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

FORM 10-Q

(Mark One)

[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2014
or
[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to
Commission File Number: 000-19989

STRATUS®

Stratus Properties Inc.

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
☑ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☑ Yes ☐ No

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☑

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

On October 31, 2014, there were issued and outstanding 8,038,353 shares of the registrant’s common stock, par value $0.01 per share.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

STRATUS PROPERTIES INC.
CONSOLIDATED BALANCE SHEETS (Unaudited)
(In Thousands)

	September 30, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	$ 26,676	$ 21,307
Restricted cash	6,264	5,077
Real estate held for sale	16,407	18,133
Real estate under development	116,113	76,891
Land available for development	21,659	21,404
Real estate held for investment, net	177,913	182,530
Investment in unconsolidated affiliates	3,307	4,427
Other assets	19,599	17,174
Total assets	$ 387,938	$ 346,943
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable	$ 7,866	$ 5,143
Accrued liabilities	8,388	9,360
Debt	187,782	151,332
Other liabilities and deferred gain	14,678	11,792
Total liabilities	218,714	177,627
Commitments and contingencies		
Equity:		
Stratus stockholders' equity:		
Common stock	91	91
Capital in excess of par value of common stock	204,137	203,724
Accumulated deficit	(58,811)	(60,724)
Accumulated other comprehensive loss	(258)	(22)
Common stock held in treasury	(20,275)	(19,448)
Total Stratus stockholders' equity	124,884	123,621
Noncontrolling interests in subsidiaries	44,340	45,695
Total equity	169,224	169,316
Total liabilities and equity	$ 387,938	$ 346,943

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

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

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Revenues:				
Real estate operations	$ 6,562	$ 10,810	$ 18,817	$ 57,715
Hotel	9,714	8,312	31,086	28,207
Entertainment	3,659	3,310	12,659	9,942
Commercial leasing	1,695	1,391	4,888	3,943
Total revenues	21,630	23,823	67,450	99,807
Cost of sales:				
Real estate operations	5,478	6,942	13,978	46,727
Hotel	7,542	6,893	22,815	21,705
Entertainment	3,003	3,000	9,539	8,435
Commercial leasing	1,045	644	2,449	1,991
Depreciation	2,241	2,252	6,713	6,790
Total cost of sales	19,309	19,731	55,494	85,648
Litigation and insurance settlements	(1,506)	—	(2,082)	(1,785)
General and administrative expenses	1,741	1,578	5,762	5,356
Total costs and expenses	19,544	21,309	59,174	89,219
Operating income	2,086	2,514	8,276	10,588
Interest expense, net	(974)	(1,833)	(2,797)	(6,140)
Gain (loss) on interest rate cap agreement	15	—	(236)	—
Loss on early extinguishment of debt	(19)	(1,379)	(19)	(1,379)
Other income, net	3	7	25	1,352
Income (loss) before income taxes and equity in unconsolidated affiliates' (loss) income	1,111	(691)	5,249	4,421
Equity in unconsolidated affiliates' (loss) income	(190)	(114)	248	(3)
Provision for income taxes	(143)	(192)	(563)	(617)
Net income (loss)	778	(997)	4,934	3,801
Net (income) loss attributable to noncontrolling interests in subsidiaries	(181)	957	(3,021)	(2,056)
Net income (loss) attributable to Stratus common stock	$ 597	$ (40)	$ 1,913	$ 1,745
Basic and diluted net income (loss) per share attributable to Stratus common stock	$ 0.07	$ —	$ 0.24	$ 0.22
Weighted-average shares of common stock outstanding:				
Basic	8,032	8,057	8,037	8,087
Diluted	8,067	8,057	8,078	8,118

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income (loss)	$ 778	$ (997)	$ 4,934	$ 3,801
Other comprehensive income (loss), net of taxes:				
Gain (loss) on interest rate swap agreement	98	—	(337)	—
Other comprehensive income (loss)	98	—	(337)	—
Total comprehensive income (loss)	876	(997)	4,597	3,801
Total comprehensive (income) loss attributable to noncontrolling interests	(211)	957	(2,920)	(2,056)
Total comprehensive income (loss) attributable to Stratus common stock	$ 665	$ (40)	$ 1,677	$ 1,745

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

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

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Cash flow from operating activities:		
Net income	$ 4,934	$ 3,801
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	6,713	6,790
Cost of real estate sold	9,772	37,341
Loss on early extinguishment of debt	19	1,379
Stock-based compensation	348	245
Equity in unconsolidated affiliates' (income) loss	(248)	3
Deposits	597	1,306
Purchases and development of real estate properties	(47,611)	(14,054)
Recovery of land previously sold	—	(485)
Municipal utility district reimbursement	—	208
(Increase) decrease in other assets	(2,939)	7,991
Increase in accounts payable, accrued liabilities and other	3,334	2,340
Net cash (used in) provided by operating activities	(25,081)	46,865
Cash flow from investing activities:		
Capital expenditures	(2,263)	(991)
Return of investment in (investment in) unconsolidated affiliates	1,368	(1,100)
Net cash used in investing activities	(895)	(2,091)
Cash flow from financing activities:		
Borrowings from credit facility	28,500	18,000
Payments on credit facility	(9,782)	(32,924)
Borrowings from project loans	29,812	101,577
Payments on project and term loans	(12,079)	(68,511)
Noncontrolling interests distributions	(4,275)	(28,026)
Repurchase of treasury stock	(637)	(820)
Net payments for stock-based awards	(125)	(10)
Financing costs	(69)	(1,406)
Net cash provided by (used in) financing activities	31,345	(12,120)
Net increase in cash and cash equivalents	5,369	32,654
Cash and cash equivalents at beginning of year	21,307	12,784
Cash and cash equivalents at end of period	$ 26,676	$ 45,438

