interest capitalized | 37,470 | 27,571 | 24,062 |
| Income taxes paid | 2,268 | 1,202 | — |
| **Non-Cash Transactions:** | | | |
| Retirement of Sponsors Warrants and issuance of 1,525,272 shares of common stock | — | (76,264) | — |
| Acquisition of Millennium Waterway Apartments: | | | |
| Land | — | (15,917) | — |
| Building and equipment | — | (56,002) | — |
| Other assets | — | (2,670) | — |
| Mortgages, notes and loans payable | — | 55,584 | — |
| Other liabilities | — | 755 | — |
| Reduction in investments in Real Estate Affiliates due to the Millennium Waterway Apartments acquisition | — | 22,405 | — |
| Acquisition of 70 CCC: | | | |
| Land | — | (1,281) | — |
| Building and equipment | — | (13,089) | — |
| Other Assets | — | (2,957) | — |
| Mortgages, notes and loans payable | — | 16,037 | — |
| Other liabilities | — | 1,290 | — |
| Special Improvement District bond transfers associated with land sales | 14,376 | (3,033) | (4,430) |
| Reduction in investments in Real Estate Affiliates due to The Woodlands acquisition | — | — | (128,764) |
| Real Estate and property expenditures | 85,609 | 8,384 | — |
| MPC Land contributed to Real Estate Affiliate | — | 2,190 | 2,990 |
| Acquisition note related to The Woodlands (See Note 4) | — | — | 96,500 |
| Debt assumed from The Woodlands' acquisition (See Note 4) | — | — | 296,695 |
| Prepetition liabilities funded by GGP | — | — | 3,241 |
| Purchase of land from GGP | — | (1,315) | — |
| Non-cash increase in property due to consolidation of real estate affiliate | 3,750 | — | — |
| Transfer of condominium buyer deposits to real estate affiliate | 34,220 | — | — |

(*) As a result of The Woodlands acquisition and consolidation in 2011, changes in certain accounts cannot be derived from the balance sheet because these changes are non-cash related. Please refer to Note 4 – Acquisitions and Dispositions.

THE HOWARD HUGHES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 ORGANIZATION

### General

The Howard Hughes Corporation's ("HHC" or the "Company") mission is to be the preeminent developer and operator of Master Planned Communities and mixed-use properties. We specialize in the development of master planned communities and the ownership, management and development or repositioning of real estate assets currently generating revenues, also called operating assets, as well as other strategic real estate opportunities in the form of entitled and unentitled land and other development rights, also called strategic developments. We are a Delaware corporation that was formed on July 1, 2010 to hold, after receipt via a tax-free distribution, certain assets of General Growth Properties, Inc. ("GGP") and certain of its subsidiaries (collectively, the "Predecessors") pursuant to their plans of reorganization (the "Plan") under Chapter 11 of the United States Code ("Chapter 11"). Pursuant to the Plan, certain of the assets and liabilities of the Predecessors (the "HHC Businesses") were transferred to us and our common stock was distributed to the holders of GGP's common stock and common units (the "Separation") on a pro-rata basis (approximately 32.5 million shares of our common stock) on GGP's date of emergence from bankruptcy, November 9, 2010 (the "Effective Date"). Also as part of the Plan, approximately 5.25 million shares of our common stock and 8.0 million warrants were purchased by certain of the investors sponsoring the Plan for $250.0 million. Unless the context otherwise requires, references to "we," "us" and "our" refer to HHC and its subsidiaries.

Management has evaluated all material events occurring subsequent to the date of the consolidated financial statements up to the date and time this Annual Report is filed.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Principles of Consolidation and Basis of Presentation

The accompanying consolidated financial statements for the years ended December 31, 2013 and 2012 have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), with all intercompany balances eliminated. Certain amounts in 2012 have been reclassified to conform to 2013 presentation. The presentation includes the accounts of the Company, and those entities in which we have a controlling financial interest. The noncontrolling equity holders' share of the assets, liabilities and operations are reflected in noncontrolling interests within permanent equity. The company consolidates certain variable interest entities ("VIEs") in accordance with Accounting Standards Codification ("ASC") 810 ("ASC 810") Consolidations (see "Real Estate Affiliates" below).

We account for investments in joint ventures where we own a non-controlling interest using the equity method, and investments in joint ventures where we have virtually no influence on the joint venture's operating and financial policies, on the cost method. Under the equity method, the cost of our investment is adjusted for our share of the equity in earnings or losses of such Real Estate Affiliates from the date of investment and reduced by distributions received. Generally, the operating agreements with respect to our Real Estate Affiliates provide that assets, liabilities and funding obligations are shared in accordance with our ownership percentages. We generally also share in the profit and losses, cash flows and other matters relating to our Real Estate Affiliates in accordance with our respective ownership percentages. For cost method investments, we recognize earnings to the extent of distributions received from such investments.

On July 1, 2011, we acquired our partner's economic interest in TWCPC Holdings, L.P. ("The Woodlands Commercial"), The Woodlands Operating Company, L.P. ("The Woodlands Operating"),

THE HOWARD HUGHES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

and The Woodlands Land Development Company, L.P. ("The Woodlands MPC", and together with The Woodlands Commercial and The Woodlands Operating, "The Woodlands"), located near Houston, Texas. As a result of the acquisition, we now consolidate The Woodlands' operations in our consolidated financial statements. Prior to such acquisition, we accounted for The Woodlands using the equity method.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. For example, estimates and assumptions have been made with respect to useful lives of assets, capitalization of development and leasing costs, provision for income taxes, recoverable amounts of receivables and deferred taxes, initial valuations and related amortization periods of deferred costs and intangibles, particularly with respect to acquisitions and impairment of long-lived assets. Estimates and assumptions have also been made with respect to fair value of warrants, options granted and debt, allowance for doubtful accounts, reserves for straight-line rent receivables and notes receivable, and cost ratios. Actual results could differ from these and other estimates.

On August 22, 2013, in conjunction with the Hawaii Community Development Authority's unanimous approval for two mixed-use towers at Ward Village, we reevaluated the useful lives of the existing buildings and improvements located on the sites where this future development will take place. As a result, we recognized an additional $1.2 million in depreciation due to the change in useful life of these buildings and improvements.

**Investment in Real Estate**

*Master Planned Community Assets, Land, Buildings and Equipment*

Real estate assets are stated at cost less any provisions for impairments. Tenant improvements relating to our operating assets, are capitalized and depreciated over the shorter of their economic lives or the lease term. Maintenance and repair costs are charged to expense when incurred. Expenditures for significant improvements are capitalized.

We periodically review the estimated useful lives of properties. Depreciation or amortization expense is computed using the straight-line method based upon the following estimated useful lives:

| Asset Type | Years |
|---|---|
| Buildings and improvements | 10-45 |
| Equipment, tenant improvements and fixtures | 5-10 |
| Computer hardware and software, and vehicles | 3-5 |

*Developments*

Development costs, which generally include legal and professional fees and other directly-related third-party costs associated with specific development properties, are capitalized as part of the property being developed. In the event that management no longer has the ability or intent to complete a development, the costs previously capitalized are expensed.

**THE HOWARD HUGHES CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Construction and improvement costs incurred in connection with the development of new properties or the redevelopment of existing properties are capitalized. Real estate taxes and interest costs incurred during construction periods are also capitalized. Capitalized interest costs are based on qualified expenditures and interest rates in place during the construction period. Demolition costs associated with these redevelopments are expensed as incurred.

Our Developments are made up of the following categories:

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| Land & improvements | $ 194,282 | $ 172,614 |
| Development costs | 293,874 | 78,198 |
| Condominium rights | — | 22,801 |
| Total Developments | $ 488,156 | $ 273,613 |

**Real Estate Affiliates**

In the ordinary course of business, we enter into partnerships or joint ventures primarily for the development and operations of real estate assets which are referred to as "Real Estate Affiliates". These partnerships or joint ventures are typically characterized by a non-controlling ownership interest with decision making and distribution of expected gains and losses being generally proportionate to the ownership interest. We evaluate these partnerships and joint ventures for consolidation in accordance with ASC 810 Consolidations.

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

We also perform a qualitative assessment of each VIE to determine if we are the primary beneficiary, as required by ASC 810. Under ASC 810, a company concludes that it is the primary beneficiary and consolidates the VIE if the company has both (a) the power to direct the economically significant activities of the entity and (b) the obligation to absorb losses of, or the right to receive benefits from, the entity that could potentially be significant to the VIE. The company considers the contractual agreements that define the ownership structure, distribution of profits and losses, risks, responsibilities, indebtedness, voting rights and board representation of the respective parties in determining if the company is the primary beneficiary. As required by ASC 810, management's assessment of whether the company is the primary beneficiary of a VIE is continuously performed.

We account for VIEs for which we are not considered to be the primary beneficiary, but have significant influence, using the equity method and investments in VIEs where we do not have significant influence on the joint venture's operating and financial policies using the cost method.

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**Acquisitions of Properties**

We account for business combinations in accordance with ASC 805 ("ASC 805") Business Combinations. The acquisition method of accounting requires that assets acquired and liabilities assumed be recorded at their fair values on the date of a business combination. Our consolidated financial statements and results of operations reflect an acquired business from the acquisition date.

**Impairment**

GAAP related to accounting for the impairment or disposal of long-lived assets require that if impairment indicators exist and the undiscounted cash flows expected to be generated by an asset are less than its carrying amount, an impairment provision should be recorded to write down the carrying amount of such asset to its fair value. The impairment analysis does not consider the timing of future cash flows and whether the asset is expected to earn an above or below market rate of return. We review our real estate assets (including those held by our Real Estate Affiliates), operating assets, land held for development and sale and developments for potential impairment indicators whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment indicators for our assets or projects within our Master Planned Communities segment are assessed separately and include, but are not limited to, significant decreases in sales pace or average selling prices, significant increases in expected land development and construction costs or cancellation rates, and projected losses on expected future sales. Master Planned Community assets have extended life cycles that may last 20 to 40 years and have few long-term contractual cash flows. Further, Master Planned Community assets generally have minimal to no residual values because of their liquidating characteristics. Master Planned Community development periods often occur through several economic cycles. Subjective factors such as the expected timing of property development and sales, optimal development density and sales strategy impact the timing and amount of expected future cash flows and fair value.

Impairment indicators for our Operating Assets segment are assessed separately for each property and include, but are not limited to, significant decreases in net operating income, significant decreases in occupancy, or low occupancy and significant net operating losses.

Impairment indicators for development costs in our Strategic Developments segment, which are typically costs incurred during the beginning stages of a potential development, and developments in progress are assessed by project and include, but are not limited to, significant changes in projected completion dates, revenues or cash flows, development costs, market factors, significant decreases in comparable property sale prices and feasibility.

If an indicator of potential impairment exists, the asset is tested for recoverability by comparing its carrying amount to the estimated future undiscounted cash flow. The cash flow estimates used both for determining recoverability and estimating fair value are inherently judgmental and reflect current and projected trends in rental, occupancy, pricing, development costs, sales pace and capitalization rates, and estimated holding periods for the applicable assets. Although the estimated fair value of certain assets may be exceeded by the carrying amount, a real estate asset is only considered to be impaired when its carrying amount is not expected to be recovered through estimated future undiscounted cash flows. To the extent an impairment provision is necessary; the excess of the carrying amount of the asset over its estimated fair value is expensed to operations. In addition, the impairment provision is allocated proportionately to adjust the carrying amount of the asset. The adjusted carrying amount, which represents the new cost basis of the asset, is depreciated over the remaining useful life of the asset or, for Master Planned Communities, is expensed as a cost of sales when land is sold. Assets that

have been impaired will in the future have lower depreciation and cost of sale expenses, but the impairment will have no impact on cash flow.

With respect to our investment in Real Estate Affiliates, a series of operating losses of an asset or other factors may indicate that a decrease in value has occurred which is other-than-temporary. The investment in each Real Estate Affiliate is evaluated periodically and as deemed necessary for recoverability and valuation declines that are other-than-temporary. If the decrease in value of our investment in a Real Estate Affiliate is deemed to be other-than-temporary, our investment in such Real Estate Affiliate is reduced to its estimated fair value. In addition to the property-specific impairment analysis that we perform on the underlying assets of the Real Estate Affiliates' land held for development and sale and developments owned by such Real Estate Affiliates, we also considered the ownership and distribution preferences and limitations and rights to sell and repurchase our ownership interests.

**Cash and Cash Equivalents**

Highly-liquid investments with maturities at dates of purchase of three months or less are classified as cash equivalents.

**Revenue Recognition and Related Matters**

*Land Sales Revenue*

Revenues from land sales are recognized using the full accrual method at closing, when title has passed to the buyer, adequate consideration for the land has been received and we have no continuing involvement with the property. Revenue that is not recognized under the full accrual method is deferred and recognized when the criteria are met or using the installment or cost recovery methods. Revenue related to builder participation rights is recognized when collected.

Cost of land sales is determined as a specified percentage of the land sales revenues recognized for each community development project. These cost ratios are based on actual costs incurred and estimates of future development costs and sales revenues to completion of each project. The ratios are reviewed regularly and revised for changes in sales and cost estimates or development plans. Significant changes in these estimates or development plans, whether due to changes in market conditions or other factors, could result in changes to the cost ratio used for a specific project. For certain parcels of land, however, the specific identification method is used to determine the cost of sales, including acquired parcels that we do not intend to develop or for which development was complete at the date of acquisition. Expenditures in our MPC business to develop land for sale are classified as an operating activity within Master Planned Community development expenditures in our Consolidated Statements of Cash Flows.

*Rental Revenue*

Revenue associated with our operating assets includes minimum rent, percentage rent in lieu of fixed minimum rent, tenant recoveries and overage rent.

Minimum rent revenues are recognized on a straight-line basis over the terms of the related leases and include base minimum rent and percentage rent in lieu of fixed minimum rent. Percentage rent in lieu of fixed minimum rent recognized from tenants is included in minimum rents in our consolidated financial statements. Minimum rent revenues also include amortization related to above and below-market tenant leases on acquired properties.

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Recoveries from tenants are stipulated in the leases and are generally computed based upon a formula related to real estate taxes, insurance and other real estate operating expenses and are generally recognized as revenues in the period the related costs are incurred.

Overage rent is recognized on an accrual basis once tenant sales exceed contractual thresholds contained in the lease and is calculated by multiplying the tenant sales in excess of the minimum amount by a percentage defined in the lease.

*Condominium Rights and Unit Sales*

Revenue recognition for individual units in a condominium project are accounted for under the percentage of completion method when the following criteria are met: a) construction is beyond a preliminary stage; b) buyer is unable to require a refund of its deposit, except for non-delivery of the unit; c) sufficient units are sold to assure that it will not revert to a rental property; d) sales prices are collectible; and e) aggregate sales proceeds and costs can be reasonably estimated. Those units that don't meet the criteria use the full accrual method or deposit method.

*Resort and Conference Center Revenue*

Revenue for the resort and conference center is recognized as services are performed and primarily represents room rentals and food and beverage sales.

*Other Income*

Other income for the year ended December 31, 2013 includes $12.2 million from the gain on insurance recoveries related to casualty losses at South Street Seaport from Superstorm Sandy, $4.5 million from a legal settlement at Riverwalk, a gain of $8.5 million from our sale of Head Acquisition, LP, and $0.6 million from our sale of Rio West.

**Accounts Receivable**

Accounts receivable includes tenant and other receivables, and straight-line rent receivables.

Straight-line rent receivables represent rental revenues recognized in excess of amounts currently due under lease agreements. Such amounts totaling $10.2 million as of December 31, 2013 and $6.9 million as of December 31, 2012, are included in Accounts receivable, net in our Consolidated Balance Sheets.

We record allowances against our rent receivables from tenants and other receivables that we consider uncollectible. These allowances are reviewed periodically and are based on management's estimate of receivables that will not be realized in subsequent periods. We also maintain an allowance for receivables arising from the straight-lining of rents. Management exercises judgment in establishing these allowances and considers payment history, current credit status and if the tenant is currently occupying the space in developing these estimates. The allowance against our straight-line rent receivable is based on historical experience with early lease terminations, as well as specific review of significant tenants and tenants that are having known financial difficulties.

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The following table summarizes the changes in allowance for doubtful accounts against our accounts receivables:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| | | (In thousands) | |
| Balance as of January 1 | $ 8,914 | $ 8,496 | $ 10,966 |
| Change in provision * | 2,008 | 1,224 | (235) |
| Write-offs | (3,532) | (806) | (2,235) |
| Balance as of December 31 | $ 7,390 | $ 8,914 | $ 8,496 |

**Municipal Utility District receivables**

In Houston, Texas, certain development costs are reimbursable through the creation of Municipal Utility District ("MUDs", also known as Water Control and Improvement Districts) receivables, which are separate political subdivisions authorized by Article 16, Section 59 of the Texas Constitution and governed by the Texas Commission on Environmental Quality ("TCEQ"). MUDs are formed to provide municipal water, waste water, drainage services, recreational facilities and roads to those areas where they are currently unavailable through the regular city services. Typically, the developer advances funds for the creation of the facilities, which must be designed, bid and constructed in accordance with the City of Houston's and TCEQ requirements.

The developer initiates the MUD process by filing the applications for the formation of the MUD, and once the applications have been approved, a board of directors is elected for the MUD and given the authority to issue ad valorem tax bonds and the authority to tax residents. The MUD Board authorizes and approves all MUD development contracts and pay requests. MUD bond sale proceeds are used to reimburse the developer for its construction costs, including interest. MUD taxes are used to pay the debt service on the bonds and the operating expenses of the MUD. The Company estimates the costs it believes will be eligible for reimbursement as MUD receivables. MUD receivables are pledged as security to creditors under the Bridgeland and TWL facilities. MUD receivables are shown net of an allowance of $5.3 million as of both December 31, 2013 and 2012, in the accompanying Consolidated Balance Sheets.

