Howard Hughes Corp
Form 10-Q
November 07, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2013

or

o **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

THE HOWARD HUGHES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**36-4673192**

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

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

(Address of principal executive offices, including zip code)

(214) 741-7744

(Registrant s telephone number, including area code)

N / A

(Former name, former address and former fiscal year, if changed since last report)

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. xYes o 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). x Yes o No

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares of common stock, $0.01 par value, outstanding as of November 5, 2013 was 39,576,344.

Table of Contents

THE HOWARD HUGHES CORPORATION

INDEX

			PAGE NUMBER
PART I	**FINANCIAL INFORMATION**		
	Item 1:	Condensed Consolidated Financial Statements (Unaudited)	
		Condensed Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012	3
		Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2013 and 2012	4
		Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2013 and 2012	5
		Condensed Consolidated Statements of Equity for the nine months ended September 30, 2013 and 2012	6
		Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012	7
		Notes to Condensed Consolidated Financial Statements	9
	Item 2:	Management s Discussion and Analysis of Financial Condition and Results of Operations	34
	Item 3:	Quantitative and Qualitative Disclosures about Market Risk	60
	Item 4:	Controls and Procedures	60
PART II	**OTHER INFORMATION**		
	Item 1:	Legal Proceedings	61
	Item 1A:	Risk Factors	61
	Item 6:	Exhibits	62
	SIGNATURE		63
	EXHIBIT INDEX		64

Table of Contents

THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

UNAUDITED

	September 30, 2013	December 31, 2012
	(In thousands, except share amounts)	
Assets:		
Investment in real estate:		
Master Planned Community assets	$ 1,560,476	$ 1,563,122
Land	255,707	252,593
Buildings and equipment	712,961	657,268
Less: accumulated depreciation	(112,841)	(112,491)
Developments	380,174	273,613
Net property and equipment	2,796,477	2,634,105
Investment in Real Estate Affiliates	57,673	32,179
Net investment in real estate	2,854,150	2,666,284
Cash and cash equivalents	210,760	229,197
Accounts receivable, net	19,682	13,905
Municipal Utility District receivables, net	125,344	89,720
Notes receivable, net	19,122	27,953
Tax indemnity receivable, including interest	316,504	319,622
Deferred expenses, net	22,234	12,891
Prepaid expenses and other assets, net	151,434	143,470
Total assets	$ 3,719,230	$ 3,503,042
Liabilities:		
Mortgages, notes and loans payable	$ 765,980	$ 688,312
Deferred tax liabilities	94,172	77,147
Warrant liabilities	272,279	123,573
Uncertain tax position liability	137,243	132,492
Accounts payable and accrued expenses	223,980	170,521
Total liabilities	1,493,654	1,192,045
Commitments and Contingencies (see Note 14)		
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 September 30, 2013 and 39,498,912 shares issued and outstanding as of December 31, 2012	396	395
Additional paid-in capital	2,828,142	2,824,031
Accumulated deficit	(601,956)	(509,613)
Accumulated other comprehensive loss	(8,479)	(9,575)
Total stockholders equity	2,218,103	2,305,238
Noncontrolling interests	7,473	5,759
Total equity	2,225,576	2,310,997

Total liabilities and equity	$	3,719,230	$	3,503,042

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

UNAUDITED

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands, except per share amounts)			
Revenues:				
Master Planned Community land sales	$ 53,734	$ 40,218	$ 166,981	$ 120,235
Builder price participation	2,002	1,867	5,703	4,208
Minimum rents	21,538	23,135	60,598	62,609
Tenant recoveries	5,291	6,065	15,681	17,932
Condominium rights and unit sales	810		31,191	267
Resort and conference center revenues	8,169	8,328	30,543	29,954
Other land revenues	7,478	6,385	14,110	13,433
Other rental and property revenues	4,492	8,817	15,850	19,879
Total revenues	103,514	94,815	340,657	268,517
Expenses:				
Master Planned Community cost of sales	27,063	21,439	82,616	63,096
Master Planned Community operations	9,764	9,936	28,054	30,962
Other property operating costs	22,626	16,933	55,480	46,306
Rental property real estate taxes	3,698	3,574	10,814	10,583
Rental property maintenance costs	2,048	2,263	5,996	6,304
Condominium rights and unit cost of sales	406		15,678	96
Resort and conference center operations	7,381	6,965	22,537	21,750
Provision for doubtful accounts	204	240	910	285
Demolition costs	1,386		1,386	
General and administrative	11,914	11,464	34,310	28,021
Other income	(3,662)	(2,125)	(8,118)	(2,125)
Depreciation and amortization	9,986	6,764	23,210	17,715
Total expenses	92,814	77,453	272,873	222,993
Operating income	10,700	17,362	67,784	45,524
Interest income	2,061	2,375	6,484	7,048
Interest expense	(1)	(445)	(144)	(646)
Warrant liability loss	(4,479)	(64,303)	(148,706)	(162,724)
Increase (reduction) in tax indemnity receivable	730	(2,873)	(8,673)	(11,655)
Equity in earnings from Real Estate Affiliates	3,594	310	12,034	3,432
Income (loss) before taxes	12,605	(47,574)	(71,221)	(119,021)
Provision for income taxes	5,172	2,618	21,012	7,703
Net income (loss)	7,433	(50,192)	(92,233)	(126,724)
Net (income) loss attributable to noncontrolling interests	(98)	781	(110)	(637)
Net income (loss) attributable to common stockholders	$ 7,335	$ (49,411)	$ (92,343)	$ (127,361)