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

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

	Stratus Stockholders' Equity									
	Common Stock					Common Stock Held in Treasury				
	Number of Shares	At Par Value	Capital in Excess of Par Value	Accum-ulated Deficit	Accum-ulated Other Compre-hensive Loss	Number of Shares	At Cost	Total Stratus Stockholders' Equity	Noncontrolling Interests in Subsidiaries	Total Equity
Balance at December 31, 2013	9,076	$ 91	$203,724	$(60,724)	$ (22)	1,030	$(19,448)	$ 123,621	$ 45,695	$169,316
Common stock repurchases	—	—	—	—	—	37	(637)	(637)	—	(637)
Exercised and issued stock-based awards	40	—	65	—	—	—	—	65	—	65
Stock-based compensation	—	—	348	—	—	—	—	348	—	348
Tender of shares for stock-based awards	—	—	—	—	—	11	(190)	(190)	—	(190)
Noncontrolling interests distributions	—	—	—	—	—	—	—	—	(4,275)	(4,275)
Total comprehensive income (loss)	—	—	—	1,913	(236)	—	—	1,677	2,920	4,597
Balance at September 30, 2014	9,116	$ 91	$204,137	$(58,811)	$ (258)	1,078	$(20,275)	$ 124,884	$ 44,340	$169,224
Balance at December 31, 2012	9,037	$ 90	$203,298	$(63,309)	$ —	940	$(18,392)	$ 121,687	$ 87,208	$208,895
Common stock repurchases	—	—	—	—	—	71	(810)	(810)	—	(810)
Exercised and issued stock-based awards	38	1	78	—	—	—	—	79	—	79
Stock-based compensation	—	—	245	—	—	—	—	245	—	245
Tender of shares for stock-based awards	—	—	—	—	—	8	(99)	(99)	—	(99)
Noncontrolling interests distributions	—	—	—	—	—	—	—	—	(18,127)	(18,127)
Total comprehensive income	—	—	—	1,745	—	—	—	1,745	2,056	3,801
Balance at September 30, 2013	9,075	$ 91	$203,621	$(61,564)	$ —	1,019	$(19,301)	$ 122,847	$ 71,137	$193,984

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

STRATUS PROPERTIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. GENERAL

The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2013, included in Stratus Properties Inc.'s (Stratus) Annual Report on Form 10-K (Stratus 2013 Form 10-K) filed with the Securities and Exchange Commission. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments (consisting only of normal recurring items) considered necessary for a fair statement of the results for the interim periods reported. Operating results for the three-month and nine-month periods ended September 30, 2014, are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

2. EARNINGS PER SHARE

Stratus' basic net income (loss) per share of common stock was calculated by dividing the net income (loss) attributable to Stratus common stock by the weighted-average shares of common stock outstanding during the three-month and nine-month periods. Following is a reconciliation of net income (loss) and weighted-average shares of common stock outstanding for purposes of calculating diluted net income (loss) per share (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income (loss)	$ 778	$ (997)	$ 4,934	$ 3,801
Net (income) loss attributable to noncontrolling interests in subsidiaries	(181)	957	(3,021)	(2,056)
Net income (loss) attributable to Stratus common stock	$ 597	$ (40)	$ 1,913	$ 1,745
Weighted-average shares of common stock outstanding	8,032	8,057	8,037	8,087
Add shares issuable upon exercise or vesting of:				
Dilutive stock options	7	—	12	7 [a]
Restricted stock units	28 [b]	—	29 [b]	24
Weighted-average shares of common stock outstanding for purposes of calculating diluted net income per share	8,067	8,057	8,078	8,118
Diluted net income (loss) per share attributable to Stratus common stock	$ 0.07	$ —	$ 0.24	$ 0.22

a. Excludes approximately 1,700 shares of common stock associated with outstanding stock options with exercise prices less than the average market price of Stratus' common stock that were anti-dilutive based on the treasury stock method.

b. Excludes 30,000 shares of common stock associated with restricted stock units that were anti-dilutive based on the treasury stock method.

Outstanding stock options with exercise prices greater than the average market price for Stratus' common stock during the period are excluded from the computation of diluted net income per share of common stock. Excluded were approximately 56,900 stock options with a weighted-average exercise price of $21.54 for third-quarter 2014, 37,700 stock options with a weighted-average exercise price of $24.35 for the first nine months of 2014 and approximately 65,800 stock options with a weighted-average exercise price of $20.65 for the first nine months of 2013. Stock options and restricted stock units representing approximately 100,000 shares for third-quarter 2013 were excluded from weighted-average common shares outstanding for purposes of calculating diluted net loss per share because they were anti-dilutive.

