

Howard Hughes Corp
Form 10-K
February 26, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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, 2017

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

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:	Name of Each Exchange on Which Registered:
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Common Stock, \$.01 par value	New York Stock Exchange
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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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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) Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2017, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$4.2 billion based on the closing sale price as reported on the New York Stock Exchange.

As of February 19, 2018, there were 43,351,812 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2017 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 registrant's fiscal year ended December 31, 2017.

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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 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,” and other similar expression. Forward-looking statements give our expectations about the future and are not guarantees. We caution you not to rely on these forward-looking statements.

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

- budgeted costs, future lot sales and estimates of NOI and EBT;
- capital required for our operations and development opportunities for the properties in our Master Planned Communities (“MPC”), Operating Assets and Strategic Developments segments;
- expected commencement and completion for property developments and timing of sales or rentals of certain properties;
- expected performance of our MPC and Operating Assets segments, as well as other current income producing properties such as our condominiums;
- forecasts of our future economic performance; and
- future liquidity, development opportunities, development spending and management plans.

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

- our inability to obtain operating and development capital, including our inability to obtain or refinance debt capital from lenders and the capital markets;
- a prolonged recession in the national economy and adverse economic conditions in the homebuilding, condominium development, retail, office and hospitality sectors;
- our inability to compete effectively;
- potential natural disasters (including any potential negative impact from Hurricane Harvey on the Houston, Texas region), terrorist activity, acts of violence, breaches of our data security, contamination of our properties by hazardous or toxic substances, or other similar disruptions, as well as losses that are not insured or exceed the applicable insurance limits;
- our ability to lease new or redeveloped space;
- our ability to obtain the necessary governmental permits for the development of our properties and necessary regulatory approvals pursuant to an extensive entitlement process involving multiple and overlapping regulatory jurisdictions, which often require discretionary action by local governments;
- increased construction costs exceeding our original estimates, delays or overruns, claims for construction defects, or other factors affecting our ability to develop, redevelop or construct our properties;
- regulation of the portion of our business that is dedicated to the formation and sale of condominiums, including regulatory filings to state agencies, additional entitlement processes and requirements to transfer control to a condominium association’s board of directors in certain situations, as well as defaults by purchasers on their obligations to purchase condominiums;

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- risks associated with our relationships with homebuilders and with our ownership and management of hotels;
- fluctuations in regional and local economies, the residential housing and condominium markets, local real estate conditions, tenant rental rates and competition from competing retail properties and the internet;
- our ability to retain key executive personnel;
- our ability to collect rent, attract tenants and customers to our hotels;
- our substantial indebtedness, including our \$1,000,000,000 5.375% senior notes due 2025, that contain restrictions which may limit our ability to operate our business;
- our directors involvement or interests in other businesses, including real estate activities and investments;
- 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;
- substantial stockholders having influence over us, whose interests may be adverse to ours or yours;
- the potential impact of the recently enacted U.S. tax reform legislation; and
- the other risks described in “Item 1A. Risk Factors.”

Any factor could, by itself, or together with one or more other factors, adversely affect our business, results of operations, plans, objectives, future performance or financial condition. There may also be other factors that we have not described in this Annual Report that could cause results to differ from our expectations. Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. These forward-looking statements present our estimates and assumptions only as of the date of this Annual Report. Except as may be required by law, we undertake no obligation to modify or revise any forward-looking statements to reflect events or circumstances occurring after the date of this Annual Report.

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

We create timeless places and extraordinary experiences that inspire people while driving sustainable, long-term growth and value for our shareholders. We specialize in the development of MPCs, in the ownership, management and redevelopment of revenue-generating real estate assets (“Operating Assets”) and in the development of other real estate assets in the form of entitled and unentitled land and residential condominium developments (“Strategic Developments”). We expect to continue to generate income from the growth of our Operating Assets portfolio, through the continued development of strategic project opportunities, and from ongoing MPC land development and homesite sales. We generate cash flow from the sale of land in our MPC business and the operations of our operating properties which funds the development of strategic development opportunities which is expected to generate meaningful growth in recurring income in our Operating Assets segment. We are focused on maximizing value from all of our assets, and we continue to develop, acquire and manage our assets to achieve this goal. We are headquartered in Dallas, Texas, and in New York, New York, and our assets are located across the United States.

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: MPCs, Operating Assets and Strategic Developments. Financial information about each of our segments is presented in Note 17 – Segments of our audited consolidated financial statements.

Our Competitive Strengths

We believe that we distinguish ourselves from other real estate companies through the following competitive strengths:

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- Management Team with Track Record of Value Creation. We have completed the development of over 4.2 million square feet of office and retail operating properties, 1,645 multi-family units and 913 hospitality keys since 2011. Excluding land which we own, we have invested approximately \$1.6 billion in these developments, which is projected to generate a 9.9% yield on cost or \$155.1 million per year of net operating income (“NOI”) upon stabilization. At today’s market cap rates, this implies value creation to our shareholders of roughly \$1.0 billion. These investments and returns exclude condominium development as well as projects under construction such as the Seaport District NYC. Our investment of approximately \$283.2 million of cash equity in these projects since inception, is projected to generate a 29.7% return on cash equity assuming a 5.5% cost of debt, which approximates our historical cost. In addition, we have either opened or have under construction 1,381 condominium units in Ward Village, which have approximately 93% units sold at a targeted profit margin, excluding land costs, of approximately 30%.
 - Unique, Diverse Portfolio. We own a portfolio with many diverse market leading assets located across 12 states with a combination of steady cash flow and longer term value creation opportunities.
- Unparalleled Value Creation Opportunity. We own one of the preeminent development pipelines in the world with over 50.0 million square feet of vertical entitlements remaining across our portfolio. This represents approximately 12 times the 4.2 million square feet we have delivered in the last seven years without having to acquire another development site or external asset, which we believe is a significant competitive advantage over other real estate development corporations.
- Low Leverage, Flexible Balance Sheet. As of December 31, 2017, our total debt equaled approximately 42.5% of the book value of our total assets, which we believe is significantly less than the market value. Our net debt, which includes our share of debt of Real Estate and other Affiliates less cash and Special Improvement District (“SID”) and Municipal Utility Districts (“MUD”) receivables, equaled approximately 23.3% of our total enterprise value. We finished the year with approximately \$861.1 million of cash on hand. We have focused our efforts on obtaining non-recourse debt for both our construction financing and long-term fixed rate mortgage financing and have limited cross-collateralization across the portfolio. Our low leverage, with a focus on project specific financing, provides substantial insulation against potential downturns and provides us with the flexibility to evaluate new real estate project opportunities.
- Self-Funded Business Plan. One of our key differentiators is our ability to self-fund significant portions of our new development without having to dispose of our recently completed developments or raise additional equity. In normal years, our residential land sales, recurring NOI and profits on the sales of condominium units generate substantial amounts of free cash flow which is used to fund the equity required to execute our many development opportunities. Furthermore, we are not required to pay dividends and are not restricted from investing in any asset type, amenity or service, providing further flexibility as compared to many other real estate companies which are limited in their activities because they have elected to be taxed as real estate investment trusts (“REIT”). We believe our structure currently provides significant financial and operating flexibility to maximize the value of our real estate portfolio.

Overview of Business Segments

We operate in three complementary business segments: Operating Assets, MPCs and Strategic Developments. The combination of these three segments provides both operational and financial synergies. The vast majority of the assets in our Operating Assets segment are located within our MPCs. This helps us achieve scale and, in most cases, critical mass, which leads to pricing power in lease and vendor negotiations; increased ability to attract, hire and retain the best local leadership and leasing teams; flexibility to meet changing customer demands; and enhanced ability to identify and capitalize on emerging opportunities. In our MPC segment, we plan, develop and manage small cities in markets with strong long-term growth fundamentals. This business involves the horizontal development of residential land and selling the improved acreage to homebuilders for the eventual sale of homes to new residents. Combined, our MPCs span over 80,000 gross acres, with over 7,600 residential acres of land remaining to be developed and sold across our portfolio. In addition to the residential land, our MPC segment contains more than 3,300 acres designated for commercial development or sale to non-competing users such as hospitals. This land is held in our MPC segment until we identify demand for a new commercial development, at which point the land is transitioned into our Strategic Developments segment.

The operational synergies of combining our three business segments creates a unique and continuous value-creation cycle. We sell land to residential homebuilders in our MPC segment and the new homes attract residents to our cities looking for places to work and shop. New homeowners create demand for commercial developments, such as retail, office, self-storage and hospitality offerings. We build these commercial properties through our Strategic Developments segment when the timing is

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right, which helps mitigate development risk, using the cash flow harvested from the sale of land to homebuilders. Once these strategic developments are completed and stabilized, they transition to our Operating Assets segment and increase our recurring NOI, further funding the equity requirements in our Strategic Developments segment. New office, retail and other commercial amenities make our MPC residential land more appealing to buyers and increase the velocity of land sales at premiums that exceed the broader market. Increased demand for residential land generates more cash flow from our MPC segment, thus continuing the cycle.

The following further describes our three business segments and provides a general description of the assets comprising these segments. This section should be referred to when reading “Item 7. – Management’s Discussion and Analysis of Financial Condition and Results of Operations” which contains information about our financial results and operating performance for our business segments.

Master Planned Communities. Our MPC segment includes the development and sale of residential and commercial land, primarily in large-scale, long-term projects. Our five MPCs include The Woodlands, Bridgeland, and The Woodlands Hills in Houston; Summerlin in Las Vegas; and Columbia, Maryland. These developments often require decades of investment and continued focus on the changing market dynamics surrounding these communities. We believe that the long-term value of our MPCs remains strong because of their competitive positioning in their respective markets, our in-depth experience in diverse land use planning and the fact that we have substantially completed the entitlement processes within the majority of our communities.

Our MPCs have won numerous awards for design excellence and for community contribution. Among its many honors, Summerlin was recently ranked fourth on the list of best-selling MPCs by RCLCO. Bridgeland was recently recognized by the National Association of Home Builders with four Silver awards, including “Best Landscape Design – Master Plan.” Hughes Landing in The Woodlands recently received Gold and Commendation awards from the International Council of Shopping Centers at the 2017 U.S. Design and Development Awards competition.

We expect the competitive position, desirable locations and land development expertise to drive the long-term growth of our MPCs. As of December 31, 2017, our MPCs include approximately 11,031 remaining saleable acres of land. Residential sales, which are generated primarily from the sale of finished lots and undeveloped superpads to residential homebuilders and developers, include standard and custom parcels designated for detached and attached single family homes, and range from entry-level to luxury homes. Superpad sites are generally 20 to 25-acre parcels of unimproved land where we develop and construct the major utilities (water, sewer and storm drainage) and roads to the borders of the parcel and the homebuilder completes the on-site utilities, roads and finished lots. Revenue is also generated through price participation with homebuilders.

We also occasionally sell or lease land for commercial development when we deem its use will not compete with our existing properties or our development strategy. Commercial sales include land parcels designated for retail, office, hospitality, high density residential projects (e.g., condominiums and apartments), 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 57 assets, including our investments in joint ventures and other assets, consisting of 13 retail, 25 office, six multi-family, three hospitality properties and 10 other operating assets and investments. We have developed many of these assets since the Company’s inception in 2010. Revenue is primarily generated through rental and hospitality services and is directly impacted by trends in rental and occupancy rates and operating costs. We will also occasionally sell an operating asset when it does not complement our existing properties or no longer fits within our current strategy. We believe that the long-term value of our Operating Assets lies in our premier portfolio located in geographically diverse locations. We believe these assets have the potential for future growth by increasing rental rates, absorbing remaining vacancy, and changing the tenant mix in retail centers to improve gross sales revenue of our tenants, thereby increasing rents.

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For certain assets, we believe there are opportunities to improve operating performance through redevelopment or repositioning. Redevelopment plans for these assets may include office, retail or residential space, shopping centers, movie theaters, parking complexes or open space. The redevelopment plans may require that we obtain permits, licenses, consents and/or waivers from various parties. These opportunities will require new capital investment and vary in complexity and scale. The redevelopment opportunities range from those that would have minimal disruption to the property to those requiring partial or full demolition of existing structures for new construction. Factors we evaluate in determining whether to redevelop or reposition an asset include 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)

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compatibility of the physical site with proposed uses; and (5) environmental considerations, traffic patterns and access to the properties.

We generally transfer an operating asset that is being repositioned or redeveloped into our Strategic Developments segment when we close operations at a property and/or begin construction on the redevelopment project. Upon completion of construction or renovation of a development or redevelopment, the asset is fully or partially placed in service and transferred back into our Operating Assets segment.

Strategic Developments. Our Strategic Developments segment consists of 28 development or redevelopment projects, most of which require extensive planning and expertise in large-scale and long-range development to maximize their highest and best uses. The strategic process is complex and unique to each asset and requires on-going assessment of the changing market dynamics prior to the commencement of construction. We must study each local market, determine the highest and best use of the land and necessary improvements to the area, obtain entitlements and permits, complete architectural design and construction drawings, secure tenant commitments and obtain and commit sources of capital.

We are in various stages of predevelopment or execution of our strategic plans for many of these assets based on market conditions. As of December 31, 2017, we had 13 properties under construction and not yet placed into service. Excluding our two projects in joint ventures, total estimated aggregate project costs remaining to be spent on our 11 consolidated properties under construction as of December 31, 2017, are \$934.3 million, of which \$468.0 million remains to be funded by us and the remaining amounts to be funded with existing debt. We generally obtain construction financing to fund a majority of the costs associated with developing these assets. Furthermore, we are always undergoing processes to obtain the required permits for our large scale real estate developments.

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The chart below presents our assets classified by reportable segment, predominant use and geographic location at December 31, 2017:

Geographic Region	Master Planned Communities	Operating Assets	Strategic Developments
Houston			
	• Bridgeland	Retail Creekside Village Green	Under Construction 100 Fellowship Drive
	• The Woodlands	Hughes Landing Retail	Creekside Park Apartments
	• The Woodlands Hills	1701 Lake Robbins	Lake Woodlands Crossing Retail
		20/25 Waterway Avenue	
		Waterway Garage Retail	Other
		2000 Woodlands Parkway	Bridgeland Apartments
		Lakeland Village Center at Bridgeland (b)	
		Multi-family Millennium Waterway Apartments	3831 Technology Forest Drive
		Millennium Six Pines Apartments (a)	3 Waterway Square
		One Lakes Edge	4 Waterway Square
			1400 Woodloch Forest
		Hospitality	Other
		Embassy Suites at Hughes Landing	HHC 242 Self-Storage (c)
		The Westin at The Woodlands (b)	HHC 2978
		The Woodlands Resort & Conference Center	Self-Storage (c)
			Stewart Title of Montgomery County, TX (d)
			The Woodlands Parking Garages
			Woodlands Sarofim #1 (d)
			Woodlands Ground Lease

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Las Vegas

<ul style="list-style-type: none"> • Summerlin 	<p>Retail Downtown Summerlin</p>	<p>Office ONE Summerlin</p>	<p>Under Construction Two Summerlin Aristocrat</p>
<p>Other</p> <ul style="list-style-type: none"> • The Summit (d) 	<p>Multi-family Constellation (a)</p>	<p>Other Las Vegas 51s (a) Summerlin Hospital Medical Center (d)</p> <p>Hockey Ground Lease</p>	<p>Other Las Vegas Ballpark Downtown Summerlin Apartments 80% Interest in Fashion Show Air Rights</p>

Columbia

<ul style="list-style-type: none"> • Maryland Communities 	<p>Retail Columbia Regional Building</p> <p>Multi-family The Metropolitan Downtown</p> <p>Columbia (d)</p>	<p>Office 10-70 Columbia Corporate Center Columbia Office Properties One Mall North One Merriweather (c)</p> <p>Two Merriweather (c)</p>	<p>Under Construction m.flats/TEN.M (d)</p> <p>Other American City Building Three Merriweather</p>
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New York

<p>Retail Seaport District NYC - Historic Area/Uplands</p> <p>Multi-family 85 South Street</p>	<p>Under Construction 33 Peck Slip (d) (f) Seaport District NYC - Pier 17 (g) Seaport District NYC - Tin Building (g)</p>
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Honolulu

<p>Retail Ward Village Retail (e)</p>	<p>Other Kewalo Basin Harbor</p>	<p>Under Construction Ae`o Anaha (h) Ke Kilohana Waiea (h)</p>
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			Other Maui Ranch Land
Other	Retail Outlet Collection at Riverwalk	Office 110 North Wacker	Other AllenTowne Bridges at Mint Hill Circle T Ranch and Power Center (d) Cottonwood Mall The Elk Grove Collection (i) Landmark Mall (f) Ridgely Building (j) West Windsor

- (a) Asset was held as a joint venture until our acquisition of our partner's interest.
- (b) Asset was placed in service and moved from the Strategic Developments segment to the Operating Assets segment during 2016.
- (c) Asset was placed in service and moved from the Strategic Developments segment to the Operating Assets segment during 2017.
- (d) A non-consolidated investment. Refer to Note 5 – Real Estate and Other Affiliates in our Consolidated Financial Statements.
- (e) Includes retail within the recently opened Waiea and Anaha condominium towers.
- (f) Asset is in redevelopment and moved from the Operating Assets segment to the Strategic Developments segment during 2017.
 - (g) Effective January 1, 2017, we moved the Seaport District NYC assets under construction and related activities to the Strategic Developments segment from the Operating Assets segment. Seaport District NYC operating properties currently in service and related operating results remain presented within the Operating Assets segment.
- (h) Waiea and Anaha are open and occupied by tenants with sales of remaining units ongoing.
- (i) Formerly known as The Outlet Collection at Elk Grove.
- (j) Asset was previously included in Columbia Office Properties.

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Competition

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

- the size and scope of our MPCs;
- years of experience serving and strong reputation within the industry;
- the recreational and cultural amenities available within our communities;
- the commercial centers in the communities, including the 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, residential tenants and hospitality guests. We believe the principal factors that retailers consider in making their leasing decisions include: (1) consumer demographics; (2) age, quality, design and location of properties; (3) neighboring real estate projects that have been developed or that we, or others, may develop in the future; (4) diversity of retailers and anchor tenants at shopping center locations; (5) management and operational expertise; and (6) rental rates. The principal factors influencing tenant leasing decisions for our office space include: (1) rental rates; (2) attractive views; (3) walkable retail; (4) commute time; (5) efficiency of space; and (6) demographics of available workforce. For residential tenants, we believe the factors that impact their decision where to live are: (1) walkability/proximity to work; (2) amenities; and (3) the best value for their money. Our hospitality guests generally make decisions on which hotel they prefer based on: (1) the nature and intention of their trip; (2) brand loyalty; or (3) location and convenience to either an urban or open resort experience.

With respect to our Strategic Developments segment, our direct competitors include other commercial property developers, residential condominium developers and other owners of commercial real estate that engage in similar businesses. With significant existing entitlements, we hold an advantage over many of our competitors in our markets in that we already own and control, or have significant influence over, substantial acreage for development. We also own the majority of square feet of each product type in many of our markets.

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 obtain financing using such real estate as collateral.

Substantially all of our properties have been subject to third-party Phase I environmental assessments, which are intended to evaluate the environmental condition of the surveyed and surrounding properties. As of December 31, 2017, the assessments have not revealed any known environmental liability that we believe would have a material adverse effect on our overall business, financial position 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

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expenditures or the long-range effect, if any, on our operations. Compliance with such laws has not had a material adverse effect on our current or past operating results or competitive position, but could have such an effect on our operating results or competitive position in the future.

Employees

As of December 31, 2017, we had approximately 1,100 employees, approximately 500 of whom were employed at our hospitality properties.

Available Information

Our website address is www.howardhughes.com. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other publicly filed documents 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 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

A downturn in the housing market or decline in general economic conditions could adversely affect our business, financial condition and operations.

We believe that new home sales are an important indicator of future demand for our superpad sites, lots and condominium units. Demand for new homes is sensitive to changes in economic conditions such as the level of employment, consumer confidence, consumer income, the availability of financing and interest rate levels. The prior economic downturn severely affected both the numbers of homes that could be sold in our MPCs and the prices for which homebuilders could sell them. We cannot predict when another economic downturn in the housing market will occur. If there were another economic downturn in the housing market or in general economic conditions, the resulting decline in demand for new homes and condominium units would likely have a material adverse effect on our business, financial condition and results of operations.

Our MPC 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 or due to a change in demand, our inability to achieve certain pricing

arrangements or upon an overall decline in general market conditions. Also, some homebuilders may be unwilling or unable to close on previously committed lot purchases due to our failure to meet certain conditions in our agreements or otherwise. As a result, we may sell fewer lots and, in certain instances suspend any of our MPC developments and may have lower sales revenues, which could have an adverse effect on our financial position and results of operations.

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

A portion of our business is dedicated to the development 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 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. Responses or comments on our condominium filings may delay our ability to sell condominiums in certain states and other jurisdictions in a

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timely manner, or at all. 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, construction 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 business, financial condition and results of operations.

Our condominium sales are sensitive to interest rates and the ability of consumers to obtain mortgage financing.

The ability of the ultimate buyers of condominiums to finance their purchases is generally dependent on their personal savings and availability of third-party financing. Consequently, the demand for condominiums will be adversely affected by increases in interest rates, unavailability of mortgage financing, increasing housing costs and unemployment levels. Levels of income and savings, including retirement savings, available to condominium purchasers can be affected by declines in the capital markets. Any significant increase in the prevailing low mortgage interest rate environment or decrease in available credit could reduce consumer demand for housing, and result in fewer condominium sales, which may have an adverse effect on our business, financial condition and results of operations.

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 business, financial condition and results of operations.

We may be negatively impacted by the consolidation or closing of anchor stores.

Many of our mixed-used properties are anchored by "big box" tenants. We could be adversely affected if these or other anchor stores were to consolidate, close or enter into bankruptcy. Given the current economic environment for certain retailers, there is a heightened risk an anchor store could close or enter into bankruptcy. Any losses resulting from the bankruptcy of any of our existing tenants could adversely impact our financial condition. Even if we own the anchor space, we may be unable to re-lease this area or to re-lease it on comparable terms. The loss of these revenues could adversely affect our results of operations and cash flows. Further, the temporary or permanent loss of any anchor would likely reduce customer traffic in the retail center, which could lead to decreased sales at other retail stores. Rents obtained from other tenants may be adversely impacted as a result of co-tenancy clauses in their leases. One or more of these factors could cause the retail center to fail to meet its debt service requirements. The consolidation of anchor stores may also negatively affect lease negotiations and current and future development projects.

We may have to make significant capital expenditures to maintain our hotel properties, and any hotel redevelopment or development activities we undertake may be more costly than we anticipate.