Basic earnings (loss) per share:	$	0.19	$	(1.30)	$	(2.34)	$	(3.36)
Diluted earnings (loss) per share:	$	0.17	$	(1.30)	$	(2.34)	$	(3.36)

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

UNAUDITED

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)			
Comprehensive income (loss), net of tax:				
Net income (loss)	$ 7,433	$ (50,192)	$ (92,233)	$ (126,724)
Other comprehensive income (loss):				
Interest rate swaps (a)	(413)	(954)	2,120	(3,115)
Capitalized swap interest (b)	(293)	(328)	(1,024)	(897)
Other comprehensive income (loss)	(706)	(1,282)	1,096	(4,012)
Comprehensive income (loss)	6,727	(51,474)	(91,137)	(130,736)
Comprehensive (income) loss attributable to noncontrolling interests	(98)	781	(110)	(637)
Comprehensive income (loss) attributable to common stockholders	$ 6,629	$ (50,693)	$ (91,247)	$ (131,373)

(a) Net of deferred tax expense of $0.4 million for the nine months ended September 30, 2013, respectively. Net of deferred tax benefit of $0.1 million and $0.2 million for the three and nine months ended September 30, 2012, respectively.

(b) Net of deferred tax benefit of $0.2 million and $0.5 million for the three and nine months ended September 30, 2013, respectively. Net of deferred tax benefit of $0.2 million and $0.5 million for the three and nine months ended September 30, 2012, respectively.

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

UNAUDITED

(In thousands, except share amounts)	Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
Balance, January 1, 2012	37,945,707	$ 379	$ 2,711,109	$ (381,325)	$ (5,578)	$ 5,014	$ 2,329,599
Net income (loss)				(127,361)		637	(126,724)
Interest rate swaps, net of tax of $212					(3,115)		(3,115)
Capitalized swap interest, net of tax of $523					(897)		(897)
Stock plan activity	27,933		3,149				3,149
Balance, September 30, 2012	37,973,640	$ 379	$ 2,714,258	$ (508,686)	$ (9,590)	$ 5,651	$ 2,202,012
Balance, January 1, 2013	39,498,912	$ 395	$ 2,824,031	$ (509,613)	$ (9,575)	$ 5,759	$ 2,310,997
Net income (loss)				(92,343)		110	(92,233)
Adjustment to noncontrolling interest						1,616	1,616
Preferred dividend payment on behalf of REIT subsidiary						(12)	(12)
Interest rate swaps, net of tax of ($376)					2,120		2,120
Capitalized swap interest, net of tax of $542					(1,024)		(1,024)
Stock plan activity	77,432	1	4,111				4,112
Balance, September 30, 2013	39,576,344	$ 396	$ 2,828,142	$ (601,956)	$ (8,479)	$ 7,473	$ 2,225,576

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

	Nine Months Ended September 30,	
	2013	2012
	(In thousands)	
Cash Flows from Operating Activities:		
Net loss	$ (92,233)	$ (126,724)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation	20,197	14,062
Amortization	3,013	3,653
Amortization of deferred financing costs and debt market rate adjustments, net	1,060	(49)
Amortization of intangibles other than in-place leases	271	(263)
Straight-line rent amortization	(2,087)	(379)
Deferred income taxes	19,712	6,454
Restricted stock and stock option amortization	4,111	3,149
Warrant liability loss	148,706	162,724
Reduction in tax indemnity receivable	8,673	11,655
Equity in earnings (loss) from Real Estate Affiliates, net of distributions	(5,408)	14
Provision for doubtful accounts	910	285
Master Planned Community land acquisitions	(5,667)	
Master Planned Community development expenditures	(95,061)	(72,741)
Master Planned Community cost of sales	73,201	60,407
Condominium development expenditures	(10,891)	
Condominium and other cost of sales	15,678	
Deferred revenue from sale of condominium rights	16,309	
Net changes:		
Accounts and notes receivable	(3,705)	13,284
Prepaid expenses and other assets	12,143	1,168
Deferred expenses	(7,156)	(2,377)
Accounts payable and accrued expenses	5,773	(15,341)
Other, net	1,217	279
Cash provided by operating activities	108,766	59,260
Cash Flows from Investing Activities:		
Property and equipment expenditures	(26,527)	(2,356)
Operating property improvements	(22,623)	(7,878)
Operating property redevelopments	(126,819)	(26,581)
Consideration paid to acquire Millennium Waterway Apartments, net of cash acquired		(2,721)
Distribution from Millennium Waterway Apartments		6,876
Proceeds from sales of investments in Real Estate Affiliate		8,579
Proceeds from sales of operating assets	10,831	
Investment in Summerlin Las Vegas Baseball Club, LLC	(10,350)	
Investment in KR Holdings, LLC	(16,750)	
Investments in other Real Estate Affiliates, net	(1,031)	(496)