3. JOINT VENTURE WITH CANYON-JOHNSON URBAN FUND II, L.P.

Stratus and Canyon-Johnson Urban Fund II, L.P. (Canyon-Johnson) are participants in a joint venture, CJUF II Stratus Block 21, LLC (the Block 21 Joint Venture), for a 36-story mixed-use development in downtown Austin, Texas, anchored by a W Hotel & Residences (the W Austin Hotel & Residences project). Stratus is the manager of, and has an approximate 40 percent interest in, the Block 21 Joint Venture, and Canyon-Johnson has an approximate 60 percent interest in the Block 21 Joint Venture. As of September 30, 2014, cumulative capital contributions totaled $71.9 million for Stratus and $94.0 million for Canyon-Johnson. Distributions totaled $0.5 million to Stratus and $0.7 million to Canyon-Johnson in third-quarter 2014 and $3.1 million to Stratus and $4.3 million to Canyon-Johnson for the first nine months of 2014. As of September 30, 2014, inception-to-date distributions totaled $47.8 million to Stratus and $54.9 million to Canyon-Johnson. The Block 21 Joint Venture is consolidated in Stratus’ financial statements based on Stratus' assessment that the Block 21 Joint Venture is a variable interest entity (VIE) and that Stratus is the primary beneficiary. Stratus will continue to periodically evaluate which entity is the primary beneficiary of the Block 21 Joint Venture in accordance with applicable accounting guidance. See Note 2 of the Stratus 2013 Form 10-K for further discussion.

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

	September 30, 2014	December 31, 2013
Assets:		
Cash and cash equivalents	$ 21,184	$ 13,192
Restricted cash	5,730	5,069
Real estate held for sale	5,851	10,942
Real estate held for investment, net	152,233	157,541
Other assets	7,068	7,631
Total assets	192,066	194,375
Liabilities:		
Accounts payable	2,804	3,428
Accrued liabilities	6,075	6,856
Debt	98,648	99,754
Other liabilities	7,394	4,761
Total liabilities	114,921	114,799
Net assets	$ 77,145	$ 79,576

Profits and losses among partners in a real estate venture are allocated based on how changes in net assets of the venture would affect cash payments to the partners over the life of the venture and on its liquidation. The amount of the ultimate profits earned by the Block 21 Joint Venture will affect the ultimate profit sharing ratios because of provisions in the joint venture agreement, which would require Stratus to return certain previously received distributions to Canyon-Johnson under certain circumstances. Because of the uncertainty of the ultimate profits and, therefore, profit-sharing ratios, the Block 21 Joint Venture's cumulative profits or losses are allocated based on a hypothetical liquidation of the Block 21 Joint Venture’s net assets as of each balance sheet date. As of September 30, 2014, the cumulative earnings of the Block 21 Joint Venture were allocated based on 42 percent for Stratus and 58 percent for Canyon-Johnson.

4. JOINT VENTURE WITH LCHM HOLDINGS, LLC

In 2011, Stratus entered into a joint venture (the Parkside Village Joint Venture) with Moffett Holdings, LLC (Moffett Holdings) for the development of Parkside Village, a retail project in the Circle C community in southwest Austin, Texas. On March 3, 2014, Moffett Holdings redeemed and purchased the membership interest in Moffett Holdings held by LCHM Holdings, LLC (LCHM Holdings). In connection with the redemption, (1) LCHM Holdings received the 625,000 shares of Stratus common stock held by Moffett Holdings and (2) LCHM Holdings entered into an assignment and assumption agreement pursuant to which Moffett Holdings assigned to LCHM Holdings its rights and obligations under the Investor Rights Agreement between Moffett Holdings and Stratus dated as of March 15, 2012. See Note 3 of the Stratus 2013 Form 10-K for further discussion.

5. FAIR VALUE MEASUREMENTS

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

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

	September 30, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Interest rate cap agreement	$ 115	$ 115	$ 351	$ 351
Liabilities:				
Interest rate swap agreement	369	369	32	32
Debt	187,782	188,083	151,332	151,584

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

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

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

6. DEBT AND EQUITY TRANSACTIONS

Lakeway Construction Loan. On September 29, 2014, a Stratus subsidiary entered into a $62.9 million construction loan agreement with PlainsCapital Bank (the Lakeway Construction loan) to fund the construction, development and leasing of The Oaks at Lakeway in Lakeway, Texas (The Oaks at Lakeway). On November 7, 2014, the Stratus subsidiary and PlainsCapital Bank entered into an amendment to the loan agreement to effect the syndication of a portion of the aggregate principal amount of the Lakeway Construction loan with Southside Bank. Pursuant to the amendment, PlainsCapital Bank has committed $37.9 million and Southside Bank has committed $25.0 million under the Lakeway Construction loan. As of September 30, 2014, $14.0 million had been drawn under the loan. The Lakeway Construction loan matures on September 29, 2019, and is secured by assets at The Oaks at Lakeway. The variable interest rate is one-month LIBOR plus 2.75 percent. The Lakeway Construction loan has been guaranteed by Stratus subject to the guarantee decreasing as certain milestones set forth in the loan agreement are met. Pursuant to the Lakeway Construction loan, $1.6 million of the proceeds were used to fully repay the existing Lakeway loan, which was scheduled to mature on May 15, 2015.

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

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

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

Interest Expense and Capitalization. Interest expense (before capitalized interest) totaled $2.0 million for third-quarter 2014, $2.9 million for third-quarter 2013, $5.6 million for the nine months ended September 30, 2014, and $8.9 million for the nine months ended September 30, 2013. Stratus' capitalized interest costs totaled $1.1 million for each of the third quarters of 2014 and 2013 and $2.8 million for each of the nine months ended September 30, 2014, and 2013. Capitalized interest costs for the 2014 and 2013 periods primarily related to development activities at properties in Barton Creek.