From time to time, our hotels will have a need for renovations and other capital improvements, including replacements of furniture, fixtures and equipment. Managers or franchisors of our hotels also require periodic capital improvements pursuant to management agreements we enter into with them or as a condition of maintaining franchise licenses. Generally, we are responsible for the cost of these capital improvements. As part of our long-term growth strategy, we may also develop hotel properties, timeshare units or other alternate uses of portions of our existing properties, including the development of retail, office or apartments, including through joint ventures. Such renovation and

development involves substantial risks, including, but not limited to:

- construction cost overruns and delays;
- the disruption of operations and displacement of revenue at operating hotels, including revenue lost while rooms, restaurants or meeting space under renovation are out of service;
- the cost of funding renovations or developments and inability to obtain financing on attractive terms;
- the return on our investment in these capital improvements or developments failing to meet expectations;
- governmental restrictions on the nature or size of a project or the inability to obtain all necessary zoning, land use, building, occupancy, and construction permits; and

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- disputes with franchisors or property managers regarding compliance with relevant franchise agreements or management agreements.

The occurrence of any of the aforementioned risks or any others not currently known to us could negatively impact certain hotel properties and result in a material adverse effect on our financial condition and results of operations.

The concentration of our properties in certain states may make our revenues and the value of our assets vulnerable to adverse changes in local economic conditions.

Many of the properties we own are located in the same or a limited number of geographic regions, including Texas, Hawaii, Las Vegas, New York and Maryland. Our operations at the properties in these states are generally subject to significant fluctuations by various factors that are beyond our control such as 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, as well as the local real estate conditions, such as an oversupply of, or a reduction in demand for, retail space or retail goods, hotel rooms and the availability and creditworthiness of current and prospective tenants.

In addition, some of our properties are subject to various other factors specific to those geographic areas. For example, tourism is a major component of both the local economies in Hawaii and Nevada. Ward Village, which is located in Honolulu, Hawaii, and Summerlin, which is located in Las Vegas, Nevada, may be impacted by the local and global tourism industry. These properties are susceptible to any factors that affect travel and tourism related to Hawaii and Las Vegas, including cost and availability of air services and the impact of any events that disrupt air travel to and from these regions. Moreover, these properties may be affected by risks such as acts of terrorism and natural disasters, including major fires, floods and earthquakes, as well as severe or inclement weather, which could also decrease tourism activity in Las Vegas or Hawaii.

Further, Summerlin is to some degree dependent on the gaming industry, which could be adversely affected by changes in consumer trends and preferences and other factors over which we have no control. The gaming industry is characterized by an increasingly high degree of competition among a large number of participants, including riverboat casinos, dockside casinos, land-based casinos, video lottery, sweepstakes and poker machines, many of which are located outside of Las Vegas. Furthermore, competition from internet lotteries, sweepstakes, and other internet wagering gaming services, which allow their customers to wager on a wide variety of sporting events and play Las Vegas-style casino games from home or in non-casino settings, could negatively impact the population in the Las Vegas area. Expansion of internet gaming in other jurisdictions (both legal and illegal) could further compete with the gaming industry in Las Vegas, which could have a negative impact on the local Las Vegas economy and result in an adverse effect on Summerlin and Downtown Summerlin.

Markets and the local economy surrounding our properties in Columbia, Maryland are heavily influenced by government spending and activity. A reduction of government spending in this market generally could decrease the demand for housing and retail space in this geographic region.

The Woodlands, The Woodlands Hills and Bridgeland in the Houston, Texas region depend significantly on the energy sector. Our success depends to a large extent upon the business activity, population, income levels, employment trends and real estate activity in and around Houston, Texas. In the event that oil prices fall and remain depressed for a sustained period, as they recently have, demand may decrease for housing and commercial space in The Woodlands, Bridgeland and The Woodlands Hills and hotel rooms at our hospitality properties in The Woodlands.

If any or all of the factors discussed above were to occur and result in our inability to sell or lease our residential and commercial property, or book an adequate amount of hotel room stays at our hospitality properties, in any of these geographic regions, it would likely have a material adverse effect on our business, financial condition and results of operations.

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

Our development, redevelopment and construction activities expose us to risks such as:

- inability to obtain construction financing for the development or redevelopment of properties;
- 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 or condominium prices may not increase sufficiently to compensate for the increased construction costs;

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- construction delays, which may increase project development costs;
- claims for construction defects after a property has been developed;
- poor performance or nonperformance by any of our joint venture partners or other third parties on whom we rely;
- health and safety incidents and site accidents;
- easement restrictions which may impact our development costs and timing;
- compliance with building codes and other local regulations; and
- the inability to secure tenants necessary to support commercial projects.

If any of the aforementioned risks were to occur during the development, redevelopment or construction of our properties, it could have a substantial negative impact on the project's success and result in a material adverse effect on our financial condition or results of operations.

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

Approval to develop real property sometimes requires political support and generally entails an extensive entitlement process involving multiple and overlapping regulatory jurisdictions and often requires discretionary action by local governments. Real estate projects must generally comply with local land development regulations and may need to comply with state and federal regulations. We incur substantial costs to comply with legal and regulatory requirements. An increase in legal and regulatory requirements may cause us to incur substantial additional costs, or in some cases cause us to determine that the property is not feasible for development. 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.

Specifically, our redevelopment plans for the Seaport District are subject to a Uniform Land Use Review Procedure ("ULURP") that requires approval by the New York City Council, the New York City Landmarks Preservation Commission and various other government agencies. Our inability to obtain or modify the ULURP could negatively affect our future redevelopment plans for the Seaport District.

Government regulations and legal challenges may delay the start or completion of the development of our communities, increase our expenses or limit our homebuilding or other activities.

Various local, state and federal statutes, ordinances, rules and regulations concerning building, health and safety, site and building design, environment, zoning, sales and similar matters apply to and/or affect the real estate development industry. In addition, our ability to obtain or renew permits or approvals and the continued effectiveness of permits already granted or approvals already obtained depends on factors beyond our control, such as changes in federal, state and local policies, rules and regulations and their interpretations and application.

Municipalities may restrict or place moratoriums on the availability of utilities, such as water and sewer taps. If municipalities in which we operate take such actions, it could have an adverse effect on our business by causing delays, increasing our costs or limiting our ability to operate in those municipalities. These measures may reduce our ability to open new MPCs and to build and sell other real estate development projects in the affected markets, including with respect to land we may already own, and create additional costs and administration requirements, which in turn may harm our future sales, margins and earnings.

In addition, there is a variety of legislation being enacted, or considered for enactment, at the federal, state and local level relating to energy and climate change. This legislation relates to items such as carbon dioxide emissions control and building codes that impose energy efficiency standards. New building code requirements that impose stricter

energy efficiency standards could significantly increase our cost to construct buildings. Such environmental laws may affect, for example, how we manage storm water runoff, wastewater discharges and dust; how we develop or operate on properties on or affecting resources such as wetlands, endangered species, cultural resources, or areas subject to preservation laws; and how we address contamination. As climate change concerns continue to grow, legislation and regulations of this nature are expected to continue and become more costly to comply with. In addition, it is possible that some form of expanded energy efficiency legislation may be passed by the U.S. Congress or federal agencies and certain state legislatures, which may, despite being phased in over time, significantly increase our costs of building MPCs and the sale price to our buyers and adversely affect our sales volumes. We may be required to apply for additional approvals or modify our existing approvals because of changes in local circumstances or applicable law.

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Energy-related initiatives affect a wide variety of companies throughout the United States and the world and, because our operations are heavily dependent on significant amounts of raw materials, such as lumber, steel and concrete, they could have an indirect adverse impact on our operations and profitability to the extent the manufacturers and suppliers of our materials are burdened with expensive cap and trade and similar energy related taxes and regulations. Our noncompliance with environmental laws could result in fines and penalties, obligations to remediate, permit revocations and other sanctions.

Governmental regulation affects not only construction activities but also sales activities, mortgage lending activities and other dealings with consumers. Further, government agencies routinely initiate audits, reviews or investigations of our business practices to ensure compliance with applicable laws and regulations, which can cause us to incur costs or create other disruptions in our business that can be significant. Further, we may experience delays and increased expenses as a result of legal challenges to our proposed communities, whether brought by governmental authorities or private parties.

Our development projects may subject us to certain liabilities.

We may hire and supervise third-party contractors to provide construction, engineering and various other services for wholly-owned development projects or development projects undertaken by real estate ventures in which we hold an equity interest. Certain of these contracts are structured such that we are the principal rather than the agent. As a result, we may assume liabilities in the course of the project and be subjected to, or become liable for, claims for construction defects, negligent performance of work or other similar actions by third parties we have engaged.

Adverse outcomes of disputes or litigation could negatively impact our business, results of operations and financial condition, particularly if we have not limited the extent of the damages to which we may be liable, or if our liabilities exceed the amounts of the insurance that we carry. Moreover, our tenants and condominium owners may seek to hold us accountable for the actions of contractors because of our role even if we have technically disclaimed liability as a legal matter, in which case we may determine it necessary to participate in a financial settlement for purposes of preserving the tenant or customer relationship or to protect our corporate brand. Acting as a principal may also mean that we pay a contractor before we have been reimbursed by our tenants or have received the entire purchase price of a condominium unit from the purchaser. This exposes us to additional risks of collection in the event of a bankruptcy, insolvency or a condominium purchaser default. The reverse can occur as well, where a contractor we have paid files for bankruptcy protection or commits fraud with the funds before completing a project which we have funded in part or in full.

Our indebtedness could adversely affect our business, prospects, financial condition or results of operations and prevent us from fulfilling our obligations under our Senior Notes.

We have a significant amount of indebtedness. As of December 31, 2017, our total consolidated debt was approximately \$2.9 billion (excluding an undrawn balance of \$30.0 million under our revolving facilities) of which

\$1.2 billion was recourse to the Company. In addition, we have \$42.9 million of recourse guarantees associated with undrawn construction financing commitments as of December 31, 2017. As of December 31, 2017, our proportionate share of the debt of our unconsolidated joint ventures (“Real Estate and Other Affiliates”) was \$85.0 million based upon our economic ownership. All of the debt of our Real Estate and Other Affiliates is non-recourse to us.

Subject to the limits contained in the indenture governing the \$1,000,000,000 5.375% senior notes due 2025 (the “Senior Notes”) and any limits under our other debt agreements, we may need to incur substantial additional indebtedness from time to time, including project indebtedness for developments by our subsidiaries. If we incur additional indebtedness, the risks related to our level of indebtedness could intensify. Specifically, an increased level of indebtedness could have important consequences, including:

- making it more difficult for us to satisfy our obligations with respect to our indebtedness, including the Senior Notes;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, debt service requirements, execution of our business strategy or finance other general corporate requirements;
- requiring us to make non-strategic divestitures, particularly when the availability of financing in the capital markets is limited, which may adversely impact sales prices;

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- requiring a substantial portion of our cash flow to be allocated to debt service payments instead of other business 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 our indebtedness, which default could result in all or part of our indebtedness 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:

- incur indebtedness or issue certain equity;
- create certain liens;
- pay dividends on, redeem or repurchase capital stock or make other restricted payments;
- make investments;
- 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 ratios 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 inconsistent with our business objectives and strategies 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 would likely result in a default under such debt agreements, which may accelerate the principal and interest payments of the debt and, if such debt is secured, result in the foreclosure on certain of 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 credit 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.

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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 develop and expand our properties without sufficient capital or financing.

Our business objective includes the development and redevelopment of our properties, particularly those in our Strategic Developments segment, which we may be unable to do if we do not have or cannot obtain sufficient capital to finance any development or redevelopment projects, including our inability to obtain debt capital from lenders or the capital markets, or government incentives, such as tax increment financing, to proceed with planned development, redevelopment or expansion activities. We may be unable to obtain an 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 underway that we are unable to complete due to the inability to secure additional capital to finance such activities. This 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 recoverable, in full or in part, from future operations or sale resulting in impairment charges.

Our business model includes entering into joint venture arrangements with strategic partners and our strategic partners may have different interests than us.

We currently have and intend to enter into 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 advantages. 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.

The bankruptcy or, to a lesser extent, financial distress of any of our joint venture partners 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 partners might result in our ultimate liability for a greater portion of those obligations than would otherwise be required.

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, Maryland/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 internet retailers, retailers at other regional shopping centers, outlet malls and other discount shopping centers, discount shopping clubs, and catalog companies. Competition of this type could adversely affect our results of operations and financial condition.

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

We are subject to risks associated with hedging arrangements.

We enter into interest rate swap agreements and other interest rate hedging contracts, including caps and cash settled forward starting swaps, to mitigate or reduce our exposure to interest rate volatility or to satisfy lender requirements. These agreements expose us to additional risks, including a risk that counterparties of these hedging and swap agreements will not perform. There also could be significant costs and cash requirements involved to fulfill our obligations under a hedging agreement. In addition, our hedging activities may not have the desired beneficial impact on interest rate exposure and have a negative impact on our business, financial condition and results of operations.

We may not realize the value of our tax assets.

Certain provisions of the Internal Revenue Code could limit our ability to fully utilize certain 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. For example, we currently have approximately \$147.1 million of federal net operating loss carryforwards, \$25.0 million of which are subject to the separate return year limitation rules.

The effect of comprehensive United States tax reform legislation on the Company and its affiliates, whether adverse or favorable, is uncertain.

Changes to United States federal income tax rules and regulations could have material United States federal income tax consequences for the Company or an investment in the Company. On December 22, 2017, President Trump signed into law H.R. 1, known as the “Tax Cuts and Jobs Act” (the “Tax Act”) that significantly changes the United States federal income tax system. Among a number of significant changes to the current United States federal income tax rules, the Tax Act reduces the marginal United States corporate income tax rate from 35% to 21%, limits the deduction for net interest expense and compensation expense above \$1.0 million, shifts the United States toward a more territorial tax system, and imposes new taxes to combat erosion of the United States federal income tax base. The effect of the Tax Act on us, whether adverse or favorable, is uncertain, and may not become evident for some period of time. You are urged to consult your tax advisor regarding the implications of the Tax Act for an investment in the Company.

Because real estate is illiquid, we may not be able to sell properties when in our best interest.

Real estate investments generally, and in particular large office and mixed-use properties like those that we develop and construct, often cannot be sold quickly. The capitalization rates at which properties may be sold could be higher than historic rates, thereby reducing our potential proceeds from sale. Consequently, we may not be able to alter our portfolio promptly in response to changes in economic or other conditions. All of these factors reduce our ability to respond to changes in the performance of our investments and could adversely affect our business, financial condition and results of operations.

Inflation may adversely affect us by increasing costs beyond what we can recover through price increases.

Inflation can adversely affect us by increasing costs of land, materials and labor. In addition, significant inflation is often accompanied by higher interest rates, which have a negative impact on demand for homes in our MPCs and

demand for our condominium projects, and our ability to refinance existing indebtedness on favorable terms, or at all. In an inflationary environment, depending on the homebuilding industry and other economic conditions, we may be precluded from raising land prices enough to keep up with the rate of inflation, which could significantly reduce our profit margins. In recent years we have been experiencing increases in the prices of labor and materials above the general inflation rate. Our inability to recover increasing costs due to inflation through price increases could have a material adverse effect on our results of operations, financial conditions and cash flows.

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. We cannot predict the extent of damage that may result from such adverse weather events, which depend on a variety of factors beyond our control. Some of our properties, including Ward Village, Seaport District NYC and the Outlet Collection at Riverwalk are located in coastal regions, and could be affected by increases in sea levels, the frequency

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or severity of hurricanes and tropical storms, or environmental disasters, whether such events are caused by global climate changes or other factors. Additionally, adverse weather events can cause widespread property damage and significantly depress the local economies in which the Company operates and have an adverse impact on the Company's business, financial condition and operations.

In late August 2017, Hurricane Harvey, a Category 4 hurricane, caused extensive and costly damage across Southeast Texas. The Houston area saw catastrophic flooding and unprecedented damage to residences and businesses. The Woodlands, Bridgeland and The Woodlands Hills are located outside of Houston, Texas. Although we do not believe that Hurricane Harvey will have significant long-term effects on our business, financial condition, or operations, we are unable to predict with certainty the full impact of the storm on the markets in which we operate. The Company will continue to monitor the residual effects of Hurricane Harvey on its business and customers. Similar future adverse weather events in Texas could potentially result in extensive and costly property damage to businesses and residences, force the relocation of residents, significantly disrupt economic activity in the region and potentially impact the overall desirability for businesses and employees to locate there.

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.

Loss of key personnel could adversely affect our business and operations.

We depend on the efforts of key executive personnel. The loss of the services of any key executive personnel could adversely affect our business and operations. While we believe we have proper succession planning and are confident we could attract and train new personnel if necessary, this could impose additional costs and hinder our business strategy. Competition for qualified personnel in our industry is intense.

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 breaches 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, financial conditions and results of operations.

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.

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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.

Compliance with the Americans with Disabilities Act may be a significant cost for us.

The Americans with Disabilities Act of 1990, as amended (“ADA”), requires that all public accommodations and commercial facilities, including office buildings, meet certain federal requirements related to access and use by disabled persons. Compliance with ADA requirements could involve the removal of structural barriers from certain disabled persons' entrances which could adversely affect our financial condition and results of operations. Other federal, state and local laws may require modifications to or restrict further renovations of our properties with respect to such accesses. Noncompliance with the ADA or similar or related laws or regulations could result in the United States government imposing fines or private litigants being awarded damages against us. In addition, changes to existing requirements or enactments of new requirements could require significant expenditures. Such costs may adversely affect our business, financial and results of operations.

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.

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. and its affiliates (collectively, "Pershing Square") own approximately 5.1% of our outstanding common stock and have economic exposure under cash-settled total return swaps to an additional 5,399,839 notional shares of our common stock, equaling a fully diluted economic interest of approximately 17.7% of our outstanding shares. Mr. William Ackman, our Chairman, is the CEO and founder of Pershing Square. Pershing Square has the ability to influence our policies and operations, including the appointment of management, future issuances of our common stock or other securities, the payment of dividends, if any, on our common stock, the incurrence or modification of debt by us, amendments to our amended and restated certificate of incorporation and amended and restated bylaws and the entering into

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of extraordinary transactions, and its interests may not in all cases be aligned with the interests of other stockholders.

In addition, under the stockholder agreement between us and Pershing Square, if we make a public or non-public offering of our common stock (or securities convertible or exchangeable into common stock), Pershing Square has a right to acquire the securities for the same price and on the same terms up to the amount needed for it to maintain its then aggregate proportionate common stock-equivalent interest in the Company on a fully diluted basis. This right will terminate for Pershing Square when it beneficially owns less than 5% of our outstanding shares on a fully diluted basis.

The concentration of ownership of our outstanding common stock held by Pershing Square and other substantial stockholders, combined with Pershing Square's additional economic exposure under cash-settled total return swaps, 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 management and our board of directors believe may otherwise be favorable to us and our other stockholders.

Risks Related to Our Common Stock

Our stock price may continue to be volatile.

The trading price of our common stock is likely to continue to be volatile due to the stock market's routine periods of large or extreme volatility. This volatility often has been unrelated or disproportionate to the operating performance of particular companies, including ours. Factors that affect our trading price include the following:

- results of operations that vary from the expectations of securities analysts and investors, including our ability to finance and achieve operational success at the Seaport District NYC project;
- results of operations that vary from those of our competitors;
- change in expectations as to our future financial performance, including financial estimates and investment recommendations by securities analysts and investors;
 - declines in the market prices of stocks generally, particularly those in the real estate industry;
- strategic actions by us or our competitors;
- announcements by us or our competitors of new significant real-estate developments, acquisitions, joint ventures, other strategic relationships, or capital commitments;
- changes in general economic or market conditions, including increases in interest rates, or trends in our industry or markets;
- changes in business or regulatory conditions;
- future sales of our common stock or other securities;
- investor perceptions or the investment opportunity associated with our common stock relative to other investment alternatives;

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- the public's response to press releases or other public announcements by us or third parties, including our filings with the Securities and Exchange Commission;
- announcements relating to litigation;
- guidance, if any, that we provide to the public, any changes in this guidance, or our failure to meet this guidance;
- the development and sustainability of an active trading market for our stock;
- changes in accounting principles;

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- events or factors resulting from natural disasters, such as the impact of Hurricane Harvey in the Houston, Texas area; and
- other events or factors, including those resulting from war, acts of terrorism, or responses to these events.

These broad market and industry fluctuations may adversely affect the market price of our common stock, regardless of our actual operating performance. In addition, price volatility may be greater if the public float and trading volume of our common stock is low.

In the past, following periods of market volatility, stockholders have instituted securities class action litigation. If we were involved in securities litigation, it could have a substantial cost and divert resources and the attention of executive management from our business regardless of the outcome of such litigation.

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;
- the right of our board of directors to issue preferred stock without stockholder approval;
- a requirement that, to the fullest extent permitted by law, certain proceedings against or involving us or our directors or officers be brought exclusively in the Court of Chancery in the State of Delaware; and
- that certain provisions may be amended only by the affirmative vote of at least 66 2/3% of the shares of common stock entitled to vote generally in the election of directors.

In addition, we are a Delaware corporation, and Section 203 of the Delaware General Corporation Law (the "DGCL") applies to us. In general, Section 203 prevents an "interested stockholder" from engaging in certain "business combinations" with us for three years following the date that person becomes an interested stockholder subject to certain exceptions. The statute generally defines "interested stockholder" as any person that is the owner of 15% or more of the outstanding voting stock or is our affiliate or associate and was the owner of 15% or more of outstanding voting stock at any time within the three-year period immediately before the date of determination.

These anti-takeover provisions could make it more difficult for a third party to acquire us, even if the third-party's offer may be considered beneficial by many of our stockholders. As a result, our stockholders may be limited in their ability to obtain a premium for their shares. These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. There also may be dilution of our common stock from the exercise of outstanding warrants, which may materially adversely affect the market price and negatively impact a holder's investment.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our headquarters are located in Dallas, Texas and New York, New York. We also maintain offices at certain of our properties nationwide, including The Woodlands, Texas; Honolulu, Hawaii; Columbia, Maryland; and Las Vegas, Nevada, which serve operations across all segments. We believe our present facilities are sufficient to support our

operations.

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Master Planned Communities

Our MPCs are located in and around Houston, Texas; Las Vegas, Nevada; and Columbia, Maryland. The following table summarizes our MPCs, all of which are wholly-owned as of December 31, 2017:

Community	Location	Total Gross Acres (a)	Approx. No. People Living in Community	Remaining Saleable Residential (b)	Commercial (c)	Average Price Per Residential (\$ in thousands)	Average Price Per Commercial (\$ in thousands)	Remaining Saleable Residential Lots (d)
Bridgeland	Houston, TX	11,470	8,800	2,440	1,535	\$ 377	\$ 470	14,500
Maryland	Columbia, MD	16,450	112,000	—	97	N/A	576	—
Summerlin	Las Vegas, NV	22,500	108,000	3,568	821	584	759	39,000
The Woodlands	Houston, TX	28,475	116,000	231	743	628	945	736
The Woodlands Hills	Conroe, TX	2,055	—	1,425	171	313	552	5,000
Total		80,950	344,800	7,664	3,367			59,236

- (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 areas, conservation areas and parcels acquired during the year.
- (b) Includes standard and custom residential land parcels. Standard residential lots are designed for detached and attached single family homes, ranging from entry-level to luxury homes. Certain residential parcels are designated as custom lots as their premium price reflects a larger size and other distinguishing features such as location within a gated community, having golf course access or higher elevations.
- (c) Designated for retail, office, resort, high density residential projects (condominiums and apartments), 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) Remaining Saleable Residential Lots are estimates and include only lots that are intended for sale or joint venture. The mix of intended use on our remaining saleable and developable acres is 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.
- (e) Average Cash Margin represents the total projected cash profit (total projected cash sales minus remaining projected cash development expenditures excluding land costs), divided by total projected cash sales.
- (f) Amount represents remaining entitlements and not necessarily the number of lots that may ultimately be developed and sold.