**Notes Receivable**

Notes receivable includes amounts due from builders for previously sold lots, primarily at our Maryland Master Planned Community and a note from GGP received at the Effective Date in connection with the Plan. The GGP note, also known as the Arizona II lease, had a balance of $13.2 million and $19.3 million as of December 31, 2013 and 2012, respectively. The GGP note is fully amortizing, carries an interest rate of 4.41%, and cash payments under the note are approximately $6.9 million per year through the end of 2015. Also included in Notes receivable are notes receivable from various tenants, net of an allowance for uncollectible notes receivable, of $0.4 million as of December 31, 2013 and $0.8 million as of December 31, 2012.

We estimate the allowance for uncollectible notes receivable based on our assessment of expected receipts of future cash flows with consideration given to any collateral securing the respective note.

**Income Taxes**

Deferred income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in

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the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax basis of assets and liabilities using enacted tax rates currently in effect. Deferred income taxes also reflect the impact of operating loss and tax credit carryforwards.

A valuation allowance is provided if we believe it is more likely than not that all or some portion of the deferred tax asset will not be realized. An increase or decrease in the valuation allowance that results from a change in circumstances, and which causes a change in our judgment about the realizability of the related deferred tax asset, is included in the deferred tax provision. There are events or circumstances that could occur in the future that could limit the benefit of deferred tax assets. In addition, we recognize and report interest and penalties, if necessary, related to uncertain tax positions within our provision for income tax expense.

In two of our Master Planned Communities, gains with respect to sales of land for commercial use are reported for tax purposes on the percentage of completion method. Under the percentage of completion method, a gain is recognized for tax purposes as costs are incurred in satisfaction of contractual obligations. The method used for determining the percentage complete for income tax purposes is different than that used for financial statement purposes. In addition, the same two Master Planned Communities report gains with respect to sales of land for single family residences using the completed contract method. Under the completed contract method, a gain is recognized for tax purposes when 95% of the costs of our contractual obligations are incurred or the contractual obligation is transferred.

**Tax Indemnity Receivable**

As further described in Note 9 "Income Taxes", GGP has indemnified us from and against a portion of taxes related to sales of certain assets in our Master Planned Communities segment as well as any interest or penalties assessed by the Internal Revenue Service that are attributable to those taxes. We recognize a tax indemnity receivable for an amount equal to the indemnified liability we have recorded, including interest and penalties, reduced for our cumulative utilization of certain of our tax assets that contractually limits the amount we can receive pursuant to the Tax Matters Agreement. Interest income related to the tax indemnity receivable is recognized as interest income in our Consolidated Statements of Operations. Reductions to the tax indemnity receivable attributable to a corresponding indemnified liability or recognition of contractual limitations incurred are recorded as Reduction in tax indemnity receivable in our Consolidated Statements of Operations.

**Deferred Expenses**

Deferred expenses consist principally of financing fees and leasing costs and commissions. Deferred financing fees are amortized to interest expense using the effective interest method (or other methods which approximate the effective interest method) over the terms of the respective financing agreements. Deferred leasing costs and commissions are amortized using the straight-line method over periods that approximate the related lease terms. Deferred expenses in our Consolidated Balance Sheets are shown at cost, net of accumulated amortization, of $36.6 million and $12.9 million as of December 31, 2013 and 2012, respectively.

**Warrants**

The valuation of our Sponsors and Management warrants require significant judgment and complex valuation. The fair values were estimated using an option pricing model and Level 3 inputs due to the

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unavailability of comparable market data, as further discussed in Note 7 – Fair Value of Financial Instruments. Decreases and increases in the fair value of the Sponsors Warrants and the Management Warrants are recognized as either warrant liability gains or losses, respectively, in the Consolidated Statements of Operations.

**Stock Plans**

We apply the provisions of ASC 718 ("ASC 718") Stock Compensation in our accounting and reporting for stock-based compensation. ASC 718 requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. All unvested options outstanding under our option plans have grant prices equal to the market price of the Company's stock on the dates of grant. Compensation cost for restricted stock is determined based on the fair market value of the Company's stock at the date of grant.

**Earnings Per Share**

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

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Information related to our EPS calculations is summarized as follows:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands, except per share amounts) | | |
| **Basic EPS:** | | | |
| **Numerator:** | | | |
| Net income (loss) | $ (73,695) | $ (127,543) | $ 148,470 |
| Net income attributable to noncontrolling interests | (95) | (745) | (1,290) |
| Net income (loss) attributable to common stockholders | $ (73,790) | $ (128,288) | $ 147,180 |
| **Denominator:** | | | |
| Weighted average number of common shares outstanding | 39,449 | 38,127 | 37,908 |
| **Diluted EPS:** | | | |
| **Numerator:** | | | |
| Net income (loss) attributable to common stockholders | $ (73,790) | $ (128,288) | $ 147,180 |
| Less: Warrant liability gain | — | — | (101,584) |
| Adjusted net income (loss) available to common stockholders | $ (73,790) | $ (128,288) | $ 45,596 |
| **Denominator:** | | | |
| Weighted average number of common shares outstanding | 39,449 | 38,127 | 37,908 |
| Warrants | — | — | 1,074 |
| Weighted average diluted common shares oustanding | 39,449 | 38,127 | 38,982 |
| **Basic earnings (loss) per share** | $ (1.87) | $ (3.36) | $ 3.88 |
| **Diluted earnings (loss) per share** | $ (1.87) | $ (3.36) | $ 1.17 |

The diluted EPS computations as of December 31, 2013 exclude 965,440 stock options, 122,334 shares of restricted stock, 1,916,667 shares of common stock underlying the Sponsor Warrants and 2,862,687 shares of common stock underlying the Management Warrants because their inclusion would have been anti-dilutive.

Additionally, stock options of 861,940, restricted stock of 57,933, 1,916,667 shares of common stock underlying the Sponsor Warrants, and 2,862,687 shares of common stock underlying the Management Warrants were not included in the computation of diluted EPS above as of December 31, 2012 because their inclusion would have been anti-dilutive.

Additionally, stock options of 715,137 and restricted stock of 42,553 were not included in the computation of diluted EPS above as of December 31, 2011 because their inclusion would have been anti-dilutive.

**Recently Issued Accounting Pronouncements**

We have implemented all new accounting pronouncements that are in effect. These pronouncements did not have any material impact on the financial statements unless otherwise disclosed, and we do not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on our financial position or results of operations.

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**NOTE 3 SPONSORS AND MANAGEMENT WARRANTS**

On November 9, 2010 (the "Effective Date"), we issued warrants to purchase 8.0 million shares of our common stock to certain of our sponsors (the "Sponsors Warrants") with an estimated initial value of approximately $69.5 million. The initial exercise price for the warrants of $50.00 per share and the number of shares of common stock underlying each warrant are subject to adjustment for future stock dividends, splits or reverse splits of our common stock or certain other events. On December 7, 2012, the affiliates of Blackstone Real Estate Partners and the Fairholme Fund and the Fairholme Focused Income Fund, each sold their portion of the Sponsors Warrants totaling 333,333 and 1,916,667, respectively, to HHC for $30.00 cash per warrant. These transactions were accounted for as the settlement of a liability for cash consideration of $67.5 million. On November 9, 2012, affiliates of Brookfield Asset Management, Inc. ("Brookfield"), one of our sponsors, exercised their warrants to purchase 1,525,272 shares of our common stock at an exercise price of $50.00 per warrant, or $76.3 million. In addition, Brookfield sold their remaining warrants to purchase 2,308,061 shares of our common stock to HHC for $89.3 million. The cash consideration paid to Brookfield net of the exercise price was $13.0 million. As a result of these transactions, $108.6 million of additional paid-in capital was recorded in our financial statements in the year ended December 31, 2012. The Sponsors Warrants expire on November 9, 2017.

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

The estimated $141.8 million fair value for the Sponsors Warrants representing warrants to purchase 1,916,667 shares and estimated $163.8 million fair value for the Management Warrants representing warrants to purchase 2,862,687 shares outstanding as of December 31, 2013, have been recorded as liabilities because the holders of these warrants could require us to settle such warrants in cash upon a change of control. The estimated fair values for the outstanding Sponsors Warrants and Management Warrants were $58.5 million and $65.1 million, respectively, as of December 31, 2012. The fair values were estimated using an option pricing model and Level 3 inputs due to the unavailability of comparable market data, as further discussed in Note 7 – Fair Value of Financial Instruments. Decreases and increases in the fair value of the Sponsors Warrants and the Management Warrants are recognized as either warrant liability gains or losses, respectively, in the Consolidated Statements of Operations.

**NOTE 4 ACQUISITIONS AND DISPOSITIONS**

On September 30, 2013, we sold the Rio West Mall, a 521,194 square foot shopping center on 50 acres of land, located in Gallup, New Mexico for $12.0 million. The sale includes our ground lease interest, all buildings, structures and improvements, machinery, equipment and furnishings, and all leases and security deposits. The pre-tax gain recognized on the sale was $0.6 million.

On August 15, 2012, we acquired 70 Columbia Corporate Center ("70 CCC"), a 169,590 square foot Class A office building located in the Columbia, Maryland Town Center by assuming a mortgage note

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from its lender, which encumbered the property and provided a participation right to the lender for 30% of the appreciation in the market value of the property after our preferred return. The note bears interest at 4.25% and matures on August 31, 2017. The building was approximately 23.7% leased at closing. Simultaneous with the closing of the transaction, we executed a lease for 76,308 square feet that will increase occupancy to approximately 68.7%. As part of the transaction, we deposited approximately $5.0 million into an escrow account for capital expenditures, tenant improvements and leasing costs at the property. To the extent available, we are entitled to a 10% cumulative preferred return, after debt service, on our invested capital in the property. Cash flow is then split pro-rata based on our original contributed equity of $5.0 million plus any additional equity contributed and the loan amount. Excess proceeds from a capital event, after repayment of outstanding debt and the preferred return will be split 30% to the lender and 70% to us. The acquisition was recorded at fair value of $17.5 million and consists of land and a building that was valued as if it were vacant and the "as-if-vacant" value was allocated between the land and building. The "as-if-vacant" value was derived by estimating the value of the property assuming it was generating stabilized cash flows using market lease, capitalization and discount rates based on recent comparable market transactions, reduced by the estimated lease-up and carrying costs that we would incur to achieve stabilized cash flow if the property were vacant. The fair value of the liabilities assumed was determined using a discounted cash flow analysis. 70 CCC is included in Columbia Office Properties in our Operating Assets segment.

On July 6, 2012, we sold 11.5 acres including 104,705 square feet of mostly vacant retail space at Alameda Plaza in Pocatello, Idaho for $4.5 million. Our profit on the sale was $2.0 million. As the sale of certain development assets is an integral part of our business strategy, we recognize the proceeds as revenue in the Consolidated Statements of Operations.

On May 31, 2012, we acquired our partner's interest in the 393-unit Millennium Waterway Apartments for $6.9 million, following the funding of a $55.6 million ten-year non-recourse mortgage bearing a 3.75% interest rate. Total assets of $78.6 million and liabilities of $56.4 million, including the recently funded loan, were consolidated into our financial statements at fair value as of the acquisition date, and no gain or loss was recognized. Prior to the acquisition, we accounted for our investment in Millennium Waterway Apartments under the equity method. We now own 100% of this stabilized Class A multi-family property located in The Woodlands Town Center. Included in the Consolidated Statements of Operations are revenues of $4.4 million and net loss of $1.3 million since the acquisition date, for the year ended December 31, 2012. Following this acquisition, we entered into a new joint venture with the same partner to construct a 314-unit Class A multi-family property. Please refer to Note 5 – Real Estate Affiliates for information about the new joint venture.

On July 1, 2011, we acquired for $117.5 million our partner's 47.5% economic interest (represented by a 57.5% legal interest) in The Woodlands. We made the acquisition so that we could control attractive residential and commercial assets and to internalize The Woodlands platform to benefit our MPC business. As a result of the acquisition, we now consolidate The Woodlands operations and our consolidated financial statements are therefore not comparable to prior periods. Please refer to Note 18 – Segments for a presentation of the results as if we consolidated The Woodlands for all periods presented. On the acquisition date, The Woodlands had approximately 1,324 acres of unsold residential land, representing approximately 4,395 lots, and approximately 962 acres of unsold land for commercial use. The Woodlands also had full or partial ownership interests in commercial properties totaling approximately 434,328 square feet of office space, 203,282 square feet of retail and service space, 865 rental apartment units, a 440-room resort and conference center facility and a 36-hole golf and country club. We paid $20.0 million in cash at closing and the remaining $97.5 million of the purchase price was represented by a non-interest bearing promissory note which we repaid from

available cash on hand on December 1, 2011. There was no contingent consideration related to this acquisition.

The assets and liabilities of The Woodlands were consolidated into our financial statements at fair value as of the acquisition date according to the following methodologies:

- The fair value of the Master Planned Community assets, which consists of residential and commercial land held for development and sale, was determined using a discounted cash flow analysis;
- The fair value of the commercial properties acquired, consisting of land and buildings, was determined by valuing the property as if it were vacant, and the "as-if-vacant" value was then allocated between land and buildings. The "as-if-vacant" values were derived from several sources which primarily included a discounted cash flow analysis using discount and capitalization rates based on recent comparable market transactions, where available. The buildings are depreciated over the estimated useful life of 40 years using the straight-line method;
- The value of above-market and below-market in-place leases for The Woodlands operating assets was based on the present value (using a discount rate that reflects the risks associated with the leases acquired) of the difference between: (1) the contractual amounts to be paid pursuant to the in-place leases; and (2) management's estimate of current market lease rates, measured over the remaining non-cancelable lease term. We record the fair value of above-market and below-market leases as intangible assets or intangible liabilities, respectively, and amortize them as an adjustment to minimum rents over the lease term. None of the below market in-place leases at The Woodlands contained fixed rate renewal options, and as a result, the fair value calculation of the below market lease intangibles at acquisition was not impacted by options to renew;
- The estimated fair value for in-place leases included an estimate of carrying costs during the expected lease-up periods. In estimating the carrying costs that would have otherwise been incurred had the leases not been in place, we included such items as real estate taxes, insurance and other operating expenses as well as lost rental revenue during the expected lease-up period based on current market conditions;
- The fair value for working capital items such as cash, Municipal Utility District receivables, prepaid expenses, accounts payable and accrued expenses was determined based on the carrying value due to the short term nature of these items; and
- The debt assumed was primarily variable rate debt and fixed rate debt with short term maturities; therefore, the fair value was assumed to be the carrying value.

On the acquisition date, we consolidated $587.6 million of assets and $338.6 million of liabilities relating to The Woodlands. Consolidation of The Woodlands net assets resulted in a $3.9 million after-tax loss on the remeasurement of the carrying value of our existing 52.5% economic interest which had a $134.8 million net book value at June 30, 2011. The loss is recorded in the Investment in real estate affiliate basis adjustment line on our Consolidated Statements of Operations. For periods prior to July 1, 2011, our investment in The Woodlands was accounted for using the equity method.

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The following table summarizes amounts recorded for the assets acquired and liabilities assumed at the acquisition date:

| | (In thousands) |
|---|---|
| Master Planned Community Assets | $ 267,251 |
| Land | 44,597 |
| Buildings and equipment | 116,061 |
| Investments in Real Estate Affiliates | 36,764 |
| Cash | 25,492 |
| Accounts receivable | 7,548 |
| Notes receivable | 3,189 |
| Municipal Utility District receivables | 61,700 |
| Other assets | 24,956 |
| Total assets | 587,558 |
| | |
| Mortgages, notes and loans payable | (296,695) |
| Accounts payable and accrued expenses | (41,900) |
| Noncontrolling interests | (3,700) |
| Total liabilities and noncontrolling interests | (342,295) |
| Total identifiable net assets | $ 245,263 |

Included in the Consolidated Statement of Operations since the acquisition date are revenues of $84.6 million and net income of $0.5 million for the six months ended December 31, 2011. The net income includes the impact of purchase accounting adjustments, including a $6.1 million increase in cost of sales to reflect the step-up in basis of finished lot inventory sold during the six months ended December 31, 2011.

***Pro Forma Information***

The following pro forma information for the year ended December 31, 2011 was prepared as if The Woodlands acquisition had occurred as of the beginning of such period:

| | Year Ended December 31, 2011 |
|---|---|
| | (In thousands) |
| Total revenues | $ 357,472 |
| Net income (loss) | 157,520 |

Pro forma adjustments were made for: (1) purchase accounting, including; (a) depreciation for the step-up in basis for property, plant and equipment; (b) amortization of in-place and above/below market leases; (c) cost of sales increase for step-up in land basis for finished lots acquired and sold; and (d) elimination of amortization of deferred financing costs, prepaid commissions and deferred profits and; (2) adjustments for interest expense which is capitalizable in accordance with our interest capitalization policy. We applied a 36% effective tax to The Woodlands results in order to compute pro forma net income (loss). The pro forma information is not necessarily indicative of the results that would have occurred had the acquisition occurred as of the beginning of the period presented, nor is it necessarily indicative of future results.