Common Stock Repurchases. During the nine months ended September 30, 2014, Stratus purchased 36,900 shares of its common stock for $0.6 million ($17.26 per share). Stratus obtained lender approval for these repurchases. See Note 9 of the Stratus 2013 Form 10-K for further discussion of common stock repurchases permitted under Stratus' debt agreements.

7. INCOME TAXES
Stratus' accounting policy for and other information regarding its income taxes is further described in Notes 1 and 8 of the Stratus 2013 Form 10-K.

Stratus evaluated the recoverability of its deferred tax assets and considered available positive and negative evidence, giving greater weight to losses in recent years, the absence of taxable income in the carry-back period and uncertainty regarding projected future financial results. As a result, Stratus concluded that there was not sufficient positive evidence supporting the realizability of its deferred tax assets beyond an amount totaling $0.3 million at September 30, 2014, and December 31, 2013.

Stratus' future results of operations may be negatively impacted by an inability to realize a tax benefit for future tax losses or for items that will generate additional deferred tax assets. Stratus' future results of operations may be favorably impacted by reversals of valuation allowances if Stratus is able to demonstrate sufficient positive evidence that its deferred tax assets will be realized.

The difference between Stratus' consolidated effective income tax rate for the first nine months of 2014 and 2013, and the U.S. federal statutory income tax rate of 35 percent was primarily attributable to the realization of deferred tax assets.

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

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

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

The Entertainment segment includes ACL Live, a live music and entertainment venue and production studio at the W Austin Hotel & Residences project. In addition to hosting concerts and private events, this venue is the home of

Austin City Limits, a television program showcasing popular music legends. The Entertainment segment also includes revenues and costs associated with events hosted at other venues, and the results of the Stageside Productions joint venture with Pedernales Entertainment LLC.

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

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

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

	Real Estate Operations[a]	Hotel	Entertainment	Commercial Leasing	Eliminations and Other[b]	Total
Three Months Ended September 30, 2014:						
Revenues:						
Unaffiliated customers	$ 6,562	$ 9,714	$ 3,659	$ 1,695	$ —	$ 21,630
Intersegment	24	85	12	131	(252)	—
Cost of sales, excluding depreciation	5,494	7,548	3,066	1,069	(109)	17,068
Depreciation	53	1,460	313	452	(37)	2,241
Litigation settlement	(1,506)	—	—	—	—	(1,506)
General and administrative expenses	1,344	83	31	412	(129)	1,741
Operating income (loss)	$ 1,201	$ 708	$ 261	$ (107)	$ 23	$ 2,086
Capital expenditures[c]	$ 22,794	$ 57	$ 23	$ 1,230	$ —	$ 24,104
Total assets at September 30, 2014	179,741	112,747	51,418	49,630	(5,598)	387,938
Three Months Ended September 30, 2013:						
Revenues:						
Unaffiliated customers	$ 10,810	$ 8,312	$ 3,310	$ 1,391	$ —	$ 23,823
Intersegment	9	59	37	121	(226)	—
Cost of sales, excluding depreciation	6,954	6,893	3,035	666	(69)	17,479
Depreciation	58	1,501	309	421	(37)	2,252
General and administrative expenses	1,362	68	27	273	(152)	1,578
Operating income (loss)	$ 2,445	$ (91)	$ (24)	$ 152	$ 32	$ 2,514
Capital expenditures[c]	$ 5,326	$ 12	$ 180	$ 167	$ —	$ 5,685
Total assets at September 30, 2013	170,243	116,959	48,217	46,913	(5,924)	376,408

	Real Estate Operations[a]	Hotel	Entertainment	Commercial Leasing	Eliminations and Other[b]	Total
Nine Months Ended September 30, 2014:						
Revenues:						
Unaffiliated customers	$ 18,817	$ 31,086	$ 12,659	$ 4,888	$ —	$ 67,450
Intersegment	71	314	30	386	(801)	—
Cost of sales, excluding depreciation	14,060	22,822	9,733	2,521	(355)	48,781
Depreciation	166	4,390	943	1,325	(111)	6,713
Litigation and insurance settlements	(2,082)	—	—	—	—	(2,082)
General and administrative expenses	4,437	298	110	1,358	(441)	5,762
Operating income	$ 2,307	$ 3,890	$ 1,903	$ 70	$ 106	$ 8,276
Capital expenditures[c]	$ 47,611	$ 133	$ 55	$ 2,075	$ —	$ 49,874
Nine Months Ended September 30, 2013:						
Revenues:						
Unaffiliated customers	$ 57,715	$ 28,207	$ 9,942	$ 3,943	$ —	$ 99,807
Intersegment	49	191	60	402	(702)	—
Cost of sales, excluding depreciation	46,795	21,705	8,524	2,053	(219)	78,858
Depreciation	181	4,536	926	1,258	(111)	6,790
Insurance settlement	(1,785)	—	—	—	—	(1,785)
General and administrative expenses	4,526	258	101	900	(429)	5,356
Operating income	$ 8,047	$ 1,899	$ 451	$ 134	$ 57	$ 10,588
Capital expenditures[c]	$ 14,054	$ 15	$ 299	$ 677	$ —	$ 15,045

a. Includes sales commissions and other revenues together with related expenses.
b. Includes eliminations of intersegment amounts, including the deferred development fee income between Stratus and the Block 21 Joint Venture (see Note 3).
c. Also includes purchases and development of residential real estate held for sale.