The Summit

Within our Summerlin MPC, we are currently developing an exclusive luxury community named The Summit, which is being developed and managed through a joint venture with Discovery Land Company (“Discovery”), a leading developer of luxury communities and private clubs. The 555-acre community is expected to consist of approximately 262 homes, an 18-hole Tom Fazio designed golf course and other amenities for residents.

In 2015, we contributed undeveloped land to the venture at an agreed upon value of \$125.4 million, or \$226,000 per acre. Discovery is required to fund up to a maximum of \$30.0 million cash for development costs as their capital contribution, and we have no further capital obligations. After the return of our capital invested in the project and a 5.0% preferred return, Discovery is entitled to cash distributions by the joint venture until it has received two times its

equity contribution. Any further cash distributions are shared 50/50. Discovery is the manager on the project, and land development began in the second quarter of 2015. Through December 31, 2017, 146 custom homesites and 74 built product homesites, including bungalows and villas, were mapped and available for sale, of which the joint venture has sold and closed on 77 of the homesites for \$240.8 million, with 17 of these closing for \$55.9 million in the year ended December 31, 2017. The golf course was completed and opened to the members of the golf club in October 2017. The clubhouse and related amenities are in the final planning stages with construction expected to commence in 2018. See further discussion in “Item 7. - Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Operating Assets

In our Operating Assets segment, we own a variety of asset types including retail, office, multi-family, hospitality and other assets and investments. Our portfolio includes approximately 7.0 million square feet of retail and office, 1,623 wholly and partially-owned multi-family units, 913 combined keys at hospitality properties, and other properties and investments. In addition to several other locations, our assets are primarily located in and around Columbia, Maryland; Honolulu, Hawaii; Las Vegas, Nevada; New York, New York; and The Woodlands, Texas. The following table summarizes certain metrics of the retail

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properties (does not include any retail square feet within our multi-family or office assets) within our Operating Assets segment as of December 31, 2017:

Retail Properties	Location	Rentable Sq.Ft./Units	% Leased	Annualized Base Rent (In thousands) (a)	Annualized Base Rent Per Square Foot (a)	Year Built/ Acquired/Last Renovated
The Woodlands Hughes Landing Retail	The Woodlands, TX	126,131	98.8 %	\$ 3,902	\$ 31.31	2015
Creekside Village Green	The Woodlands, TX	74,669	90.7	1,982	29.27	2015
20/25 Waterway Avenue Waterway Garage Retail	The Woodlands, TX	50,062	100.0	1,734	34.64	2007 / 2009
1701 Lake Robbins	The Woodlands, TX	21,513	99.8	759	35.35	2011
2000 Woodlands Parkway	The Woodlands, TX	12,376	100.0	503	40.67	2014
		7,900	100.0	217	27.50	1996
		292,651				
Columbia Columbia Regional Building	Columbia, MD	89,199	100.0	2,463	27.61	2014
Seaport District Seaport District NYC - Historic Area/Uplands	New York, NY	122,921	(b) 92.0	N/A	N/A	2016
Summerlin Downtown Summerlin	Las Vegas, NV	824,421	(c) 96.6	21,800	29.04	2014
Ward Village Ward Village Retail - Pending Redevelopment	Honolulu, HI	633,283	(d) 83.1	11,854	22.53	2002
Ward Village - New or Renovated	Honolulu, HI	286,129	99.5	12,937	45.43	2015
		919,412				
Other	New Orleans, LA	264,462	(e) 99.8	8,184	31.20	2014

Outlet Collection at Riverwalk Lakeland Village Center at Bridgeland	Houston, TX	83,466 347,928 2,596,532	74.8	1,309	22.35	2016
Total						

- (a) Annualized Base Rent is calculated as the monthly Base Minimum Rent for the property for December 31, 2017 multiplied by 12. Annualized Base Rent Per Square Foot is the Annualized Base Rent for the property at December 31, 2017 divided by the average occupied square feet.
- (b) A significant portion of the project is on a ground lease where we are the ground lessee. The existing square feet in service as of December 31, 2017 are referenced above. Upon completion of the Pier 17 and Tin Building reconstruction and redevelopment, Seaport District NYC (inclusive of Historic Area/Uplands, Pier 17 and Tin Building) will be approximately 449,527 square feet, as further discussed in Strategic Developments.
- (c) Excludes 381,767 square feet of anchors, 206,279 square feet for ONE Summerlin and 36,914 square feet of additional office space above our retail space.
- (d) As of December 31, 2017, approximately 226,466 square feet of this total has closed and transferred to our Strategic Developments segment.
- (e) The entire project is subject to a ground lease where we are the ground lessee.

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The following table summarizes certain metrics of our office assets within our Operating Assets Segment as of December 31, 2017:

Office Assets	Location	Rentable Sq.Ft./Units	% Leased	Annualized Base Rent (In thousands) (a)	Annualized Base Rent Per Square Foot (a)	Effective Annual Rent (In thousands) (b)	Effective Annual Rent per Square Foot (b)	Year Built/ Acquired/ Renovated
The Woodlands								
1725 Hughes Landing Boulevard	The Woodlands, TX	331,754	69.8 %	\$ 5,366	\$ 23.16	\$ 7,110	\$ 30.69	2015
Three Hughes Landing	The Woodlands, TX	320,815	57.3	3,087	27.28	4,209	35.61	2016
1735 Hughes Landing Boulevard	The Woodlands, TX	318,170	100.0	7,283	22.89	10,295	32.36	2015
3 Waterway Square	The Woodlands, TX	232,021	100.0	6,484	27.95	9,487	40.89	2013
4 Waterway Square	The Woodlands, TX	218,551	100.0	6,392	29.25	8,338	38.15	2010
One Hughes Landing	The Woodlands, TX	197,719	100.0	5,646	28.56	8,355	42.26	2013
Two Hughes Landing	The Woodlands, TX	197,714	97.8	5,478	28.77	8,034	42.20	2014
9303 New Trails	The Woodlands, TX	97,967	58.2	1,261	22.13	1,882	33.04	2008
1400 Woodloch Forest	The Woodlands, TX	95,667	96.6	2,745	29.70	2,882	30.53	1981
3831 Technology Forest Drive	The Woodlands, TX	95,078	100.0	2,159	22.70	3,025	31.82	2014
2201 Lake Woodlands Drive (c)	The Woodlands, TX	24,119	100.0	333	13.80	NM	NM	1994
		2,129,575						

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Columbia 10-70 Columbia Corporate Center One Merriweather Two Merriweather One Mall North Columbia Office Properties (d)	Columbia, MD Columbia, MD Columbia, MD Columbia, MD Columbia, MD Columbia, MD	888,474 202,603 124,635 98,607 61,598 1,375,917	92.6 81.3 58.2 98.7 100.0	21,832 3,333 2,571 2,874 1,681	26.65 29.35 35.45 29.52 27.29	22,011 3,342 2,571 2,918 1,790	26.87 29.43 35.45 29.97 29.06	2012 / 2014 2017 2017 2016 1969/1972
Summerlin ONE Summerlin	Las Vegas, NV	206,279	95.2	6,804	35.44	6,804	35.44	2015
Other 110 North Wacker (e) Total	Chicago, IL	226,000 3,937,771	100.0	—	—	—	—	1957

- (a) Annualized Base Rent is calculated as the monthly Base Minimum Rent for the property for December 31, 2017 multiplied by 12. Annualized Base Rent Per Square Foot is the Annualized Base Rent for the property at December 31, 2017 divided by the average occupied square feet.
- (b) Effective Annual Rent includes base minimum rent and common area maintenance recovery revenue. Effective Annual Rent Per Square Foot is the Effective Annual Rent divided by the average occupied square feet.
- (c) 2201 Lake Woodlands Drive serves as temporary space for tenants relocating to permanent space; therefore, the Effective Annual Rent per Square Foot data is not meaningful.
- (d) Excludes the Ridgely Building which was moved to Strategic Developments in the fourth quarter of 2017.
- (e) Per the early termination agreement, tenant stopped paying rent in 2017 and vacated the premises effective January 2018. We began demolition of the building in the first quarter of 2018, and construction is expected to begin in the second quarter of 2018.

The following tables summarize certain metrics of our multi-family, hospitality, and other Operating Assets as of December 31, 2017:

Multi-family Assets	Location	Economic Ownership	# Units	Retail Square Feet	% Leased	Average Monthly Rate	Average Monthly Rate Per Square Foot	Year Built / Acquired / Last Renovated
The Woodlands	The Woodlands, TX	100 %	314	—	98.4 %	\$ 1,971	\$ 2.06	2014
Millennium Six Pines Apartments		100	393	—	95.9	1,817	2.02	2010

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Millennium Waterway Apartments	The Woodlands, TX								
One Lakes Edge	The Woodlands, TX	100	390	23,280	98.2	2,308	2.34	2015	
Columbia The Metropolitan Downtown Columbia	Columbia, MD	50	380	13,591	95.0	1,966	2.08	2015	
Summerlin Constellation	Las Vegas, NV	100	124	—	97.6	2,114	1.66	2016	
Seaport District 85 South Street	New York, NY	100	22	13,000	95.5	3,628	1.89	2014	
			1,623	49,871					

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Hospitality Assets	Location	Economic Ownership %	# Keys	2017 Average Daily Rate	2017 Revenue Per Available Room	Year Built / Acquired / Last Renovated
The Woodlands Embassy Suites at Hughes Landing	The Woodlands, TX	100 %	205	\$ 191.48	\$ 154.58	2015
The Westin at The Woodlands	The Woodlands, TX	100	302	205.95	144.77	2016
The Woodlands Resort & Conference Center	The Woodlands, TX	100	406	204.80	108.92	2014 (a)

(a) The Woodlands Resort & Conference Center was built in 1974, expanded in 2002, and renovated in 2014.

Other Assets	Location	Economic Ownership %	Asset Type	Square Feet / Acres / Units	% Leased	Year Built / Acquired / Last Renovated
The Woodlands Woodlands Parking Garages	The Woodlands, TX	100 %	Garage	2,988	N/A	2008/2009 (a)
Woodlands Sarofim #1	The Woodlands, TX	20	Industrial	129,790	71.4 %	late 1980s
Stewart Title of Montgomery County, TX	The Woodlands, TX	50	Title Company	—	N/A	—
HHC 242 Self-Storage	The Woodlands, TX	100	Storage	654	37.0%	2017
HHC 2978 Self-Storage	The Woodlands, TX	100	Storage	784	33.9%	2017
Woodlands Ground Lease	The Woodlands, TX	100	Ground lease	N/A	N/A	2011
Summerlin Summerlin Hospital Medical	Las Vegas, NV	5	Hospital	—	N/A	1997

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Center						
Las Vegas 51s	Las Vegas, NV	100	Minor League Baseball Team	—	N/A	2017
Hockey Ground Lease	Las Vegas, NV	100	Ground lease	N/A	N/A	2017
Ward Village						
Kewalo Basin Harbor	Honolulu, HI	Lease	Marina	55 acres	N/A	—

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

The following table summarizes our Operating Segment lease expirations:

Year	Number of Expiring Leases	Total Square Feet Expiring	Total Annualized Base Rent Expiring (in thousands)	% of Total Annual Gross Rent Expiring
2018	187	(a) 291,545	\$ 8,506,561	4.8 %
2019	123	639,017	12,669,664	7.1
2020	131	435,588	11,644,558	6.6
2021	74	435,456	11,524,889	6.5
2022	117	848,444	12,282,270	6.9
2023	80	588,995	20,056,641	11.3
2024	68	596,966	15,037,891	8.5
2025	141	767,541	29,081,412	16.4
2026	36	205,246	6,377,186	3.6
2027	47	621,887	18,227,733	10.3
2028+	72	1,141,695	32,106,417	18.0
Total	1,076	6,572,380	\$ 177,515,222	100.0 %

(a) Includes 95 specialty leases totaling 76,580 square feet which expire in less than 365 days.
Strategic Developments

We continue to develop, plan to develop, hold or seek development rights for unique properties in New York, New York; Honolulu, Hawaii; The Woodlands, Texas; Columbia, Maryland; and Las Vegas, Nevada. We continue to execute our strategic plans for developing several of these assets with construction either actively underway or pending. Once stabilized, Strategic Developments are transferred into our Operating Assets segment and increase recurring cash flow.

The majority of our Total Estimated Costs of projects currently Under Construction relate to our projects in Honolulu and in New York at the Seaport District. Ward Village, our key development in Honolulu, Hawaii, is a globally recognized urban master planned community offering integration with local culture, access to parks and public amenities, unique retail experiences, exceptional residences and desirable workforce housing. Seaport District, located on the East River in Lower Manhattan, encompasses seven buildings on several city blocks and will total 396,527 square feet, excluding 53,000 square feet related to the Tin Building, of innovative culinary, fashion, entertainment and cultural experiences. Highlights include the renovated Pier 17, with a 1.5-acre rooftop that will have a restaurant, outdoor bars and a venue for special events, scheduled to open throughout 2018.

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The following table summarizes our Strategic Developments projects as of December 31, 2017:

	Location	Size / GLA	Size (Acres)	Total Estimated Cost (in thousands)	Construction Start	Estimated Completion
Strategic Developments Under Construction The Woodlands Creeside Park Apartments 100 Fellowship Drive Lake Woodlands Crossing Retail	The Woodlands, TX	292 units	14	\$ 42,111	Q1 2017	Q3 2018
	The Woodlands, TX	203,000	14	63,278	Q1 2017	2019
	The Woodlands, TX	60,300 retail	8	15,381	Q4 2017	Q4 2018
Columbia m.flats/TEN.M (a)	Columbia, MD	437 units	5	109,000	Q1 2016	Q1 2018
Ward Village Ae`o Anaha Ke Kilohana Waiea	Honolulu, HI	466 units / 68,300 retail	3	428,508	Q1 2016	2019
	Honolulu, HI	317 units / 16,100 retail	2	401,314	Q4 2014	Opened
	Honolulu, HI	424 units / 21,900 retail	1	218,898	Q3 2016	2019
	Honolulu, HI	174 units / 8,200 retail	2	424,604	Q2 2014	Opened
Seaport District Seaport District NYC - Pier 17 and Historic Area / Uplands Seaport District NYC - Tin Building 33 Peck Slip (a)	New York, NY	396,131	(c) 6	622,883	Q4 2013	Q4 2018
	New York, NY	53,396 retail	1	161,812	Q4 2017	Q1 2020
	New York, NY	66 rooms	N/A	67,000	Q1 2017	Q2 2018
Summerlin Aristocrat	Las Vegas, NV		12	46,661	Q2 2017	Q2 2018

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		2 buildings / 90,000 each				
Las Vegas Ballpark Two	Las Vegas, NV	—	9	—	(d) —	(d) —
Summerlin	Las Vegas, NV	145,000	4	49,538	Q2 2017	Q3 2018
Future Strategic Developments Rights or Pending Construction						
Columbia American City Building Three	Columbia, MD	—	1			
Merriweather	Columbia, MD	—	4			
Summerlin 80% Interest in Fashion Show Air Rights	Las Vegas, NV	—	—			
Downtown Summerlin Apartments	Las Vegas, NV	—	9			
Other AllenTowne Bridgeland Apartments	Allen, TX	—	238			
Bridges at Mint Hill	Cypress, TX	—	15			
Circle T Ranch and Power Center (a)	Charlotte, NC	—	210			
Cottonwood Mall	Dallas / Ft. Worth, TX	—	198			
The Elk Grove Collection	Holladay, UT	—	54			
West Windsor Landmark Mall	Elk Grove, CA	—	64			
Maui Ranch Land	West Windsor, NJ	—	658			
Ridgely Building	Alexandria, VA	—	33			
	Maui, HI	—	20			
	Columbia, MD	—	1			

Commercial
Land

The
Woodlands

The
Woodlands
Commercial
Land

The Woodlands, TX	—	4	(e)
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Columbia
Merriweather
District Land

Columbia, MD	—	27	(f)
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Ward
Ward
Commercial
Land

Honolulu, HI	—	17	(g)
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- (a) These are unconsolidated joint venture partnerships.
- (b) Waiea and Anaha opened and residents began occupying units in November 2016 and October 2017, respectively. All retail has been placed in service.
- (c) This represents total square footage for Pier 17 and Uplands, including Fulton Market Building, a portion of which has been placed in service.
- (d) See further discussion in Management's Discussion and Analysis on the current status of the Las Vegas Ballpark.
- (e) Represents land transferred to the Strategic Developments segment in 2015 for future development at The Woodlands.
- (f) Represents land transferred to the Strategic Developments segment in 2015 for future development in the Merriweather District in Columbia, Maryland, excluding acreage relating to One and Two Merriweather, now in service in our Operating Assets Segment, and Three Merriweather pending construction (see above).
- (g) Represents land transferred to the Strategic Developments segment for future development at Ward Village, excluding acreage related to Ae`o, Anaha, Ke Kilohana and Waiea.

ITEM 3. LEGAL PROCEEDINGS

We, as part of our normal business activities, are a party to a number of legal proceedings. Management periodically assesses our liabilities and contingencies in connection with these matters based upon the latest information available. We disclose material pending legal proceedings pursuant to Securities and Exchange Commission rules and other pending matters as we may determine to be appropriate. As of December 31, 2017, management believes that any monetary liability or financial impact of claims or potential claims to which we might be subject after final adjudication of any legal procedures would not be material to our financial

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position, results of operations or cash flows.

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 our common stock on the NYSE, as reported in the consolidated transaction reporting system for each quarter of fiscal 2017 and 2016.

	Common Stock Price Range	
	High	Low
Year Ended December 31, 2017		
Fourth Quarter	\$ 131.79	\$ 116.92
Third Quarter	126.77	114.47
Second Quarter	130.00	115.24
First Quarter	119.00	105.33
Year Ended December 31, 2016		
Fourth Quarter	\$ 118.84	\$ 103.30
Third Quarter	121.71	110.85
Second Quarter	115.61	98.43
First Quarter	109.14	81.34

No dividends have been declared or paid in 2017 or 2016. 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 20, 2018, there were 1,881 stockholders of record of our common stock.

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Performance Graph

The following performance graph compares the yearly dollar change in the cumulative total 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 based on the following assumption:

- Dividends have been reinvested subsequent to the initial investment.

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ITEM 6. SELECTED FINANCIAL DATA

The selected historical financial data for the years ended December 31, 2017, 2016 and 2015, and as of December 31, 2017 and 2016, 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 financial data for the years ended December 31, 2014 and 2013 and as of December 31, 2015, 2014, and 2013 has been derived from our audited Consolidated Financial Statements for those years which are not included in this Annual Report.

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 in this Annual Report.

(In thousands, except per share amounts)	Year Ended December 31,				
	2017	2016	2015	2014	2013
Operating Data:					
Total revenues	\$ 1,100,120	\$ 1,035,005	\$ 797,088	\$ 634,565	\$ 469,418
Depreciation and amortization	(132,252)	(95,864)	(98,997)	(55,958)	(33,845)
Operating expenses	(803,981)	(728,647)	(581,156)	(441,356)	(353,837)
Other operating income, net (a)	54,615	116,268	1,829	29,471	29,478
Interest income (expense), net	(60,525)	(64,365)	(59,158)	(16,093)	(6,574)
Loss on redemption of senior notes due 2021	(46,410)	—	—	—	—
Warrant liability (loss) gain	(43,443)	(24,410)	58,320	(60,520)	(181,987)
Gain on acquisition of joint venture partner's interest	23,332	27,088	—	—	—
Increase (reduction) in tax indemnity receivable	—	—	—	90	(1,206)
Loss on settlement of tax indemnity receivable	—	—	—	(74,095)	—
Gain (loss) on disposal of operating assets	3,868	(1,117)	29,073	—	—
Equity in earnings from Real Estate and Other Affiliates	25,498	56,818	3,721	23,336	14,428
Benefit (provision) for income taxes	45,801	(118,450)	(24,001)	(62,960)	(9,570)
Net income (loss)	166,623	202,326	126,719	(23,520)	(73,695)
Net loss (income) attributable to noncontrolling interests	1,781	(23)	—	(11)	(95)
Net income (loss) attributable to common stockholders	\$ 168,404	\$ 202,303	\$ 126,719	\$ (23,531)	\$ (73,790)
Basic earnings (loss) per share:	\$ 4.07	\$ 5.12	\$ 3.21	\$ (0.60)	\$ (1.87)

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Diluted earnings (loss) per share: \$ 3.91 \$ 4.73 \$ 1.60 \$ (0.60) \$ (1.87)

(In thousands)	Year Ended December 31,				
	2017	2016	2015	2014	2013
Cash Flow Data:					
Operating activities	\$ 319,032	\$ 58,915	\$ 23,930	\$ (58,315)	\$ 129,332
Investing activities	(322,681)	(38,563)	(575,568)	(746,456)	(294,325)
Financing activities	199,198	199,857	436,488	470,274	830,744

(In thousands)	As of December 31,				
	2017	2016	2015	2014	2013
Balance Sheet Data:					
Investments in real estate - cost					
(b)	\$ 5,432,002	\$ 5,056,216	\$ 4,832,443	\$ 4,170,242	\$ 3,085,854
Total assets	6,729,064	6,367,382	5,721,582	5,105,268	4,559,013
Total debt	2,857,945	2,690,747	2,443,962	1,978,807	1,505,768
Total equity	3,188,551	2,571,510	2,363,889	2,227,506	2,245,146

(a) 2016 includes \$140.5 million gain on the sale of 80 South Street and a \$35.7 million impairment charge on Park West.

(b) Amount represents Net investment in real estate excluding accumulated depreciation.

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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 filed as a part of 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 and others not currently known to us could cause our financial results in 2017 and subsequent fiscal years 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 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

Please refer to "Item 1. Business" for a general description of each of the assets contained in our three business segments, and "Item 2. Properties" for details regarding the size, location and key metrics about our various properties.

The following highlights significant milestones achieved during 2017 for the Company and each of our business segments. Each of these items is more fully described hereinafter (all items are pre-tax unless otherwise noted).

Throughout 2017, we demonstrated strong operating results realizing \$1.1 billion in total revenues, an increase of \$65.1 million as compared to 2016 driven by increases in our Operating Assets and MPC segments, offset by a modest decline in our Strategic Developments segment. The decrease in revenues in our Strategic Developments segment was due to a decrease in condominium rights and unit sales recognized on a percentage of completion basis, as two of our residential towers are substantially sold. Despite higher revenues, the decline in operating income was largely the result of a one-time gain on sales of properties realized in 2016 relating to the opportunistic sale of 80 South Street Assemblage and is not indicative of the underlying business results within our operating segments.