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## NOTE 5 REAL ESTATE AFFILIATES

Our investment in real estate affiliates which are reported on the equity and cost methods are as follows:

| | Economic/ Legal Ownership | | Carrying Value | | Share of Earnings/Dividends | | |
|---|---|---|---|---|---|---|---|
| | December 31, | | December 31, | | December 31, | | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2011 |
| | (In percentages) | | (In thousands) | | (In thousands) | | |
| **Equity Method Investments:** | | | | | | | |
| Circle T Ranch and Power Center | 50.00% | 50.00% | $ 9,004 | $ 9,004 | $ — | $ — | $ (1) |
| Forest View /Timbermill Apartments (a) | — | — | — | — | — | 4 | 5 |
| HHMK Development, LLC (d) | 50.00% | 50.00% | 13 | 1,257 | 732 | — | — |
| KR Holdings, LLC (d) | 50.00% | 50.00% | 19,764 | — | 9,877 | — | — |
| Millennium Waterway Apartments (c) | 100.00% | 100.00% | — | — | — | 407 | 682 |
| Millennium Woodlands Phase II, LLC (d) | 81.43% | 81.43% | 2,174 | 2,190 | (74) | — | — |
| Parcel C (d) | 50.00% | — | 5,801 | — | — | — | — |
| Stewart Title | 50.00% | 50.00% | 3,843 | 3,871 | 1,223 | 902 | 204 |
| Summerlin Las Vegas Baseball Club (d) | 50.00% | — | 10,636 | 300 | (13) | — | — |
| The Metropolitan Downtown Columbia Project (b) | 50.00% | 50.00% | 3,461 | 4,330 | — | — | — |
| The Woodlands (e) | 100.00% | 100.00% | — | — | — | — | 3,731 |
| Woodlands Sarofim #1 | 20.00% | 20.00% | 2,579 | 2,450 | 180 | (6) | 64 |
| | | | 57,275 | 23,402 | 11,925 | 1,307 | 4,685 |
| Cost basis investments (g) | | | 3,746 | 8,777 | 2,503(f) | 2,376(f) | 3,893(f) |
| Investment in Real Estate Affiliates | | | $ 61,021 | $ 32,179 | $ 14,428 | $ 3,683 | $ 8,578 |

(a) On April 19, 2012, the joint ventures owning the Forest View and Timbermill Apartments completed their sale to a third party. Our share of the distributable cash, after repayment of debt and transaction expenses, was $8.6 million.

(b) These entities were previously considered VIEs, whose reassessment in 2013 caused them to no longer be considered VIEs. Please refer to discussion in section following the table.

(c) On May 31, 2012, we acquired our partner's interest for $6.9 million and consolidated this property.

(d) Equity method VIEs.

(e) As of July 1, 2011, The Woodlands is consolidated and no longer a Real Estate Affiliate (please refer to Note 4 –Acquisitions and Dispositions). Prior to July 1, 2011, we owned a 52.5% economic interest in The Woodlands.

(f) Includes distribution received from Summerlin Hospital Medical Center.

(g) The lower carrying value as of December 31, 2013 is attributable to the sale of our interest in Head Acquisition, LP (Hexalon) on October 30,

2013 that resulted in a gain of approximately $8.5 million.

Millennium Woodlands Phase II, LLC, Parcel C, KR Holdings, HHMK Development, LLC, and Summerlin Las Vegas Baseball Club entities included in the table above are VIEs. We are not the primary beneficiary of any of these VIEs because we do not have the power to direct activities that most significantly impact the economic performance of such joint ventures and therefore we report our interests on the equity method. Our maximum exposure to loss as a result of these investments is limited to the aggregate carrying value of the investment as we have not provided any guarantees or

otherwise made firm commitments to fund amounts on behalf of these VIEs. The aggregate carrying value of the unconsolidated VIEs were $38.4 million and $7.8 million as of December 31, 2013 and 2012, respectively, and was classified as Investments in Real Estate Affiliates in the Consolidated Balance Sheets. As of December 31, 2013, approximately $69.2 million of indebtedness was secured by the properties owned by our Real Estate Affiliates of which our share was approximately $39.0 million based upon our economic ownership. All of this debt is without recourse to us.

As of December 31, 2013, the Company determined that it was the primary beneficiary of two VIEs. The creditors of the consolidated VIEs do not have recourse to the Company's general credit. As of December 31, 2013, the carrying values of the assets and liabilities associated with the operations of the consolidated VIEs were $31.7 million and $0.8 million, respectively. As of December 31, 2012, the carrying values of the assets and liabilities associated with operations of the consolidated VIEs were $28.3 million and $1.0 million, respectively. The assets of the VIEs are restricted for use only by the particular VIEs and are not available for our general operations.

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

***Bridges at Mint Hill Joint Venture***

On September 8, 2011, we entered into a joint venture with the owner of land adjacent to our property, located near Charlotte, NC to develop a shopping center on our combined properties. On October 30, 2012, we contributed $4.5 million in cash to the Bridges at Mint Hill joint venture in accordance with the joint venture's operating agreement. The cash was used to repay a mortgage secured by the land contributed by our partner. As a result of our additional contribution, our ownership percentage increased from 79.0% to 90.5%, and we attained the ability to direct the significant economic activities of the entity; therefore, we began consolidating this joint venture in the fourth quarter of 2012.

***Parcel C***

On October 4, 2013, we entered into a joint venture agreement with Kettler, Inc., to construct a 437 unit, Class A apartment building with 31,000 square feet of ground floor retail on Parcel C in downtown Columbia, MD. We contributed approximately five acres of land having an approximate book value of $4.0 million to the joint venture. The transaction values our land at $23.4 million or $53,500 per constructed unit. When the venture closes on the construction loan and upon completion of certain other conditions, including obtaining completed site development and construction plans and an approved project budget, our partner will be required to contribute cash to the venture.

***ONE Ala Moana Condominium Project***

On October 11, 2011, we and an entity jointly owned by two local development partners formed a joint venture called HHMK Development, LLC ("HHMK Development") to explore the development of a luxury condominium tower at the Ala Moana Center in Honolulu, Hawaii. On June 14, 2012, we formed another 50/50 joint venture, KR Holdings, with the same partner. We own 50% of each venture and our partners jointly own the remaining 50%.

On September 17, 2012, KR Holdings closed on two $20.0 million non-recourse mezzanine loan commitments with List Island Properties, LLC and A & B Properties, Inc. These loans have a blended interest rate of 12%, were drawn in full on May 15, 2013 and mature on April 30, 2018 with the option to extend for one year. In addition to the mezzanine loans, A & B Properties and List Island Properties both have profit interests in KR Holdings, which entitles them to receive a share of the

profits, up to a maximum of $3.0 million, after a return of, and a 13.0% preferred return on, our capital.

KR Holdings closed the first mortgage construction loan on May 15, 2013. Upon closing and under the terms of the venture agreement, we sold to KR Holdings our interest in the condominium rights for net cash proceeds of $30.8 million and a 50% equity interest in KR Holdings. Our partner contributed $16.8 million of cash for their 50% equity interest.

The construction loan will be drawn over the course of construction with the total proceeds not to exceed $132.0 million. The loan is secured by the condominium rights and buyers' deposits, has no recourse to us, matures on May 15, 2016, and bears interest at one-month LIBOR plus 3.00%. KR Holdings summarized financial information as of December 31, 2013 includes total assets of $189.0 million, total liabilities of $135.7 million, revenues of $131.2 million and net income of $19.7 million. The venture uses the percentage of completion method to recognize earnings and we recorded $9.9 million in equity in earnings from Real Estate Affiliates related to KR Holdings in the Consolidated Statement of Operations for the year ended December 31, 2013. Our investment balance includes deferred profit of $6.9 million related to the partial sale of land to the joint venture which is being recognized on the same percentage of completion basis as KR Holdings.

***Millennium Woodlands Phase II, LLC***

On May 14, 2012, we entered into a joint venture, Millennium Woodlands Phase II, LLC ("Millennium Phase II"), with The Dinerstein Companies, the same joint venture partner in the Millennium Waterway Apartments I project, for the construction of a new 314-unit Class A multi-family complex in The Woodlands Town Center. Our partner is the managing member of Millennium Phase II. As the managing member, our partner controls, directs, manages and administers the affairs of Millennium Phase II. On July 5, 2012, Millennium Phase II was capitalized by our contribution of 4.8 acres of land valued at $15.5 million to the joint venture, our partner's contribution of $3.0 million in cash and a construction loan in the amount of $37.7 million which is guaranteed by our partner. The development of Millennium Phase II further expands our multi-family portfolio in The Woodlands Town Center.

***Summerlin Las Vegas Baseball Club***

On August 6, 2012, we entered into a joint venture for the purpose of acquiring 100% of the operating assets of the Las Vegas 51s, a Triple-A baseball team which is a member of the Pacific Coast League. We own 50% of the venture and our partners jointly own the remaining 50%. Unanimous consent of the partners is required for all major decisions. In August 2012, we contributed $0.3 million to the joint venture pending final approval of the acquisition by Major League Baseball. In May 2013, after approval was received, we funded our remaining capital obligation of $10.2 million and the joint venture completed the acquisition of the baseball team. Our strategy in acquiring an ownership interest is to pursue a potential relocation of the team to a to-be-built stadium in our Summerlin master planned community. There can be no assurance that such a stadium will ultimately be built.

***The Metropolitan Downtown Columbia Project***

On October 27, 2011, we entered into a joint venture, Parcel D Development, LLC ("Parcel D"), with a local developer, Kettler, Inc., to construct a Class A apartment building with ground floor retail space in downtown Columbia, Maryland. We and our partner each own 50% of the venture, and unanimous consent of the partners is required for all major decisions. On July 11, 2013, the joint venture closed a $64.1 million construction loan which is non-recourse to us. The loan bears interest at one-month LIBOR plus 2.4% and matures in July 2020. At loan closing, our land contribution was valued at

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$53,500 per unit, or $20.3 million, and Kettler contributed $13.3 million in cash, of which $7.0 million was distributed to us. Both we and Kettler are required to each make future contributions of $3.1 million to the joint venture in accordance with the loan agreement, thus increasing our total capital account to $16.4 million. This transaction was accounted for as a partial sale of the land for which we recognized a net profit of $0.7 million. As of December 31, 2013, we have contributed the $3.1 million to the joint venture.

Upon formation of the joint venture, we determined that Parcel D was a VIE, and that we were not the primary beneficiary. Accordingly, we accounted for our investment in Parcel D using the equity method. Upon closing of the first mortgage construction loan, the entity was recapitalized resulting in a reconsideration of the initial determination of VIE status. As of a result of the reconsideration, we determined that Parcel D was no longer considered a VIE. We still account for our investment in Parcel D using the equity method.

***Other***

Our interest in Westlake Retail Associates, Ltd. ("Circle T Ranch") and 170 Retail Associates ("Circle T Power Center"), and together with Circle T Ranch, ("Circle T"), located in the Dallas/Fort Worth, Texas area are held through joint venture entities in which we own non-controlling interests. Woodlands Sarofim #1 Ltd. ("Woodlands Sarofim") industrial buildings and Stewart Title of Montgomery County, Inc. ("Stewart Title"), are located in The Woodlands, and are reflected in our financial statements as non-consolidated joint ventures and are accounted for on the equity method.

## NOTE 6 IMPAIRMENT

There were no impairment charges for the years ended December 31, 2013, 2012 and 2011. We continually evaluate our strategic alternatives with respect to each of our properties and may revise our strategy from time to time, including our intent to hold the asset on a long-term basis or the timing of potential asset dispositions. For example, we may decide to sell property that is held for use and the sale price may be less than the carrying amount. As a result, changes in strategy could result in impairment charges in future periods.

No provisions for impairment were recorded for the years ended December 31, 2013, 2012 and 2011 related to our investments in Real Estate Affiliates.

## NOTE 7 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents, for each of the fair value hierarchy levels required under ASC 820 ("ASC 820") Fair Value Measurement, our assets and liabilities that are measured at fair value on a recurring basis.

| | December 31, 2013 | | | | December 31, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Fair Value Measurements Using | | | | Fair Value Measurements Using | | |
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | | | (In thousands) | | | | (In thousands) | |
| Liabilities: | | | | | | | | |
| Warrants | $305,560 | $ — | $ — | $ 305,560 | $123,573 | $ — | $ — | $ 123,573 |
| Interest rate swaps | $ 4,164 | $ — | $ 4,164 | $ — | $ 7,183 | $ — | $ 7,183 | $ — |

The valuation of warrants is based on an option pricing valuation model. The inputs to the model include the fair value of the stock related to the warrants, exercise price of the warrants, term, expected volatility, risk-free interest rate and dividend yield.

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

The following table presents a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3) which are our Sponsors and Management Warrants:

| | December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | | (In thousands) | |
| Beginning of year | $ 123,573 | $ 127,764 | $ 227,348 |
| Warrant liability loss (gain) (a) | 181,987 | 185,017 | (101,584) |
| Settlements (b) | — | (189,208) | — |
| Purchases | — | — | 2,000 |
| End of year | $ 305,560 | $ 123,573 | $ 127,764 |

(a) The unrealized losses during 2013 and 2012 related to the Sponsors and Management warrants held as of December 31, 2013 and 2012, of $182.0 million and $73.8 million, respectively. The gain for 2011 was also unrealized.

(b) Settlements were for $80.5 million in cash and 1,525,272 shares of our common stock. Please refer to Note 3 – Sponsors and Management Warrants.

The fair values were estimated using an option pricing model and Level 3 inputs due to the unavailability of comparable market data. Changes in the fair value of the Sponsors Warrants and the Management Warrants are recognized in earnings as a warrant liability gain or loss.

The significant unobservable input used in the fair value measurement of our warrants designated as Level 3 as of December 31, 2013 is as follows:

| | Fair Value | Valuation Technique | Unobservable Input | Volatility |
|---|---|---|---|---|
| | (In thousands) | | | |
| Warrants | $ 305,560 | Option Pricing Valuation Model | Expected Volatility (a) | 32.9% |

(a) Based on the asset volatility of comparable companies.

The expected volatility in the table above is a significant unobservable input used to estimate the fair value of our warrant liabilities. An increase in expected volatility would increase the fair value of the liability, while a decrease in expected volatility would decrease the fair value of the liability.

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The following tables summarize our assets and liabilities that were measured at fair value on a non-recurring basis and include Investment in Real Estate Affiliates related to the fair value based on purchases of our previously held equity investments.

| Investment in Real Estate Affiliates | Total Fair Value Measurement as of December 31, | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Loss Year Ended December 31, |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| **2012** | $ 22,405(a) | $22,405 | $ — | $ — | $ — |

(a) We measured our equity interest in Millennium Waterway Apartments based on our purchase of our partner's 23.5% economic interest in Millennium Waterway Apartments. We used Level 1 inputs for the cash payment.

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

| | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| | (In thousands) | | | |
| Assets: | | | | |
| Notes receivable, net | $ 20,554 | $ 20,554 | $ 27,953 | $ 27,953 |
| Tax indemnity receivable, including interest | 320,494 | (a) | 319,622 | (a) |
| Liabilities: | | | | |
| Fixed-rate debt | $ 971,786 | $ 1,012,461 | $ 158,636 | $ 158,879 |
| Variable-rate debt (b) | 509,737 | 509,737 | 479,964 | 479,964 |
| SID bonds | 33,100 | 32,837 | 49,712 | 56,475 |
| Total mortgages, notes and loans payable | $ 1,514,623 | $ 1,555,035 | $ 688,312 | $ 695,318 |

(a) It is not practicable to estimate the fair value of the tax indemnity receivable, including interest, as the timing and ultimate amount received under contract is highly dependent on numerous future events that cannot be reliably predicted.

(b) As more fully described below, $172.0 million of variable-rate debt has been swapped to a fixed rate for the term of the related debt.

Notes receivable are carried at net realizable value which approximates fair value. The estimated fair values of these notes receivable are categorized as Level 3 due to certain factors, such as current interest rates, terms of the note and credit worthiness of the borrower.

The fair value of debt, not including our Senior Notes, in the table above was estimated based on a discounted future cash payment model using Level 2 inputs, which includes risk premiums for loans of comparable quality and a risk free rate derived from the current London Interbank Offered Rate ("LIBOR") or U.S. Treasury obligation interest rates. The discount rates reflect our judgment as to what the approximate current lending rates for loans or groups of loans with similar maturities and credit quality would be if credit markets were operating efficiently and assuming that the debt is outstanding through maturity.

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The fair value of our Senior Notes in the table above was estimated based on quoted market prices for similar issues.