9. NEW ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) which outlines a single comprehensive model and supersedes most of the current revenue recognition guidance. For public entities, this ASU is effective for annual reporting periods beginning after December 15, 2016, and interim periods within that reporting period. Early adoption is not permitted. Stratus is evaluating this new guidance, but does not expect it to have a significant impact on its current revenue recognition policies.

In April 2014, FASB issued an ASU which revises the guidance for reporting discontinued operations. This ASU amends the definition of a discontinued operation and requires additional disclosures about disposal transactions that do not meet the definition of a discontinued operation. For public entities, this ASU is effective for annual periods beginning on or after December 15, 2014, and interim periods within that year. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. Stratus adopted this ASU in first-quarter 2014.

10. SUBSEQUENT EVENTS

Stratus evaluated events after September 30, 2014, and through the date the financial statements were issued, and determined any events or transactions occurring during this period that would require recognition or disclosure are appropriately addressed in these financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

In management's discussion and analysis of financial condition and results of operations, "we," "us," "our" and "Stratus" refer to Stratus Properties Inc. (Stratus) and all entities owned or controlled by Stratus. You should read the following discussion in conjunction with our financial statements, the related management's discussion and analysis of financial condition and results of operations and the discussion of our business and properties included in our Annual Report on Form 10-K for the year ended December 31, 2013 (2013 Form 10-K) filed with the Securities and Exchange Commission. The results of operations reported and summarized below are not necessarily indicative of future operating results, and future results could differ materially from those anticipated in forward-looking statements (refer to "Cautionary Statement" for further discussion). All subsequent references to "Notes" refer to Notes to Consolidated Financial Statements (Unaudited) located in Part I, Item 1. "Financial Statements" of this Form 10-Q, unless otherwise stated.

We are a diversified real estate company engaged in the acquisition, development, management, operation and/or sale of commercial, hotel, entertainment, and multi- and single-family residential real estate properties located in Texas, primarily in the Austin and central-Texas areas. We generate revenues from sales of developed properties, from our hotel and entertainment operations and from rental income from our commercial properties. See Note 8 for further discussion of our operating segments.

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

Our principal real estate holdings are in southwest Austin, Texas. The number of developed lots/units, under development acreage and undeveloped acreage as of September 30, 2014, that comprise our real estate development projects are presented in the following table.

		Acreage							
		Under Development			Undeveloped				
	Developed Lots/Units	Single Family	Commercial	Total	Single family	Multi-family	Commercial	Total	Total Acreage
Austin:									
Barton Creek	18	166	—	166	512	327	418	1,257	1,423
Circle C	53	—	23	23	—	36	228	264	287
Lantana	—	—	—	—	—	—	43	43	43
W Austin Residences	4	—	—	—	—	—	—	—	—
Lakeway:									
The Oaks at Lakeway	—	—	87	87	—	—	—	—	87
Magnolia	—	—	—	—	—	—	124	124	124
San Antonio:									
Camino Real	—	—	—	—	—	—	2	2	2
Total	75	166	110	276	512	363	815	1,690	1,966

Our residential holdings at September 30, 2014, included developed lots at Barton Creek and the Circle C community, and condominium units at the W Austin Hotel & Residences project. See "Development Activities - Residential" for further discussion. Our commercial holdings at September 30, 2014, in addition to the W Austin Hotel & Residences project, consisted of the first phase of Barton Creek Village, and the 5700 Slaughter retail complex and Parkside Village, which are both in the Circle C community. See "Development Activities - Commercial" for further discussion.

The W Austin Hotel & Residences project is located on a two-acre city block in downtown Austin and contains a 251-room luxury hotel, 159 residential condominium units (of which we owned and were marketing four units as of September 30, 2014), and office, retail and entertainment space. As of November 3, 2014, two of the four remaining condominium units were under contract. The hotel is managed by Starwood Hotels & Resorts Worldwide, Inc. The entertainment space, occupied by Austin City Limits Live at the Moody Theater (ACL Live), includes a live music and entertainment venue and production studio.

For third-quarter 2014, our revenues totaled $21.6 million and our net income attributable to common stock totaled $0.6 million, compared with revenues of $23.8 million and a net loss attributable to common stock of less than $0.1 million for third-quarter 2013. For the first nine months of 2014, our revenues totaled $67.5 million and our net income attributable to common stock totaled $1.9 million, compared with revenues of $99.8 million and net income attributable to common stock of $1.7 million for the first nine months of 2013. The decrease in revenues in the 2014 periods primarily relates to a decrease in condominium unit sales at the W Austin Residences and lot sales at Verano Drive, as remaining available inventory declined for each. The results for the third quarter and first nine months of 2014 include income of $1.5 million associated with a litigation settlement. The first nine months of 2014 also include $0.6 million associated with an insurance settlement. The results for the third quarter of 2013 include a loss on early extinguishment of debt of $1.4 million, partly offset by a $1.3 million recovery of building repair costs associated with damage caused by the June 2011 balcony glass breakage incidents at the W Austin Hotel & Residences. The first nine months of 2013 include gains of $4.3 million associated with the sale of a 16-acre tract of land at Lantana, an insurance settlement and the recovery of building repair costs, partly offset by a loss on early extinguishment of debt of $1.4 million.