Capital and Financing Activities

In 2017, we were also able to maintain our strong balance sheet, financial flexibility and liquidity to fund future growth. As of December 31, 2017, we have \$861.1 million of cash and cash equivalents, and, based on extended maturity dates, we have only \$78.2 million of debt maturing during 2018. In March of 2017, we issued \$800 million of 5.375% senior notes due March 15, 2025 (the "2025 Notes"), using the sales proceeds to redeem all \$750 million of the 6.875% senior notes, to pay related transaction fees and expenses, and to repay construction financings and fund ongoing development projects and general corporate needs. This refinancing transaction added meaningful duration to our debt maturity profile, reduced our current coupon by 150 basis points and maintained our current liquidity profile all at a positive net present value basis. In June of 2017, we opportunistically issued an additional \$200.0 million of the 2025 Notes at a premium to par of 102.25%, further increasing our liquidity profile.

In addition, our liquidity was further enhanced during the year by obtaining approximately \$127.6 million in construction financings, obtaining \$49.2 million in non-recourse financings, a \$30.0 million increase in The Woodlands Master Credit Facility, the receipt of our first reimbursement of \$1.6 million from the first tranche of \$38.5 million in Tax Increment Financed bonds issued by Howard County, Maryland (with another \$14.4 million

submitted for reimbursement as of December 31, 2017, to offset our development costs), and the receipt of \$52.0 million from our CEO and President as consideration for the issuance of warrants to these executives. Finally, we closed on the sales of six non-core assets for total proceeds of \$88.6 million, resulting in a net gain of \$51.4 million included in Gains on sales of properties from our Strategic Developments segment and \$3.9 million in Gains on sales of operating properties from our Operating Assets segment. These sales have generated \$88.5 million in taxable losses.

On February 23, 2018, we repurchased 475,920 shares of our common stock, par value \$0.01 per share, in a private transaction with an unaffiliated entity at a purchase price of \$120.33 per share, or approximately \$57,267,453 in the aggregate. The repurchase transaction was consummated on February 21, 2018, and was funded with cash on hand.

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Master Planned Communities

In 2017, we increased our MPC segment earnings before tax to \$190.4 million, an increase of 6.1% as compared to prior year, bolstered by strong performance in Bridgeland and Summerlin as well as the opening and initial land sales at our newest MPC, The Woodlands Hills. In total during 2017, we sold 349.6 acres of residential land at a price per acre increase of 1.3%, 26.1% and 12.1% at Bridgeland, Summerlin and The Woodlands, respectively. These increases, along with the sale of 35.7 acres of commercial land, helped drive an increase in total revenue in our MPC segment by \$46.2 million. In addition, we recognized our \$23.2 million share of earnings from The Summit, our luxury golf course joint venture development within Summerlin, and received a \$10.0 million cash distribution generated by \$55.9 million in land sales at the joint venture.

Operating Assets

In our Operating Assets segment, we increased net operating income (“NOI”), including our share of NOI from equity investments and excluding properties sold or in redevelopment, by \$18.0 million, or 13.0%, to \$157.0 million in 2017 compared to \$139.0 million in 2016. This increase was driven by strong performance and the stabilization of assets across all property types, partially offset by NOI reductions related to the wind down of operating activities at both 110 North Wacker and certain areas of Ward Village, where we will execute on development in the coming months as we pursue future value creation opportunities. We experienced particularly strong NOI growth in our office and hospitality assets for the years ended December 31, 2017 and 2016 with an increase in NOI of \$7.3 million and \$6.9 million, respectively.

Also during 2017, we acquired our joint venture partner’s 50.0% interest in Constellation for \$8.0 million in cash and 50% of the joint venture’s liabilities, for a total of \$16.0 million, resulting in a gain of \$17.8 million on step-up to fair value of net assets acquired. We also acquired our joint venture partner’s 50.0% interest in the Las Vegas 51s minor league baseball team, which upon completion of a new stadium will serve as an amenity for our Summerlin MPC, for \$16.4 million, resulting in a gain of \$5.4 million on step-up to fair value of the net assets acquired.

Strategic Developments

Our Strategic Developments segment experienced another strong year of execution with respect to both the sale of condominium units in Ward Village as well as development activities throughout the portfolio, with two new condominium towers under construction, two that have welcomed residents and three projects completed at The Woodlands and Columbia. We reported revenues of \$464.3 million from condominium rights and unit sales at our four residential condominium towers available for sale in Ward Village, as compared to \$485.6 million in 2016 and \$305.3 million in 2015. As of December 31, 2017 we have closed on the sales of a total of 464 units to new residents. With the opening of both Waiea and Anaha to new residents and the associated proceeds generated from the closings of those units, we repaid the \$195.3 million outstanding balance on the Waiea and Anaha construction loan.

Also within our Strategic Development segment during 2017, we completed construction on: (i) two self-storage facilities in The Woodlands totaling 1,438 units; (ii) One Merriweather, a 202,603 square foot, Class A office building in Downtown Columbia; and (iii) Two Merriweather, a 124,635 square foot, Class A office building in Downtown Columbia. We commenced construction on six projects including: (i) Aristocrat, a 12-acre build-to-suit project including two 90,000 square foot office buildings, 100% pre-leased to Aristocrat Technologies; (ii) Two Summerlin, a 145,000 square foot Class A office building; (iii) 100 Fellowship Drive, a three-story, 203,000 rentable square foot medical building in The Woodlands which is 100% pre-leased; (iv) Creekside Park Apartments, a 292-unit apartment complex in The Woodlands; (v) Lake Woodlands Crossing Retail center, containing approximately 60,300 rentable retail square feet in The Woodlands; and (vi) 33 Peck Slip, our joint venture project for redevelopment of a 66-room hotel serving as an amenity in the Seaport District. Finally, we announced our intentions to develop a new ballpark in

downtown Summerlin for the Las Vegas 51s minor league baseball team as well as a naming rights agreement with the Las Vegas Convention and Visitor's Authority which will pay us \$4 million annually for a 20-year term. We broke ground on the ballpark in February 2018.

Earnings Before Taxes

We use a number of operating measures for assessing operating performance of properties within our segments, some of which may not be common among all three of our segments. We believe that investors may find some operating measures more useful than others when separately evaluating each segment. One common operating measure used to assess operating results for our business segments is EBT. We believe EBT provides useful information about the operating performance of each segment and

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its properties as further discussed below. EBT may be calculated differently by other companies in our industry, limiting its usefulness as a comparative measure.

EBT, as it relates to each business segment, represents the revenues less expenses of each segment, including interest income, interest expense, depreciation and amortization and equity in earnings of real estate and other affiliates. EBT excludes corporate expenses and other items that are not allocable to the segments. See discussion herein at Corporate and other items for further details. We present EBT for each segment because we use these measures, among others, internally to assess the core operating performance of our assets. We also present these measures because we believe certain investors use them as a measure of our Company's historical operating performance and our ability to service existing debt and incur new debt. We believe that the inclusion of certain adjustments to net income to calculate EBT is appropriate to provide additional information to investors. A reconciliation of EBT to consolidated net income as computed in accordance with GAAP has been presented in Note 17 – Segments.

EBT should not be considered as an alternative to GAAP net income attributable to common stockholders or GAAP net income, 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. EBT does not include the following in our calculations:

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

Results of Operations

Our revenues are primarily derived from the sale of superpads and individual lots at our master planned communities to homebuilders, from tenants and customers at our commercial and residential operating properties, overage rent and recoveries of operating expenses, and from the sale of condominium units.

The following table reflects our results of operations for the years ended December 31, 2017, 2016 and 2015:

(In thousands, except per share amounts)	Year Ended December 31,			2017-2016	2016-2015
	2017	2016	2015	Change	Change
Revenues					
MPC segment revenues	\$ 299,543	\$ 253,304	\$ 229,865	\$ 46,239	\$ 23,439

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Operating Assets segment revenues	327,555	295,165	259,306	32,390	35,859
Strategic Developments segment revenues	473,022	486,536	307,917	(13,514)	178,619
Total revenues	\$ 1,100,120	\$ 1,035,005	\$ 797,088	\$ 65,115	\$ 237,917
MPC segment EBT	\$ 190,351	\$ 179,481	\$ 114,366	\$ 10,870	\$ 65,115
Operating Assets segment EBT	(28,664)	(22,985)	(9,646)	(5,679)	(13,339)
Strategic Developments segment EBT	169,041	302,022	97,580	(132,981)	204,442
Corporate and other items	(209,906)	(137,742)	(51,580)	(72,164)	(86,162)
Income before taxes	120,822	320,776	150,720	(199,954)	170,056
Benefit (provision) for income taxes	45,801	(118,450)	(24,001)	164,251	(94,449)
Net income (loss)	166,623	202,326	126,719	(35,703)	75,607
Net loss (income) attributable to noncontrolling interests	1,781	(23)	—	1,804	(23)
Net income attributable to common stockholders	\$ 168,404	\$ 202,303	\$ 126,719	\$ (33,899)	\$ 75,584
Diluted income per share	\$ 3.91	\$ 4.73	\$ 1.60	\$ (0.82)	\$ 3.13

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Total revenues for the year ended December 31, 2017 increased compared to the same period in 2016 primarily due to higher revenues in our MPC and Operating Assets segments. MPC segment revenue increased due to higher land sales at Bridgeland, Summerlin, Maryland, and The Woodlands Hills as well as a two utility easement sales at Bridgeland totaling \$10.4 million. Operating Assets segment revenue increased due to increases at our office, multi-family and hospitality properties, as well as the recent acquisition and consolidation of our joint venture partners' interests in the Las Vegas 51s baseball team and Millennium Six Pines apartments. These increases are partially offset by a decline in revenues at 110 North Wacker and Landmark Mall, both now closed in preparation for redevelopment. The Strategic Developments segment revenue decrease is due to less revenue recognized on a percentage of completion basis at Waiea, which was open to residents at the end of 2016, partially offset by increased revenue at the Anaha, Ae`o and Ke Kilohana condominium projects.

Total revenues for the year ended December 31, 2016 increased compared to the year ended December 31, 2015 primarily due to higher revenues in our Strategic Developments segment. Strategic Developments segment revenue increased due to recognition of revenue related to sales at our Waiea and Anaha condominium projects. Operating Assets segment revenue increased due to the elimination of co-tenancy allowances for the majority of tenants at Downtown Summerlin, recognition of a full year of revenue for various office, multi-family and hospitality properties which opened in 2015 and 2016, and the purchase of our partner's interest in Millennium Six Pines Apartments (formerly known as Millennium Woodlands Phase II, LLC). The MPC segment revenue increase is due to increased residential land sales, partially offset by decreased commercial land sales in MPCs in 2016 as compared to 2015.

Net expenses related to Corporate and other items increased for the year ended December 31, 2017 as compared to the same period in 2016 primarily due to a \$19.0 million increase in the Warrant liability loss prior to the settlement of these liabilities and a Loss on redemption of senior notes due 2021 of \$46.4 million. Please refer to the Corporate and other items section elsewhere in this MD&A for additional discussion regarding the accounts comprising this line item.

The decrease in the Benefit (provision) for income taxes for the year ended December 31, 2017 compared to 2016 is due to a decrease of \$200.0 million in income before tax and a 2017 tax benefit of \$101.7 million related to a reduction in deferred tax liabilities resulting from legislation that was enacted on December 22, 2017. The increase in the provision for income taxes for the year ended December 31, 2016 compared to 2015 is attributable to an increase of \$208.0 million in operating income, decrease in valuation allowance, and other permanent items.

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We have significant permanent differences, primarily from warrant liability gains and losses, and changes in valuation allowances that cause our effective tax rate to deviate greatly from statutory rates. The effective tax rate based upon actual operating results was (37.4%) for the year ended December 31, 2017 compared to 36.9% for the year ended December 31, 2016 and 15.9% for the year ended December 31, 2015. The change in the effective tax rate from 2017 to 2016 was primarily attributable to the Tax Act reducing the corporate tax rate from 35.0% to 21.0%, resulting in a one-time transitional tax benefit of \$101.7 million. Other changes in both periods were changes in the warrant liability, valuation allowance related to our deferred tax assets, as well as other items which are permanent differences for tax purposes. If changes in the federal tax rate in new tax legislation, warrant liability, valuation allowance, unrecognized tax benefits and other material discrete adjustments to deferred tax liabilities were excluded from the effective tax rate computation, the effective tax rates would have been 36.4%, 36.3% and 31.2% for the years ended December 31, 2017, 2016 and 2015, respectively.

The decrease in Net income (loss) attributable to common stockholders for the year ended December 31, 2017 compared to the year ended December 31, 2016 is primarily due to a decline in gains on sales of properties resulting from the opportunistic \$140.5 million gain on sale of 80 South Street Assemblage in 2016, increased warrant liabilities loss and decreased equity in earnings from real estate and other affiliates in 2017, offset by a \$164.3 million decrease in our tax provision, primarily due to a \$101.7 million benefit provided by the Tax Act.

The increase in Net income (loss) attributable to common stockholders for the year ended December 31, 2016 compared to the year ended December 31, 2015 is primarily due to significant growth in Strategic Developments EBT from higher condominium unit sales due to construction progress triggering the recognition of revenue under the percentage of completion method and a gain of \$140.5 million on the sale of the 80 South Street Assemblage. The increase is also due to higher MPC segment EBT. These increases are partially offset by a provision for impairment and loss on disposal of our Park West property in our Operating Assets segment EBT, a warrant liability loss and an increased provision for income taxes.

Please refer to the individual segment operations sections that follow for explanations of the results of each of our segments for the years ended December 31, 2017, 2016 and 2015.

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Master Planned Communities

Master Planned Communities Revenues and Expenses

For the Year Ended December 31,

Maryland Communities			Summerlin			The Woodlands			The Woodlands F	
2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016
\$ 10,800	\$ —	\$ —	\$ 156,617	\$ 148,699	\$ 123,171	\$ 40,367	\$ 42,365	\$ 43,843	\$ 1,282	\$ —
—	—	—	21,731	19,083	21,465	706	1,549	4,188	—	—
—	—	—	(8)	384	797	—	—	—	—	—
445	418	468	10,124	9,669	7,907	6,572	5,778	6,058	31	13
—	—	—	(3)	24	45	—	—	—	—	—
11,245	418	468	188,461	177,859	153,385	47,645	49,692	54,089	1,313	13
5,839	—	—	83,343	68,436	65,414	18,470	19,619	15,888	672	—
1,692	1,317	1,423	9,715	11,226	14,943	19,080	22,989	22,521	827	332
—	—	—	2	—	—	—	—	—	—	—
8	16	21	93	81	112	120	120	120	—	—
—	—	—	—	—	—	(3,500)	—	—	—	—
7,539	1,333	1,444	93,153	79,743	80,469	34,170	42,728	38,529	1,499	332
3,706	(915)	(976)	95,308	98,116	72,916	13,475	6,964	15,560	(186)	(319)
3	(2)	(33)	(17,386)	(16,459)	(14,241)	4,221	5,414	5,524	(564)	(577)

—	—	—	(23,234)	(43,501)	—	—	—	—	—	—
\$ 3,703	\$ (913) (f)	\$ (943) (f)	\$ 135,928	\$ 158,076	\$ 87,157	\$ 9,254	\$ 1,550	\$ 10,036	\$ 378	\$ 258
NM	NM	NM	40.8%	54.0%	46.7%	52.0%	51.5%	61.4%	47.6%	NM
45.9%	NM	NM	87.3%	50.7%	51.8%	76.3%	60.2%	70.4%	NM	NM

(*) For a reconciliation of MPC segment EBT to consolidated income before taxes, refer to Note 17 – Segments in our Consolidated Financial Statements.

(a) Land sales includes deferred revenue from land sales closed in a previous period which met criteria for recognition in the current period.

(b) Builder price participation revenue is based on an agreed-upon percentage of the sales price of homes closed relative to the base lot price which was paid by the homebuilders to us. This revenue fluctuates based upon the number of homes closed that qualify for builder price participation payments.

(c) For the year ended December 31, 2017, Other land revenues includes two sales of utility easements at our Bridgeland community recorded in 2017 totaling \$14.1 million less related costs of \$3.7 million.

(d) Interest expense, net reflects the amount of interest that is capitalized at the project level. Negative interest expense amounts relate to interest capitalized relating to debt assigned to our Operating Assets segment and corporate debt.

(e) Equity in earnings in Real Estate and Other Affiliates reflects our share of earnings in The Summit joint venture which commenced lot sales in the second quarter of 2016.

(f) The negative MPC segment EBT in Maryland in 2016 and 2015 is due to real estate taxes and administrative expenses.

NM – Not Meaningful

MPC revenues vary between periods based on economic conditions and several factors including location, availability of land for sale, development density and residential or commercial use. Gross margin for each MPC will vary from

period to period based on the locations of the land sold and the related costs associated with developing the land sold. Reported results differ significantly from actual cash flows generated principally because cost of sales for GAAP purposes is derived from margins calculated using carrying values, projected future improvements and other capitalized project costs in relation to projected future land sale revenues. Carrying values, generally, represent acquisition and development costs reduced by any previous impairment charges. Development expenditures are capitalized and generally not reflected in the Statements of Operations in the current period. Accordingly, Cost of sales – land includes both actual and estimated future costs allocated based upon relative sales value to the lots or land parcels in each of the villages and neighborhoods in our MPCs.

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The following schedules detail our residential and commercial land sales for the years ended December 31, 2017, 2016 and 2015:

PC Land Sales Closed for the Year Ended December 31,

es			Acres Sold			Number of Lots/Units			Price per acre			Pri
	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015	
0	\$ 20,474	\$ 10,856	80.7	55.0	28.4	391	296	130	\$ 377	\$ 372	\$ 382	\$ 7
	9,618		25.7	26.6		95	166		5	(10)		9
	88.6%		46.7%	93.7%		32.1%	127.7%		1.3%	(2.6%)		1
	—	—	—	—	—	—	—	—	—	—	—	—
3	96,843	92,219	201.5	231.7	177.7	1,164	1,071	555	547	418	519	9
	—	13,650	—	—	14.9	—	—	75	—	—	916	—
5	13,865	8,640	5.1	7.4	5.8	11	15	14	2,062	1,874	1,490	9
8	110,708	114,509	206.6	239.1	198.4	1,175	1,086	644	584	463	577	1
	(3,801)		(32.5)	40.7		89	442		121	(114)		1
	(3.3%)		(13.6%)	20.5%		8.2%	68.6%		26.1%	19.9%		1
	—	—	—	—	—	—	—	—	—	—	—	—
3	24,950	27,161	57.0	51.2	42.9	227	204	160	498	487	633	1
	7,010	5,280	1.2	5.9	5.8	28	67	65	6,813	1,188	910	2
3	31,960	32,441	58.2	57.1	48.7	255	271	225	628	560	666	1
	(481)		1.1	8.4		(16)	46		68	(106)		2
	(1.5%)		1.9%	17.2%		(5.9%)	20.4%		12.1%	(16.0%)		2
	—	—	4.1	—	—	18	—	—	313	—	—	7
	(a)	(a)	4.1	—	—	18	—	—	313	—	—	7
	—	—	4.1	—	—	18	—	—	313	—	—	7
	—	—	NM	—	—	NM	—	—	NM	—	—	N
7	\$ 163,142	\$ 157,806	349.6	351.2	275.5	1,839	1,653	999				

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- (a) The Woodlands Hills began closing land sales in the fourth quarter of 2017.
 - (b) Excludes revenues closed and deferred for recognition in a previous period that met criteria for recognition in the current period. Please see the Reconciliation of MPC Land Sales Closed to GAAP Land Sales Revenue table below which reconciles Total residential and commercial land sales closed to Land sales revenue for the years ended December 31, 2017, 2016 and 2015.

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Summary of Commercial MPC Land Sales Closed for the Year Ended December 31,

(\$ in thousands)	Land Sales			Acres Sold			Price per acre		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Bridgeland									
Not-for-Profit	\$ 2,379	\$ —	\$ 20,664	9.0	—	162.4	\$ 264	\$ —	\$ 127
\$ Change	2,379	(20,664)		9.0	(162.4)		264	(127)	
% Change	NM	(100.0%)		NM	(100.0%)		NM	(100.0%)	
Maryland Communities									
Medical	10,800	—	—	11.3	—	—	956	—	—
\$ Change	10,800	—		11.3	—		956	—	
% Change	NM	—		NM	—		NM	—	
Summerlin									
Not-for-profit	—	348		—	10.0	—	—	35	—
Other	1,276	—	3,936	5.0	—	20.3	255	—	194
Total	1,276	348	3,936	5.0	10.0	20.3	255	35	194
\$ Change	928	(3,588)		(5.0)	(10.3)		220	(159)	
% Change	266.7%	(91.2%)		(50.0%)	(50.7%)		628.6%	(82.0%)	
The Woodlands									
Medical	—	10,405	8,422	—	4.3	5.0	—	2,420	1,684
Not-for-profit	—	—	733	—	—	5.0	—	—	147
Other	3,799	—	2,247	10.4	—	2.4	365	—	936
Total	3,799	10,405	11,402	10.4	4.3	12.4	365	2,420	920
\$ Change	(6,606)	(997)		6.1	(8.1)		(2,055)	1,500	
% Change	(63.5%)	(8.7%)		141.9%	(65.3%)		(84.9%)	163.0%	
Total commercial land sales closed in period (a)									
	\$ 18,254	\$ 10,753	\$ 36,002	35.7	14.3	195.1			

(a) Excludes revenues closed and deferred for recognition in a previous period that met criteria for recognition in the current period. Please see the Reconciliation of MPC Land Sales Closed to GAAP Land Sales Revenue table below which reconciles Total residential and commercial land sales closed to Land sales for the years ended

December 31, 2017, 2016, and 2015.

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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 finished lots. Therefore, we use this statistic where relevant in our discussion of our MPC operating results herein. Net new home sales reflect home sales made by homebuilders, less cancellations. Cancellations generally 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.

Supplementary Information for the Year Ended December 31,

(\$ in thousands)	Net New Home Sales			Median Home Sales Price		
	2017	2016	2015	2017	2016	2015
Bridgeland	423	333	199	\$ 347	\$ 328	\$ 409
\$ Change	90	134		19	(81)	
% Change	27.0%	67.3%		5.8%	(19.8%)	
Maryland Communities - No New Home Sales	N/A	N/A	N/A	N/A	N/A	N/A
Summerlin	1,022	682	602	564	540	533
\$ Change	340	80		24	7	
% Change	49.9%	13.3%		4.4%	1.3%	
The Woodlands	340	248	256	533	557	562
\$ Change	92	(8)		(24)	(5)	
% Change	37.1%	(3.1%)		(4.3%)	(0.9%)	
The Woodlands Hills - No New Home Sales	N/A	N/A	N/A	N/A	N/A	N/A

Reconciliation of MPC Land Sales Closed to GAAP Land Sales Revenue

The following table reconciles Total residential and commercial land sales closed in the year ended December 31, 2017, 2016 and 2015, respectively, to Land sales revenue for the respective periods. Total net recognized (deferred) revenue includes revenues recognized in the current period which related to sales closed in prior periods, offset by revenues deferred on sales closed in the current period.