Change in restricted cash	(18,268)		4,251
Cash used in investing activities	(211,537)		(20,326)
Cash Flows from Financing Activities:			
Proceeds from issuance of mortgages, notes and loans payable	360,788		44,828
Principal payments on mortgages, notes and loans payable	(271,871)		(37,193)
Deferred financing costs	(2,437)		(1,281)
Preferred dividend payment on behalf of REIT subsidiary	(12)		
Distributions to noncontrolling interests	(2,134)		
Cash provided provided by financing activities	84,334		6,354
Net change in cash and cash equivalents	(18,437)		45,288
Cash and cash equivalents at beginning of period	229,197		227,566
Cash and cash equivalents at end of period	$ 210,760	$	272,854

Table of Contents

THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

	Nine Months Ended September 30,	
	2013	2012
	(In thousands)	
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 23,228	$ 16,398
Interest capitalized	26,537	19,737
Income taxes paid	2,127	966
Non-Cash Transactions:		
Acquisition of Millennium Waterway Apartments		
Land		(15,917)
Building and equipment		(56,002)
Other assets		(2,669)
Mortgages, notes and loans payable		55,584
Other liabilities		754
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	11,549	2,689
Real estate and property expenditures	56,763	11,984
MPC Land contributed to real estate affiliate		(2,190)
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	

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 1 BASIS OF PRESENTATION AND ORGANIZATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial statements and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as issued by the Securities and Exchange Commission (the SEC). Such condensed consolidated financial statements do not include all of the information and disclosures required by GAAP for complete financial statements. In addition, readers of this Quarterly Report on Form 10-Q (Quarterly Report) should refer to The Howard Hughes Corporation s (HHC or the Company) audited Consolidated and Combined Financial Statements for the year ended December 31, 2012 which are included in the Company s Annual Report on Form 10-K (the Annual Report) for the fiscal year ended December 31, 2012. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods have been included. The results for the three and nine months ended September 30, 2013 are not necessarily indicative of the results for the full fiscal year. Management has evaluated all material events occurring subsequent to the date of the condensed consolidated financial statements up to the date and time this Quarterly Report was filed.

Use of Estimates

On August 22, 2013, in conjunction with the Hawaii Community Development Authority s (HCDA) unanimous approval for two mixed-use towers at Ward Village, we reevaluated the useful life of the existing buildings and improvements located on the sites where this future development will take place. As a result, the estimated remaining useful lives of the assets were reduced which increased depreciation expense $1.2 million during the three months ended September 30, 2013.

Investment in Real Estate - *Developments*

Demolition costs associated with our redevelopments are expensed as incurred. During the three months ended September 30, 2013, we incurred $1.4 million in demolition costs related to the interiors of our Outlet Collection at Riverwalk and Columbia Regional buildings.

NOTE 2 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.

Table of Contents

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

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 $126.6 million fair value for the Sponsors Warrants representing warrants to purchase 1,916,667 shares and estimated $145.7 million fair value for the Management Warrants representing warrants to purchase 2,862,687 shares outstanding as of September 30, 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 6 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 Condensed Consolidated Statements of Operations.

NOTE 3 EARNINGS PER SHARE

Basic earnings (loss) per share (EPS) is computed by dividing net income (loss) attributable 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.

Table of Contents

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

Information related to our EPS calculations is summarized as follows:

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(In thousands, except per share amounts)			
Basic EPS:				
Numerator:				
Net income (loss)	$ 7,433	$ (50,192)	$ (92,233)	$ (126,724)
Net (income) loss attributable to noncontrolling interests	(98)	781	(110)	(637)
Net income (loss) attributable to common stockholders	$ 7,335	$ (49,411)	$ (92,343)	$ (127,361)
Denominator:				
Weighted average basic common shares outstanding	39,454	37,916	39,447	37,909
Diluted EPS:				
Numerator:				
Net income (loss) attributable to common stockholders	$ 7,335	$ (49,411)	$ (92,343)	$ (127,361)
Less: Warrant liability gain				
Adjusted net income (loss) attributable to common stockholders	$ 7,335	$ (49,411)	$ (92,343)	$ (127,361)
Denominator:				
Weighted average basic common shares outstanding	39,454	37,916	39,447	37,909
Restricted stock and stock options	253			
Warrants	2,732			
Weighted average diluted common shares oustanding	42,439	37,916	39,447	37,909
Basic earnings (loss) per share:	$ 0.19	$ (1.30)	$ (2.34)	$ (3.36)
Diluted earnings (loss) per share:	$ 0.17	$ (1.30)	$ (2.34)	$ (3.36)