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

BUSINESS STRATEGY AND RELATED RISKS

Our business strategy is to create value for our shareholders by methodically developing high-quality residential and commercial projects using our existing assets and selectively pursuing new development opportunities. We believe that Austin, and other Texas markets, continue to be desirable. Many of our developments are in unique locations where development approvals have historically been subject to regulatory constraints, making it difficult to obtain entitlements. Our Austin assets, which are located in desirable areas with significant regulatory constraints, are highly entitled and, as a result, we believe that through strategic planning and development, we can maximize and fully exploit their value. Additionally, we believe the W Austin Hotel sets a high standard for contemporary luxury in downtown Austin and competes favorably with other hotels and resorts in our geographic market. Our entertainment operations provide quality live music experiences that create awareness for our ACL Live venue and brand, enhancing the overall value of the W Austin Hotel & Residences project. Our current focus is to proceed with the development of our properties, to seek new opportunities to acquire additional properties for potential mixed-use and retail development projects, including with strategic partners where beneficial, and to continue to effectively operate our hotel and entertainment businesses.

In years past, economic conditions, including the constrained capital and credit markets, negatively affected the execution of our business plan, primarily by decreasing the pace of development to match economic and market conditions. We responded to these conditions by successfully restructuring our existing debt, including reducing interest rates and extending maturities, which enabled us to preserve our development opportunities until market conditions improved. Economic conditions have improved and we believe we have the financial flexibility to fully exploit our development opportunities and resources. In the first nine months of 2014, the joint venture for the W Austin Hotel & Residences project, CJUF II Stratus Block 21, LLC (the Block 21 Joint Venture), paid $3.1 million in distributions to Stratus and $4.3 million to Canyon-Johnson Urban Fund II, L.P. (Canyon-Johnson), Stratus' joint venture partner. Additionally, during the first nine months of 2014, our operating cash flows reflect purchases and development of real estate properties totaling $47.6 million, funded primarily from construction and term loans, to invest in new development opportunities to be executed over the next 24 months. As of September 30, 2014, we had $16.3 million of availability under our revolving line of credit with Comerica Bank, which matures in February 2015 and which we expect to refinance in the normal course of business. We also had $5.0 million in cash and cash equivalents available for use in our real estate operations, excluding cash balances held by our joint ventures, as shown below (in thousands):

Consolidated cash and cash equivalents	$	26,676
Less: Block 21 Joint Venture cash		21,184
Less: Parkside Village Joint Venture cash		455
Net cash available	$	5,037

Although we have near-term debt maturities and significant recurring costs, including property taxes, maintenance and marketing, we believe we will have sufficient sources of debt financing and cash from operations to address our cash requirements. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors” in the Stratus 2013 Form 10-K for further discussion.

DEVELOPMENT ACTIVITIES

Residential. As of September 30, 2014, the number of our residential developed lots/units, lots under development and lots for potential development by area are shown below (excluding lots associated with our unconsolidated joint venture with Trammell Crow Central Texas Development, Inc. relating to Crestview Station in Austin, Texas (the Crestview Station Joint Venture)):

	Residential Lots/Units			
	Developed	Under Development	Potential Development[a]	Total
W Austin Hotel & Residences project:				
Condominium units[b]	4	—	—	4
Barton Creek:				
Amarra Drive:				
Phase II Lots	18	—	—	18
Phase III Lots	—	64	—	64
Townhomes	—	—	214	214
Section N Multi-family	—	—	1,860	1,860
Other Barton Creek Sections	—	—	155	155
Circle C:				
Meridian	53	—	—	53
Tract 101 Multi-family	—	—	240	240
Tract 102 Multi-family	—	—	56	56
Lakeway:				
The Oaks at Lakeway	—	—	90	90
Magnolia	—	—	1,200	1,200
Total Residential Lots/Units	75	64	3,815	3,954

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

b. Owned through a joint venture.

W Austin Residences. Delivery of the first condominium units at the W Austin Residences began in January 2011. As of September 30, 2014, sales of 155 of the 159 condominium units had closed for $182.2 million (including two units for $3.5 million in third-quarter 2014). As of November 3, 2014, two of the four remaining condominium units were under contract.

Barton Creek.

Calera. Calera is a residential subdivision with plat approval for 155 lots. Construction of the final phase, known as Verano Drive, was completed in July 2008 and includes 71 single-family lots. During second-quarter 2014, we sold the remaining six Verano Drive lots.

Amarra Drive. In 2008, we commenced development of Amarra Drive Phase II, which consists of 35 lots on 51 acres. Development was substantially completed in October 2008. During late 2013, we commenced development of Amarra Drive Phase III, which consists of 64 lots on 166 acres, and is expected to be completed by year-end 2014. During third-quarter 2014, we sold 3 Phase II lots for $1.7 million and as of September 30, 2014, 18 Phase II lots remain unsold. During October 2014, we sold two Phase II lots for $1.0 million, and as of November 3, 2014, two Phase II lots were under contract.