(In thousands)	For the Year Ended December 31,		
	2017	2016	2015
Total residential land sales closed in period	\$ 189,017	\$ 163,142	\$ 157,806
Total commercial land sales closed in period	18,254	10,753	36,002
Net recognized (deferred) revenue:			
Bridgeland	6,722	3,780	(11,136)
Summerlin	20,063	29,596	(16,043)
Total net recognized (deferred) revenue	26,785	33,376	(27,179)
Special Improvement District revenue	14,539	8,047	20,770
Land sales	\$ 248,595	\$ 215,318	\$ 187,399

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Houston

The Houston area market continues to experience population and job growth, which has resulted in increased demand in our MPCs. We experienced minimal impact from Hurricane Harvey, evidenced by an increase in new home sales in Bridgeland and The Woodlands of 27% and 37%, respectively, for the year ended December 31, 2017 compared to the same period in 2016. The 423 new home sales in Bridgeland in 2017 is the highest annual number of sales in the community's ten-year history. We expect demand to continue as manufacturing and service sector job growth in Houston has improved recently. Exxon Mobil recently announced plans to relocate approximately 1,600 jobs to Spring, Texas, just south of The Woodlands, beginning in 2018. We believe that our strategy of expanding the offering of lots priced for homes under \$500,000 within our communities will result in continued homebuilder demand for land at our Bridgeland and The Woodlands MPCs.

Bridgeland

Land sales revenues totaled \$39.5 million for the year ended December 31, 2017, which was \$15.3 million, or 63.0% higher than the same period in 2016 primarily as a result of higher residential land sales and also due to the recognition of revenues deferred in previous periods. Land sales revenues totaled \$24.3 million for the year ended December 31, 2016, which was \$3.9 million, or 19.0% higher than the same period in 2015 as a result of higher residential land sales and the recognition of revenues deferred in previous periods.

Residential land sales for the year ended December 31, 2017 were higher compared to 2016 partially as a result of our development of additional lot sizes to accommodate homebuilders' demand and the opening of Parkland Village, a new phase in the community. For the year ended December 31, 2017, Bridgeland sold 80.7 residential acres compared to 55.0 acres in 2016. The average price per residential acre for single family – detached product increased \$5,000, or 1.3% to \$377,000 for the year ended December 31, 2017 compared to \$372,000 in 2016 as a result of the mix of lots sold. Residential land sales for the year ended December 31, 2016 were substantially higher compared to 2015 due to increased demand for products in the mid-range of the residential market. For the year ended December 31, 2016, Bridgeland sold 55.0 residential acres compared to 28.4 acres in 2015. The average price per residential acre for single family – detached product decreased \$10,000, or 2.6% to \$372,000 for the year ended December 31, 2016 compared to \$382,000 in 2015 due to a combination of lot price adjustments to meet current market conditions and the mix of lots sold in the respective periods. For the year ended December 31, 2016, there was a larger percentage of smaller, lower priced lots sold than in the same periods in 2015.

Two church sites totaling 9.0 acres were sold at an average price of \$264,000 per acre in the year ended December 31, 2017 compared to no commercial land sales in the same period in 2016. There were three land sales in the last half of 2015 for a school site, a church site and a fire station totaling \$20.7 million, of which \$11.1 million was recorded as deferred income due to performance obligations related to these commercial land sales. The work has been completed and \$6.7 million of previously deferred income was recognized in the year ended December 31, 2017 compared to \$3.8 million in the same period in 2016.

As of December 31, 2017, Bridgeland had 440 residential lots under contract, of which 433 are scheduled to close in 2018 for \$31.1 million.

Builder price participation revenue decreased 47.2% and 36.8% for the years ended December 31, 2017 and 2016, respectively, compared to the prior years at Bridgeland due to a combination of lower priced homes being closed and adjustments to participation terms in our homebuilder contracts to meet current market conditions.

Other land revenues increased for the year ended December 31, 2017 compared to 2016, primarily due to the sale of utility easements generating \$10.4 million in revenue net of \$3.7 million in related costs.

The Woodlands

Land sales revenues totaled \$40.4 million for the year ended December 31, 2017, which was \$2.0 million, or 4.7% lower than the same period in 2016 as a result of a \$4.6 million increase in residential land sales, offset by a \$6.6 million decrease in commercial land sales. Land sales revenues totaled \$42.4 million for the year ended December 31, 2016, which was \$1.5 million, or 3.4% lower than the same period in 2015 as a result of \$0.5 million decrease in residential land sales and a \$1.0 million decrease in commercial land sales.

For the year ended December 31, 2017, The Woodlands sold 58.2 residential acres compared to 57.1 acres in 2016 and the average price per residential acre increased \$68,000, or 12.1% to \$628,000 in 2017 compared to \$560,000 in 2016. The increase

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in price per residential acre is due primarily to the sale of single family-attached lots in the premium East Shore neighborhood. For the year ended December 31, 2016, The Woodlands sold 57.1 residential acres compared to 48.7 acres in 2015, and the average price per residential acre decreased \$106,000, or 16.0% to \$560,000 in 2016 compared to \$666,000 in 2015. The increase in acres sold in 2016 was the result of providing more mid-market priced lots to homebuilders to meet current market conditions.

For the year ended December 31, 2017, The Woodlands sold 10.4 acres of commercial land at \$365,000 per acre which included a 9.1-acre site with a less desirable location with no freeway frontage and limited access, resulting in a lower price per acre. For the year ended December 31, 2016, there were two medical-use commercial land sales totaling 4.3 acres. Revenues in 2016 totaled \$10.4 million, or an average of \$2.4 million per acre, as one of the sites was 3.1 acres with freeway frontage that generated \$2.7 million in revenue per acre. For the year ended December 31, 2015, there were 12.4 commercial acres sold at an average price of \$920,000 per acre, including a 5.0-acre church site that sold for \$147,000 per acre.

At December 31, 2017, there were 234 residential lots under contract in The Woodlands, of which 142 are scheduled to close in 2018 for \$25.1 million.

Builder price participation revenue decreased 54.4% and 63.0% for the years ended December 31, 2017 and 2016, respectively, as compared to the respective prior year as contractual terms with our homebuilders were adjusted to align with the current Houston market.

Other land revenues increased for the year ended December 31, 2017 compared to 2016, and decreased for the year ended December 31, 2016 compared to 2015. These fluctuations are due to variable revenues from a common-area maintenance arrangement with the Township.

The Woodlands Hills

The first phase of lots were delivered in December 2017, and 18 lots consisting of 4.1 acres were sold for \$1.3 million, or \$313,000 per acre. At December 31, 2017, there were 85 additional lots under contract with homebuilders, all of which are scheduled to close in 2018 for \$5.2 million. Construction and sales of homes will commence in early 2018, and we anticipate that the median new home price will be approximately \$350,000, which we expect to be competitive in the Houston market.

Maryland Communities

Our Columbia, Gateway, Emerson and Fairwood MPCs contain approximately 97 commercial acres remaining to be developed. Commercial land sales for the year ended December 31, 2017 relate to 11.3 acres sold for \$10.8 million for proposed medical office buildings. There were no commercial land sales for the year ended December 31, 2016 and 2015. However, 45 acres were transferred to our Strategic Developments segment relating to pending or active development projects. All of the residential inventory was sold out in prior years.

Summerlin

The Las Vegas home market remains strong as there were 1,022 new home sales in Summerlin in 2017, an increase of 49.9% over 2016. Our land sales revenues totaled \$156.6 million for the year ended December 31, 2017, which was \$7.9 million, or 5.3% higher than the same period in 2016 primarily as a result of a higher average price per acre on residential land sold. Land sales revenues totaled \$148.7 million for the year ended December 31, 2016, which was \$25.5 million, or 20.7% higher than the same period in 2015 due to the recognition of revenues deferred in previous periods.

Summerlin's residential land sales for the year ended December 31, 2017 totaled 206.6 acres compared to 239.1 for the same period in 2016. The average price per acre for the year ended December 31, 2017 of \$584,000 is \$121,000, or 26.1% higher than the average price per acre of \$463,000 for the same period in 2016. The increase in the price per acre is due to the \$40 million bulk sale of a 116.8-acre parcel at \$342,000 per acre in 2016. This parcel required the buyer to install power and drainage facilities to the site and, as a result, warranted a lower price per acre compared to our typical superpad sales. However, the gross margin on this parcel sale was higher than normal due to lower development costs. Residential land sales for the year ended December 31, 2016 totaled 239.1 acres compared to 198.4 for the same period in 2015. The average price per acre for the year ended December 31, 2016 of \$463,000 is not comparable to the average price per acre of \$577,000 for the same period in 2015 due to the 116.8-acre parcel sale in 2016 explained above, and the residential gross margin for the year ended December 31, 2016 was higher than in 2015 as we incurred lower development costs on the undeveloped parcel. Our residential gross

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margin for the year ended December 31, 2017 is lower than the same period in 2016 as our 2017 land sales consist of more steeply graded parcels which are more costly to develop.

For the year ended December 31, 2017, we sold a 5.0-acre parking site in Summerlin for \$255,000 per acre. For the year ended December 31, 2016, we sold a 10.0-acre school site to the County in Summerlin for \$35,000 per acre. During the year ended December 31, 2015, we sold a 16.7-acre school site to a charter school for \$0.8 million or \$48,000 per acre, and a 3.6-acre school site for \$3.1 million, or \$873,000 per acre to a university to construct a post-graduate healthcare education facility.

Builder price participation increased 13.9% for the year ended December 31, 2017 compared to 2016 primarily due to the increase in the number of home closings in 2017. Builder price participation decreased 11.1% for the year ended December 31, 2016 compared to 2015 primarily due to the near sell-out of a neighborhood in 2015 that produced the highest price participation per home in Summerlin.

As of December 31, 2017, there was one superpad site totaling 42.5 acres and two custom lots under contract which are scheduled to close in 2018 for a total of \$27.0 million.

The Summit

Land development began at The Summit, our joint venture with Discovery Land, in the second quarter of 2015 and the development continues to progress. Custom lot closings began in the second quarter of 2016, and a total of 77 lots have closed for \$240.8 million through December 31, 2017. For the year ended December 31, 2017, 17 residential lots closed for \$55.9 million, compared to 60 lots for \$184.9 million for the same period in 2016. We recognized \$23.2 million and \$43.5 million in equity in earnings, and cash distributions of \$10.0 million and \$22.9 million were received in the years ended December 31, 2017 and 2016, respectively. The significant number of lot closings in 2016 resulted from a backlog of sales contracts executed between the second quarter of 2015 and the second quarter of 2016 when lots were not yet available for sale. Please refer to Note 5 – Real Estate and Other Affiliates in our Consolidated Financial Statements for a description of the joint venture and further discussion.

MPC Net Contribution

In addition to segment EBT, MPC Net Contribution is a non-GAAP financial measure derived from EBT, adjusted for certain items as discussed below. Management uses this measure because it captures current period performance through the velocity of sales, as well as current period development expenditures based upon demand at our MPCs, which varies depending upon the stage of the MPCs development lifecycle, and the overall economic environment.

As reconciled below for each of the respective periods, we calculate MPC Net Contribution as MPC segment EBT adjusted to exclude timing differences related to MPC cost of sales and non-cash depreciation and amortization, reduced by the current period development and land acquisition expenditures (net of municipality reimbursements) which relate to the ordinary course of our long-term master planned community development business, further adjusted for distributed earnings from unconsolidated development ventures.

Although MPC Net Contribution can be computed from GAAP elements of income, it is not a GAAP-based operational metric and should be evaluated in addition to, and not considered a substitute for or superior to, any GAAP measures of operating performance. Furthermore, other companies may calculate Net Contribution in a different manner, which may hinder comparability. A reconciliation of segment EBT to consolidated net income (loss) as computed in accordance with GAAP is presented in Note 17 – Segments.

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The following table sets forth the MPC Net Contribution for the years ended December 31, 2017, 2016 and 2015:

(In thousands)	Year Ended December 31,			2017-2016 Change	2016-2015 Change
	2017	2016	2015		
MPC segment EBT (a)	\$ 190,351	\$ 179,481	\$ 114,366	\$ 10,870	\$ 65,115
Plus:					
Cost of sales - land	121,116	95,727	88,065	25,389	7,662
Depreciation and amortization	323	311	640	12	(329)
MUD and SID bonds collections, net (b)	56,509	37,672	20,345	18,837	17,327
Distributions from Real Estate and Other Affiliates	10,000	22,900	—	(12,900)	22,900
Less:					
MPC development expenditures	(193,087)	(149,592)	(197,020)	(43,495)	47,428
MPC land acquisitions	(4,391)	(94)	(7,293)	(4,297)	7,199
Equity in (earnings) loss in Real Estate and Other Affiliates	(23,234)	(43,501)	—	20,267	(43,501)
MPC Net Contribution	\$ 157,587	\$ 142,904	\$ 19,103	\$ 14,683	\$ 123,801

(a) For a detailed breakdown of our MPC segment EBT, refer to Note 17 – Segments in our Consolidated Financial Statements.

(b) SID collections are shown net of SID transfers to buyers in the respective periods.

MPC Net Contribution increased for the year ended December 31, 2017 compared to 2016 primarily due to increases in MPC segment EBT, Cost of sales – land, and MUD and SID bonds collections, net, offset by increased MPC development expenditures, MPC land acquisitions, and decreased income from Equity in earnings in Real Estate and other affiliates in 2017. MPC Net Contribution increased for the year ended December 31, 2016 compared to 2015 primarily due to an increase in MPC segment EBT at Summerlin, an increase in MUD and SID bond collections and a reduction in MPC development expenditures in 2016. While the land sales closed for the year ended December 31, 2016 decreased as compared to the same period in 2015, \$33.4 million of revenue previously deferred due to future performance obligations met criteria for recognition in 2016. The Summit at our Summerlin MPC contributed earnings of \$43.5 million for the year ended December 31, 2016, which was its first year of land sales.

The following table sets forth MPC land inventory activity for the years ended December 31, 2017 and 2016:

(In thousands)	Bridgeland	Maryland		The Woodlands	The Woodlands	
		Communities	Summerlin		Hills	Total MPC
Balance December 31, 2015	\$ 435,220	\$ 22,143	\$ 864,276	\$ 220,099	\$ 101,104	\$ 1,642,842
Acquisitions	—	—	—	94	—	94
Development expenditures (a)	46,135	282	73,069	28,117	1,989	149,592
Cost of sales	(7,672)	—	(68,436)	(19,619)	—	(95,727)
MUD reimbursable costs (b)	(33,421)	—	—	(6,198)	(166)	(39,785)
Transfer to Strategic Development	—	—	—	(539)	—	(539)
Other	1,336	3	13,634 (c)	(1,984)	95	13,084

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Balance December 31, 2016	\$ 441,598	\$ 22,428	\$ 882,543	\$ 219,970	\$ 103,022	\$ 1,669,561
Acquisitions	3,001	—	—	1,415	(25)	4,391
Development expenditures (a)	74,798	21	88,964	17,798	11,506	193,087
MPC Cost of sales	(12,792)	(5,839)	(83,343)	(18,470)	(672)	(121,116)
MUD reimbursable costs (b)	(53,491)	—	—	(3,785)	(5,793)	(63,069)
Transfer to Strategic Developments	—	—	(22,991)	(8,151)	—	(31,142)
Other	5,794	18	(12,940) (d)	(2,728)	422	(9,434)
Balance December 31, 2017	\$ 458,908	\$ 16,628	\$ 852,233	\$ 206,049	\$ 108,460	\$ 1,642,278

(a) Development expenditures are inclusive of capitalized interest and property taxes.

(b) MUD reimbursable costs represent land development expenditures transferred to MUD Receivables.

(c) Primarily consists of a \$9.8 million increase in accrued development expenditures and \$3.9 million of utility deposits reclassified into land inventory at Summerlin.

(d) Includes \$8.5 million of refundable utility deposits reclassified from land inventory and \$4.4 million decrease in accrued development expenditures.

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Operating Assets

Operating assets typically generate rental revenues sufficient to cover their operating costs, except when a substantial portion, or all, of the property is being redeveloped, vacated for development or in its initial lease-up phase.

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

(In thousands)	Year Ended December 31,			2017-2016	2016-2015
	2017	2016	2015	Change	Change
Minimum rents	\$ 182,468	\$ 172,437	\$ 149,064	\$ 10,031	\$ 23,373
Tenant recoveries	45,366	44,306	39,415	1,060	4,891
Hospitality revenues	76,020	62,252	45,374	13,768	16,878
Other rental and property revenues	23,701	16,170	25,453	7,531	(9,283)
Total revenues	327,555	295,165	259,306	32,390	35,859
Other property operating costs	71,748	60,506	68,078	11,242	(7,572)
Rental property real estate taxes	26,523	24,439	21,856	2,084	2,583
Rental property maintenance costs	12,872	12,033	10,236	839	1,797
Hospitality operating costs	56,362	49,359	34,839	7,003	14,520
Provision for doubtful accounts	2,710	5,601	3,998	(2,891)	1,603
Other income, net	315	(4,601)	(524)	4,916	(4,077)
Depreciation and amortization	122,421	86,313	89,075	36,108	(2,762)
Provision for impairment	—	35,734	—	(35,734)	35,734
Interest income	(22)	(19)	(37)	(3)	18
Interest expense	61,606	50,446	32,968	11,160	17,478
Equity in (earnings) loss from Real Estate and Other Affiliates	(3,267)	(2,802)	(1,883)	(465)	(919)
Total operating expenses	351,268	317,009	258,606	34,259	58,403
Income (loss) before development expenses	(23,713)	(21,844)	700	(1,869)	(22,544)
Demolition costs	1,605	194	2,412	1,411	(2,218)
Development-related marketing costs	3,346	947	7,934	2,399	(6,987)
Total development expenses	4,951	1,141	10,346	3,810	(9,205)
Operating Assets segment EBT*	\$ (28,664)	\$ (22,985)	\$ (9,646)	\$ (5,679)	\$ (13,339)

(*) For a reconciliation of Operating Assets segment EBT to consolidated income (loss) before taxes, refer to Note 17 – Segments in our Consolidated Financial Statements.

Minimum rents and tenant recoveries revenue increased for the year ended December 31, 2017 compared to 2016 primarily due to increases of \$10.1 million for our office properties, \$5.3 million at our multi-family properties, \$0.7 million at our retail properties, and \$1.0 million related to our new National Hockey League (“NHL”) ground lease, partially offset by decreases of \$6.0 million related to the sale of Park West and transfer of Landmark Mall to Strategic Developments. The increase in our office properties was primarily due to One Merriweather being placed in service, the acquisition of One Mall North in Columbia and the continued stabilization of ONE Summerlin, 1725 Hughes Landing and Three Hughes Landing, offset primarily by a decrease for 110 North Wacker in Chicago related to the future redevelopment of the property. The increase in our multi-family properties was primarily due to the purchase and consolidation of our joint venture partner’s 18.57% interest in Millennium Six Pines Apartments in July 2016 and ongoing leasing activities of One Lakes Edge. The increase in our retail properties was due to the ongoing stabilization of Lakeland Village Center and Creekside Village Green, offset by decreases at Ward Village Retail as

certain properties are moved into redevelopment. Minimum rents and tenant recoveries increased for the year ended December 31, 2016 compared to 2015 primarily due to increases of \$16.0 million for our office properties, \$6.0 million for our multi-family properties and \$5.9 million for our retail properties. The increase in our office properties was primarily due to the openings and on-going stabilization of 1725-1735 Hughes Landing Boulevard in 2016. The increase for our retail properties was primarily due to the elimination of co-tenancy allowances for the majority of tenants at Downtown Summerlin. The increase in our multi-family properties was primarily due to the opening of One Lakes Edge in 2015 and the purchase of our joint venture partner's interest in Millennium Six Pines Apartments in July 2016.

The increase in hospitality revenues was primarily due to a \$2.6 million increase at Embassy Suites at Hughes Landing and a \$9.7 million increase at The Westin at The Woodlands as compared to 2016, with increases in hospitality operating costs due to the on-going stabilization of the two properties placed in service in December 2015 and March 2016, respectively. The increase in profit margin for our hospitality properties for the year ended December 31, 2017 compared to 2016 is due primarily to focused efforts to reduce operating expenses at all hospitality properties. Hospitality revenues and hospitality operating costs increased for the year ended December 31, 2016 compared to 2015 due primarily to the openings of The Westin at The

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Woodlands in March 2016 and the Embassy Suites at Hughes Landing in December 2015. The decrease in profit margin for hospitality for the year ended December 31, 2016 compared to 2015 is due primarily to a decrease in occupancy and conference services at The Woodlands Resort and Conference Center which maintains relatively high fixed costs associated primarily with labor.

Other rental and property revenue increased for the year ended December 31, 2017 compared to 2016 primarily due to revenue related to the Las Vegas 51s baseball team which was consolidated effective March 1, 2017 with the purchase of our joint venture partner's 50.0% interest in the team. Other rental and property revenue decreased for the year ended December 31, 2016 compared to 2015 primarily due to the sale of The Club at Carlton Woods in September 2015.

Other property operating costs increased for the year ended December 31, 2017 compared to the same period in 2016 due primarily to the purchase of our joint venture partner's 50.0% interest in the Las Vegas 51s baseball team, an increase in operating expenses for 110 North Wacker which were previously paid by the tenant, an increase at the Seaport District for the Fulton Market Building which was partially placed in service in the fourth quarter of 2016 and expenses related to the seasonal marketing events at Seaport, offset by the impact of the December 2016 sale of Park West and the first quarter of 2017 transfer of Landmark Mall to our Strategic Developments segment. Other property operating costs and rental property maintenance costs decreased for the year ended December 31, 2016 compared to 2015 due to the sale of The Club at Carlton Woods, partially offset by an increase for our office properties primarily due to the openings of 1725-1735 Hughes Landing Boulevard.

Rental property real estate taxes increased for the year ended December 31, 2017 compared to 2016, primarily due to the purchase and consolidation of Millennium Six Pines Apartments, placing Three Hughes Landing in service, and the late 2015 and early 2016 openings of the Embassy Suites at Hughes Landing and The Westin at The Woodlands, respectively, offset by the sale of Park West. Rental property real estate taxes increased for the year ended December 31, 2016 compared to 2015 primarily due to the openings of 1725-1735 Hughes Landing Boulevard, Downtown Summerlin and One Lakes Edge, partially offset by the 2015 sale of The Club at Carlton Woods.

The provision for doubtful accounts decreased for the year ended December 31, 2017 compared to the same period in 2016 due to improved tenant credit at our retail properties. The 2016 reserves related to two tenants at our retail properties and for remaining receivables from our Park West property, sold in December 2016. The provision for doubtful accounts increased for the year ended December 31, 2016 compared to the same period in 2015 due primarily to reserves for a bankrupt tenant at Ward Village and due to collectability concerns with tenants at Park West and Downtown Summerlin.