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

## NOTE 8 MORTGAGES, NOTES AND LOANS PAYABLE

Mortgages, notes and loans payable are summarized as follows:

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| | (In thousands) | |
| **Fixed-rate debt:** | | |
| Collateralized mortgages, notes and loans payable | $ 971,786 | $ 158,636 |
| Special Improvement District bonds | 33,100 | 49,712 |
| **Variable-rate debt:** | | |
| Collateralized mortgages, notes and loans payable (a) | 509,737 | 479,964 |
| Total mortgages, notes and loans payable | $ 1,514,623 | $ 688,312 |

(a) As more fully described below, $172.0 million of variable-rate debt has been swapped to a fixed rate for the term of the related debt.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

| $ In thousands | Maturity (a) | Interest Rate | Maximum Facility Amount | Carrying Value December 31, 2013 | Carrying Value December 31, 2012 |
|---|---|---|---|---|---|
| | | | | (In thousands) | |
| **Master Planned Communities** | | | | | |
| Bridgeland Land Loan (b) | June 2022 | 5.50% | | $ 18,066 | $ 18,066 |
| Bridgeland Development Loan (c) | June 2015 | 5.00% | $ 30,000 | — | — |
| Summerlin West SID Bonds – S808/S810 | April 2031 | 7.13% | | 11,168 | 22,185 |
| Summerlin South SID Bonds – S151 | June 2025 | 6.00% | | 6,623 | 10,501 |
| Summerlin South SID Bonds – S128C | December 2030 | 6.05% | | 5,511 | 5,739 |
| Summerlin South SID Bonds – S132 | December 2020 | 6.00% | | 3,962 | 4,822 |
| Summerlin South SID Bonds – S108 | December 2016 | 5.95% | | 823 | 1,067 |
| Summerlin South SID Bonds – S128 | December 2020 | 7.30% | | 707 | 787 |
| Summerlin South SID Bonds – S124 | December 2019 | 5.95% | | 285 | 324 |
| The Woodlands Master Credit Facility (d) | August 2018 | 2.92% | 250,000 | 176,663 | 176,704 |
| Master Planned Communities Total | | | | 223,808 | 240,195 |
| **Operating Assets** | | | | | |
| 110 N. Wacker (e) | October 2019 | 5.21% | | 29,000 | 29,000 |
| 20/25 Waterway Avenue | May 2022 | 4.79% | | 14,450 | 14,450 |
| 3 Waterway Square (f) | August 2028 | 3.94% | | 52,000 | 9,150 |
| 4 Waterway Square | December 2023 | 4.88% | | 39,237 | 40,140 |
| 70 Columbia Corporate Center | August 2017 | 4.25% | | 16,287 | 16,037 |
| 9303 New Trails | December 2023 | 4.88% | | 13,398 | 13,706 |
| Columbia Regional Building (g) | March 2018 | 2.17% | 23,008 | 9,207 | — |
| Millennium Waterway Apartments | June 2022 | 3.75% | | 55,584 | 55,584 |
| One Hughes Landing (h) | November 2017 | 2.82% | 38,000 | 19,128 | 10 |
| Riverwalk Marketplace (i) | October 2018 | 2.92% | 64,400 | — | — |
| The Woodlands Resort & Conference Center (j) | February 2019 | 3.67% | 95,000 | 36,100 | 36,100 |
| Victoria Ward (k) | September 2016 | 3.35% | 250,000 | 238,716 | 229,000 |
| Capital lease obligation | various | 3.60% | | 205 | 41 |
| Operating Assets Total | | | | 523,312 | 443,218 |
| **Strategic Developments** | | | | | |
| Hughes Landing Retail (m) | December 2018 | 2.12% | 36,575 | 913 | — |
| One Lake's Edge (l) | November 2018 | 2.67% | 73,525 | — | — |
| The Shops at Summerlin SID Bonds – S128 | December 2030 | 6.05% | | 3,569 | 3,701 |
| The Shops at Summerlin SID Bonds – S108 | December 2016 | 5.95% | | 452 | 586 |
| Two Hughes Landing (h) | September 2018 | 2.82% | 41,230 | 10 | — |
| Strategic Developments Total | | | | 4,944 | 4,287 |
| Other Corporate Financing Arrangements (n) | Various | 3.00% | 22,700 | 21,309 | 612 |
| Senior Notes (o) | October 2021 | 6.88% | | 750,000 | — |
| Unamortized underwriting fees | n/a | n/a | | (8,750) | — |
| Total mortgages, notes, and loans payable | | | | $ 1,514,623 | $ 688,312 |

(a) Maturity date includes any extension periods which can be exercised at our option.

(b) Loan is fixed at 5.50% through June 2017 and is floating based on three-month LIBOR +2.75% thereafter.

(c) Revolving development loan provides for a maximum of $30.0 million outstanding balance at any one time with all draws not exceeding $140.0 million. The loan bears interest at the greater of 5.00% or LIBOR + 3.25%.

(d) On August 8, 2013, the loan was modified and extended to a August 2018 final maturity date. The interest rate was reduced from one-month LIBOR + 4.00%, with a 5.00% minimum rate to a LIBOR + 2.75% with no floor. The maximum available balance was reduced to $250.0 million from $270.0 million.

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(e) Loan has a stated interest rate of one-month LIBOR + 2.25%. The $29.0 million outstanding principal balance is swapped to a 5.21% fixed rate through maturity.

(f) On August 2, 2013, the loan was refinanced with a $52.0 million loan bearing interest at 3.94% and maturity in August 2028.

(g) Loan bears interest at prime rate for draws less than $0.5 million. For draws over $0.5 million, we elect to use one-month LIBOR + 2.00% or the prime rate.

(h) Loan bears interest at one-month LIBOR + 2.65%.

(i) On October 24, 2013, we closed on a $64.4 million partial-recourse construction loan bearing interest at one-month LIBOR plus 2.75% with an initial maturity date of October 24, 2016, with two, one-year extension options.

(j) Loan was refinanced in February 2013 and bears interest at one-month LIBOR + 3.50%.

(k) Loan has a stated interest rate of one-month LIBOR + 2.50%. $143.0 million of the outstanding principal balance is swapped to a 3.80% fixed rate through maturity.

(l) On November 25, 2013, we closed on a $73.5 million non-recourse loan bearing interest at one-month LIBOR plus 2.50% with an initial maturity date of November 25, 2016, with two, one-year extension options.

(m) On December 20, 2013, we closed on a $36.6 million non-recourse loan bearing interest at one-month LIBOR plus 1.95% with an initial maturity date of December 20, 2016, with two, one-year extension options.

(n) Includes the partial funding of a $22.7 million loan used to acquire a company airplane, of which $21.3 million is drawn as of December 31, 2013. The loan bears interest at 3.00% and requires approximately $1.0 million annual amortization through maturity in July 2018.

(o) On October 2, 2013, we issued $750.0 million in aggregate principal amount of 6.875% Senior Notes due 2021 (the "Senior Notes"). Interest is payable semiannually, on April 1 and October 1 of each year starting in April 2014. At any time prior to October 1, 2016, we may redeem up to 35% of the Notes using the proceeds from equity offerings or we may redeem some or all of the Notes at a price equal to 106.875% of the principal amount. We may redeem all or part of the Notes at any time on or after October 1, 2016 with a declining call premium thereafter to maturity.

The weighted average interest rate on our mortgages, notes and loans payable excluding interest rate hedges was 5.25% and 4.49% as of December 31, 2013 and 2012, respectively.

The following table summarizes the contractual obligations relating to our mortgages, notes and loans payable as of December 31, 2013 based on initial maturity dates:

| | Mortgages, notes and loans payable principal payments |
|---|---|
| | (In thousands) |
| 2014 | $ 5,462 |
| 2015 | 26,958 |
| 2016 | 470,784 |
| 2017 | 25,885 |
| 2018 | 26,683 |
| Thereafter | 958,851 |
| Total | $ 1,514,623 |

All of our mortgage debt is secured by the individual properties as listed in the table above and is non-recourse to us, except for a $7.0 million parent guarantee associated with the 110 N. Wacker mortgage. The $750.0 million of Senior Notes and $21.3 million of Other Corporate Financing arrangements are also recourse to us. In addition, we have $32.2 million of recourse guarantees associated with undrawn construction financing commitments as of December 31, 2013. The Woodlands Master Credit Facility and Resort & Conference Center loans are recourse to the entities that directly own The Woodlands operations. Certain of our loans contain provisions which grant the lender a security interest in the operating cash flow of the property that represents the collateral for the loan. Such provisions are not expected to impact our operations in 2014. Certain mortgage notes may be prepaid, but may be subject to a prepayment penalty equal to a yield-maintenance premium,

defeasance or a percentage of the loan balance. As of December 31, 2013, land, buildings and equipment and developments in progress with a cost basis of $1.6 billion have been pledged as collateral for our mortgages, notes and loans payable. On July 26, 2013, we closed on a $22.7 million loan to acquire an airplane, which is recourse to us as noted above. The loan bears interest at 3.00%, requires approximately $1.0 million annual amortization and matures in July 2018.

As of December 31, 2013, we were in compliance with all of the financial covenants related to our debt agreements.

*Master Planned Communities*

On August 8, 2013, The Woodlands refinanced its existing Master Credit Facility with a $250.0 million credit facility consisting of a $125.0 million term loan and a $125.0 million revolver (together, the "TWL Facility"). The TWL Facility bears interest at one-month LIBOR plus 2.75% and has an initial three-year term with two one-year extension options. The extension options require a reduction of the total commitment to $220.0 million for the first extension and $185.0 million for the second extension. The TWL Facility also contains certain covenants that, among other things, require the maintenance of specified financial ratios, limit the incurrence of additional recourse indebtedness at The Woodlands, and limit distributions from The Woodlands to us based on a loan-to-value test. There was $73.3 million of undrawn and available borrowing capacity under the TWL Facility based on the collateral underlying the facility and covenants as of December 31, 2013.

During the second quarter of 2012, we refinanced $18.1 million of existing debt related to our Bridgeland Master Planned Community with a ten-year term loan facility at a fixed interest rate of 5.50% for the first five years and three-month LIBOR plus 2.75% for the remaining term and maturing on June 29, 2022. Beginning on June 29, 2014, annual principal payments are required in the amount of 5.00% of the then outstanding principal balance. In addition, we simultaneously entered into a three-year revolving credit facility with aggregate borrowing capacity of $140.0 million of which $39.2 million has been utilized and which has a $30.0 million maximum outstanding loan amount at any time. New residential lot development was delayed while we pursued a permit from the U.S. Army Corps of Engineers to develop an additional 806 acres of land in Bridgeland. Due to the delayed lot development and low level of lot inventory, we can nolonger draw upon the revolving credit facility until we develop new finished lots. The revolving loan bears interest at the greater of 5.00% or one-month LIBOR plus 3.25% and matures on June 29, 2015. This loan is intended to provide working capital at Bridgeland to accelerate development efforts to meet the demand of homebuilders for finished lots in the community. The Bridgeland loans are cross-collateralized and cross-defaulted and the Bridgeland Master Planned Community serves as collateral for the loans. The loans also require that Bridgeland maintain a minimum $3.0 million cash balance and a minimum net worth of $250.0 million. Additionally, we are restricted from making cash distributions from Bridgeland unless the revolving credit facility has no outstanding balance and one year of real estate taxes and debt service on the term loan have been escrowed with the lender.

The Summerlin Master Planned Community uses Special Improvement District ("SID") bonds to finance certain common infrastructure improvements. These bonds are issued by the municipalities and, although unrated, are secured by the assessments on the land. The majority of proceeds from each bond issued is held in a construction escrow and disbursed to us as infrastructure projects are completed, inspected by the municipalities and approved for reimbursement. Accordingly, the Special Improvement District bonds have been classified as debt, and the Summerlin Master Planned Community pays the debt service on the bonds semi-annually. As Summerlin sells land, the buyers assume a proportionate share of the bond obligation at closing, and the residential sales contracts

provide for the reimbursement of the principal amounts that we previously paid with respect to such proportionate share of the bond.

*Operating Assets*

On October 24, 2013, we closed on a $64.4 million partial recourse construction loan for Riverwalk Marketplace. The loan bears interest at one-month LIBOR plus 2.75%, with an initial maturity date of October 24, 2016 with two, one-year extension options.

On March 15, 2013, we closed on a non-recourse financing totaling $23.0 million for the redevelopment of The Columbia Regional Building (also known as The Rouse Building), an office building located in Columbia, Maryland. The loan bears interest at one-month LIBOR plus 2.00% and is interest only through the initial maturity date of March 15, 2016. The loan has two, one-year extension options.

On February 8, 2013, we closed on a $95.0 million non-recourse construction loan which repaid the existing $36.1 million mortgage and provides funding for the redevelopment of The Woodlands Resort and Conference Center. The loan bears interest at one-month LIBOR plus 3.50% and has an initial maturity of February 8, 2016, with three one-year extensions at our option. The loan is secured by a 440-room and 40-acre conference center and resort located within The Woodlands, and requires the maintenance of specified financial ratios after completion of construction.

On November 14, 2012, we closed on a non-recourse financing totaling $38.0 million for the construction of One Hughes Landing, an eight-story, 197,000 square foot office building in The Woodlands. The loan matures on November 14, 2015 and has two, one-year extension options. The loan bears interest at one-month LIBOR plus 2.65%.

On August 15, 2012, we assumed a $16.0 million loan as part of the acquisition of 70 Columbia Corporate Center ("70 CCC"), located in Columbia, MD. The non-recourse, interest only promissory note matures on August 31, 2017, has a fixed rate of 4.25% and is secured by the property. The loan includes a participation right to the lender for 30% of the appreciation in the market value of the property after our 10% cumulative preferred return and repayment of the outstanding debt and our contributed equity. The fair value of the participation obligation is remeasured each quarter and the resulting change in the fair value of the participation right is recorded through interest expense. For the year ended December 31, 2013, $1.4 million relating to the estimated increase in value of the participation right is due to increased leasing of the property and was recorded in interest expense.

On May 31, 2012, as part of the acquisition of our former partner's interest in Millennium Waterway Apartments, located within The Woodlands, we consolidated a $55.6 million non-recourse first mortgage loan. The proceeds from the mortgage were used to refinance the joint venture's existing debt and to fund our acquisition of the partner's interest in the property. The loan matures on June 1, 2022 and has a fixed interest rate of 3.75%. Payments are interest only until September 2017, then monthly principal and interest payments of $257,418 with the unpaid principal balance due at maturity.

On April 26, 2012, we closed on a $14.5 million non-recourse financing secured by 20/25 Waterway Avenue, located within The Woodlands. The loan bears interest at 4.79% and matures on May 1, 2022.

On February 2, 2012, we closed on a non-recourse financing totaling $43.3 million for the construction of 3 Waterway Square, an 11-story, 232,000 square foot office building in The Woodlands. The loan matures on January 31, 2015 and has two, one-year extension options. The loan bears interest at one-month LIBOR plus 2.65%. On August 2, 2013, we refinanced the loan with a $52.0 million non-recourse first mortgage financing bearing interest at 3.94% and maturing on August 11, 2028.

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On December 5, 2011, we obtained a $41.0 million loan for 4 Waterway Square and a $14.0 million loan for 9303 New Trails, both located within The Woodlands. These non-recourse mortgages mature on December 11, 2023 and have fixed interest rates of 4.88%.

On September 30, 2011, we closed on a $250.0 million non-recourse first mortgage financing secured by Ward Centers in Honolulu, Hawaii, that bears interest at one-month LIBOR plus 2.50%. The loan may be drawn to a maximum $250.0 million to fund capital expenditures at the property, provided that the outstanding principal balance cannot exceed 65% of the property's appraised value, and the borrowers are required to have a minimum 10.0% debt yield to draw additional loan proceeds under the facility. The loan permits partial repayment during its term in connection with property releases for development. In the third quarter of 2013, certain properties securing the loan were approved for condominium development. As a result, the properties were removed from the collateral pool and a minor principal paydown of the loan was required. The loan matures on September 29, 2016, and $143.0 million of the principal balance was swapped to a 3.80% fixed rate for the term of the loan. The loan had a weighted-average interest rate of 3.35% as of December 31, 2013. The unused portion of this mortgage was $11.3 million as of December 31, 2013.

On May 10, 2011, we closed a $29.0 million first mortgage financing secured by our office building located at 110 N. Wacker Drive in Chicago, IL. The loan term is coterminous with the expiration of the first term of the existing tenant's lease. The loan has an interest-only period through April 2015 and, thereafter, amortizes ratably to $12.0 million through maturity. We provided a $7.0 million repayment guarantee for the loan, which is reduced on a dollar for dollar basis during the amortization period.

*Strategic Developments*

On December 20, 2013, we closed on a $36.6 million non-recourse loan for the construction of Hughes Landing Retail, a 123,000 square foot retail component of Hughes Landing. The loan bears interest at one-month LIBOR plus 1.95% with an initial maturity date of December 20, 2016, with two, one-year extension options.

On November 25, 2013, we closed on a $73.5 million non-recourse loan for the construction of an eight-story, Class A, multi-family project within Hughes Landing called One Lake's Edge. One Lake's Edge will be comprised of 390 multi-family units (averaging 984 square feet per unit), 22,289 square feet of retail and an approximately 750 space parking garage, all situated on 2.92 acres of land. The loan bears interest at one-month LIBOR plus 2.50% with an initial maturity date of November 25, 2016, with two, one-year extension options.

On September 11, 2013, we closed on a non-recourse financing totaling $41.2 million for the construction of Two Hughes Landing, the second Class A office building in the 66-acre mixed-use development of Hughes Landing on Lake Woodlands, located in The Woodlands. Two Hughes Landing will be a 197,000 square foot, eight-story office building with an adjacent parking garage containing approximately 630 spaces and is the second of up to 11 office buildings planned for Hughes Landing. The loan matures on September 11, 2016 and has two, one-year extension options. The loan bears interest at one-month LIBOR plus 2.65% due monthly.

*Corporate*

On October 2, 2013, we issued $750.0 million in aggregate principal amount of 6.875% Senior Notes due 2021 (the "Senior Notes") and received net cash proceeds of $739.6 million. We intend to use the net proceeds for development, acquisitions and other general corporate purposes. Interest is payable semiannually, on April 1 and October 1 of each year starting in April 2014. At any time prior to

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October 1, 2016, we may redeem up to 35% of the Notes at a price equal to 106.875% using the proceeds from equity offerings. We may redeem all or part of the Notes at any time on or after October 1, 2016 with a declining call premium thereafter to maturity. The Notes contain customary terms and covenants for non-investment grade senior notes and have no maintenance covenants.

## NOTE 9 INCOME TAXES

The provision for (benefit from) income taxes for the years ended December 31, 2013, 2012 and 2011 was as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| | | (In thousands) | |
| Current | $ 1,218 | $ 2,439 | $ 936 |
| Deferred | 8,352 | 4,448 | (19,261)(*) |
| Total | $ 9,570 | $ 6,887 | $ (18,325) |

(*) A component of the tax benefit recorded for the year ended December 31, 2011 relates to an adjustment to true-up the deferred tax assets and liabilities that were received by us upon the spin-off from GGP.