The diluted EPS computation for the nine months ended September 30, 2013 excludes 930,940 stock options, 122,332 shares of restricted stock, 1,916,667 shares of common stock underlying the Sponsors Warrants and 2,862,687 shares of common stock underlying the Management

Warrants because their inclusion would have been anti-dilutive.

The diluted EPS computations for the three and nine months ended September 30, 2012 exclude 843,962 stock options, 57,933 shares of restricted stock, 8,000,000 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.

NOTE 4 RECENT TRANSACTIONS

On September 30, 2013, we sold our Rio West Mall property, a 514,253 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. Our pre-tax gain recognized on the sale was $0.6 million.

In 2012, we formed a 50/50 joint venture, KR Holdings, LLC (KR Holdings), with an entity jointly owned by two local development partners to develop a 23-story luxury condominium tower, ONE Ala Moana Tower Condominium Project. On September 17, 2012, KR Holdings closed on two $20.0 million non-recourse mezzanine financing commitments with List Island Properties, LLC and A & B Properties, Inc., including funding for $3.0 million of pre-development costs.

On May 15, 2013, KR Holdings closed on a first mortgage construction loan. Upon closing and under the terms of our joint venture agreement, we sold to KR Holdings our interest in the condominium rights for $47.5 million and

Table of Contents

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

received net cash proceeds of $30.8 million and a 50% equity interest in KR Holdings. Our partner contributed $16.8 million of cash for a 50% equity interest. 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 September 30, 2013 the project was 31.3% complete, and we recognized an additional $0.4 million and $3.7 million of profit on the sale for the three and nine months ended September 30, 2013. Please refer to Note 7 Real Estate Affiliates for further discussion of the ONE Ala Moana Tower Condominium Project.

NOTE 5 IMPAIRMENT

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. GAAP requires 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 charge should be recorded to write down the carrying amount of such asset to fair value (or for land held for sale, fair value less cost to sell). 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.

Our investment in each of the Real Estate Affiliates 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.

No impairment charges were recorded during the three or nine months ended September 30, 2013 or 2012. 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, these changes in strategy could result in impairment charges in future periods.

NOTE 6 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents, for each of the fair value hierarchy levels required under Accounting Standards Codification (ASC) 820, Fair Value Measurement, our assets and liabilities that are measured at fair value on a recurring basis.

	September 30, 2013 Fair Value Measurements Using				December 31, 2012 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	$ 272,279	$	$	$ 272,279	$ 123,573	$	$	$ 123,573
Interest rate swaps	4,696		4,696		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.

Table of Contents

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

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:

	2013	2012
	(In thousands)	
Balance as of January 1,	$ 123,573	$ 127,764
Warrant liability loss	148,706	162,724
Balance as of September 30,	$ 272,279	$ 290,488

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 September 30, 2013 is as follows:

	Fair Value (In thousands)	Valuation Technique	Unobservable Input	Volatility
Warrants	$ 272,279	Option Pricing Valuation Model	Expected Volatility (a)	30.0%

(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.

Table of Contents

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

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

	September 30, 2013		December 31, 2012	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Assets:				
Notes receivable, net	$ 19,122	$ 19,122	$ 27,953	$ 27,953
Tax indemnity receivable, including interest	316,504	(a)	319,622	(a)
Liabilities:				
Fixed-rate debt	$ 231,036	$ 224,488	$ 158,636	$ 158,879
Variable-rate debt (b)	498,150	498,151	479,964	479,964
SID bonds	36,794	38,669	49,712	56,475
Total mortgages, notes and loans payable	$ 765,980	$ 761,308	$ 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 agreement is highly dependent on numerous future events that cannot be reliably predicted.

(b) $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 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.

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

NOTE 7 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 proportionate to the ownership interest. We account for these partnerships and joint ventures in accordance with ASC 810 (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

Table of Contents

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

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 on an ongoing basis 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 investments in joint ventures deemed to be VIEs for which we are not considered to be the primary beneficiary, but have significant influence, using the equity method, and investments in joint ventures where we do not have significant influence on the joint venture s operations and financial policies, on the cost method. 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.

In certain cases, the company is required to consolidate certain VIEs. As of September 30, 2013, the carrying values of the assets and liabilities associated with the operations of the consolidated VIEs were $41.2 million and $3.3 million, respectively. As of December 31, 2012, the carrying values of the assets and liabilities associated with the 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 VIEs are discussed below.