Other income, net decreased for the year ended December 31, 2017 compared to 2016 and increased for the year ended December 31, 2016 compared to 2015 due to the settlement received for TPC at Summerlin in 2016 and the write-off of a liability at Riverwalk in 2016.

Depreciation and amortization increased for the year ended December 31, 2017 compared to 2016 due to the acceleration of depreciation reflecting shorter remaining useful lives for two office and two retail buildings pending redevelopment and depreciation on assets acquired or newly placed in service during the year ended December 31, 2017. Depreciation and amortization decreased for the year ended December 31, 2016 compared to 2015 due to accelerated depreciation in 2015 in anticipation of development at Ward Village, offset primarily by assets placed in service in 2016.

There was no provision for impairment for the year ended December 31, 2017. The provision for impairment increased for the year ended December 31, 2016 compared to the same period in 2015 due to a \$35.7 million impairment charge recognized on Park West during the third quarter of 2016 as a result of our shorter than previously

anticipated holding period of the property. The property was sold in December 2016.

The increase in interest expense for the year ended December 31, 2017 as compared to the same period in 2016 is primarily due to higher loan balances on additional properties acquired or placed in service in 2017 and late 2016 as well as increases in the one month LIBOR rate throughout the second and third quarters of 2017. Interest expense increased for the year ended December 31, 2016 due to new debt on assets placed in service in 2016 and a full year of interest on assets placed in service during 2015. See further discussion in Note 8 – Mortgages, Notes and Loans Payable in our consolidated financial statements.

Equity in earnings from Real Estate and Other Affiliates increased for the year ended December 31, 2017 compared to the same period in 2016 primarily due to a \$3.4 million distribution from our Summerlin Hospital investment as compared to \$2.6 million for the same period in 2016 and due to increased earnings at The Metropolitan Downtown Columbia, offset by a decrease in

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33 Peck Slip due to an adjustment for depreciation, a decrease in Stewart Title due to increased competition in the area, a decrease in Constellation as a result of its consolidation with the purchase of our joint venture partner's interest and a decrease the Las Vegas 51s baseball team investment subsequent to its consolidation with the purchase of our joint venture partner's interest. Equity in earnings from Real Estate and Other Affiliates increased for the year ended December 31, 2016 compared to the same period in 2015 due primarily to the income earned from the purchase of our joint venture partner's interest in Millennium Woodlands Six Pines and a \$2.6 million distribution from our Summerlin Hospital investment as compared to \$1.7 million in 2015.

Demolition costs for the year ended December 31, 2017 and 2016 relate to the demolition of Ward Warehouse, a portion of Ward Village Retail. Demolition costs decreased for the year ended December 31, 2016 versus 2015 due to the completion of the interior demolition of the Fulton Market Building part of the Seaport District NYC - Historic Area/Uplands.

Development-related marketing costs increased for the year ended December 31, 2017 as compared to the same period in 2016 due to an increase in marketing costs in the Seaport District. The costs in 2017 and 2016 relate to ongoing marketing initiatives as we continue leasing efforts in advance of the completion of our Pier 17 redevelopment. Development-related marketing costs decreased for the year ended December 31, 2016 compared to 2015 due to a decrease in marketing costs at the Seaport District NYC - Historic Area/Uplands. We incurred higher costs in 2015 due to greater marketing initiatives at Seaport District as we accelerated leasing efforts in advance of the 2016 completion of the Fulton Market Building.

Operating Assets Net Operating Income

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

Although we believe that NOI provides useful information to investors about the performance of our Operating Assets, due to the exclusions noted above, NOI should only be used as an additional measure of the financial performance of such assets and not as an alternative to GAAP net income. A reconciliation of Operating Assets NOI to Operating Assets EBT has been presented in the table below to provide the most comparable GAAP measure. Variances between years in NOI typically result from changes in rental rates, occupancy, tenant mix and operating expenses. Please refer to our Operating Assets NOI by property and Operating Assets EBT in the tables below for the years ended December 31, 2017, 2016 and 2015.

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Operating Assets NOI and EBT

(In thousands)	Year Ended December 31,			2017-2016 Change	2016-2015 Change
	2017	2016	2015		
Retail					
The Woodlands					
Creeside Village Green (a)	\$ 1,893	\$ 1,616	\$ 877	\$ 277	\$ 739
Hughes Landing Retail (a)	3,733	3,564	1,548	169	2,016
1701 Lake Robbins (b)	284	381	418	(97)	(37)
20/25 Waterway Avenue	1,837	1,844	1,978	(7)	(134)
Waterway Garage Retail	719	671	722	48	(51)
2000 Woodlands Parkway	(94)	(51)	—	(43)	(51)
Columbia					
Columbia Regional	1,536	1,467	1,415	69	52
Seaport District					
Seaport District NYC - Historic Area / Uplands (c)	(1,452)	92	—	(1,544)	92
Summerlin					
Downtown Summerlin (a)	17,950	16,632	10,117	1,318	6,515
Ward Village					
Ward Village Retail (d)	20,576	22,048	25,566	(1,472)	(3,518)
Other					
Lakeland Village Center at Bridgeland (a)	782	190	—	592	190
Outlet Collection at Riverwalk	5,879	5,125	6,450	754	(1,325)
Total Retail NOI	53,643	53,579	49,091	64	4,488
Office					
The Woodlands					
One Hughes Landing	6,168	6,276	5,547	(108)	729
Two Hughes Landing (e)	5,790	5,271	4,650	519	621
Three Hughes Landing	(623)	(514)	—	(109)	(514)
1725 Hughes Landing Boulevard (a)	3,531	200	(198)	3,331	398
1735 Hughes Landing Boulevard (a)	7,509	3,041	(18)	4,468	3,059
2201 Lake Woodlands Drive (a)	(32)	(121)	(138)	89	17
9303 New Trails (f)	1,171	1,721	1,993	(550)	(272)
3831 Technology Forest Drive	2,268	2,051	2,044	217	7
3 Waterway Square	6,709	7,033	6,588	(324)	445
4 Waterway Square	6,473	6,749	6,048	(276)	701
1400 Woodloch Forest	1,781	1,794	1,703	(13)	91
Columbia					
10-70 Columbia Corporate Center (g)	11,568	11,862	12,947	(294)	(1,085)
Columbia Office Properties (h)	1,002	(6)	550	1,008	(556)
One Mall North	1,900	78	—	1,822	78
One Merriweather (c)	1,499	—	—	1,499	—
Two Merriweather (c)	(141)	—	—	(141)	—
Summerlin					

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ONE Summerlin (a)	3,898	2,365	(206)	1,533	2,571
Other					
110 North Wacker (i)	723	6,105	6,100	(5,382)	5
Total Office NOI	61,194	53,905	47,610	7,289	6,295
Multi-family					
The Woodlands					
Millennium Six Pines Apartments	3,579	1,498	—	2,081	1,498
Millennium Waterway Apartments (j)	3,208	3,183	4,169	25	(986)
One Lakes Edge (a)	5,324	3,651	994	1,673	2,657
Summerlin					
Constellation Apartments (k)	15	—	—	15	—
Seaport District					
85 South Street (l)	194	523	494	(329)	29
Total Multi-family NOI	12,320	8,855	5,657	3,465	3,198
Hospitality					
The Woodlands					
Embassy Suites at Hughes Landing (m)	4,816	3,563	(25)	1,253	3,588
The Westin at The Woodlands (m)	6,189	1,739	—	4,450	1,739
The Woodlands Resort & Conference Center (n)	8,740	7,591	10,560	1,149	(2,969)
Total Hospitality NOI	19,745	12,893	10,535	6,852	2,358
Total Retail, Office, Multi-family, and Hospitality NOI	146,902	129,232	112,893	17,670	16,339
Other					
The Woodlands					
The Woodlands Ground leases	1,608	1,461	1,230	147	231
The Woodlands Parking Garages	(178)	(417)	(483)	239	66
Other					
Other Properties (o) (c)	894	1,012	1,431	(118)	(419)
Total Other NOI	2,324	2,056	2,178	268	(122)

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(In thousands)	Year Ended December 31,			2017-2016	2016-2015
	2017	2016	2015	Change	Change
Operating Assets NOI excluding properties sold or in redevelopment	\$ 149,226	\$ 131,288	\$ 115,071	\$ 17,938	\$ 16,217
Redevelopments					
Seaport District					
Seaport District NYC - Historic Area / Uplands (c)					
Other	\$ —	\$ (589)	\$ (2,692)	\$ 589	\$ 2,103
Landmark Mall (p)	—	(676)	(347)	676	(329)
Total Operating Assets Redevelopments NOI	—	(1,265)	(3,039)	1,265	1,774
Dispositions					
The Woodlands					
The Club at Carlton Woods	—	—	(942)	—	942
Other					
Park West (q)	(60)	1,835	1,812	(1,895)	23
Cottonwood Square	750	705	677	45	28
Total Operating Assets Dispositions NOI	690	2,540	1,547	(1,850)	993
Total Operating Assets NOI - Consolidated	\$ 149,916	\$ 132,563	\$ 113,579	\$ 17,353	\$ 18,984
Straight-line rent amortization (r)	7,999	10,689	7,391	(2,690)	3,298
Demolition costs (s)	(1,605)	(194)	(2,412)	(1,411)	2,218
Development-related marketing costs	(3,346)	(947)	(7,934)	(2,399)	6,987
Provision for impairment (q)	—	(35,734)	—	35,734	(35,734)
Depreciation and Amortization (t)	(122,421)	(86,313)	(89,075)	(36,108)	2,762
Write-off of lease intangibles and other	(575)	(25)	(671)	(550)	646
Other income, net (u)	(315)	4,601	524	(4,916)	4,077
Equity in earnings (loss) from Real Estate Affiliates					
Affiliates	3,267	2,802	1,883	465	919
Interest, net	(61,584)	(50,427)	(32,931)	(11,157)	(17,496)
Total Operating Assets segment EBT (v)	\$ (28,664)	\$ (22,985)	\$ (9,646)	\$ (5,679)	\$ (13,339)
Operating Assets NOI - Equity and Cost Method Investments					
The Woodlands					
Millennium Six Pines Apartments (w)	\$ —	\$ 1,537	\$ 1,414	\$ (1,537)	\$ 123
Stewart Title of Montgomery County, TX	1,329	1,977	2,007	(648)	(30)
Woodlands Sarofim # 1	901	1,541	1,496	(640)	45
Columbia					
The Metropolitan Downtown Columbia Summerlin	5,858	4,137	1,194	1,721	2,943
Constellation (k)	1,549	(108)	—	1,657	(108)
Las Vegas 51s (w)	(295)	68	305	(363)	(237)
Seaport District					
33 Peck Slip (x)	—	1,347	—	(1,347)	1,347
Total NOI - equity investees	9,342	10,499	6,416	(1,157)	4,083

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Adjustments to NOI (y)	(9,813)	(9,527)	(3,069)	(286)	(6,458)
Equity Method Investments EBT	(471)	972	3,347	(1,443)	(2,375)
Less: Joint Venture Partner's Share of EBT	(355)	786	3,211	(1,141)	(2,425)
Equity in earnings (loss) from Real Estate Affiliates	(116)	186	136	(302)	50
Distributions from Summerlin Hospital Investment	3,383	2,616	1,747	767	869
Segment equity in earnings from Real Estate and Other Affiliates	\$ 3,267	\$ 2,802	\$ 1,883	\$ 465	\$ 919
Company's Share of Equity Method Investments NOI					
The Woodlands					
Millennium Six Pines Apartments (w)	\$ —	\$ 1,252	\$ 1,151	\$ (1,252)	\$ 101
Stewart Title of Montgomery County, TX	665	989	1,004	(324)	(15)
Woodlands Sarofim # 1	180	308	299	(128)	9
Columbia					
The Metropolitan Downtown Columbia	2,929	2,069	597	860	1,472
Summerlin				—	—
Constellation (k)	775	(54)	—	829	(54)
Las Vegas 51s (w)	(148)	34	153	(182)	(119)
Seaport District					
33 Peck Slip (x)	—	471	—	(471)	471
Company's share NOI - equity investees	\$ 4,401	\$ 5,069	\$ 3,204	\$ (668)	\$ 1,865

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(In thousands)	Economic		December 31, 2017	
	Ownership		Total Debt	Total Cash
The Woodlands				
Stewart Title of Montgomery County, TX	50.00	%	\$ —	\$ 139
Woodlands Sarofim # 1	20.00		5,282	688
Columbia				
The Metropolitan Downtown Columbia	50.00		70,000	340

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- (a) NOI increase for the year ended December 31, 2017 as compared to the same periods in 2016 and 2015 relates to an increase in occupancy and/or effective rent, or relates to properties recently placed in service.
- (b) The decrease in NOI for the year ended December 31, 2017 as compared to the same period in 2016 is due to the expiration of a lease in October 2016. As of December 31, 2017, the building is 100% leased.
- (c) Please refer to discussion in the following sections regarding this property.
- (d) The decrease in NOI at Ward Village for the year ended December 31, 2017 as compared to the same periods in 2016 and 2015 is generally due to the closure and transfer of buildings from Operating Assets to Strategic Developments in anticipation of redevelopment.
- (e) The increase in NOI for the year ended December 31, 2017 as compared to the same period in 2016 is due to bad debt expense for a tenant in 2016. The increase for the year ended December 31, 2016 compared to the same period in 2015 is primarily due to a delinquent tenant who is no longer occupying the space.
- (f) The decrease in NOI for the year ended December 31, 2017 compared to the same periods in 2016 and 2015 is generally due to a decrease in occupancy due to a tenant relocating to 1725 Hughes Landing Boulevard.
- (g) The decrease in NOI for the year ended December 31, 2017 as compared to the same period in 2016 is generally due to an increase in repairs and maintenance and a termination fee received in April 2016. The decrease in NOI for the year ended 2016 compared to 2015 is due to a slight decline in occupancy and a general decline in rental revenues due to rental rates resetting to lower market rates.
- (h) The NOI increase for the year ended December 31, 2017 as compared to the same period in 2016 is primarily due to increased occupancy at Columbia Association and an overall decrease in operating expenses. The decrease in NOI for the year ended December 31, 2016 as compared to the same period in 2015 is due to a general decline in rental revenue due to rental rates resetting to lower market rates.
- (i) The decrease in NOI is due to our termination of the lease to facilitate redevelopment and tenant rent abatement through the January 2018 lease termination date.
- (j) NOI decrease for the year ended December 31, 2016 as compared to the same period in 2015 is generally due to an increase in concessions to increase occupancy.
- (k) NOI increase for the year ended December 31, 2017 as compared to the same period in 2016 due to the consolidation of Constellation as a result of the buyout of our joint venture partner's 50% interest on December 28, 2017. The property's NOI is now included with our 100% owned multi-family properties.
- (l) The decrease in NOI for the year ended December 31, 2017 compared to the same period in 2016 is due to the buyout of a tenant in a rent controlled unit.
- (m) NOI increase for the year ended December 31, 2017 as compared to the same period in 2016 is due to improved occupancy and an increase in revenue per available room.
- (n) The NOI increase for the year ended December 31, 2017 as compared to the same period in 2016 is due to improved occupancy and an increase in revenue per available room. The decrease in NOI for the year ended December 31, 2016 as compared to the same period in 2015 is due to a decrease in occupancy and conference center services.
- (o) NOI decrease for the year ended December 31, 2017 as compared to the same period in 2016 in Other Properties is due to the transfer of the Merriweather Post Pavilion in 2016, offset by the ground lease with a hockey team and

consolidation of Las Vegas 51s in 2017.

- (p) Landmark Mall was closed for redevelopment and moved to our Strategic Developments segment as of January 2017.
- (q) Park West was impaired in the third quarter of 2016 prior to its sale in December 2016, and 2017 activity relates to an adjusted increase of property expenses per the terms of the sales agreement.
- (r) Amortization of straight-line rent decreased for the year ended December 31, 2017 as compared to the same period in 2016 primarily due to the write-off of straight-line rent at Ward Village associated with a bankrupt tenant in 2016.
- (s) The demolition costs for the year ended December 31, 2017 relate to the demolition of Ward Warehouse, a portion of Ward Village Retail.
- (t) Increased depreciation and amortization for the year ended December 31, 2017 as compared to the same period in 2016, relates to an increase in the number of operating properties in service as well as accelerated depreciation of \$25.5 million reflecting the shorter remaining useful lives for properties pending redevelopment.
- (u) The decrease in other income, net for the year ended December 31, 2017 compared to the same period in 2016 is due to the final participation payments received for TPC Las Vegas and TPC Summerlin in July 2016.
- (v) For a detailed breakdown of our Operating Assets segment EBT, please refer to Note 17 – Segments in the consolidated financial statements.
- (w) NOI variance in Millennium Six Pines and Las Vegas 51s for the year ended December 31, 2017, respectively, as compared to the same period in 2016 is due to the consolidation of the asset as a result of the purchase of our joint venture partners' interests.
- (x) The 33 Peck Slip hotel was closed for redevelopment at the end of December 2016. Please see further discussion in the Strategic Developments discussion of the Seaport District.
- (y) Adjustments to NOI include straight line-rent and market lease amortization, demolition costs, depreciation and amortization and interest expense, net at our joint venture properties.

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Retail Properties

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

The following table summarizes the leases we executed at our retail properties during the year ended December 31, 2017:

Retail Properties (a)	Total Executed	Avg. Lease Term (Months)	Square Feet		Per Square Foot per Annum			
			Total Leased	Associated with Tenant Improvements	Associated with Leasing Commissions	Avg. Starting Rents	Total Tenant Improvements	Total Leasing Commissions
Pre-leased (b)	26	112	229,889	105,501	131,493	\$ 53.43	\$ 7.31	\$ 0.97
Comparable - Renewal (c)	9	47	33,504	1,454	—	31.39	3.33	—
Comparable - New (d)	12	76	33,491	20,245	15,125	31.44	4.13	2.16
Non-comparable (e)	32	91	136,974	120,765	117,740	24.63	6.94	0.99
Total			433,858	247,965	264,358			

(a) Excludes executed leases with a term of 12 months or less.

(b) Pre-leased information is associated with our projects under development at December 31, 2017. The majority of our pre-leased retail relates to Seaport District properties in New York where rental rates are higher relative to other geographies.

(c) Comparable - Renewal information is associated with stabilized assets for which the space was occupied by the same tenant within 12 months prior to the executed agreement. These leases represent an increase in cash rents from \$31.26 per square foot to \$31.39 per square foot, or 0.4% over previous rents.

(d) Comparable - New information is associated with stabilized assets for which the space was occupied by a different tenant within 12 months prior to the executed agreement. These leases represent an increase in cash rents from \$28.94 per square foot to \$31.44 per square foot, or 8.6% over previous rents.

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

Our retail square feet placed in service in the year ended December 31, 2017 relates to a portion of our Seaport District project, discussed below:

Seaport District

Seaport District NYC - Historic Area/Uplands

The decrease in NOI for the year ended December 31, 2017 as compared to the same period ended December 31, 2016 in the Seaport District NYC - Historic Area/Uplands (a portion of our larger Seaport District redevelopment project, as discussed further herein in Strategic Developments) primarily relates to an increase in expenses, including operating expenses for Fulton Market Building and for seasonal marketing events, partially offset by rental income from the 46,000 square foot iPic Theater in the newly renovated Fulton Market Building, which opened in the fourth

quarter of 2016. Ongoing leasing and redevelopment activities are expected to substantially reposition the approximately 180,000 square feet of retail space in the Uplands in 2018.

Office Properties

All of the office properties, except for 110 North Wacker and ONE Summerlin, are located in Columbia, Maryland or in The Woodlands, Texas. Leases related to our office properties in The Woodlands and 110 North Wacker are generally triple net leases. Leases at properties located in Columbia, Maryland, and ONE Summerlin are generally gross leases.

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The following table summarizes our executed office property leases during the year ended December 31, 2017:

	Total Executed	Avg. Lease Term (Months)	Square Feet			Per Square Foot per Annum		Total Leasing Commissions
			Total Leased	Associated with Tenant Improvements	Associated with Leasing Commissions	Avg. Starting Rents (f)	Total Tenant Improvements	
Office properties (a)								
Pre-leased (b)	4	156	842,367	842,367	842,367	\$ 49.84	\$ 6.16	\$ 1.06
Comparable - Renewal (c)	13	55	41,242	33,439	26,730	28.35	3.23	1.26
Comparable - New (d)	7	44	39,613	32,830	36,951	37.28	4.09	2.20
Non-comparable (e)	54	73	318,647	277,804	296,559	32.17	8.23	1.90
Total			1,241,869	1,186,440	1,202,607			

(a) Excludes executed leases with a term of 12 months or less.

(b) Pre-leased information is associated with projects under development at December 31, 2017.

(c) Comparable - Renewal information is associated with stabilized assets for which the space was occupied by the same tenant within 12 months prior to the executed agreement. These leases represent a decrease in cash rents from \$29.60 per square foot to \$28.35 per square foot, or (4.2%) under previous rents.

(d) Comparable - New information is associated with stabilized assets for which the space was occupied by a different tenant within 12 months prior to the executed agreement. These leases represent a decrease in cash rents from \$39.21 per square foot to \$37.28 per square foot, or (4.9%) under previous rents.

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

(f) Avg. Starting Rents is based on the gross rents, including recoveries.

The following discussions summarize our recently completed or acquired office properties, which were placed in service in 2017:

Columbia

One Merriweather

Located in the Merriweather District, this 202,603 square foot, eight-story multi-tenant Class A office building includes 12,500 leasable square feet of retail and restaurant space, is situated on 1.3 acres of land and was placed in service in 2017. Adjacent to the building on 1.6 acres is a nine-story parking garage which will contain approximately 1,129 spaces. The garage provides parking for One and Two Merriweather. The total development costs are approximately \$78 million, inclusive of \$15 million in costs for the parking garage (allocated evenly with Two Merriweather), and remaining costs relate to final lease-up and tenant build-out. We expect to reach annual stabilized NOI of approximately \$5.1 million in 2020. As of December 31, 2017, the building is 81.3% leased.

Two Merriweather

We began construction on Two Merriweather, a Class A mixed-use office building, in the third quarter of 2016. The project is being delivered in stages, with the first portion placed in service in the fourth quarter of 2017. Two Merriweather consists of approximately 100,000 square feet of office and approximately 30,000 square feet of retail

space. Total development costs are expected to be approximately \$41 million, of which \$29.8 million has been incurred through December 31, 2017. We expect to reach projected annual stabilized NOI of approximately \$3.6 million in 2020. As of December 31, 2017, 58.2% of the total project is leased.

Other

The properties that are included in Other Properties in our Operating Assets NOI and EBT table for the years ended December 31, 2017, 2016 and 2015 include the Kewalo Basin Harbor, Merriweather Post Pavilion (until its transfer to the Downtown Columbia Arts and Culture Commission in November 2016), HHC 242 Self-Storage and HHC 2978 Self-Storage for the year ended December 31, 2017 as discussed below, Las Vegas 51s since the consolidation of the property on March 1, 2017, and participation interests in the golf courses at TPC Summerlin and TPC Las Vegas golf courses until the June 2016 receipt of \$2.8 million, which represents our final participation payment for these interests.