Income tax expense is computed by applying the Federal corporate tax rate for the years ended December 31, 2013, 2012 and 2011 and is reconciled to the provision for income taxes as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| | | (In thousands) | |
| Tax at statutory rate on earnings from continuing operations before income taxes | $ (22,477) | $ (42,490) | $ 45,099 |
| Increase (decrease) in valuation allowance, net | (88,826) | (32,172) | (13,110) |
| State income taxes, net of Federal income tax benefit | 1,562 | 1,328 | 2,243 |
| Tax at statutory rate on REIT entity earnings not subject to Federal income taxes | (2,648) | (3,087) | 1,204 |
| Tax expense (benefit) from change in rates, prior period adjustments and other permanent differences | 4,339 | 13,908 | (20,829) |
| Record deferred tax liability on captive REIT and REIT land distribution | 53,973 | — | — |
| Non-deductible warrant liability (gain) loss | 63,695 | 65,311 | (35,859) |
| Non-taxable interest income | (363) | (2,863) | (2,990) |
| Uncertain tax position expense, excluding interest | (1,034) | 1,765 | 364 |
| Uncertain tax position interest, net of Federal income tax benefit | 1,349 | 5,187 | 5,553 |
| Income tax expense (benefit) | $ 9,570 | $ 6,887 | $ (18,325) |

Realization of a deferred tax benefit is dependent upon generating sufficient taxable income in future periods. Our net operating loss carry-forwards are currently scheduled to expire in subsequent years through 2033. Some of the net operating loss carry-forward amounts are subject to the separate return limitation year rules (SRLY). It is possible that we could, in the future, experience a change in control pursuant to Section 382 that could put limits on the benefit of deferred tax assets. On February 27, 2012, we entered into a Section 382 Rights Agreement to protect us from such an event and protect our deferred tax assets. The section 382 Rights Agreement has a three-year term.

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As of December 31, 2013, the amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes are as follows:

| | Amount | Expiration Date |
|---|---|---|
| | (In thousands) | |
| Net operating loss carryforwards – Federal | $ 94,715 | 2024-2033 |
| Net operating loss carryforwards – State | 254,533 | 2014-2033 |
| Capital loss carryforward | 16,397 | 2018 |
| Tax credit carryforwards – Federal AMT | 2,045 | n/a |

As of December 31, 2013 and 2012, we had gross deferred tax assets totaling $336.6 million and $410.5 million, and gross deferred tax liabilities of $413.4 million and $386.1 million, respectively. We have established a valuation allowance in the amount of $12.6 million and $101.5 million as of December 31, 2013 and 2012, respectively,against certain deferred tax assets for which it is more likely than not that such deferred tax assets will not be realized.

Deferred tax assets related to our investment in Head Acquisition, LP in the amount of $76.4 million that we previously believed had only a remote possibility of realization were recorded in 2012 due to tax planning that made realization possible. Due to the uncertainty that the tax planning would result in the realization of the deferred tax asset we established a 100% valuation allowance. During the fourth quarter 2013, the tax planning was successfully implemented and over 90% of the deferred tax asset was realized and the remaining amount will likely be realized in 2014; therefore, we determined that it was appropriate to release the entire valuation allowance in 2013.

The tax effects of temporary differences and carry-forwards included in the net deferred tax liabilities at December 31, 2013 and 2012 are summarized as follows:

| | 2013 | 2012 |
|---|---|---|
| | (In thousands) | |
| **Deferred tax assets:** | | |
| Operating and Strategic Development properties, primarily differences in basis of assets and liabilities | $ 201,993 | $ 291,845 |
| Interest deduction carryforwards | 85,671 | 86,963 |
| Operating loss and tax credit carryforwards | 48,971 | 31,643 |
| **Total deferred tax assets** | 336,635 | 410,451 |
| Valuation allowance | (12,624) | (101,518) |
| **Total net deferred tax assets** | 324,011 | 308,933 |
| **Deferred tax liabilities:** | | |
| Property associated with Master Planned Communities, primarily differences in the tax basis of land assets and treatment of interest and other costs | $ (137,930) | (172,914) |
| Operating and Strategic Development properties, primarily differences in basis of assets and liabilities | (48,007) | — |
| Deferred income | (227,439) | (213,166) |
| **Total deferred tax liabilities** | (413,376) | (386,080) |
| **Net deferred tax liabilities** | $ (89,365) | $ (77,147) |

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The deferred tax liability associated with the Master Planned Communities is largely attributable to the difference between the basis and value determined as of the date of the acquisition by our predecessors of The Rouse Company ("TRC") in 2004 adjusted for sales that have occurred since that time. The cash cost related to this deferred tax liability is dependent upon the sales price of future land sales and the method of accounting used for income tax purposes. The deferred tax liability related to deferred income is the difference between the income tax method of accounting and the financial statement method of accounting for prior sales of land in our Master Planned Communities.

One of our consolidated entities, Victoria Ward, Limited, elected to be taxed as a REIT and intended to continue to operate so as to qualify as a REIT going forward. Consequently, deferred taxes were not recorded on book and tax basis differences of Victoria Ward, Limited as it was believed these differences would ultimately be realized at a zero percent tax rate. In connection with the planned condominium development of Victoria Ward that was approved by the Hawaii Real Estate Commission during the fourth quarter of 2013, the Company now intends to revoke its REIT election within the next few years, before future phases of condominium development commences. The Company now believes that the book and tax basis differences in the land and buildings of Victoria Ward, Limited will be realized after such time REIT status is revoked and will be taxed at the applicable corporate tax rates. As a result of these fourth quarter events, deferred tax liabilities of $48.0 million have been recorded due to the excess book over tax basis relating to land and buildings as of December 31, 2013.

Although we believe our tax returns are correct, the final determination of tax examinations and any related litigation could be different than what was reported on the returns. In our opinion, we have made adequate tax provisions for years subject to examination. Generally, we are currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2009 through 2013 and are open to audit by state taxing authorities for years ending December 31, 2009 through 2013.

Two of our subsidiaries are involved in a dispute with the IRS relating to years in which those subsidiaries were owned by General Growth Properties ("GGP"), and in connection therewith, GGP has provided us with an indemnity against certain potential tax liabilities. Pursuant to the Tax Matters Agreement with GGP, GGP has indemnified us from and against 93.75% of any and all losses, claims, damages, liabilities and reasonable expenses to which we become subject (the "Tax Indemnity"), in each case solely to the extent directly attributable to certain taxes related to sales of certain assets in our Master Planned Communities segment prior to March 31, 2010 ("MPC Taxes"), in an amount up to $303.8 million, plus interest and penalties related to these amounts (the "Indemnity Cap") so long as GGP controls the action in the United States Tax Court (the "Tax Court") related to the dispute with the IRS as described below. We recorded the Tax Indemnity receivable at the Indemnity Cap amount as of the spinoff date. The unrecognized tax benefits and related accrued interest recorded through December 31, 2013 are primarily related to the taxes that are the subject of the Tax Indemnity. We have recorded interest income receivable on the Tax Indemnity receivable in the amounts of $38.6 million and $36.4 million as of December 31, 2013 and 2012, respectively.

The timing of the utilization of the tax assets attributable to indemnified and non-indemnified gains results in changes to the Tax Indemnity receivable and is dependent on numerous future events, such as the timing of recognition of indemnified and non-indemnified gains, the amount of each type of gain recognized in each year, the use of specific deductions and the ultimate amount of indemnified gains recognized. These non-cash changes could be material to our financial statements. Resolution of the Tax Court case noted below could also result in material changes to the Master Planned Community deferred gains and the timing of utilization of the tax assets, both of which could result in material changes to the Tax Indemnity receivable. We record the Tax Indemnity receivable based on the amounts

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indemnified which are determined in accordance with the provisions set forth in ASC 740 ("ASC 740") Income Taxes. The amounts indemnified are included in the deferred income component of deferred tax liability and in Uncertain tax position liability in our Consolidated Balance Sheets.

During the year ended December 31, 2013, the reduction in the Tax Indemnity receivable of $1.2 million related to interest income that was offset by our utilization of tax assets that contractually limit the amount we can receive pursuant to the Tax Matters Agreement and changes to our deferred tax liability for the MPC Taxes.

During the year ended December 31, 2012, the reduction in the Tax Indemnity receivable of $20.3 million, $8.8 million of which related to 2011 and to a lesser extent 2010, related to our utilization of tax assets that contractually limit the amount we can receive pursuant to the Tax Matters Agreement and changes to our deferred tax liability for the MPC Taxes.

On May 6, 2011, GGP filed Tax Court petitions on behalf of the two former taxable REIT subsidiaries of GGP seeking a redetermination of federal income tax for the years 2007 and 2008. The petitions seek to overturn determinations by the IRS that the taxpayers were liable for combined deficiencies totaling $144.1 million. On October 20, 2011, GGP filed a motion in the Tax Court to consolidate the cases of the two former taxable REIT subsidiaries of GGP subject to litigation with the IRS due to the common nature of the cases' facts and circumstances and the issues being litigated. The Tax Court granted the motion to consolidate. The case was heard by the Tax Court in November 2012. We expect the Tax Court to rule on the case within the next 12 months.

We apply the generally accepted accounting principle related to accounting for uncertainty in income taxes, which prescribes a recognition threshold that a tax position is required to meet before recognition in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition issues.

We recognize and report interest and penalties, if applicable, within our provision for income tax expense from January 1, 2007 forward. We recognized potential interest expense related to the unrecognized tax benefits of $2.1 million, $8.2 million and $8.5 million for the years ended December 31, 2013, 2012 and 2011, respectively. At December 31, 2013, wehad total unrecognized tax benefits of $90.5 million, excluding interest of $38.7 million, of which none would impact our effective tax rate. At December 31, 2012 and 2011, we hadtotal unrecognized tax benefits of $95.9 million and $101.4 million, respectively, excluding interest, of which none would impact our effective tax rate.

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| | | (In thousands) | |
| Unrecognized tax benefits, opening balance | $ 95,917 | $ 101,408 | $ 120,816 |
| Gross increases – tax positions in prior period | 9,162 | 841 | — |
| Gross decreases – tax positions in prior periods | (14,547) | (6,332) | (19,408) |
| Unrecognized tax benefits, ending balance | $ 90,532 | $ 95,917 | $ 101,408 |

Based on our assessment of the expected outcome of existing examinations or examinations that may commence, or as a result of the expiration of the statute of limitations for specific jurisdictions, it is reasonably possible that the related unrecognized tax benefits, excluding accrued interest, for tax positions taken regarding previously filed tax returns will materially change from those recorded at December 31, 2013. A material change in unrecognized tax benefits could have a material effect on our statements of operations. As of December 31, 2013, there is approximately $90.5 million of

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unrecognized tax benefits, excluding accrued interest, which due to the reasons above, could significantly increase or decrease during the next twelve months.

## NOTE 10 COMMITMENTS AND CONTINGENCIES

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

We had outstanding letters of credit and surety bonds totaling $58.7 million and $49.3 million as of December 31, 2013 and 2012, respectively. These letters of credit and bonds were issued primarily in connection with insurance requirements, special real estate assessments and construction obligations.

We lease land or buildings at certain properties from third parties. Rental payments are expensed as incurred and have, to the extent applicable, been straight-lined over the term of the lease. Contractual rental expense, including participation rent, was $6.3 million, $5.4 million and $5.2 million for 2013, 2012 and 2011, respectively. The amortization of above and below-market ground leases and straight-line rents included in the contractual rent amount, was not significant.

The following table summarizes the contractual obligations relating to our long-term commitments:

| | 2014 | 2015 | 2016 | 2017 | 2018 | Subsequent / Other | Total |
|---|---|---|---|---|---|---|---|
| | (In thousands) | | | | | | |
| Mortgages, notes and loans payable (a) | $ 5,462 | $26,958 | $470,784 | $25,885 | $26,683 | $ 958,851 | $1,514,623 |
| Ground lease and other leasing commitments (b) | 5,152 | 7,152 | 8,787 | 7,883 | 6,744 | 332,867 | 368,585 |
| Uncertainty in income taxes, including interest (c) | — | — | — | — | — | 129,183 | 129,183 |
| Total | $10,614 | $34,110 | $479,571 | $33,768 | $33,427 | $1,420,901 | $2,012,391 |

(a) Refinanced The Woodlands Credit Facility $250.0 million, new financing for 3 Waterway $52.0 million, One Hughes Landing $38.0 million, Columbia Regional Building $23.0 million and Other Corporate financing $21.3 million.

(b) Executed new lease at South Street Seaport.

(c) Please refer to Note 9 – Income Taxes for our obligations related to uncertain tax positions for disclosure of additional contingencies.

*South Street Seaport*

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

completion guaranty requires us to perform

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certain obligations under the lease, including the commencement of construction with a scheduled completion date in 2016.

In the fourth quarter of 2012, as a result of Superstorm Sandy, the historic area of South Street Seaport (area west of the FDR Drive) suffered damage due to flooding, but the Pier 17 structure was not significantly damaged. Reconstruction efforts are ongoing and the property is only partially operating. We have received $20.5 million in insurance proceeds through December 31, 2013 at South Street Seaport related to our claim of which we recognized a $12.2 million in Other income during the year ended December 31, 2013. We believe that our insurance will reimburse substantially all of the costs of repairing the property and will also compensate us for substantially all lost income resulting from the storm.

**NOTE 11 OTHER ASSETS AND LIABILITIES**

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

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| Special Improvement District receivable | $ 39,688 | $ 39,659 |
| Equipment, net of accumulated depreciation of $0.7 million | 21,978 | — |
| Tenant incentives and other receivables | 6,757 | 2,346 |
| Federal income tax receivable | 6,053 | 5,367 |
| Prepaid expenses | 4,744 | 4,757 |
| Below-market ground leases (Note 12) | 20,002 | 20,341 |
| Condominium deposits | 12,405 | 19,616 |
| Security and escrow deposits | 28,082 | 12,865 |
| Above-market tenant leases (Note 12) | 1,095 | 1,896 |
| Uncertain tax position asset | 13,528 | 12,801 |
| In-place leases (Note 12) | 9,306 | 11,516 |
| Intangibles | 3,714 | 3,714 |
| Other | 6,588 | 8,592 |
| | $ 173,940 | $ 143,470 |

The $30.5 million increase as of December 31, 2013 compared to 2012 primarily relates to a $22.0 million increase in equipment related to an airplane purchase, a $4.4 million increase in tenant and other receivables primarily related to lease incentives at Ward Centers, and a $15.2 million increase in security and escrow deposits related primarily to approximately $14.7 million in escrow deposits for the South Street Seaport project. These increases are offset by a decrease of $7.2 million in condominium deposits due to the sale of our condominium rights for ONE Ala Moana.

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

| | December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| Construction payables | $ 106,741 | $ 17,501 |
| Accounts payable and accrued expenses | 46,998 | 39,634 |
| Condominium deposits | 12,405 | 19,616 |
| Membership deposits | 24,830 | 20,248 |
| Above-market ground leases (Note 12) | 2,431 | 2,590 |
| Deferred income | 18,963 | 7,767 |
| Accrued interest | 17,463 | 2,425 |
| Accrued real estate taxes | 8,581 | 6,622 |
| Tenant and other deposits | 9,490 | 8,096 |
| Insurance reserve | 1,417 | 9,037 |
| Accrued payroll and other employee liabilities | 15,666 | 11,514 |
| Interest rate swaps | 4,164 | 7,183 |
| Special Assessement | 2,603 | 2,868 |
| Other | 12,239 | 15,420 |
| | $ 283,991 | $ 170,521 |

The $113.5 million increase as of December 31, 2013 compared to 2012 is primarily due to the increase of $89.2 million in construction payables, which relates to construction and renovation activities primarily for The Shops at Summerlin, Ward Village and Riverwalk properties that are under development, an increase of $11.2 million in deferred income primarily due to increased land sales and the deferral of a portion of the income for post-sale land development obligations at our Summerlin MPC, and a $15.0 million increase in accrued interest mainly from the Senior Notes. These increases were partially offset by the decrease of $7.2 million in condominium deposits as of December 31, 2013 compared to 2012 due to the sale of our ONE Ala Moana condominium rights.

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## NOTE 12 INTANGIBLES

### Intangible Assets and Liabilities

The following table summarizes our intangible assets and liabilities:

| | Gross Asset (Liability) | Accumulated (Amortization) / Accretion | Net Carrying Amount |
|---|---|---|---|
| | | (In thousands) | |
| **As of December 31, 2013** | | | |
| Tenant leases: | | | |
| In-place value | $ 14,633 | $ (5,327) | $ 9,306 |
| Above-market | 1,596 | (501) | 1,095 |
| Below-market | (482) | 150 | (332) |
| Ground leases: | | | |
| Above-market | (3,546) | 1,115 | (2,431) |
| Below-market | 23,096 | (3,094) | 20,002 |
| | | | |
| **As of December 31, 2012** | | | |
| Tenant leases: | | | |
| In-place value | $ 20,348 | $ (8,832) | $ 11,516 |
| Above-market | 1,904 | (8) | 1,896 |
| Below-market | (319) | (35) | (354) |
| Ground leases: | | | |
| Above-market | (3,546) | 956 | (2,590) |
| Below-market | 23,096 | (2,755) | 20,341 |

The gross asset balances of the in-place value of tenant leases are included in Prepaid expenses and other assets in our Consolidated Balance Sheets and are amortized over periods that approximate the related lease terms. The above-market and below-market tenant and ground leases are included in Prepaid expenses and other assets and Accounts payable and accrued expenses as detailed in Note 11 – Other Assets and Liabilities and are amortized over the remaining non-cancelable terms of the respective leases.

Amortization/accretion of these intangible assets and liabilities decreased our income (excluding the impact of noncontrolling interest and the provision for income taxes) by $3.0 million in 2013, $2.5 million in 2012 and $2.0 million in 2011.

Future amortization/accretion is estimated to decrease income (excluding the impact of noncontrolling interest and the provision for income taxes) by $2.3 million in 2014, $2.1 million in 2015, $1.8 million in 2016, $1.6 million in 2017, $1.1 million in 2018, and $18.6 million thereafter.

## NOTE 13 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We are primarily exposed to interest rate risks related to our variable interest debt, and we manage this risk by utilizing interest rate derivatives. Our objectives in using interest rate derivatives are to add stability to interest costs by reducing our exposure to interest rate movements. To accomplish this objective, we use interest rate swaps and caps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company's fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate caps designated as cash flow hedges

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involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated Other Comprehensive Income ("AOCI") and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the years ended December 31, 2013, 2012 and 2011, the ineffective portion recorded in earnings was insignificant.