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 partner jointly owns 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 our capital and a 13% 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%. Revenue recognition for individual units in a condominium project requires, among other criteria, that the sales contracts be analyzed to ascertain that the buyer s initial and continuing investments are adequate. KR Holdings determined that the value of the buyers deposits qualified as sufficient investment to recognize revenue using the percentage of completion method. We recorded

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

$2.7 million and $7.9 million in equity in earnings from Real Estate Affiliates related to KR Holdings in the Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2013, respectively.

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 related to 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.

Columbia Parcel D Joint Venture (The Metropolitan)

On October 27, 2011, we entered into a joint venture, Parcel D Development, LLC, 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 $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 September 30, 2013, we have contributed $1.7 million of the $3.1 million to the joint venture.

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. 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.

HHMK Development, KR Holdings, Millennium Phase II, Parcel D Development, LLC and the Summerlin Las Vegas Baseball Club joint venture entities included in the table below 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. The aggregate carrying value of the unconsolidated VIEs was $33.8 million and $8.1 million as of September 30, 2013 and December 31, 2012, respectively, and was classified as Investments in Real Estate Affiliates in the Condensed Consolidated Balance Sheets. 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.

Table of Contents

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

Below is a summary of our Investments in Real Estate Affiliates:

	Economic/ Legal Ownership		**Carrying Value**		**Share of Earnings/Dividends**			
	September 30, 2013	**December 31, 2012**	**September 30, 2013**	**December 31, 2012**	**Three Months Ended Setpember 30, 2013**	**2012**	**Nine Months Ended September 30, 2013**	**2012**
	(In percentages)		**(In thousands)**		**(In thousands)**			
Equity Method Investments:								
Forest View/Timbermill Apartments (a)			$	$	$	$	$	$ 4
Millennium Waterway Apartments (b)	100.00%	100.00%						406
Millennium Woodlands Phase II, LLC (c)	81.43%	81.43%	2,160	2,190	(59)		(59)	
KR Holdings, LLC (c)	50.00%	50.00%	16,762		2,716		7,907	
Summerlin Las Vegas Baseball Club (c)	50.00%	50.00%	10,870	300	220		220	
Circle T	50.00%	50.00%	9,004	9,004				
Parcel D Development, LLC (c)	50.00%	50.00%	3,873	4,330				
Stewart Title	50.00%	50.00%	3,769	3,871	382	324	899	640
HHMK Development, LLC (c)	50.00%	50.00%	110	1,257	290		443	
Woodlands Sarofim #1	20.00%	20.00%	2,570	2,450	45	(14)	121	6
			49,118	23,402	3,594	310	9,531	1,056
Cost basis investments			8,555	8,777			2,503(d)	2,376(d)
Investment in Real Estate Affiliates			$ 57,673	$ 32,179	$ 3,594	$ 310	$ 12,034	$ 3,432

(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) On May 31, 2012, we acquired our partner s interest for $6.9 million and consolidated this property. See below for further discussion.

(c) Equity method variable interest entities.

(d) Includes distribution received from Summerlin Hospital Medical Center.

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 interest at 3.75%. 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. Total assets of $78.6 million and liabilities of $56.4 million, including the then recently funded loan, were consolidated into our financial statements at fair value as of the acquisition date.

As of September 30, 2013, approximately $61.6 million of indebtedness was secured by the properties owned by our Real Estate Affiliates of which our share was approximately $33.6 million based upon our economic ownership. The debt is non-recourse to us.

NOTE 8 MORTGAGES, NOTES AND LOANS PAYABLE

Mortgages, notes and loans payable are summarized as follows:

	September 30, 2013	December 31, 2012
	(In thousands)	
Fixed-rate debt:		
Collateralized mortgages, notes and loans payable	$ 231,036	$ 158,636
Special Improvement District bonds	36,794	49,712
Variable-rate debt:		
Collateralized mortgages, notes and loans payable (a)	498,150	479,964
Total mortgages, notes and loans payable	$ 765,980	$ 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.