Circle C. We are developing the Circle C community based on the entitlements secured in our Circle C settlement with the City. Our Circle C settlement, as amended in 2004, permits development of 1.16 million square feet of commercial space, 504 multi-family units and 830 single-family residential lots. Meridian is an 800-lot residential development at the Circle C community. Development of the final phase of Meridian, which consists of 57 one-acre lots, was completed in first-quarter 2014. During third-quarter 2014, we sold four Meridian lots for $1.2 million and as of September 30, 2014, 53 lots remain unsold. During October 2014, we sold one Meridian lot for $0.3 million, and as of November 3, 2014, two Meridian lots were under contract.

The Oaks at Lakeway. The Oaks at Lakeway is a project planned for 90 high-density single-family residential units. The project is currently under construction.

Magnolia. The Magnolia project is planned to include 1,200 multi-family units. Planning and infrastructure work by the city of Magnolia are in progess and construction is expected to begin in 2016.

Commercial. As of September 30, 2014, the number of square feet of our commercial property developed, under development and our remaining entitlements (i.e., potential development) is shown below:

	Commercial Property			
	Developed	Under Development	Potential Development[a]	Total
W Austin Hotel & Residences project:				
Office[b]	39,328	—	—	39,328
Retail[b]	18,362	—	—	18,362
Barton Creek:				
Treaty Oak Bank	3,085	—	—	3,085
Barton Creek Village Phase I	22,366	—	—	22,366
Barton Creek Village Phase II	—	—	16,000	16,000
Entry Corner	—	—	5,000	5,000
Amarra Retail/Office	—	—	83,081	83,081
Section N	—	—	1,500,000	1,500,000
Lakeway:				
The Oaks at Lakeway	—	245,022	—	245,022
Magnolia	—	—	351,000	351,000
Circle C:				
Chase Bank Ground Lease	4,450	—	—	4,450
5700 Slaughter	21,248	—	—	21,248
Parkside Village[b]	85,684	4,500	—	90,184
Tract 110	—	—	614,500	614,500
Tract 114	—	—	78,357	78,357
Lantana:				
Tract GR1	—	—	325,000	325,000
Tract G07	—	—	160,000	160,000
Austin 290 Tract	—	—	20,000	20,000
Total Square Feet	194,523	249,522	3,152,938	3,596,983

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

b. Owned through a joint venture.

W Austin Hotel & Residences project. The project has 39,328 square feet of leasable office space, including 9,000 square feet occupied by our corporate office, and 18,362 square feet of retail space. As of September 30, 2014, occupancy for the office space was 91 percent and occupancy for the retail space was 84 percent.

Barton Creek. The first phase of Barton Creek Village consists of a 22,366-square-foot retail complex and a 3,085-square-foot bank building. As of September 30, 2014, occupancy was 100 percent for the retail complex, and the bank building is leased through January 2023.

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

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

Circle C. In 2008, we completed the construction of two retail buildings, totaling 21,248 square feet, at 5700 Slaughter in the Circle C community (5700 Slaughter). The Circle C community also includes a 4,450-square-foot bank building on an existing ground lease, which expires in 2025. As of September 30, 2014, aggregate occupancy for the two retail buildings was 100 percent.

The Circle C community also includes Parkside Village, a 90,184-square-foot retail project. This retail project consists of a 33,650-square-foot full-service movie theater and restaurant, a 13,890-square-foot medical clinic and five other retail buildings, including a 14,926-square-foot building, a 10,175-square-foot building, an 8,043-square-foot building, a 4,500-square-foot building and a stand-alone 5,000-square-foot building. In February 2011, we entered into a joint venture with Moffett Holdings, LLC for the development of Parkside Village (the Parkside Village Joint Venture), obtained final permits and entitlements and began construction on the retail project. Construction of the 8,043-square-foot building was completed in third-quarter 2014 and as of September 30, 2014, occupancy of the completed 85,684 square feet was 95 percent. The remaining 4,500-square-foot building under development is fully pre-leased and expected to be completed in fourth-quarter 2014.

Lantana*.* Lantana is a partially developed, mixed-use real estate development project. During first-quarter 2013, we sold a 16-acre tract for $2.1 million, which had entitlements for approximately 70,000 square feet of office space. As of September 30, 2014, we had entitlements for approximately 485,000 square feet of office and retail space on the remaining 43 acres. Regional utility and road infrastructure is in place with capacity to serve Lantana at full build-out permitted under our existing entitlements.

Unconsolidated Affiliate.
Crestview Station. The Crestview Station Joint Venture is a single-family, multi-family, retail and office development, which is located on the site of a commuter line. The Crestview Station Joint Venture sold substantially all of its multi-family and commercial properties in 2007 and one commercial site in 2008, while retaining the single-family component. The Crestview Station Joint Venture has entered into an agreement to sell the remaining residential land to DR Horton. The contract with DR Horton provides for the sale of 304 lots over four years for a total contract price of $15.8 million. The results of the first three closings are shown below (in millions, except lots closed). Under the terms of the contract with DR Horton, the fourth lot closing must occur by April 2015, and the final lot closing must occur no later than June 2015.

Closing Date	Lots Closed	Sale Price	Gross Profit
April 2012	73	$ 3.8	$ 0.4
May 2013	59	3.4	0.7
March 2014	59	3.5	0.8

We account for our 50 percent interest in the Crestview Station Joint Venture under the equity method.