As of December 31, 2013 and 2012, we had gross notional amounts of $172.0 million for interest rate swaps and a $100.0 million interest rate cap that were designated as cash flow hedges of interest rate risk. The fair value of the interest rate cap was insignificant.

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

Amounts reported in AOCI related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt. Over the next 12 months, we estimate that an additional $2.3 million will be reclassified as an increase to interest expense.

The table below presents the fair value of our derivative financial instruments which are included in accounts payable and accrued liabilities in the Consolidated Balance Sheets:

| | As of December 31, | |
|---|---|---|
| | 2013 | 2012 |
| | (In thousands) | |
| Interest rate swaps | $ 4,164 | $ 7,183 |
| Total derivatives designated as hedging instruments | $ 4,164 | $ 7,183 |

The tables below present the effect of our derivative financial instruments on the Consolidated Statements of Operations for the years ended December 31, 2013 and 2012:

| | Year Ended December 31, | | | Year Ended December 31, | |
|---|---|---|---|---|---|
| | 2013 | 2012 | | 2013 | 2012 |
| Cash Flow Hedges | Amount of Income Recognized in OCI | Amount of (Loss) Recognized in OCI | Location of (Loss) Reclassified from AOCI into Earnings | Amount of (Loss) Reclassified from AOCI into Earnings | Amount of (Loss) Reclassified from AOCI into Earnings |
| | (In thousands) | | | (In thousands) | |
| Interest rate swaps | $ 1,306 | $ (4,703) | Interest expense | $ (1,236) | $ (1,933) |
| | $ 1,306 | $ (4,703) | | $ (1,236) | $ (1,933) |

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## NOTE 14 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes AOCI for the year ended December 31, 2013:

**Changes in Accumulated Other Comprehensive Income (Loss) by Component (a)**

**Gains and (Losses) on Cash Flow Hedges**
**(In Thousands)**

| | For the Year Ended December 31, 2013 |
|---|---|
| Balance as of January 1, 2013 | $ (9,575) |
| Other comprehensive income (loss) before reclassifications | 117 |
| Amounts reclassified from accumulated other comprehensive income (loss) | 1,236 |
| Net current-period other comprehensive income | 1,353 |
| Balance as of December 31, 2013 | $ (8,222) |

(a) All amounts are net of tax.

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

**Reclassifications out of Accumulated Other Comprehensive Income (Loss)**
**(In Thousands)**

| | Amounts reclassified from Accumulated Other Comprehensive Income (Loss) | |
|---|---|---|
| Accumulated Other Comprehensive Income Components | For the Year Ended December 31, 2013 | Affected line item in the Statement of Operations |
| Gains and losses on cash flow hedges | | |
| Interest rate swap contracts | $ (967) | Interest (expense) |
| | (269) | Provision for income taxes |
| Total reclassifications for the period | $ (1,236) | Net of tax |

## NOTE 15 STOCK BASED PLANS

### Incentive Stock Plans

On November 9, 2010 (the "Effective Date"), HHC adopted The Howard Hughes Corporation 2010 Equity Incentive Plan (the "Equity Plan"). Pursuant to the Equity Plan, 3,698,050 shares of HHC common stock were reserved for issuance. The Equity Plan provides for grants of options, stock appreciation rights, restricted stock, other stock-based awards and performance-based compensation (collectively, "the Awards"). Directors, employees and consultants of HHC and its subsidiaries and affiliates are eligible for awards.

The Equity Plan is administered by the Compensation Committee of the Board of Directors ("Committee"). Option grant amounts are awarded by the Committee. Generally, options granted vest over requisite service periods, expire ten years after the grant date and generally do not become

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exercisable until their restrictions on exercise lapses after the five-year anniversary of the grant date. In May 2013, certain key employees were granted restricted stock and stock options whereby half vest after four years of service and the remaining half vest on a graduated scale based on total shareholder return in 2017. Compensation cost for share-based payment arrangements totaled $5.7 million and $4.3 million for 2013 and 2012, respectively.

As of December 31, 2013, there were a maximum of 2,577,795 shares available for future grant under our various stock plans.

**Stock Options**

The following tables summarize stock option activity:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (In years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Stock options outstanding at January 1, 2012 | 712,640 | $ 57.72 | | |
| Granted | 200,000 | 64.19 | | |
| Exercised | — | — | | |
| Forfeited | (50,700) | 58.62 | | |
| Expired | — | — | | |
| Stock options outstanding at December 31, 2012 | 861,940 | $ 59.17 | | |
| Granted | 132,100 | 99.38 | | |
| Exercised | — | — | | |
| Forfeited | (28,600) | 62.40 | | |
| Expired | — | — | | |
| Stock options outstanding at December 31, 2013 | 965,440 | $ 64.57 | 7.8 | $ 53,607,886 |
| Stock options exercisable at December 31, 2013 | 400 | 57.77 | 3.5 | 24,932 |
| Remaining unvested options outstanding and expected to vest | 936,680 | $ 64.48 | 7.8 | $ 52,101,542 |

Information related to stock options outstanding as of December 31, 2013 is summarized below:

| Range of Exercise Prices | Number Oustanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (In years) | Number Exercisable |
|---|---|---|---|---|
| $46.49 – 55.82 | 64,500 | $ 51.19 | 7.8 | — |
| $57.77 – 60.33 | 597,400 | 57.98 | 7.3 | — |
| $61.64 – 69.75 | 175,440 | 66.26 | 8.2 | — |
| $81.80 – 110.50 | 128,100 | 99.77 | 9.5 | — |
| | 965,440 | $ 64.57 | 7.8 | — |

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The fair value on the grant date and the significant assumptions used in the Black-Scholes option-pricing model are as follows:

| | 2013 | |
|---|---|---|
| | Weighted Average | Range |
| Grant date fair value | $ 28.04 | $ 18.12 – $36.55 |
| Expected life of options (in years) | 7.34 | 7.0 – 7.5 |
| Risk-free interest rate | 1.8% | 1.26% – 2.30% |
| Expected volatility | 22% | 18% – 26% |
| Expected annual dividend per share | — | — |

The computation of the expected volatility assumption used in the Black-Scholes calculations is based on the median asset volatility of comparable companies as of each of the grant dates.

The balance of unamortized stock option expense as of December 31, 2013 is $12.4 million, which is expected to be recognized over a weighted-average period of 3.1 years. Expense associated with stock options for the year ended December 31, 2013, which is included in general and administrative expense in the accompanying Consolidated Statements of Operations, totaled $3.5 million.

**Restricted Stock**

Restricted stock awards issued under the Equity Plan provide that shares awarded may not be sold or otherwise transferred until restrictions have lapsed as established by the Committee. In addition to the granting of restricted stock to certain members of management, we award restricted stock to our non-employee directors as part of their annual retainer. The management awards vest over five years, and the restriction on the non-employee director shares lapse in June of each year. Generally, upon termination of employment or directorship, restricted stock units and restricted shares which have not vested are forfeited. For the year ended December 31, 2013, recognized compensation expense of $2.2 million is included in general and administrative expense related to restricted stock awards. The fair value of restricted stock that vested during 2013 was $1.4 million. The balance of unamortized restricted stock expense as of December 31, 2013 was $6.5 million, which is expected to be recognized over a weighted-average period of 3.48 years.

The following table summarizes restricted stock activity:

| | Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Restricted stock outstanding at January 1, 2012 | 42,553 | $ 65.18 |
| Granted | 27,933 | 63.86 |
| Vested | (12,553) | 59.77 |
| Cancelled | — | — |
| Restricted stock outstanding at December 31, 2012 | 57,933 | $ 65.72 |
| Granted | 77,434 | $ 79.77 |
| Vested | (13,033) | 60.15 |
| Cancelled | — | — |
| Restricted stock outstanding at December 31, 2013 | 122,334 | $ 75.21 |

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## NOTE 16 RENTALS UNDER OPERATING LEASES

We receive rental income from the leasing of retail, office and other space under operating leases. Such operating leases are with a variety of tenants, the majority of which are national and regional retail chains and local retailers. The minimum future rentals based on operating leases of our consolidated properties held as of December 31, 2013 are as follows:

| Year | Total Minimum Rent |
|---|---|
| | (In thousands) |
| 2014 | $ 60,158 |
| 2015 | 57,543 |
| 2016 | 50,478 |
| 2017 | 45,111 |
| 2018 | 39,322 |
| Subsequent | 140,910 |

Minimum future rentals exclude amounts which are payable by certain tenants based upon a percentage of their gross sales or as reimbursement of operating expenses and amortization of above and below-market tenant leases.

Percentage rent in lieu of fixed minimum rent recognized from tenants for the years ended December 31, 2013, 2012 and 2011 was $2.2 million, $3.8 million and $3.9 million, respectively. These rents are declining primarily due to the non-renewal and cancellation of leases at the Outlet Collection at Riverwalk and South Street Seaport for their redevelopments.

Overage rent of approximately $2.6 million, $2.8 million, and $3.0 million for 2013, 2012 and 2011, respectively, is included in Other rental and property revenues in our Consolidated Statements of Operations.

## NOTE 17 RELATED PARTY TRANSACTIONS

In January 2011, we entered into a Transition Agreement with TPMC Realty Services Group, Inc. ("TPMC"). David Weinreb, a director and our CEO, is the sole equity owner of TPMC and the chief executive officer of TPMC and Grant Herlitz, our president, is the president of TPMC. The Transition Agreement provided for, among other things, certain mutual transactions and the services that facilitated the continuity of Company management, the net value of which were not material for the year ended December 31, 2011. Additionally, TPMC wasreimbursed a total of $0.9 million in August 2011 for expenses related to Mr. Weinreb's employment agreement with us. Such reimbursements are reflected in General and administrative expense for the year ended December 31, 2011. We also entered into a lease agreement for 3,253 square feet of office space in Los Angeles, California with an affiliate of TPMC, which commenced on May 1, 2011. Annual rental expenses relating to the lease is approximately $111,965 per year and the lease expires in July 2016.

## NOTE 18 SEGMENTS

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

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operations on a geographic basis. Furthermore, all operations are within the United States and no customer or tenant comprises more than 10% of revenues. Our reportable segments are as follows:

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

- Operating Assets – includes retail and office properties, a multi-family property, The Woodlands Resort & Conference Center, The Club at Carlton Woods and other real estate investments. These assets are currently generating revenues, and we believe there is an opportunity to redevelop or reposition many of these assets to improve operating performance.

- Strategic Developments – includes all properties held for development or redevelopment which have no substantial operations.

As more fully discussed in Note 4, on July 1, 2011, we acquired our partner's interest in The Woodlands. We now own 100% of The Woodlands and consolidate its operations. As such, The Woodlands operating results for historical periods when this investment was a Real Estate Affiliate are now analyzed internally on a non-GAAP consolidation basis by management in order to provide management comparability between periods for analyzing operating results.

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

REP EBT, as it relates to our business, is defined as net income (loss) excluding general and administrative expenses, other income, corporate interest income, corporate interest and depreciation expense, provision (benefit) for income taxes, warrant liability gain (loss), the reduction in tax indemnity receivable, equity in earnings from Real Estate Affiliates, and Investment in Real Estate Affiliate basis adjustment. We present REP EBT because we use this measure, among others, internally to assess the core operating performance of our assets. We also present this measure because we believe certain investors use it as a measure of a company's historical operating performance and its ability to service and incur debt. We believe that the inclusion of certain adjustments to net income (loss) to calculate REP EBT is appropriate to provide additional information to investors.

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Segment operating results are as follows:

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | | |
| | Segment Basis | Segment Basis | Consolidated Properties | Real Estate Affiliates | Segment Basis |
| | (In thousands) | | | | |
| **Master Planned Communities** | | | | | |
| Land sales | $ 251,217 | $ 182,643 | $ 114,610 | $ 46,773 | $ 161,383 |
| Builder price participation | 9,356 | 5,747 | 3,816 | 1,108 | 4,924 |
| Minimum rents | 781 | 576 | 659 | 14 | 673 |
| Other land revenues | 13,416 | 18,073 | 13,133 | 3,924 | 17,057 |
| Total revenues | 274,770 | 207,039 | 132,218 | 51,819 | 184,037 |
| Cost of sales – land | 124,040 | 89,298 | 70,108 | 23,932 | 94,040 |
| Land sales operations | 30,826 | 32,817 | 24,533 | 7,432 | 31,965 |
| Land sales real estate and business taxes | 7,588 | 7,558 | 7,713 | 1,906 | 9,619 |
| Depreciation and amortization | 32 | 72 | 2 | 46 | 48 |
| Interest income | (16) | (45) | (144) | (364) | (508) |
| Interest expense (*) | (18,678) | (14,598) | (11,920) | 2,132 | (9,788) |
| Total expenses | 143,792 | 115,102 | 90,292 | 35,084 | 125,376 |
| Venture partner share of The Woodlands EBT | — | — | — | (7,949) | (7,949) |
| MPC EBT | 130,978 | 91,937 | 41,926 | 8,786 | 50,712 |
| **Operating Assets** | | | | | |
| Minimum rents | 80,124 | 81,140 | 69,602 | 2,803 | 72,405 |
| Tenant recoveries | 20,901 | 23,210 | 19,193 | 1,061 | 20,254 |
| Resort and conference center revenues | 39,201 | 39,782 | 15,744 | 19,106 | 34,850 |
| Other rental and property revenues | 20,360 | 20,959 | 14,072 | 6,992 | 21,064 |
| Total revenues | 160,586 | 165,091 | 118,611 | 29,962 | 148,573 |
| Other property operating costs | 64,608 | 60,072 | 46,522 | 9,223 | 55,745 |
| Rental property real estate taxes | 12,065 | 11,292 | 9,666 | 972 | 10,638 |
| Rental property maintenance costs | 7,552 | 8,073 | 6,405 | 517 | 6,922 |
| Resort and conference center operations | 29,454 | 29,112 | 13,220 | 13,904 | 27,124 |
| Provision for (recovery of) doubtful accounts | 835 | 1,335 | (98) | (9) | (107) |
| Demolition costs | 2,078 | — | — | — | — |
| Depreciation and amortization | 31,427 | 23,318 | 16,341 | 3,968 | 20,309 |
| Interest income | (135) | (185) | (125) | (2) | (127) |
| Interest expense | 19,146 | 16,289 | 10,586 | 2,316 | 12,902 |
| Early extinguishment of debt | — | — | 11,305 | — | 11,305 |
| Equity in Earnings from Real Estate Affiliates | (3,893) | (3,683) | — | (3,926) | (3,926) |
| Total expenses | 163,137 | 145,623 | 113,822 | 26,963 | 140,785 |
| Venture partner share of The Woodlands EBT | — | — | — | 425 | 425 |
| Operating Assets EBT | (2,551) | 19,468 | 4,789 | 3,424 | 8,213 |
| **Strategic Developments** | | | | | |
| Minimum rents | 763 | 905 | 917 | — | 917 |
| Tenant recoveries | 167 | 141 | 130 | — | 130 |
| Condominium rights and unit sales | 32,969 | 267 | 22,067 | — | 22,067 |
| Other land revenues | 3,899 | — | — | — | — |
| Other rental and property revenues | 1,456 | 3,443 | 1,746 | — | 1,746 |
| Total revenues | 39,254 | 4,756 | 24,860 | — | 24,860 |
| Condominium rights and unit cost of sales | 16,572 | 96 | 14,465 | — | 14,465 |
| Other property operating costs | 8,578 | 3,094 | 5,428 | — | 5,428 |
| Real estate taxes | 2,226 | 2,351 | 604 | — | 604 |
| Rental property maintenance costs | 531 | 582 | 671 | — | 671 |
| Provision for (recovery of) doubtful accounts | 1 | (111) | (137) | — | (137) |
| Depreciation and amortization | 189 | 225 | 234 | — | 234 |
| Interest expense (*) | (4,318) | 219 | 323 | — | 323 |
| Equity in Earnings from Real Estate Affiliates | (10,535) | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Equity in Earnings from Real Estate Affiliates | (10,535) | — | — | — | — |
| Total expenses | 13,244 | 6,456 | 21,588 | — | 21,588 |
| Strategic Developments EBT | 26,010 | (1,700) | 3,272 | — | 3,272 |
| REP EBT | $ 154,437 | $ 109,705 | $ 49,987 | $ 12,210 | $ 62,197 |

(*) Negative interest expense amounts relate to interest capitalized on debt assigned to our Operating Assets Segment and Corporate for the years ended December 31, 2013, 2012 and 2011.

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The following reconciles REP EBT to GAAP-basis income (loss):

| Reconciliation of REP EBT to GAAP-net income (loss) | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Real Estate Property EBT: | | | |
| Segment basis | $ 154,437 | $ 109,705 | $ 62,197 |
| Real Estate Affiliates | (14,428) | (3,683) | (12,210) |
| REP EBT | 140,009 | 106,022 | 49,987 |
| General and administrative | (48,466) | (36,548) | (32,342) |
| Corporate interest income, net | (10,575) | 10,153 | 8,595 |
| Warrant liability gain (loss) | (181,987) | (185,017) | 101,584 |
| Benefit (provision) for income taxes | (9,570) | (6,887) | 18,325 |
| Reduction in tax indemnity receivable | (1,206) | (20,260) | — |
| Equity in earnings from Real Estate Affiliates | 14,428 | 3,683 | 8,578 |
| Investment in Real Estate Affiliate basis adjustment | — | — | (6,053) |
| Other income | 25,869 | 2,125 | — |
| Corporate depreciation | (2,197) | (814) | (204) |
| Net income (loss) | $ (73,695) | $ (127,543) | $ 148,470 |

The following reconciles segment revenues to GAAP-basis consolidated revenues:

| Reconciliation of Segment Basis Revenues to GAAP Revenues | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Master Planned Communities | $ 274,770 | $ 207,039 | $ 184,037 |
| Operating Assets | 160,586 | 165,091 | 148,573 |
| Strategic Developments | 39,254 | 4,756 | 24,860 |
| Total revenues | 474,610 | 376,886 | 357,470 |
| Less: The Woodlands Partnerships revenues | — | — | (81,781) |
| Total revenues – GAAP basis | $ 474,610 | $ 376,886 | $ 275,689 |

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The assets by segment and the reconciliation of total segment assets to the total assets in the Consolidated Balance Sheets are summarized as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | | (In thousands) | |
| Master Planned Communities | $ 1,760,639 | $ 1,756,625 | $ 1,780,596 |
| Operating Assets (a) | 1,344,005 | 944,562 | 871,549 |
| Strategic Developments | 462,525 | 288,287 | 189,807 |
| Total segment assets | 3,567,169 | 2,989,474 | 2,841,952 |
| Corporate and other (b) | 1,000,699 | 513,568 | 557,641 |
| Total assets | $ 4,567,868 | $ 3,503,042 | $ 3,399,593 |

(a) Certain assets included in our Operating Asset segment are in various stages of redevelopment and are included in Developments on our Consolidated Balance Sheets.