The following discussions summarize our recently completed self-storage properties, which were placed in service in 2017:

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HHC 242 Self-Storage

Located in Alden Bridge, a neighborhood within The Woodlands, this facility is located on 4.0 acres and comprises 654 units aggregating approximately 82,000 square feet. Total development costs are expected to be approximately \$9 million. As expected given a slower lease-up period for self-storage facilities as compared to other assets, we expect to reach annual stabilized NOI of approximately \$0.8 million in 2020. The facility opened in the first quarter of 2017, and as of December 31, 2017, the project is 37.0% leased.

HHC 2978 Self-Storage

Located in Alden Bridge, this facility is located on 3.1 acres and comprises 784 units aggregating approximately 79,000 square feet. Total development costs are expected to be approximately \$9 million. As expected given a slower lease-up period for self-storage facilities as compared to other assets, we expect to reach annual stabilized NOI of approximately \$0.8 million in 2020. The facility opened in the second quarter of 2017, and as of December 31, 2017, the project is 33.9% leased.

Strategic Developments

Our Strategic Developments segment assets generally require substantial future development to maximize their value. Other than our condominium properties, most of the properties and projects in this segment generate no revenues. For our condominium projects we currently use percentage of completion accounting to recognize revenues during the construction phase, and apply the full accrual method to sales of units in fully completed buildings. Please see Note 1 – Summary of Significant Accounting Policies in our Consolidated Financial Statements for a discussion of changes in accounting for condominium projects as a result of adoption of the new revenue recognition accounting standard on January 1, 2018. Our expenses relating to Strategic Developments assets are primarily costs associated with selling condominiums, marketing costs associated with our developments, 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 Developments asset, we would expect that, with the exception of the residential portion of our condominium projects, upon completion of development, the asset would be reclassified to the Operating Assets segment when the asset is placed in service, and NOI would become a meaningful measure of its operating performance. All development costs discussed herein are exclusive of land costs.

Total revenues and expenses for the Strategic Developments segment are summarized as follows:

(In thousands)	Year Ended December 31,			2017-2016 Change	2016-2015 Change
	2017	2016	2015		
Minimum rents	\$ 565	\$ 447	\$ 899	\$ 118	\$ (452)
Condominium rights and unit sales	464,251	485,634	305,284	(21,383)	180,350
Other land, rental and property revenues	8,206	455	1,734	7,751	(1,279)
Total revenues	473,022	486,536	307,917	(13,514)	178,619
Condominium rights and unit cost of sales	338,361	319,325	191,606	19,036	127,719
Other property operating costs	19,981	5,472	4,673	14,509	799
Real estate taxes	2,662	2,408	2,282	254	126
Rental property maintenance costs	560	359	476	201	(117)
Provision for doubtful accounts	(2)	63	32	(65)	31
Demolition costs	318	2,018	885	(1,700)	1,133
Development-related marketing costs	17,158	21,237	17,532	(4,079)	3,705

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Depreciation and amortization	1,210	2,744	3,240	(1,534)	(496)
Other income	(108)	(611)	104	503	(715)
Gains on sales of properties	(51,242)	(140,549)	—	89,307	(140,549)
Interest expense (income), net (a)	(25,467)	(17,437)	(8,655)	(8,030)	(8,782)
Equity in earnings in Real Estate and Other Affiliates	550	(10,515)	(1,838)	11,065	(8,677)
Total expenses, net of other income	303,981	184,514	210,337	119,467	(25,823)
Strategic Developments segment EBT*	\$ 169,041	\$ 302,022	\$ 97,580	\$ (132,981)	\$ 204,442

(*) For a reconciliation of Strategic Developments segment EBT to consolidated income (loss) before taxes, refer to Note 17 – Segments in our Consolidated Financial Statements.

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

Minimum rents primarily relate to projects that are nearing completion, contribute minimal rental revenue in all years presented and are included in the Strategic Developments segment as the project is not substantially complete.

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The decrease in condominium rights and unit sales for the year ended December 31, 2017 as compared to 2016 is due to less revenues at our Waiea tower, which has sold 94.8% of its units, partially offset by more revenues from Anaha, Ae`o and Ke Kilohana towers. The increase in condominium rights and unit sales for the year ended December 31, 2016 as compared to 2015 related to revenue recognition at our Waiea and Anaha condominium projects for which we began recognizing revenue in 2015 on the percentage of completion basis.

Other land, rental and property revenues increased in 2017 compared to the same period in 2016 and 2015 due to the consolidation of the Home Owners' Associations ("HOAs") for the recently opened Waiea and Anaha residential towers in 2017. We expect to transfer control of the HOAs to homeowners in future periods.

Condominium rights and unit costs of sales for the year ended December 31, 2017 represent development and construction costs relating to the revenues recognized on a percentage of completion basis at Anaha, Ae`o and Ke Kilohana and also includes costs related to sales at our Waiea tower which was opened to new homeowners at the end of 2016. Condominium rights and unit costs of sales for the years ended December 31, 2016 and 2015 primarily represent development and construction costs relating to the revenues recognized on a percentage of completion basis at Waiea and Anaha. The book value of condominium rights sold to the ONE Ala Moana joint venture were also recorded as cost of sales in 2015.

Other property operating costs increased in 2017 as compared to the same period in 2016 and 2015 primarily due to opening and carrying costs associated with unsold inventory at Waiea and pre-opening costs at Anaha condominium projects, costs associated with various projects under development at the Seaport District, as well as costs associated with the HOAs at Waiea and Anaha as a result of the consolidation of the HOAs for these towers in 2017.

Demolition costs decreased in 2017 as compared to 2016 due to costs incurred in 2016 to demolish preexisting structures primarily at Seaport and Ward Village where we have plans to redevelop. Demolition costs increased in 2016 as compared to 2015 for the same reason.

Development-related marketing costs are primarily incurred to enhance our brand, generate demand for our development and redevelopment projects and sustain consumer and industry relationships. For the year ended December 31, 2017, development-related marketing costs decreased compared to 2016 primarily due to less costs incurred at Pier 17, Ae`o and Waiea, offset by costs incurred at `A`ali`i. For the year ended December 31, 2016, development-related marketing costs increased compared to 2015 primarily due to costs incurred at Pier 17, Ae`o and Waiea.

Depreciation and amortization decreased in 2017 as compared to the same periods in 2016 and 2015 due to the IBM building being transferred to our Operating Assets segment in the second quarter of 2017.

Gains on sales of properties for the year ended December 31, 2017, are primarily related to the sale of 36 acres of undeveloped land at The Elk Grove Collection, the sale of 70 acres of undeveloped land at Kendall Town Center, the sale of Century Plaza, and the sale of the Volo Land. The gross sales price of The Elk Grove Collection was \$36.0 million and resulted in a pre-tax gain of \$32.2 million. The gross sales price of Kendall Town Center was \$40.5 million and resulted in a pre-tax gain of \$20.2 million. Century Plaza and Volo Land sold for combined proceeds of \$3.6 million and a combined net loss of \$1.2 million. Gains on sales of properties for the year ended December 31, 2016 relate to the sale of 80 South Street Assemblage for net cash proceeds of \$378.3 million, resulting in a pre-tax gain of \$140.5 million. The 80 South Street Assemblage was a 42,694 square foot lot with 817,784 square feet of available development rights in the Seaport District.

Interest income, net increased for the year ended December 31, 2017, 2016 and 2015 as compared to prior years as we had more projects under construction in those years and therefore capitalized more of our interest incurred.

Equity in earnings from Real Estate and Other Affiliates for the year ended December 31, 2016 is primarily related to our earnings from the sale of a certain land parcel by our Circle T Ranch and Power Center joint venture in June 2016, which did not recur in 2017. In 2015, our Equity in earnings from Real Estate and Other Affiliates represented our share of the earnings in the ONE Ala Moana condominium venture, in which all of the units available for sale have been sold and closed.

The following describes the status of our major construction projects and announced Strategic Developments projects as of December 31, 2017. For projects that have been under construction for a substantial period and are nearing completion, please refer to the Projects under Construction table below for an update on the project's individual metrics and associated timeline for completion. For information on the construction financings on our projects, please refer to Note 8 – Mortgages, Notes and

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Loans Payable in our Consolidated Financial Statements.

Downtown Columbia Redevelopment District

The Downtown Columbia market contains 3.2 million square feet of office space, of which we own 1.6 million square feet, located close to shopping, restaurants and entertainment venues. We believe there is a significant opportunity to redevelop this area over future years. Existing entitlements initially obtained in 2010 and amended in 2017, totaling approximately 14.0 million square feet for all of Downtown Columbia Redevelopment District, have densities for up to 6,200 residential units, 4.3 million square feet of commercial office space, 1.3 million square feet of retail space and 640 hotel rooms. The majority of these entitlements exist on land, surface parking lots and other assets controlled by us. We have been advised that these entitlements have no expiration date under Maryland law.

Pursuant to a 2010 development agreement with General Growth Properties, Inc., we have a preferred residential and office development covenant that provides us the right of first offer for new development densities of both residential and office space within the Columbia Mall Ring Road. This covenant expires in 2030. The development agreement contains the key terms, conditions, responsibilities and obligations with respect to future development of this area within the greater Downtown Columbia Redevelopment District.

We are continuing predevelopment activities on our third neighborhood within the Downtown Columbia Redevelopment District, the Lakefront District and expect approval on a final Development Plan for that area in the first half of 2018.

Tax increment financing (“TIF”) bonds

In November 2016, the Howard County Council authorized the issuance of up to \$90.0 million of TIF bonds for the Downtown Columbia Redevelopment District’s master plan. The Final Limited Offering Memorandum for the first tranche relates to the Merriweather District, and closing on the \$48.2 million of Series 2017 A Special Obligation Bonds (“Phase One Bonds”) occurred in October 2017. As part of the legislation approved concurrently with TIF legislation in 2016, an additional 744 residential units may be constructed for the local community to provide for affordable housing needs, which would, if built, increase the previous density to over 6,200 residential units. The TIF will provide capital for the development of key roads and infrastructure supporting our local office buildings and other commercial development within the Merriweather District. The Phase One Bonds are secured by incremental property taxes from the anticipated increased assessed values of specified properties in the Downtown Columbia Development District, and “Special Taxes” which may be levied if necessary to fund the debt service and other costs of the bonds in the event there is a shortfall in the projected property tax increment. We, through our wholly-owned subsidiaries, currently own the majority of the acreage in the Development District, and all of the developable land within the “Special Taxing District.” In the Funding Agreement for the TIF, one of our wholly-owned subsidiaries, The Howard Research and Development Corporation, has agreed to complete certain defined public improvements and to indemnify Howard County, and we have guaranteed these obligations, with a limit of \$1.0 million, expiring 36 months after bond issuance.

m.flats/TEN.M

We are a 50% partner with Kettler, Inc. (“Kettler”) to construct a 437-unit, Class A multi-family project with 29,000 square feet of ground floor retail, which is adjacent to The Metropolitan Downtown Columbia in Columbia, Maryland. Construction on the project, which began in the first quarter of 2016, includes two separate buildings, m.flats and TEN.M. Kettler provides construction and property management services for the development. In September 2017, we completed construction of TEN.M and residents began taking occupancy. We anticipate project completion of m.flats in the first quarter of 2018. We expect the property to reach projected annual stabilized NOI of approximately \$7.9

million at the end of 2019, of which our share would be \$3.9 million. Total development costs are expected to be approximately \$109 million, and costs incurred through December 31, 2017 were approximately \$96.9 million. The project is financed with an \$88.0 million construction loan, which is non-recourse to us.

Three Merriweather and shared parking garage – In 2017, we announced construction of Three Merriweather, a 12-story, Class A mixed-use office building. Construction is expected to begin in the first half of 2018, with planned completion of the project in the third quarter of 2019. Three Merriweather will consist of approximately 307,000 rentable square feet of office and 13,000 square feet of retail space. Building amenities will include a rooftop terrace with conference and meeting space that overlooks the Merriweather Post Pavilion concert venue and a fitness center at the ground level with direct access to the 100-

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mile running and biking pathway network throughout Columbia. A 9 level parking garage that will provide parking for the office, retail and community events and will be constructed in two phases as part of the project for a total of approximately 2,000 spaces at completion. Total development costs are expected to be approximately \$138 million, and we expect to obtain construction financing during the first half of 2018. As of December 31, 2017 approximately 50%, of the building is pre-leased to Tenable, Inc. We expect to reach annual stabilized NOI of approximately \$9.2 million in 2023.

The Woodlands

100 Fellowship Drive

In November 2016, we entered into a build-to-suit arrangement to develop a three-story, 203,000 rentable square foot medical building with approximately 550 surface parking spaces. The building is 100% pre-leased as of December 31, 2017. Total development costs are expected to be approximately \$63 million. We began construction in the second quarter of 2017 and anticipate project completion in the second quarter of 2019. We expect to reach projected annual stabilized NOI of \$5.1 million in 2019. The project is financed with a \$51.4 million construction loan, which is non-recourse to us.

Creekside Park Apartments

In March 2017, we commenced construction of Creekside Park Apartments, a 292-unit apartment complex offering the first rental product in Creekside Park Village Center. Construction completion and grand opening is expected in the third quarter of 2018. Total development costs are expected to be approximately \$42 million and will be funded in large part with a \$30.0 million increase to The Woodlands Master Credit Facility completed in April 2017 (described in Note 8 – Mortgages, Notes and Loan Payable). We expect to reach projected annual stabilized NOI of \$3.5 million in 2019.

Lake Woodlands Crossing Retail

Construction of Lake Woodlands Crossing Retail began during the fourth quarter of 2017 with completion expected in the fourth quarter of 2018. The center will be approximately 60,300 rentable retail square feet consisting of 25,000 square feet of anchor space, 10,000 square feet of junior anchor space and 25,300 square feet of inline and restaurant space. The project is situated on 7.7 acres and is in close proximity to Market Street and The Woodlands Mall within The Woodlands Town Center. Total development costs are expected to be approximately \$15 million. We expect to reach projected annual stabilized NOI of approximately \$1.7 million in the fourth quarter of 2020. As of December 31, 2017, the project is 63.7% pre-leased, and we obtained a \$15.5 million construction loan on January 25, 2018.

The loan has a 50% repayment guaranty until construction is complete, at which point the repayment guaranty will drop to 15% provided the property is 90% leased.

Bridgeland

Bridgeland Apartments

Bridgeland Apartments is our first apartment complex within Bridgeland. The project will be a 312-unit, multi-family development located at the northeast corner of Bridgeland Creek Parkway and Mason Road, situated on approximately 15.0 acres. The project is comprised of two, four-story garden style buildings, comprising 192 units and 12 townhome style buildings consisting of 120 units. The project also offers the best in class finishes and

amenities unique to the market which would include a 24/7 fitness center, clubhouse with full kitchen, pool, pet care center, storage and children's area. Construction is expected to begin in the second quarter of 2018, with completion anticipated in the fourth quarter of 2019. We are currently seeking construction financing for this project. Total development costs are expected to be approximately \$48.4 million and we expect to reach annual stabilized NOI of approximately \$3.7 million in the third quarter of 2022.

Seaport District

The revitalization of Lower Manhattan into a media and entertainment hub continues in our Seaport District, which encompasses seven buildings spanning several city blocks along the East River waterfront including (i) the Uplands, which is west of the FDR Drive and consists of approximately 183,000 square feet of retail space, including the 100,000 square foot Fulton Market Building, a portion of which was placed in service in the fourth quarter of 2016 (see discussion in the Operating Assets segment), and (ii) approximately 213,000 square feet of experiential retail, studio and creative office space at Pier 17, with an additional approximate 53,000 square feet at the Tin Building located east of the FDR Drive, all of which is under

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development and discussed further below.

Pier 17 and Tin Building

Construction on Pier 17 continues, and the openings of various components of Pier 17 are expected throughout 2018. On October 9, 2017, we announced that ESPN's studio provider NEP Imaging Group, LLC ("ESPN") will occupy 19,000 square feet of rentable space on the third floor of Pier 17 through a long-term lease. ESPN expects to begin broadcasting in April 2018 and will be joined by the culinary experiences of restaurants managed by Jean-Georges Vongerichten and the Momofuku Group led by David Chang on the first floor. Pier 17 will feature dynamic food offerings and retail on the first two levels, office, studio, and event space on levels three and four, and a 1.5-acre rooftop featuring an outdoor event and entertainment venue for a summer concert series, private events, community open space and a vibrant winter village.

In January 2017, we executed a ground lease amendment with the City of New York, incorporating the Tin Building into our leased premises and modifying other related provisions. As part of the Tin Building redevelopment, important historical elements are being salvaged and catalogued during the building's deconstruction. We will reconstruct the platform pier where the Tin Building currently sits and restore the building. The project includes construction of turn-key, interior fit-out for the Food Hall space, also leased by Jean-Georges Vongerichten, which will feature a variety of fresh specialty foods, seafood, exceptional dining experiences and other products.

In February 2018, we executed an agreement with an affiliate of Noho Hospitality Group, cofounded by two-time James Beard award-winning chef, Andrew Carmellini, to open a new restaurant in 2019 in Pier Village that will total approximately 11,000 square feet. We also negotiated multi-year agreements with Ticketmaster and Heineken (through NYC Seaport SP Group, LLC). As the Exclusive Ticketing Partner of the Pier 17 rooftop, Ticketmaster will provide ticketing services for the rooftop. Heineken will be a Founding Sponsor of the Seaport District and activate the property with unique consumer experiences.

33 Peck Slip

In January 2016, we entered into a joint venture with Grandview SHG, LLC to purchase an operating hotel totaling 43,889 square feet located at 33 Peck Slip in the Seaport District of New York. We advanced a bridge loan of \$25.0 million at a 5.0% interest rate to the joint venture at closing to expedite the acquisition, which was repaid in full in June 2016 upon completion of a refinancing of the property with a \$36.0 million redevelopment loan. Our total investment in the joint venture is \$8.7 million as of December 31, 2017, which represents our 35% ownership share of the total equity in the project. Under the terms of the joint venture agreement, cash will be distributed to the members as follows: (1) each member will be paid a 6.5% preferred return on their initial invested capital and will be repaid their initial invested capital; and (2) all remaining cash will be distributed 50% to us and 50% to the other members. The 33 Peck Slip hotel was closed at the end of December 2016 for redevelopment and construction began in January 2017. We anticipate completion in the second quarter of 2018 and expect the 66-room, renovated hotel to be an added amenity to the Seaport District experience. Total costs of the project are expected to be approximately \$67 million, and as of December 31, 2017, \$59.7 million of costs have been incurred by the joint venture. We expect stabilized NOI to be \$3.4 million, of which \$1.2 million is our share.

Summerlin

Aristocrat

In the second quarter of 2017, we entered into a build-to-suit arrangement with Aristocrat Technologies, a global leader in gaming solutions, and commenced construction of a corporate campus located less than four miles from Downtown Summerlin. The campus will be situated on approximately 12 acres, will include two office buildings of approximately 90,000 square feet each and is 100% pre-leased. Construction began in June 2017, with core and shell completion anticipated in the second quarter of 2018 and an opening in the fourth quarter of 2018. Total development costs are expected to be approximately \$47 million, and in the fourth quarter of 2017, we closed on a \$64.6 million financing for this project in conjunction with the financing of Two Summerlin, discussed below, of which \$31.1 million is allocated to Aristocrat. We expect to reach projected annual stabilized NOI of \$4.1 million in the first quarter of 2019.

Downtown Summerlin Area

Summerlin's developing urban core is comprised of nearly 400 acres and is centrally located within Summerlin with easy

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access to the Las Vegas Valley's 215 Beltway. It is currently home to our Downtown Summerlin retail asset, an approximately 106-acre fashion, dining and entertainment venue, and the new City National Arena, home to the Las Vegas Golden Knights NHL team's practice facility. There are approximately 170 acres of land available for development.

Downtown Summerlin Apartments – We commenced construction on Downtown Summerlin Apartments in the first quarter of 2018. The project will be a 267-unit, multi-family development in Downtown Summerlin, situated on approximately 9.0 acres, in close proximity to our Downtown Summerlin retail venue. The project is comprised of three garden-style, walk-up residential buildings with elevators, surface parking, 22 tuck under garages, a clubhouse with an attached pool and an amenity area. We anticipate obtaining construction financing of approximately \$44.1 million during the first quarter of 2018. Total development costs are expected to be approximately \$59 million. We expect to complete this project in the third quarter of 2019 and reach projected annual stabilized NOI of approximately \$4.4 million in the third quarter of 2020.

Las Vegas Ballpark – In October 2017, we announced the development of a new ballpark for our wholly-owned Las Vegas 51s Triple-A professional baseball team and signed a 20-year, \$80.0 million naming rights agreement for the future stadium with the Las Vegas Convention and Visitor's Authority. The approximately 10,000-fan capacity ballpark will be located on 9 acres in the Downtown Summerlin area and serve as another amenity for the rapidly growing retail and entertainment destination in the heart of Summerlin's urban core. During the first half of 2018, we expect to continue to complete predevelopment activities, finalize the development budget and construction timeline, and obtain construction financing.

Two Summerlin – During the second quarter of 2017, we commenced construction of our second office building in Downtown Summerlin and expect completion by the end of the third quarter of 2018. The Class A office building will be approximately 145,000 square feet, with an adjacent 424-space parking structure, situated on approximately four acres, it will be located just east of Downtown Summerlin and adjacent to land which we ground lease to the NHL practice facility, which is in close proximity to our Downtown Summerlin retail venue. This office building will be the first office project we have developed within our 200-acre master parcel across from Downtown Summerlin and will initiate development of our planned 1.2 million square feet of office, 77,000 square feet of neighborhood retail and 4,000 residential units. Total development costs for Two Summerlin are expected to be approximately \$49 million. In the fourth quarter of 2017, we closed on a \$64.6 million financing for this project in conjunction with the financing of Aristocrat, discussed above, of which \$33.5 million is allocated to Two Summerlin. We expect to reach projected annual stabilized NOI of approximately \$3.5 million in 2020, and the building is 22.0% pre-leased as of December 31, 2017, of which 11.0% is intended for use by our local operations.

Ward Village

We continue to transform Ward Village into 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. The ongoing construction at our four mixed-use projects includes the construction of approximately 114,500 square feet of new retail to serve our new residents and the community at large. In addition, during the last half of 2017, we have removed 226,466 square feet of old retail space from service to prepare it for redevelopment. Many of the tenants occupying the closed space have been relocated within Ward Village. As we move forward with the execution of our master plan which ultimately contemplates a total of approximately 1.0 million square feet of retail at completion, we will periodically redevelop the older existing retail space and replace it as part of new mixed-use projects.