Table of Contents

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

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

$ In thousands	Maturity (a)	Interest Rate	Maximum Facility Amount	Carrying Value September 30, 2013	Carrying Value December 31, 2012
				(In thousands)	
Master Planned Communities					
The Woodlands Master Credit Facility (b)	August 2018	2.93%	$ 250,000	$ 176,662	$ 176,704
Bridgeland Land Loan (c)	June 2022	5.50%		18,066	18,066
Bridgeland Development Loan (d)	June 2015	5.00%	30,000	5,950	
Summerlin West SID Bonds - S808/S810	April 2031	7.13%		13,704	22,185
Summerlin South SID Bonds - S151	June 2025	6.00%		6,889	10,501
Summerlin South SID Bonds - S128C	December 2030	6.05%		5,625	5,739
Summerlin South SID Bonds - S132	December 2020	6.00%		4,423	4,822
Summerlin South SID Bonds - S108	December 2016	5.95%		946	1,067
Summerlin South SID Bonds - S128	December 2020	7.30%		747	787
Summerlin South SID Bonds - S124	December 2019	5.95%		305	324
Master Planned Communities Total				233,317	240,195
Operating Assets					
Victoria Ward (e)	September 2016	3.38%	250,000	228,716	229,000
Millennium Waterway Apartments	June 2022	3.75%		55,584	55,584
3 Waterway Square (f)	August 2028	3.94%		52,000	9,150
4 Waterway Square	December 2023	4.88%		39,467	40,140
The Woodlands Resort and Conference Center (g)	February 2019	3.68%	95,000	36,100	36,100
110 N. Wacker (h)	October 2019	5.21%		29,000	29,000
One Hughes Landing (i)	November 2017	2.83%	38,000	17,467	10
70 Columbia Corporate Center	August 2017	4.25%		16,287	16,037
20/25 Waterway Avenue	May 2022	4.79%		14,450	14,450
9303 New Trails	December 2023	4.88%		13,476	13,706
Columbia Regional Building (j)	March 2018	2.18%	23,008	4,255	
Capital lease obligation	various	3.60%		12	41
Operating Assets Total				506,814	443,218
Strategic Developments					
Two Hughes Landing (i)	September 2018	2.83%	41,230		
The Shops at Summerlin SID Bonds - S128	December 2030	6.05%		3,635	3,701
	December 2016	5.95%		520	586

The Shops at Summerlin SID Bonds - S108						
Strategic Developments Total				4,155		4,287
Other Corporate Financing Arrangements (k)	Various	Various		21,694		612
			$	765,980	$	688,312

(a) Maturity date includes any extension periods which can be exercised at our option.

(b) 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.

(c) Loan is fixed at 5.50% through June 2017 and is floating based on three-month LIBOR +2.75% thereafter.

(d) Revolving development loan provides for a maximum of $30.0 million outstanding balance at any time with all draws not exceeding $140.0 million. The loan bears interest at the greater of 5.00% or LIBOR + 3.25%.

(e) 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.

(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 was refinanced in February 2013 and bears interest at one-month LIBOR + 3.50%.

(h) 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.

(i) Loan bears interest at one-month LIBOR + 2.65%.

(j) Loan bears interest at prime rate for draws less than $0.5 million. For draws over $0.5 million, we make election to use one-month LIBOR + 2.00% or the prime rate.

(k) Includes the partial funding of a $22.7 million loan used to acquire a company airplane. The loan bears interest at 3.00% and requires approximately $1.0 million annual amortization through maturity in July 2018.

Table of Contents

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

The weighted average interest rate on our mortgages, notes and loans payable was 3.75% and 4.49% as of September 30, 2013 and December 31, 2012, respectively.

As of September 30, 2013, we had $766.0 million of mortgages, notes and loans payable. All of the 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 Woodlands Master Credit Facility and Resort and 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 2013. Certain mortgage notes may be prepaid, but may be subject to a prepayment penalty equal to a yield-maintenance premium, defeasance or a percentage of the loan balance. As of September 30, 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 a company airplane. The loan bears interest at 3.0%, requires approximately $1.0 million annual amortization and matures in July 2018.

As of September 30, 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 for the second extension. The TWL Facility also contains certain restrictions or 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. 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 September 30, 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 has been delayed while we pursue 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 no longer draw upon the revolving credit facility until the permit is received. The revolving loan bears interest at the greater of 5.00% or 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,

Table of Contents

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

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 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.

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 change in fair value is recorded through interest expense. For the nine months ended September 30, 2013, $2.8 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. Virtually all of the interest was capitalized due to our development activities.

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 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%.

Table of Contents

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

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 3.38% as of September 30, 2013. The unused portion of this mortgage was $21.3 million as of September 30, 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 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 of Senior Notes at 6.875% maturing October 2021. Net proceeds from the transaction totaled approximately $739.6 million. Please refer to Note 20 Subsequent Events for a more complete description of the notes.

NOTE 9 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 involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated Other Comprehensive Income (AOCI) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and nine months ended September 30, 2013, the ineffective portion recorded in earnings was insignificant.

As of September 30, 2013, 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 derivative was insignificant.