(b) Assets included in Corporate and other consist primarily of the Tax Indemnity receivable, including interest, and Cash and cash equivalents.

Capital expenditures in 2013 for the strategic developments, operating assets and corporate were $221.1 million, $22.2 million and $26.8 million, respectively. Capital expenditures in 2012 for the strategic developments, operating assets and corporate were $58.9 million, $14.2 million and $1.3 million, respectively. Capital expenditures in 2011 for the strategic developments, operating assets and corporate were $35.2 million, $8.5 million and $0.7 million, respectively.

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## NOTE 19 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

| | 2013 | | | |
|---|---|---|---|---|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| | (In thousands, except for per share amounts) | | | |
| Total revenues | $ 90,091 | $ 147,052 | $ 103,514 | $ 133,953 |
| Operating income | 9,294 | 47,790 | 10,700 | 43,430 |
| Net income (loss) | (23,170) | (76,496) | 7,433 | 18,538 |
| Net income (loss) attributable to common stockholders | (23,124) | (76,554) | 7,335 | 18,553 |
| Earnings (loss) per share: | | | | |
| Basic | (0.59) | (1.94) | 0.19 | 0.47 |
| Diluted | (0.59) | (1.94) | 0.17 | 0.44 |
| Weighted average shares outstanding: | | | | |
| Basic | 39,441 | 39,445 | 39,454 | 39,454 |
| Diluted | 39,441 | 39,445 | 42,439 | 42,529 |

| | 2012 | | | |
|---|---|---|---|---|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| | (In thousands, except for per share amounts) | | | |
| Total revenues | $ 79,765 | $ 93,939 | $ 94,815 | $ 108,367(a) |
| Operating income | 9,104 | 19,057 | 17,362 | 26,942 |
| Net income (loss) | (111,522) | 34,992 | (50,192) | (821) |
| Net income (loss) attributable to common stockholders | (112,258) | 34,310 | (49,411) | (929) |
| Earnings (loss) per share: | | | | |
| Basic | (2.96) | 0.91 | (1.30) | (0.01) |
| Diluted | (2.96) | 0.27 | (1.30) | (0.01) |
| Weighted average shares outstanding: | | | | |
| Basic | 37,903 | 37,907 | 37,916 | 39,778 |
| Diluted | 37,903 | 40,251 | 37,916 | 39,778 |

(a) Revenues in the fourth quarter of 2012 were higher than the same period in 2011 by $23.3 million primarily due to the lot bid program that was implemented at The Woodlands in the third quarter of 2012.

# THE HOWARD HUGHES CORPORATION
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
## SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION
## DECEMBER 31, 2013

| ($ in thousands) | | | Initial Cost (b) | | Costs Capitalized Subsequent to Acquisition (c) | | Gross Amounts at Which Carried at Close of Period (d) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Name of Center | Location | Encum-brances (a) | Land | Buildings and Improve-ments (f) | Land | Buildings and Improve-ments (f) | Land | Buildings and Improve-ments (e) | Total | Accumulated Depreciation (f) | Date of Construction | Date Acquired/ Completed |
| Bridgeland | The Woodlands, TX | $ 18,066 | $257,222 | $ — | $ 144,678 | $ 1,770 | $401,900 | $ 1,770 | $403,670 | $ 994 | | 2004 |
| Maryland Communities | Howard County, MD | — | 457,552 | — | (398,295) | 197 | 59,257 | 197 | 59,454 | 75 | | 2004 |
| Summerlin | Las Vegas, NV | 29,079 | 990,179 | — | (111,179) | 919 | 879,000 | 919 | 879,919 | 342 | | 2004 |
| The Woodlands | The Woodlands, TX | 176,663 | 264,141 | — | (65,707) | 14,977 | 198,434 | 14,977 | 213,411 | 11 | | 2011 |
| 20/25 Waterway Avenue | The Woodlands, TX | $ 14,450 | $ 2,346 | $ 8,871 | $ — | $ 481 | $ 2,346 | $ 9,352 | $ 11,698 | $ 770 | | 2011 |
| Cottonwood Square | Salt Lake City, UT | — | 1,558 | 4,339 | — | 862 | 1,558 | 5,201 | 6,759 | 1,370 | | 2002 |
| Landmark Mall | Alexandria, VA | — | 28,396 | 67,235 | (19,408) | (39,354) | 8,988 | 27,881 | 36,869 | 3,036 | | 2003 |
| Park West | Peoria, AZ | — | 16,526 | 77,548 | 1,201 | 1,252 | 17,727 | 78,800 | 96,527 | 17,576 | 2008 | |
| Outlet Collection at Riverwalk | New Orleans, LA | — | — | 94,513 | — | (53,903) | — | 40,610 | 40,610 | 915 | | 2004 |
| South Street Seaport | New York, NY | — | — | 7,884 | — | 29,013 | — | 36,897 | 36,897 | 283 | | 2004 |
| Ward Centers | Honolulu, HI | 238,716 | 164,007 | 89,321 | (21,158) | 215,154 | 142,849 | 304,475 | 447,324 | 38,916 | | 2002 |
| Waterway Garage Retail | The Woodlands, TX | — | 1,342 | 4,255 | (1) | 994 | 1,341 | 5,249 | 6,590 | 266 | | 2011 |
| 110 N. Wacker | Chicago, IL | 29,000 | — | 29,035 | — | 5,315 | — | 34,350 | 34,350 | 12,491 | | 1997 |
| 1400 Woodloch Forest | The Woodlands, TX | — | — | — | 1,570 | 13,423 | 1,570 | 13,423 | 14,993 | 6,225 | | 1981 |
| 2201 Lake Woodlands Drive | The Woodlands, TX | — | 3,755 | — | — | — | 3,755 | — | 3,755 | — | | 2011 |
| 3 Waterway Square | The Woodlands, TX | 52,000 | 748 | — | — | 42,044 | 748 | 42,044 | 42,792 | 1,020 | | 2012 |
| 4 Waterway Square | The Woodlands, TX | 39,237 | 1,430 | 51,553 | — | 6,712 | 1,430 | 58,265 | 59,695 | 4,904 | | 2011 |
| 9303 New Trails | The Woodlands, TX | 13,398 | 1,929 | 11,915 | — | 1,934 | 1,929 | 13,849 | 15,778 | 997 | | 2011 |
| Columbia Office Properties | Howard County, MD | 9,207 | 1,575 | 28,447 | 1,571 | 24,796 | 3,146 | 53,243 | 56,389 | 12,021 | | 2004 |
| 70 Columbia Corporate Center | Howard County, MD | 16,287 | 1,281 | 14,523 | — | 5,286 | 1,281 | 19,809 | 21,090 | 749 | | |
| Millennium Waterway Apartments | The Woodlands, TX | 55,584 | 15,917 | 56,002 | — | — | 15,917 | 56,002 | 71,919 | 3,632 | | 2012 |
| One Hughes Landing | The Woodlands, TX | 19,128 | — | — | 2,366 | 33,184 | 2,366 | 33,184 | 35,550 | 19 | | 2012 |
| The Club at Carlton Woods | The Woodlands, TX | — | 13,796 | 457 | 393 | 1,412 | 14,189 | 1,869 | 16,058 | 199 | | 2011 |
| The Woodlands Resort and Conference Center | The Woodlands, TX | 36,100 | 13,258 | 37,983 | — | 26,217 | 13,258 | 64,200 | 77,458 | 2,391 | | 2011 |
| Woodlands Parking Garages | The Woodlands, TX | — | 5,857 | — | — | — | 5,857 | — | 5,857 | — | | 2011 |

| ($ in thousands) | | | Initial Cost (b) | | Costs Capitalized Subsequent to Acquisition (c) | | Gross Amounts at Which Carried at Close of Period (d) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Name of Center | Location | Encum-brances (a) | Land | Buildings and Improve-ments (f) | Land | Buildings and Improve-ments (f) | Land | Buildings and Improve-ments (e) | Total | Accumulated Depreciation (f) | Date of Construction | Date Acquired/ Completed |
| ExxonMobil Build-to-Suit | The Woodlands, TX | $ — | $ — | $ — | $ — | $ 6,595 | $ — | $ 6,595 | $ 6,595 | $ — | | — |
| Creekside Park Village Center | The Woodlands, TX | — | — | — | — | 2,941 | — | 2,941 | 2,941 | — | | — |
| Hughes Landing Retail | The Woodlands, TX | 913 | — | — | — | 5,995 | — | 5,995 | 5,995 | — | | — |
| ONE Ala Moana | Honolulu, HI | — | — | — | — | 86 | — | 86 | 86 | — | | 2002 |
| One Lake's Edge | The Woodlands, TX | — | — | — | — | 6,099 | — | 6,099 | 6,099 | — | | — |
| The Metropolitan Downtown Columbia Project | Columbia, MD | — | — | — | — | 1,500 | — | 1,500 | 1,500 | — | | — |
| The Shops at Summerlin | Las Vegas, NV | 4,021 | — | — | — | 141,383 | — | 141,383 | 141,383 | — | | 2004 |
| Two Hughes Landing | The Woodlands, TX | 10 | — | — | — | 22,380 | — | 22,380 | 22,380 | — | | — |
| Alameda Plaza | Pocatello, ID | — | 740 | 2,060 | (740) | (1,368) | — | 692 | 692 | — | | 2002 |
| AllenTowne | Dallas, TX | — | 25,575 | — | (25,575) | 25,464 | — | 25,464 | 25,464 | — | | 2006 |
| Bridges at Mint Hill | Charlotte, NC | — | — | — | — | 20,619 | — | 20,619 | 20,619 | — | | 2007 |
| Century Plaza Mall | Birmingham, AL | — | 3,164 | 28,514 | (3,164) | (24,059) | — | 4,455 | 4,455 | — | | 1997 |
| Circle T Ranch and Power Center | Dallas/Fort Worth, TX | — | — | — | — | 60 | — | 60 | 60 | — | | 2005 |
| Cottonwood Mall | Salt Lake City, UT | — | 7,613 | 42,987 | (4,713) | (25,562) | 2,900 | 17,425 | 20,325 | — | | 2002 |
| Elk Grove Promenade | Elk Grove, CA | — | — | — | — | 6,254 | — | 6,254 | 6,254 | 4 | | 2003 |
| Kendall Town Center | Miami, FL | — | — | — | — | 18,135 | — | 18,135 | 18,135 | — | | 2004 |
| Lakemoor (Volo) Land | Volo, IL | — | 320 | — | (320) | 321 | — | 321 | 321 | — | | 1995 |
| Redlands Promenade | Redlands, CA | — | — | — | — | 2,951 | — | 2,951 | 2,951 | — | | 2004 |
| Redlands Mall | Redlands, CA | — | — | — | — | 6,453 | — | 6,453 | 6,453 | — | 2008 | 2004 |
| West Windsor | Princeton, NJ | — | — | — | 53 | 22,985 | 53 | 22,985 | 23,038 | | | 2004 |
| Corporate general and administrative | | 762,764 | 885 | 1,027 | (885) | 12,648 | — | 13,675 | 13,675 | 2,522 | | |
| **Total HHC** | | **$ 1,514,623** | **$2,281,112** | **$658,469** | **$(499,313)** | **$584,565** | **$1,781,799** | **$1,243,034** | **$3,024,833** | **$ 111,728** | | |

Table of Contents

## THE HOWARD HUGHES CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(a) See description of mortgages, notes and other debt payable in Note 8 of the Consolidated Financial Statements.

(b) Initial cost for constructed malls is cost at end of first complete calendar year subsequent to opening.

(c) For retail and other properties, costs capitalized subsequent to acquisitions is net of cost of disposals or other property write-downs. For Master Planned Communities, costs capitalized subsequent to acquisitions are net of land sales.

(d) The aggregate cost of land, building and improvements for federal income tax purposes is approximately $3.0 billion.

(e) Includes all amounts related to Developments.

(f) Depreciation is computed based upon the following estimated lives:

| | Years |
|---|---|
| Building and improvements | 10-45 |
| Equipment, tenant improvements and fixtures | 5-10 |
| Computer hardware and software, and vehicles | 3-5 |

**Reconciliation of Real Estate**

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| | | (In thousands) | |
| Balance at beginning of year | $ 2,746,596 | $ 2,589,730 | $ 2,161,977 |
| Change in Land | 90,124 | 66,889 | 69,110 |
| Additions | 352,141 | 179,372 | 452,161 |
| Impairments | — | — | — |
| Dispositions and write-offs and land costs of sales | (164,028) | (89,395) | (93,818) |
| Balance at end of year | $ 3,024,833 | $ 2,746,596 | $ 2,589,430 |

**Reconciliation of Accumulated Depreciation**

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| | | | (In thousands) |
| Balance at beginning of year | $ 112,491 | $ 91,605 | $ 78,931 |
| Depreciation Expense | 29,637 | 19,457 | 14,012 |
| Dispositions and write-offs | (30,400) | 1,429 | (1,338) |
| Balance at end of year | $ 111,728 | $ 112,491 | $ 91,605 |

| Exhibit No. | Description of Exhibit |
| --- | --- |
| 2.1 | Separation Agreement, dated November 9, 2010, between The Howard Hughes Corporation and General Growth Properties, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed November 12, 2010) |
| 2.2 | Partnership Interest Purchase Agreement dated as of June 20, 2011 among TWC Commercial Properties, LLC, TWC Commercial Properties, LP, TWC Operating, LLC , TWC Land Development, LLC, TWC Land Development, LP and MS TWC, Inc., MS/TWC Joint Venture (incorporated by reference to Exhibit 21 to the Company's Current Report in Form 8-K, filed July 5, 2011). |
| 3.1 | Amended and Restated Certificate of Incorporation of The Howard Hughes Corporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed November 12, 2010) |
| 3.2 | Amended and Restated Bylaws of The Howard Hughes Corporation (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed November 12, 2010) |
| 3.3 | Certificate of Designations of Series A Junior Participating Preferred Stock, filed with the Secretary of State of Delaware on February 29, 2012 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed February 29, 2012 |
| 4.1 | Section 382 Rights Agreement, dated as of February 27, 2012, by and between The Howard Hughes Corporation and Computershare Trust Company, N.A., as rights agent (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed February 29, 2012) |
| 10.1 | Transition Services Agreement, dated November 9, 2010, between The Howard Hughes Corporation, GGP Limited Partnership and General Growth Management, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed November 12, 2010) |
| 10.2 | Reverse Transition Services Agreement, dated November 9, 2010, between The Howard Hughes Corporation, GGP Limited Partnership and General Growth Management, Inc. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed November 12, 2010) |
| 10.3 | Employee Matters Agreement, dated November 9, 2010, between The Howard Hughes Corporation, GGP Limited Partnership and General Growth Management, Inc. (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed November 12, 2010) |
| 10.4 | Employee Leasing Agreement, dated November 9, 2010, between The Howard Hughes Corporation, GGP Limited Partnership and General Growth Management, Inc. (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K, filed November 12, 2010) |
| 10.5 | Tax Matters Agreement, dated November 9, 2010, between The Howard Hughes Corporation and General Growth Properties, Inc. (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K, filed November 12, 2010) |
| 10.6 | Surety Bond Indemnity Agreement, dated November 9, 2010, between The Howard Hughes Corporation and General Growth Properties, Inc. (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K, filed November 12, 2010) |
| 10.7 | Form of indemnification agreement for directors and certain executive officers of The Howard Hughes Corporation (incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K, filed November 12, 2010) |