Condominium Projects Delivered or Under Construction

Sales contracts for condominium units are subject to a 30-day rescission period, and the buyers are typically required to make an initial deposit at signing and an additional deposit 30 days later at which point their total deposit becomes non-refundable. Buyers are typically then required to make a final deposit within approximately 90 days of our receipt of their second deposit. Certain buyers are required to deposit the remainder of the sales price on a predetermined pre-closing date, which is specified in the sales contracts for each condominium project.

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Ward Village Condominiums as of December 31, 2017

(\$ in millions)	Total Units	Closed or Under Contract	Percent	Total Projected Costs	Costs Paid to Date	Estimated Completion Date	
			of Units Sold				
Waiea	174	165	94.8%	\$ 424.6	\$ 391.6	Opened	(a)
Anaha	317	309	97.5	401.3	371.7	Opened	(b)
Ae`o	466	422	90.6	428.5	222.3	Q1 2019	
Ke Kilohana	424	390	92.0	218.9	64.9	2019	
Total under construction	1,381	1,286	93.1%	\$ 1,473.3	\$ 1,050.5		

(a) Waiea opened and residents began occupying units in November 2016. We have closed on 159 units as of December 31, 2017.

(b) Anaha opened and residents began occupying units in October 2017. We have closed on 305 units as of December 31, 2017.

Waiea – As of December 31, 2017, we have entered into contracts for 165 of the 174 units and closed on 159 of those units. All units under contract represent 94.8% of total units and 89.9% of the total residential square feet available for sale. Total development costs are expected to be approximately \$425 million, which includes \$12.6 million of development-related marketing costs that were expensed as incurred. We have recognized 100% of the revenue and costs for on units that have either closed or are under qualifying contracts under the percentage-of-completion method. Remaining costs to complete primarily relate to the finish out of the remaining unsold units. The retail portion of the project is 100% leased and will be placed in service by the end of the second quarter of 2018.

Anaha – In 2014, we began construction of Anaha, and opened the condominium tower during the fourth quarter of 2017, with the initial residents taking occupancy at that time. Additionally, we have leased 58.5% of the 16,100 square feet of retail space. As of December 31, 2017, 309 of the 317 total units were closed or under contract. These contracted sales represent 97.5% of total units and 94.3% of the total residential square feet available for sale. Total development costs are expected to be approximately \$401 million, which includes \$8.6 million of development-related marketing costs that are being expensed as incurred. Remaining costs to complete primarily relate to punch list items and unsold units. During 2015, we met all the necessary requirements to begin recognizing revenue on the percentage of completion basis.

Ae`o – In February 2016, we began construction of the 389,000 square foot Ae`o tower and the 68,300 square feet of retail, primarily comprised of a 57,000 square foot Whole Foods Market, located on the same block. We expect to complete development of the entire project by early 2019. Total development costs are expected to be approximately \$429 million. As of December 31, 2017, 422 of the 466 total units were under contract, representing 90.6% of total units and 87.5% of the total residential square feet available for sale. During the second quarter of 2017, we satisfied all requirements to begin recognizing revenue on the percentage of completion basis. As of December 31, 2017, the project was approximately 64.9% complete.

Ke Kilohana – In October 2016, we began construction of Ke Kilohana and anticipate completion in 2019. The tower will consist of 424 residences, 375 of which are designated as workforce housing units and are being offered to local residents of Hawai'i who meet certain maximum income and net worth requirements. Total development costs are expected to be approximately \$219 million. Public pre-sales on the workforce units began in the first quarter of 2016, and 100% of those units were under contract by the end of July 2016. The market rate units began public pre-sales in July 2016. As of December 31, 2017, we sold 15 of the 49 market units, and we expect to sell the remainder over the

next two years. All units under contract represent 92.0% of the total units and 88.2% of the total residential square feet available for sale. As previously announced, we have pre-leased approximately 22,000 square feet, 100% of the available retail space, to CVS/Longs Drugs on the ground floor of Ke Kilohana. During the first quarter of 2017, we met all the necessary requirements to begin recognizing revenue on the percentage of completion basis. As of December 31, 2017, the project was approximately 36.6% complete.

Kewalo Basin Harbor - Kewalo Basin Harbor is a harbor that leases slips for charter, commercial fishing and recreational vessels. It is located in Honolulu across Ala Moana Boulevard from Ward Village. In August 2014, we entered into a 35-year lease with a 10-year extension option with the Hawaii Community Development Authority (“HCDA”) to make improvements, manage, and serve as the operator of Kewalo Basin Harbor. During the third quarter of 2017, we began capital improvement activities and completion is expected in 2019. The planned improvements include replacement of the existing pier decking, improved security features and upgraded access to utilities. These modernization efforts focus on achieving a market-leading boating facility to drive occupancy. Total development costs are expected to be approximately \$23 million, and in the third quarter of 2017, we closed on an \$11.6 million partial recourse construction loan to finance this project. We anticipate annual stabilized NOI of approximately \$1.5 million in the first quarter of 2020.

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Gateway Towers – Construction of the two towers will be subject to obtaining an acceptable level of pre-sales and financing for the projects. Pre-sales for the first residential tower containing 125 units began in July 2015. As expected, contracted unit sales in this tower have been slower than Waiea, Anaha and Ae 'o because the pricing and marketing of these units is targeted towards a significantly smaller segment of the market. We have incurred \$16.2 million of predevelopment costs for the first tower as of December 31, 2017 and are finalizing the project budget. We have incurred \$13.0 million of predevelopment costs of the second tower as of December 31, 2017.

ʻAʻaliʻi – In response to the strong demand for housing at lower price points in the Honolulu market, in September 2016 we announced plans to develop our next market rate tower. ʻAʻaliʻi will be a 42-story, 751-unit mixed-use condominium project located off of Queen Street next to Ae'o and the flagship Whole Foods Market, which is currently under construction. The project will consist of studio, one and two-bedroom residences and will include 150 workforce units under the HCDA's Reserved Housing Program. The units will range from approximately 300 square feet to 900 square feet. Additionally, there will be up to 15,000 square feet of new street level retail and one acre of indoor and outdoor amenities for residents. The market rate units began pre-sales during the fourth quarter of 2017. We anticipate launching sales of the workforce units later in 2018. We are targeting to start construction during 2018. We continue to finalize the development budget and seek financing for this project. As of December 31, 2017, we have incurred \$10.7 million of costs.

Other Development Projects

Century Plaza

In December 2017, we sold Century Plaza, approximately 59 acres in Birmingham, Alabama, for net cash proceeds of \$3.0 million, resulting in a pre-tax loss of \$1.4 million and an income tax loss of \$14.8 million.

Circle T Ranch and Power Center

We are a 50% partner in two joint ventures with Hillwood Development Company, Ltd, a local Texas developer. The ventures are known as Westlake Retail Associates, Ltd and 170 Retail Associates, and we have collectively referred to them as Circle T Ranch and Power Center. On June 1, 2016, the Westlake Retail Associates venture closed on a 72-acre land sale with an affiliate of Charles Schwab Corporation, and because of the land sale, the year ended December 31, 2016 reflects the recognition of \$10.5 million in Equity in earnings from Real Estate and Other Affiliates.

Kendall Town Center

In December 2017, we sold Kendall Town Center, approximately 70 acres in Kendall, Florida, for net sales proceeds of \$40.5 million, resulting in a pre-tax gain of \$20.2 million and an income tax loss of \$32.6 million.

80 South Street Assemblage

In March 2016, we sold the 80 South Street Assemblage for net cash proceeds of \$378.3 million, resulting in a pre-tax gain of \$140.5 million. The 80 South Street Assemblage was a 42,694 square foot lot with 817,784 square feet of available development rights.

The Elk Grove Collection

In January 2017, we closed on a land sale of approximately 36 acres of our 100-acre property, The Elk Grove Collection, for gross sales proceeds of \$36.0 million, resulting in a pre-tax gain of \$32.2 million and an income tax

loss of \$41.8 million. We plan to develop the remaining 64 acres. Commencement of construction is dependent on meeting financing and internal pre-leasing requirements for the project.

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Projects Under Construction

The following table summarizes our projects under construction, and related debt, for Operating Assets and Strategic Developments as of December 31, 2017. Projects that are substantially complete and which have been placed into service are included in the following table if the project had more than \$1 million of estimated costs remaining to be incurred. Typically, these amounts represent budgeted tenant allowances necessary to bring the asset to stabilized occupancy. Projects that are substantially complete and therefore have been placed in service in the Operating Assets segment may still require some capital for remaining tenant build-out.

(\$ in thousands)	Total Estimated Costs (a)	Costs Paid Through December 31, 2017 (b)	Estimated Remaining to be Spent (A) - (B) = (C)	Remaining Buyer Deposits/Holdback to be Drawn (c)		Costs Remaining to be Paid, Net of Debt and Buyer Deposits/Holdback to be Drawn (c) (C) - (D) - (E) = (F)		Estimated Completion Date
				(D)	(E)	(F)	(G)	
Operating Assets	(A)	(B)	(C)	(D)	(E)	(F)	(G)	
Columbia							(d)	
One Merriweather	\$ 78,187	\$ 67,984	\$ 10,203	\$ -	\$ 7,597	\$ 2,606	(e)	Complete
Two Merriweather	40,941	26,985	13,956	-	13,727	229	(d)	Complete
The Woodlands 1725-35 Hughes Landing Boulevard	218,367	189,736	28,631	-	25,583	3,048	(e)	Complete
Three Hughes Landing HHC 2978	90,162	67,055	23,107	-	20,397	2,710	(d)	Complete
Self-Storage Other	8,476	7,754	722	-	734	(12)	(e)	Complete
Lakeland Village Center at Bridgeland Kewalo Basin Harbor	16,274	13,658	2,616	-	2,530	86	(d)	Complete
Total Operating Assets	475,125	378,979	96,146	-	82,130	14,016	(g)	2019
Strategic Developments								
The Woodlands Creekside Park Apartments	42,111	14,527	27,584	-	30,000	(2,416)	(f)	Q3 2018
	63,278	12,965	50,313	-	51,425	(1,112)	(h)	2019

100 Fellowship Drive							(f)	
Lake Woodlands Crossing Retail Seaport District	15,381	551	14,830	-	-	14,830	(g)	Q4 2018
Seaport District NYC - Pier 17 and Historic Area / Uplands	622,883	434,475	188,408	-	-	188,408	(g)	Q4 2018
Seaport District NYC - Tin Building Summerlin	161,812	12,590	149,222	-	-	149,222	(j)	Q1 2020
Aristocrat	46,661	6,691	39,970	-	31,118	8,852	(g)	Q2 2018
Two Summerlin Ward Village	49,538	8,368	41,170	-	33,432	7,738	(g)	Q3 2018
Ae`o	428,508	222,292	206,216	1,254	177,449	27,513	(d)	Q1 2019
Anaha	401,314	371,695	29,619	-	-	29,619	(g)	
Ke Kilohana	218,898	64,900	153,998	225	141,386	12,387	(k)	Opened 2019
Waiea	424,604	391,637	32,967	-	-	32,967	(d)	Opened
Total Strategic Developments	2,474,988	1,540,691	934,297	1,479	464,810	468,008		
Combined Total at December 31, 2017	\$ 2,950,113	\$ 1,919,670	\$ 1,030,443	\$ 1,479	\$ 546,940	\$ 482,024		
			Lake Woodlands Crossing estimated financing			(15,523)		
			Estimated costs to be funded net of financing, assuming closing on estimated financing			\$ 466,501		

- (a) Total Estimated Costs represent all costs to be incurred on the project which include construction costs, demolition costs, marketing costs, capitalized leasing, payroll or project development fees, deferred financing costs and advances for certain accrued costs from lenders and excludes land costs and capitalized corporate interest allocated to the project. Waiea, Anaha, Ae`o, Ke Kilohana, One Merriweather and Two Merriweather exclude Master Plan infrastructure and amenity costs at Ward Village and the Merriweather District.
- (b) Costs included in (a) above which have been paid through December 31, 2017.
- (c) With respect to our condominium projects, remaining debt to be drawn is reduced by deposits utilized for construction.
- (d) These positive balances represent cash drawn in advance of costs paid.
- (e) Final completion is pending lease-up and tenant build-out.
- (f) Negative balances represent cash to be received in excess of Estimated Remaining to be Spent. These items are primarily related to December 2017 costs that were paid by us but not yet reimbursed by the lender. We expect to receive funds from our lenders for these costs in the future.
- (g) These positive balances represent cash equity to be invested.

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- (h) Creekside Apartments was approved in December 2016. We closed on the additional \$30.0 million of financing through our Woodlands Credit Facility in April 2017.
- (i) In the fourth quarter of 2016, 100 Fellowship was approved to begin construction. We closed on a \$51.4 million construction loan in May 2017.
- (j) Seaport District NYC - Pier 17 and Historic Area / Uplands Total Estimated Costs and Costs Paid Through December 31, 2017 include costs required for the Pier 17 and Historical Area/Uplands and are gross of insurance proceeds received to date. We are currently seeking financing for this project.
- (k) The Waiea and Anaha facility was repaid on October 27, 2017 in conjunction with the closing of a substantial number of Anaha and Waiea units. Approximately 96.5% of the units in these towers were sold and closed by December 31, 2017.

Corporate and other items

The following table contains certain corporate related and other items not related to segment activities and 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 discussions. Significant variances for consolidated items not included in NOI or EBT are described below.

(In thousands)	Year Ended December 31,			2017-2016	2016-2015
	2017	2016	2015	Change	Change
General and administrative	\$ 89,882	\$ 86,588	\$ 81,345	\$ 3,294	\$ 5,243
Corporate interest expense, net	48,700	52,460	52,995	(3,760)	(535)
Loss on redemption of senior notes due 2021	46,410	—	—	46,410	—
Warrant liability loss (gain)	43,443	24,410	(58,320)	19,033	82,730
(Gain) on acquisition of joint venture partner's interest	(23,332)	(27,088)	—	3,756	(27,088)
(Gain) loss on disposal of operating assets	(3,868)	1,117	(29,073)	(4,985)	30,190
Corporate other (income), net	45	(6,241)	(1,409)	6,286	(4,832)
Corporate gains on sales of properties	(125)	—	—	(125)	—
Equity in earnings in Real Estate and Other Affiliates	453	—	—	453	—
Corporate depreciation and amortization	8,298	6,496	6,042	1,802	454
Total Corporate and other items	\$ 209,906	\$ 137,742	\$ 51,580	\$ 72,164	\$ 86,162

General and administrative expenses increased for the years ended December 31, 2017 and 2016 compared to the same periods in 2016 and 2015, respectively, due to higher labor costs relating generally to increases in salaries.

Corporate interest expense, net decreased for the year ended December 31, 2017 as compared to the same period in 2016 primarily due to increased interest income due to increases in market interest rates and investing excess cash on hand in competitive investments yielding higher interest rates. See further discussion in Note 8 – Mortgages, Notes and Loans Payable in our Consolidated Financial Statements.

Loss on redemption of senior notes due in 2021 for the year ended December 31, 2017 is due to the redemption in the first quarter of 2017 of our \$750.0 million 6.875% senior notes due in 2021. See further discussion in Note 8 – Mortgages, Notes and Loans Payable in our Consolidated Financial Statements.

Warrant liability loss increased for the year ended December 31, 2017, as compared to the same period in 2016 as all warrants which qualified for liability accounting treatment and were marked-to-market periodically have now been exercised and settled. See further discussion in Note 3 – Warrants in our Consolidated Financial Statements. Warrant liability loss increased \$82.7 million for the year ended December 31, 2016 compared to the same period in 2015 due to fluctuations in our stock price.

We realized a gain of \$17.8 million for the year ended December 31, 2017 related to the acquisition of our joint venture partner's interest in Constellation. In accordance with ASC 805, we remeasured to fair value our equity interest held in the joint venture as of the December 28, 2017 acquisition date. We realized a gain of \$27.1 million for the year ended December 31, 2016 related to the acquisition of our joint venture partner's interest in Millennium Six Pines Apartments. In accordance with ASC 805, we remeasured to fair value our equity interest held in the joint venture as of the July 20, 2016 acquisition date.

We realized a gain on disposal of operating assets related to the sale of Cottonwood Square in 2017. We realized a gain of \$29.1 million in the year ended December 31, 2015 relating to the September 2015 sale of The Club at Carlton Woods for net cash proceeds of \$25.1 million and purchaser's assumption of net liabilities of \$4.0 million.

The Corporate other income, net for the year ended December 31, 2017 decreased as compared to the same period in 2016 due to Seaport District NYC insurance proceeds received in the year ended December 31, 2016 which did not recur in 2017.

The following table represents our capitalized internal costs by segment for the years ended December 31, 2017, 2016 and 2015:

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(In millions)	Capitalized Internal Costs			Capitalized Internal Costs Related to Compensation Costs		
	Year Ended December 31,			Year Ended December 31,		
	2017	2016	2015	2017	2016	2015
MPC segment	\$ 9.6	\$ 9.7	\$ 9.5	\$ 7.7	\$ 7.6	\$ 7.3
Operating Assets segment	2.5	5.3	4.0	2.1	4.0	2.9
Strategic Developments segment	24.9	24.2	25.9	21.1	18.5	19.7
Total	\$ 37.0	\$ 39.2	\$ 39.4	\$ 30.9	\$ 30.1	\$ 29.9

Capitalized internal costs (which include compensation costs) for the year ended December 31, 2017 decreased as compared to 2016 primarily due to fewer projects under development in the current year for the Operating Assets segment. The capitalized internal costs slightly increased for the Strategic Developments segment due to the increases in projects at several locations. At the MPC segment, capitalized internal costs slightly decreased for the year ended December 31, 2017 due to fluctuations in the level of development activity at our newer MPCs. As projects continue to begin construction, internal costs will continue to be capitalized within these segments.

Capitalized internal costs (which include compensation costs) for the year ended December 31, 2016 decreased at our Strategic Developments and increased at our MPC segments compared to 2015, primarily due to higher staff allocations as a result of more development activity within the segments. As projects continue to begin construction, internal costs will continue to be capitalized within these segments. Capitalized internal costs increased for the year ended December 31, 2016 in our Operating Assets segment compared to 2015, primarily due to higher staff allocations with respect to our properties undergoing redevelopment.

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 and sales of properties, condominium closings, deposits from condominium sales (which are restricted to funding construction of the related developments), first mortgage financings secured by our assets and the corporate bond markets. Additionally, strategic sales of certain assets may provide additional cash proceeds to our operating or investing activities. Our primary uses of cash include working capital, overhead, debt service, property improvements, acquisitions 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. Any additional funding would be raised with a mix of construction, bridge and long-term financings, by entering into joint venture arrangements and the sale of non-core assets at the appropriate time. We cannot provide assurance that financing arrangements for our properties, particularly those in our Strategic Developments segment, will be on favorable terms or occur at all, which could have a negative impact on our liquidity and capital resources. In addition, we typically must provide completion guarantees to lenders in connection with their providing financing for our projects. We have also provided a completion guarantee to the City of New York for the Seaport District NYC - Pier 17 project.

On February 23, 2018, we repurchased 475,920 shares of our common stock, par value \$0.01 per share, in a private transaction with an unaffiliated entity at a purchase price of \$120.33 per share, or approximately \$57,267,453 in the aggregate. The repurchase transaction was consummated on February 21, 2018, and was funded with cash on hand.

Total outstanding debt was \$2.9 billion as of December 31, 2017. Please refer to Note 8 – Mortgages, Notes and Loans Payable in our Consolidated Financial Statements for a table showing our debt maturity dates. Certain mortgages may require paydowns in order to exercise contractual extension terms. Our proportionate share of the debt of our Real Estate Affiliates, which is non-recourse to us, totaled \$85.0 million as of December 31, 2017.

The following table summarizes our net debt on a segment basis as of December 31, 2017. Net debt is defined as mortgages, notes and loans payable, including our ownership share of debt of our Real Estate and Other Affiliates, reduced by liquidity sources to satisfy such obligations such as our ownership share of cash and cash equivalents and SID and MUD receivables. Although net debt is not a recognized GAAP financial measure, it is 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

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financial statements. However, it should not be used as an alternative to our consolidated debt calculated in accordance with GAAP.

(In thousands)	Master	Operating	Strategic	Segment	Non-	Total
Basis (a)	Planned Communities	Assets	Developments	Totals	Segment Amounts	December 31, 2017
Mortgages, notes and loans payable	\$ 239,764	\$ 1,625,494	\$ 82,530	\$ 1,947,788	\$ 995,140	\$ 2,942,928
Less: cash and cash equivalents	(104,256)	(71,520)	(44,202)	(219,978)	(674,701)	(894,679)
Special Improvement District receivables	(26,430)	—	—	(26,430)	—	(26,430)
Municipal Utility District receivables	(184,811)	—	—	(184,811)	—	(184,811)
Net Debt	\$ (75,733)	\$ 1,553,974	\$ 38,328	\$ 1,516,569	\$ 320,439	\$ 1,837,008

(a) Please refer to Note 17 – Segments in our Consolidated Financial Statements.

(b) Includes MPC cash and cash equivalents, including \$30.8 million of cash related to The Summit joint venture.

(c) Includes our \$36.1 million proportionate share of debt of our Real Estate and Other Affiliates in Operating Assets segment (Woodlands Sarofim #1 and The Metropolitan Downtown Columbia).

(d) Includes our \$48.9 million share of debt of our Real Estate and Other Affiliates in Strategic Developments segment (33 Peck Slip and m.flats/TEN.M).

(e) Includes our \$0.4 million share of cash and cash equivalents of our Real Estate and Other Affiliates in Operating Assets segment (Woodlands Sarofim #1, The Metropolitan Downtown Columbia and Stewart Title of Montgomery County, TX).

(f) Includes our \$2.5 million share of cash and cash equivalents of our Real Estate and Other Affiliates in Strategic Developments segment (KR Holdings, LLC, HHMK Development, LLC, Circle T Ranch and Power Center, 33 Peck Slip and m.flats/TEN.M).

Cash Flows

Operating Activities

The cash flows and earnings generated from each business segment's activities will likely vary significantly from year to year given the changing nature of our development focus. Condominium deposits received from contracted units offset by other various cash uses related to condominium development and sales activities are a substantial portion of our operating activities in 2017. Operating cash continued to be utilized in 2017 to fund ongoing development expenditures in our Strategic Developments and MPC segments, consistent with prior years.

The cash flows and earnings from the MPC business may fluctuate more 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

development costs associated with the land sales business and acquisitions of land that is intended to ultimately be developed and sold.

Net cash provided by operating activities was \$319.0 million for the year ended December 31, 2017 compared to net cash provided by operating activities of \$58.9 million for the year ended December 31, 2016.

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The \$260.1 million net increase in cash from operating activities in 2017 was primarily related to the following:

Increases in operating cash flow:

- Release of condominium buyer deposits from escrow of \$264.9 million;
- Increase in MPC land sales of \$33.3 million;
- Increase in income tax refund net of taxes paid of \$30.6 million;
- NOI contribution of \$22.0 million primarily from property openings and acquisitions in 2016;
- Accounts payable decrease \$22.0 million;
-