Table of Contents

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

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

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

	September 30, 2013	December 31, 2012
	(In thousands)	
Interest Rate Swaps	$ 4,696	$ 7,183
Total derivatives designated as hedging instruments	$ 4,696	$ 7,183

The table below presents the effect of our derivative financial instruments on the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,			**Three Months Ended September 30,**	
	2013	**2012**		**2013**	**2012**
Cash Flow Hedges	**Amount of (Loss) Recognized in OCI**	**Amount of (Loss) Recognized in OCI**	**Location of Gain (Loss) Reclassified from AOCI into Earnings**	**Amount of Gain Reclassified from AOCI into Earnings**	**Amount of (Loss) Reclassified from AOCI into Earnings**
	(In thousands)			**(In thousands)**	
Interest Rate Swaps	$ (407)	$ (1,466)	Interest Expense	$ 6	$ (512)
	$ (407)	$ (1,466)		$ 6	$ (512)

	Nine Months Ended September 30,	**Location of Gain**	**Nine Months Ended September 30,**	
			2013	**2012**

Cash Flow Hedges	2013 Amount of Gain Recognized in OCI		2012 Amount of (Loss) Recognized in OCI		(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	$	1,079	$	(4,627)	Interest Expense	$	(1,041)	$	(1,512)
	$	1,079	$	(4,627)		$	(1,041)	$	(1,512)

NOTE 10 INCOME TAXES

Several 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

Table of Contents

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

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 September 30, 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 $42.1 million and $36.4 million as of September 30, 2013 and December 31, 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 indemnified which are determined in accordance with the provisions set forth in ASC 740 (Income Taxes).

During the three months ended September 30, 2013, the Tax Indemnity receivable increased by $2.5 million. This increase was due to the increase in the related interest income of $1.8 million and a remeasurement gain of $0.7 million resulting from a reduction in our planned utilization of tax assets that contractually limit the amount we can receive pursuant to the Tax Matters Agreement. During the nine months ended September 30, 2013, the reduction in Tax Indemnity receivable of $3.1 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.

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.

Unrecognized tax benefits recorded pursuant to uncertain tax positions were $95.1 million and $95.9 million as of September 30, 2013 and December 31, 2012, respectively, excluding interest, of which this entire amount would not impact our effective tax rate. Accrued interest related to these unrecognized tax benefits amounted to $42.2 million and $36.6 million as of September 30, 2013 and December 31, 2012,

respectively. We recognized interest expense related to the unrecognized tax benefits of $1.7 million and $5.6 million for the three and nine months ended September 30, 2013, respectively. A significant amount of the unrecognized tax benefits recorded in the financial statements are related to the Tax Court litigation and are expected to be resolved within the next 12 months.

We file a consolidated corporate tax return which includes all of our subsidiaries with the exception of Victoria Ward, Limited (Ward), substantially all of which is owned by us. Ward elected to be taxed as a REIT, commencing with the taxable year beginning January 1, 2002. Ward has satisfied the REIT distribution requirements for 2012, and presently we intend to continue to operate Ward as a REIT.

Table of Contents

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 11 STOCK-BASED PLANS

Our stock based plans are described, and informational disclosures provided, in the Notes to the Consolidated Financial Statements included in our Form 10-K for the year ended December 31, 2012.

Stock Options

The following table summarizes our stock option plan:

	Stock Options		Weighted Average Exercise Price
Stock Options outstanding at January 1, 2013	861,940	$	59.17
Granted	93,600		94.81
Forfeited	(24,600)		58.41
Stock Options outstanding at September 30, 2013	930,940	$	62.77

Generally, options granted vest ratably over requisite service periods, expire ten years after the grant date and generally do not become exercisable until their restriction on exercise lapses after the five-year anniversary of the grant date. In May 2013, certain key employees were granted 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.

Restricted Stock

The following table summarizes restricted stock activity:

	Restricted Stock		Weighted Average Grant Date Fair Value
Restricted stock outstanding at January 1, 2013	57,933	$	65.72
Granted	77,432		79.77
Vested	(13,033)		60.15
Restricted Stock outstanding at September 30, 2013	122,332	$	75.21

During the second quarter of 2013, we granted 66,038 shares of restricted stock at a share price of $101.77. The restrictions on the shares lapse after four years of service and 50% of such shares vest on a graduated scale based on achieving the total return on our stock through 2017. In addition, 11,394 shares of restricted stock were awarded to certain non-employee directors at a price of $97.72 as part of an annual retainer for their services during the second quarter of 2013. Likewise, 13,033 of restricted stock shares were awarded at a share price of $60.15 during the second quarter of 2012. The restrictions on the shares granted in 2012 have lapsed and the restriction on the shares granted in 2013 will generally lapse in the second quarter of 2014. As of September 30, 2013, there were 122,332 shares of restricted stock outstanding.