| Exhibit No. | Description of Exhibit |
|---|---|
| 10.8 | Warrant Agreement, dated November 9, 2010, between The Howard Hughes Corporation and Mellon Investor Services LLC (incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K, filed November 12, 2010) |
| 10.9 | Letter Agreement, dated November 9, 2010, between The Howard Hughes Corporation and Brookfield Retail Holdings LLC (incorporated by reference to Exhibit 10.9 to the Company's Current Report on Form 8-K, filed November 12, 2010) |
| 10.10 | Letter Agreement, dated November 9, 2010, between The Howard Hughes Corporation and The Fairholme Fund and Fairholme Focused Income Fund (incorporated by reference to Exhibit 10.10 to the Company's Current Report on Form 8-K, filed November 12, 2010) |
| 10.11 | Letter Agreement, dated November 9, 2010, between The Howard Hughes Corporation and Pershing Square Capital Management, L.P. (incorporated by reference to Exhibit 10.11 to the Company's Current Report on Form 8-K, filed November 12, 2010) |
| 10.12 | Registration Rights Agreement, dated November 9, 2010, between The Howard Hughes Corporation and M.B. Capital Partners, M.B. Capital Partners III and M.B. Capital Units LLC (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K, filed November 12, 2010) |
| 10.13 | Registration Rights Agreement, dated November 9, 2010, between The Howard Hughes Corporation and Brookfield Retail Holdings LLC, Brookfield Retail Holdings II LLC, Brookfield Retail Holdings III LLC, Brookfield Retail Holdings IV-A LLC, Brookfield Retail Holdings IV-D LLC, Brookfield Retail Holdings V LP and Brookfield US Retail Holdings LLC (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K, filed November 12, 2010) |
| 10.14 | Registration Rights Agreement, dated November 9, 2010, between The Howard Hughes Corporation and The Fairholme Fund and Fairholme Focused Income Fund (incorporated by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K, filed November 12, 2010) |
| 10.15 | Registration Rights Agreement, dated November 9, 2010, between The Howard Hughes Corporation and Pershing Square Capital Management, L.P., Blackstone Real Estate Partners VI L.P., Blackstone Real Estate Partners (AIV) VI L.P., Blackstone Real Estate Partners VI.F L.P., Blackstone Real Estate Partners VI.TE.1 L.P., Blackstone Real Estate Partners VI.TE.2 L.P., Blackstone Real Estate Holdings VI L.P., and Blackstone GGP Principal Transaction Partners L.P. (incorporated by reference to Exhibit 99.4 to the Company's Current Report on Form 8-K, filed November 12, 2010) |
| 10.16* | Form of Restricted Stock Agreement for Nonemployee Directors under The Howard Hughes Corporation 2010 Amended and Restated Incentive Plan (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K, filed April 18, 2011) |
| 10.17* | Form of Restricted Stock Agreement for Executive Officers under The Howard Hughes Corporation 2010 Amended and Restated Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed August 8, 2013) |
| 10.18* | Employment Agreement, dated as of November 22, 2010, between The Howard Hughes Corporation and David R. Weinreb (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed November 29, 2010) |
| 10.19* | Amendment No.1 to Employment Agreement, dated as of August 17, 2012, between The Howard Hughes Corporation and David R. Weinreb (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed November 9, 2012) |

| Exhibit No. | Description of Exhibit |
|---|---|
| 10.20* | Amendment No. 2 to Employment Agreement, dated as of December 17, 2013, between The Howard Hughes Corporation and David R. Weinreb (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed December 17, 2013) |
| 10.21* | Warrant Purchase Agreement, dated November 22, 2010, between The Howard Hughes Corporation and David R. Weinreb (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed November 29, 2010) |
| 10.22* | Amendment No.1 to the Warrant Purchase Agreement dated as of August 23, 2011, between The Howard Hughes Corporation and David R. Weinreb (incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K, filed February 29, 2012). |
| 10.23* | Employment Agreement, dated as of November 22, 2010, between The Howard Hughes Corporation and Grant Herlitz (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K, filed November 29, 2010) |
| 10.24* | Warrant Purchase Agreement, dated November 22, 2010, between The Howard Hughes Corporation and Grant Herlitz (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed November 29, 2010) |
| 10.25* | Warrant Purchase Agreement, dated February 25, 2011, between The Howard Hughes Corporation and Andrew C. Richardson (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed March 3, 2011) |
| 10.26* | Employment Agreement, dated as of February 25, 2011, between The Howard Hughes Corporation and Andrew C. Richardson (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed March 3 2011) |
| 10.27 | Third Amended and Restated Master Credit Agreement dated as of August 8, 2013, by and among The Woodlands Commercial Properties Company, L.P., The Woodlands Land Development Company, L.P., KeybankNational Association, the other lenders that are a party thereto, and the other lending institutions which may become a party thereto, as lenders, and Keybank National Association, as administrative agent for the lenders (incorporated by reference to Exhibit 10.1 to the Company's Currrent Report on Form 8-K filed on August 14, 2013) |
| 10.28 | Loan agreement dated as of September 29, 2011, by and among Victoria Ward, Limited along with certain Victoria Ward, Limited's subsidiaries, as borrowers, Wells Fargo Bank, National Association, as Administrative Agent and lead lender, CIBC, First Hawaiian Bank, Bank of Hawaii and Central Pacific Bank, as lenders, and Wells Fargo Securities, L.L.C., as Sole Lead Arranger and Sole Bookrunner (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed October 4, 2011) |
| 10.29* | The Howard Hughes Corporation 2010 Amended and Restated Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed June 14, 2012) |
| 10.30 | Warrant Purchase Agreement, dated as of November 9, 2012, by and among The Howard Hughes Corporation and the parties listed on Schedule I attached thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed November 16, 2012) |
| 10.31 | Warrant Purchase Agreement, dated as of December 6, 2012, by and among The Fairholme Fund, Fairholme Focused Income Fund and The Howard Hughes Corporation (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed December 11, 2012) |

| Exhibit No. | Description of Exhibit |
|---|---|
| 10.32 | Warrant Purchase Agreement, dated as of December 6, 2012, by and among the parties listed on Schedule I attached thereto and The Howard Hughes Corporation (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed December 11, 2012) |
| 21.1† | List of Subsidiaries |
| 23.1† | Consent of Ernst & Young, LLP |
| 23.2† | Consent of Deloitte & Touche LLP |
| 24.1† | Power of Attorney |
| 31.1† | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2† | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1† | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS† | XBRL Instance Document |
| 101.SCH† | XBRL Taxonomy Extension Schema Document |
| 101.CAL† | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB† | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE† | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |

* Management contract, compensatory plan or arrangement

† Filed herewith

Attached is Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated and Combined Statements of Operations for the years ended December 31, 2013, 2012 and 2011, (ii) the Consolidated Balance Sheets at December 31, 2013 and 2012, (iii) the Consolidated and Combined Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011, (iv) the Consolidated and Combined Statements of Shareholders' Equity for the years ended December 31, 2013, 2012 and 2011. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

QuickLinks -- Click here to rapidly navigate through this document

**Exhibit 21.1**

**THE HOWARD HUGHES CORPORATION**

**LIST OF SUBSIDIARIES**

| | |
|---|---|
| 3 Waterway Holdings, LLC | Texas |
| 4 Waterway Holdings, LLC | Delaware |
| 20 & 25 Waterway Holdings, LLC | Delaware |
| 70 CC, LLC | Delaware |
| 80 South, LLC | Delaware |
| 110 Holding, LLC | Delaware |
| 110 Wacker, LLC | Delaware |
| 117 Beekman Street Holdings, LLC | Delaware |
| 170 Retail Associates, Ltd. | Texas |
| 170 Retail Holding, LLC | Delaware |
| 988 Halekauwila, LLC | Delaware |
| 1108 Ouahi, LLC | Delaware |
| 1118 Ala Moana, LLC | Delaware |
| 1240 Ala Moana, LLC | Delaware |
| 1701 Lake Robbins, LLC | Delaware |
| 9303 New Trails Holdings, LLC | Delaware |
| ACB Parking Business Trust | Maryland |
| Alameda Plaza, LLC | Delaware |
| AllenTowne Mall, LLC | Delaware |
| American City Building Business Trust | Maryland |
| Beverage Operations, Inc. | Texas |

| | |
|---|---|
| Bridgeland Construction, LLC | Delaware |
| Bridgeland Development, LP | Maryland |
| Bridgeland GP, LLC | Delaware |
| Bridgeland Holding Company, Inc. | Delaware |

| | |
|---|---|
| Bridges at Mint Hill, LLC | Delaware |
| Bridges at Mint Hill Member, LLC | Delaware |
| Carlton Woods Holdings, LLC | Delaware |
| Century Plaza L.L.C. | Delaware |
| Clover Acquisitions LLC | Delaware |
| Cottonwood Mall, LLC | Delaware |
| Cottonwood Square, LLC | Delaware |
| CSPV Holdings, LLC | Delaware |
| Cypress LA, LLC | Delaware |
| Elk Grove Town Center L.L.C. | Delaware |
| Elk Grove Town Center, L.P. | Delaware |
| Emerson Land Business Trust | Maryland |
| Emerson Land, LLC | Delaware |
| Fairwood Commercial Development Holding, LP | Maryland |
| Fairwood Commercial Development Limited Partnership | Maryland |
| Fairwood Commercial Front Foot Benefit Company, LLC | Maryland |
| FV-93 Limited | Texas |
| Gateway Overlook III Business Trust | Maryland |
| GG DR, L.L.C. | Illinois |
| Greengate Mall, Inc. | Pennsylvania |
| Harper's Choice Business Trust | Maryland |
| Hexalon Real Estate, LLC | Delaware |
| HHC Travel, LLC | Delaware |
| HHMK Development, LLC | Delaware |
| HL Champion Holding Company, LLC | Delaware |
| HL Amenities Holdings, LLC | Delaware |
| HL Multi-Family Holdings, LLC | Delaware |

| | |
|---|---|
| HL Restaurant Row, LLC | Delaware |
| HL Retail Row, LLC | Delaware |

| | |
|---|---|
| Howard Hughes Management, Co. LLC | Delaware |
| Howard Hughes Management Services Company, LLC | Delaware |
| Howard Hughes Properties, Inc. | Nevada |
| HRD Parking Deck Business Trust | Maryland |
| HRD Parking, Inc. | Maryland |
| Kapiolani Residential LLC | Delaware |
| KR Holdings, LLC | Delaware |
| Land Trust No. 89433 | Hawaii |
| Land Trust No. 89434 | Hawaii |
| Land Trust No. FHB-TRES 200601 | Hawaii |
| Land Trust No. FHB-TRES 200602 | Hawaii |
| Landmark Mall L.L.C. | Delaware |
| LRVC Business Trust | Maryland |
| Merchantwired Interest, Inc. | Maryland |
| Merchant Wired, LLC | Delaware |
| Merriweather Post Business Trust | Maryland |
| Millennium Woodlands Phase II, LLC | Delaware |
| Millennium Woodlands Phase II Member, LLC | Delaware |
| Natick Residence LLC | Delaware |
| Oakland Ridge Industrial Development Corporation | Maryland |
| One Hughes Landing, LLC | Delaware |
| Parcel C Business Trust | Maryland |
| Parcel C Development, LLC | Delaware |
| Parcel C Property, LLC | Delaware |
| Parcel D Business Trust | Maryland |
| Parcel D Development LLC | Delaware |
| Parcel D Property LLC | Delaware |

| | |
|---|---|
| Parke West, LLC | Delaware |
| Price Development TRS, Inc. | Delaware |

| | |
|---|---|
| Princeton Land East, LLC | Delaware |
| Princeton Land, LLC | Delaware |
| Red Rock Investment, LLC | Nevada |
| Redlands Land Acquisition Company L.L.C. | Delaware |
| Redlands Land Acquisition Company L.P. | Delaware |
| Rio West L.L.C. | Delaware |
| Riva Row Woodlands Member, LLC | Delaware |
| Riverwalk Marketplace (New Orleans), LLC | Delaware |
| Seaport Management Development Company, LLC | Delaware |
| Seaport Marketplace Theatre, LLC | Maryland |
| Seaport Marketplace, LLC | Maryland |
| South Street Seaport Limited Partnership | Maryland |
| SSV Nevada, LLC | Delaware |
| Stewart Title of Montgomery County Inc. | Texas |
| Stone Lake, LLC | Maryland |
| Summerlin Baseball Club Member , LLC | Delaware |
| Summerlin Centre, LLC | Delaware |
| Summerlin Corporation | Delaware |
| Summerlin Development, LLC | Delaware |
| Summerlin Development Management Company, LLC | Delaware |
| Summerlin Hospital Medical Center, L.P. | Delaware |
| Summerlin Las Vegas Baseball Club, LLC | Delaware |
| Summerlin North LP, LLC | Delaware |
| Summerlin South LP, LLC | Delaware |
| The Downtown Columbia Partnership, Inc. | Maryland |
| The Howard Hughes Company, LLC | Delaware |
| The Howard Research And Development Corporation | Maryland |

| | |
|---|---|
| The Hughes Corporation | Delaware |
| The Shops at Summerlin North, LP | Delaware |

| | |
|---|---|
| The Shops at Summerlin South, LP | Delaware |
| The Woodlands Beverage, Inc. | Texas |
| The Woodlands Brokerage, LLC | Texas |
| The Woodlands Commercial Brokerage Company, L.P. | Texas |
| The Woodlands Commercial Properties Company, LP | Texas |
| The Woodlands Corporation | Delaware |
| The Woodlands Custom Residential Sales, LLC | Texas |
| The Woodlands Custom Sales, LP | Texas |
| The Woodlands Holding Company, Inc. | Delaware |
| The Woodlands Land Development Company, L.P. | Texas |
| The Woodlands Management Development Company, LLC | Delaware |
| The Woodlands Operating Company, L.P. | Texas |
| Town Center Development Company GP, LLC | Texas |
| Town Center Development Company, LP | Texas |
| Town Center East Business Trust | Maryland |
| Town Center East Parking Lot Business Trust | Maryland |
| TWC Commercial Properties, LLC | Delaware |
| TWC Commercial Properties LP | Delaware |
| TWC Land Development, LLC | Delaware |
| TWC Land Development LP | Delaware |
| TWC Operating, LLC | Delaware |
| TWC Operating LP | Delaware |
| TWCPC Holdings GP, L.L.C. | Texas |
| TWCPC Holdings, L.P. | Texas |
| TWLDC Holdings GP, L.L.C. | Texas |
| TWLDC Holdings, L.P. | Texas |
| Victoria Ward Center L.L.C. | Delaware |

| | |
|---|---|
| Victoria Ward Entertainment Center L.L.C. | Delaware |
| Victoria Ward Services, Inc. | Delaware |

| | |
|---|---|
| Victoria Ward, Limited | Delaware |
| Volo Land, LLC | Delaware |
| VW Condominium Development, LLC | Delaware |
| Ward Condominium Holdings, LLC | Delaware |
| Ward Gateway-Industrial-Village, LLC | Delaware |
| Ward Management Development Company, LLC | Delaware |
| Ward Plaza-Warehouse, LLC | Delaware |
| Waterway Ave Partners, L.L.C. | Texas |
| Waterway Hotel Holdings, LLC | Delaware |
| WECCR General Partnership | Texas |
| WECCR, Inc. | Texas |
| West Kendall Holdings, LLC | Maryland |
| Westlake Retail Associates, Ltd. | Texas |
| Westlake Retail Holding, LLC | Delaware |
| Wincopin Restaurant Business Trust | Maryland |
| Woodlands Acquisition, LLC | Texas |
| Woodlands Office Equities-95, Ltd. | Texas |
| Woodlands Sarofim #1, Ltd. | Texas |
| WPC 17-RRA, LLC | Delaware |
| WRCC Holdings, LLC | Delaware |

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Exhibit 21.1

THE HOWARD HUGHES CORPORATION LIST OF SUBSIDIARIES

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**Exhibit 23.1**

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-3 No. 333-184466), of The Howard Hughes Corporation, and

(2) Registration Statements (Form S-8 No. 333-170431, Form S-8 No. 333-170432, Form S-8 No. 333-171909, andForm S-8 No. 333-171910) pertaining to the 2010 Amended and Restated Incentive Plan of The Howard Hughes Corporation;

of our reports dated February 27, 2014, with respect to the consolidated financial statements and schedule of The Howard Hughes Corporation, and the effectiveness of internal control over financial reporting of The Howard Hughes Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2013.

/s/ Ernst & Young LLP

Dallas, Texas
February 27, 2014

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Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

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**Exhibit 23.2**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 333-170431, 333-170432, 333-171909 and 333-171910 on Form S-8 and Registration Statement No 333-184466 on Form S-3 of our report dated February 28, 2013, relating to the consolidated financial statements, and financial statement schedule as it relates to information included therein as of and for the years ended December 31, 2012 and 2011, of The Howard Hughes Corporation and subsidiaries (the "Company"), appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2013.

/s/ Deloitte & Touche LLP

Dallas, Texas
February 27, 2014

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Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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**Exhibit 24.1**

**POWER OF ATTORNEY**

Each of the undersigned hereby constitutes and appoints David R. Weinreb as the undersigned's true and lawful attorney and agent, with full power of substitution and resubstitution for the undersigned and in the undersigned's name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K of The Howard Hughes Corporation for the year ended December 31, 2013 and any and all amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney and agent full power and authority to do any and all acts and things necessary or advisable to be done, as fully and to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all that said attorney and agents, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

/s/ WILLIAM ACKMAN
William Ackman

/s/ ADAM FLATTO
Adam Flatto

/s/ JEFFREY FURBER
Jeffrey Furber

/s/ GARY KROW
Gary Krow

/s/ ALLEN MODEL
Allen Model

/s/ R. SCOT SELLERS
R. Scot Sellers

/s/ STEVEN SHEPSMAN
Steven Shepsman

/s/ BURTON M. TANSKY
Burton M. Tansky

/s/ MARY ANN TIGHE
Mary Ann Tighe

Dated: February 27, 2014

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Exhibit 24.1

POWER OF ATTORNEY

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**Exhibit 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13a-14(a) ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David R. Weinreb, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Howard Hughes Corporation;

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: February 27, 2014

/s/ DAVID R. WEINREB

David R. Weinreb
*Chief Executive Officer*

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Exhibit 31.1

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**Exhibit 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13a-14(a) ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I Andrew C. Richardson, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Howard Hughes Corporation;

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: February 27, 2014

/s/ ANDREW C. RICHARDSON

Andrew C. Richardson
*Chief Financial Officer*

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Exhibit 31.2

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**Exhibit 32.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. 1350 ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the filing of the Annual Report on Form 10-K of The Howard Hughes Corporation, a Delaware Corporation (the "Company"), for the period ended December 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers, in their capacity as officers, of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's 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 as of the dates and for periods expressed in the report.

/s/ DAVID R. WEINREB

David R. Weinreb
*Chief Executive Officer*
February 27, 2014

/s/ ANDREW C. RICHARDSON

Andrew C. Richardson
*Chief Financial Officer*
February 27, 2014

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Exhibit 32.1