Table of Contents

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 12 OTHER ASSETS AND LIABILITIES

Prepaid Expenses and Other Assets

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

	September 30, 2013	December 31, 2012
	(In thousands)	
Special Improvement District receivable	$ 39,667	$ 39,659
Equipment	22,301	
Tenant and other receivables	4,959	2,346
Federal income tax receivable	5,913	5,367
Prepaid expenses	7,266	4,757
Below-market ground leases	20,087	20,341
Condominium deposits		19,616
Security and escrow deposits	15,007	12,865
Above-market tenant leases	1,147	1,896
Uncertain tax position asset	14,756	12,801
In-place leases	9,946	11,516
Intangibles	3,714	3,714
Other	6,671	8,592
	$ 151,434	$ 143,470

The $7.9 million increase as of September 30, 2013 compared to December 31, 2012 primarily relates to a $22.3 million increase in equipment related to an airplane purchase, a $2.6 million increase in tenant and other receivables, primarily related to $2.0 million of lease incentives at Ward Centers, which was offset by a decrease of $19.6 million in condominium deposits due to the sale of our condominium rights for ONE Ala Moana.

Table of Contents

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

Accounts Payable and Accrued Expenses

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

	September 30, 2013	December 31, 2012
	(In thousands)	
Construction payables	$ 63,694	$ 17,501
Accounts payable and accrued expenses	53,402	39,634
Condominium deposits		19,616
Membership deposits	23,136	20,248
Above-market ground leases	2,470	2,590
Deferred income	20,956	7,767
Accrued interest	6,123	2,425
Accrued real estate taxes	8,262	6,622
Tenant and other deposits	11,891	8,096
Insurance reserve	2,087	9,037
Accrued payroll and other employee liabilities	13,035	11,514
Special assessment	2,868	2,868
Interest rate swaps	4,696	7,183
Other	11,360	15,420
	$ 223,980	$ 170,521

The $53.5 million increase as of September 30, 2013 compared to December 31, 2012 is primarily due to the increase of $46.2 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 $13.2 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 an increase of $13.8 million in accounts payable and accrued expenses primarily due to the accrual of $8.6 million for lease terminations. These increases were partially offset by the decrease of $19.6 million in condominium deposits as of September 30, 2013 compared to December 31, 2012 due to the sale of our condominium rights.

Table of Contents

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 13 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes AOCI for the period indicated:

Changes in Accumulated Other Comprehensive Income (Loss) by Component (a)

Gains and Losses on Cash Flow Hedges

(In Thousands)

	For the Three Months Ended September 30, 2013	
Balance as of July 1, 2013	$	(7,773)
Other comprehensive income (loss) before reclassifications		(700)
Amounts reclassified from accumulated other comprehensive income (loss)		(6)
Net current-period other comprehensive income		(706)
Balance as of September 30, 2013	$	(8,479)

	For the Nine Months Ended September 30, 2013	
Balance as of January 1, 2013	$	(9,575)
Other comprehensive income before reclassifications		55
Amounts reclassified from accumulated other comprehensive income (loss)		1,041
Net current-period other comprehensive income		1,096
Balance as of September 30, 2013	$	(8,479)

(a) All amounts are net of tax. Amounts in parentheses indicate debits to profit (loss).

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

Reclassifications out of Accumulated Other Comprehensive Income (Loss) (a)

(In Thousands)

Accumulated Other Comprehensive Income Components	**Amounts reclassified from Accumulated Other Comprehensive Income (Loss)** For the Three Months Ended September 30, 2013	**For the Nine Months Ended September 30, 2013**	**Affected line item in the Statement of Operations**
Gains and losses on cash flow hedges			
Interest rate swap contracts	$ 76	$ (831)	Interest (expense)
	(70)	(210)	Provision for income taxes
Total reclassifications for the period	$ 6	$ (1,041)	Net of tax

(a) Amounts in parentheses indicate debits to profit/loss.

Table of Contents

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 14 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 of $51.2 million and $49.3 million as of September 30, 2013 and December 31, 2012, respectively. These letters of credit and bonds were issued primarily in connection with insurance requirements, special real estate assessments and construction obligations.

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 annual rent escalates 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. We are entitled to a total rent credit of $1.5 million, to be taken monthly over a 30-month period beginning October 2013. 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 certain obligations under the lease, including the commencement of construction with a scheduled completion date of March 31, 2016.

In the fourth quarter of 2012, as a result of Superstorm Sandy, the Uplands portion 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 $11.0 million in insurance proceeds through September 30, 2013 at South Street Seaport related to property damage of which we recognized a $3.0 million pre-tax gain during the three months ended September 30, 2013. We believe that our insurance will cover substantially all of the cost of repairing the property and will also compensate us for any revenue that has been lost as a result of the storm.

Please refer to Note 10 Income Taxes for additional contingencies related to our uncertain tax positions.

Table of Contents

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 15 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 segment 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 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, office and industrial properties, a multi-family property, The Woodlands Resort and Conference Center 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.

The assets included in each segment as of September 30, 2013, are contained in the following chart:

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 REP EBT provides useful information about the operating performance for all of our properties.

Table of Contents

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

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 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.

Table of Contents

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

Segment operating results are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands)		(In thousands)	
Master Planned Communities				
Land sales	$ 53,734	$ 40,218	$ 166,981	$ 120,235
Builder price participation	2,002	1,867	5,703	