RESULTS OF OPERATIONS

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

The following table summarizes our results (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Operating income (loss):				
Real estate operations	$ 1,201	$ 2,445	$ 2,307	$ 8,047
Hotel	708	(91)	3,890	1,899
Entertainment	261	(24)	1,903	451
Commercial leasing	(107)	152	70	134
Eliminations and other	23	32	106	57
Operating income	$ 2,086	$ 2,514	$ 8,276	$ 10,588
Interest expense, net	$ (974)	$ (1,833)	$ (2,797)	$ (6,140)
Net income (loss)	$ 778	$ (997)	$ 4,934	$ 3,801
Net (income) loss attributable to noncontrolling interests in subsidiaries	$ (181)	$ 957	$ (3,021)	$ (2,056)
Net income (loss) attributable to Stratus common stock	$ 597	$ (40)	$ 1,913	$ 1,745

We have four operating segments: Real Estate Operations, Hotel, Entertainment and Commercial Leasing (see Note 8 for further discussion). The following is a discussion of our operating results by segment.

Real Estate Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Developed property sales	$ 6,378	$ 10,549	$ 18,504	$ 55,050
Undeveloped property sales	—	—	—	2,100
Commissions and other	208	270	384	614
Total revenues	6,586	10,819	18,888	57,764
Cost of sales, including depreciation	5,547	7,012	14,226	46,976
Litigation and insurance settlements	(1,506)	—	(2,082)	(1,785)
General and administrative expenses	1,344	1,362	4,437	4,526
Operating income	$ 1,201	$ 2,445	$ 2,307	$ 8,047

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

	Three Months Ended September 30,					
	2014			2013		
	Units/Lots	Revenues	Average Cost per Unit/Lot	Units/Lots	Revenues	Average Cost Per Unit/Lot
W Austin Hotel & Residences Project						
Condominium Units	2	$ 3,455	$ 1,567	3	$ 4,360	$ 1,252
Barton Creek						
Calera:						
Verano Drive	—	—	—	18	5,603	154
Calera Drive	—	—	—	1	236	148
Amarra Drive:						
Phase I Lots	—	—	—	1	350	298
Phase II Lots	3	1,743	212	—	—	—
Circle C						
Meridian	4	1,180	166	—	—	—
Total Residential	9	$ 6,378		23	$ 10,549	

	Nine Months Ended September 30,					
	2014			2013		
	Units/Lots	Revenues	Average Cost per Unit/Lot	Units/Lots	Revenues	Average Cost per Unit/Lot
W Austin Hotel & Residences Project						
Condominium Units	5	$ 7,875	$ 1,365	29	$ 42,122	$ 1,231
Barton Creek						
Calera:						
Verano Drive	9	3,524	181	33	10,138	164
Calera Drive	—	—	—	5	1,135	141
Amarra Drive:						
Phase I Lots	—	—	—	2	650	279
Phase II Lots	12	5,925	192	1	600	264
Mirador Estate	—	—	—	1	405	264
Circle C						
Meridian	4	1,180	166	—	—	—
Total Residential	30	$ 18,504		71	$ 55,050	

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

Undeveloped Property Sales. During March 2013, we sold a 16-acre tract at Lantana for $2.1 million, which had entitlements for approximately 70,000 square feet of office space.

Commissions and Other. Commissions and other primarily includes design fees and sales of our development fee credits to third parties and totaled $0.2 million for third-quarter 2014, $0.3 million for third-quarter 2013, $0.4 million for the first nine months of 2014 and $0.6 million for the first nine months of 2013. We received these development fee credits as part of the Circle C settlement (see Note 10 of the 2013 Form 10-K).

Cost of Sales. Cost of sales includes cost of property sold, project operating and marketing expenses and allocated overhead costs, partly offset by reductions for certain municipal utility district (MUD) reimbursements. Cost of sales totaled $5.5 million for third-quarter 2014 and $14.2 million for the first nine months of 2014, compared with $7.0 million for third-quarter 2013 and $47.0 million for the first nine months of 2013. The decrease in cost of sales for the 2014 periods primarily reflects fewer condominium unit sales at the W Austin Residences. Cost of sales for our real estate operations also includes significant recurring costs (including property taxes, maintenance and marketing), which totaled $1.0 million for third-quarter 2014 and $2.9 million for the first nine months of 2014, compared with $1.3 million for third-quarter 2013 and $4.3 million for the first nine months of 2013. The decrease in these recurring costs for the 2014 periods primarily reflects lower property taxes as a result of lower condominium unit inventory at the W Austin Residences.

We recorded a gain on a litigation settlement totaling $1.5 million in the third quarter and first nine months of 2014 related to the termination of a lease. The first nine months of 2014 also reflect credits of $0.6 million related to an insurance settlement and $0.4 million related to the recovery of building repair costs associated with damage caused by the June 2011 balcony glass breakage incidents at the W Austin Hotel & Residences project.

General and Administrative Expenses. Consolidated general and administrative expenses totaled $1.7 million in third-quarter 2014 and $5.8 million for the first nine months of 2014, compared with $1.6 million in third-quarter 2013 and $5.4 million for the first nine months of 2013. The increase in general and administrative expenses for the 2014 periods primarily reflects increased employee costs and consulting fees. General and administrative expenses allocated to real estate operations totaled $1.3 million for third-quarter 2014 and $4.4 million for the first nine months of 2014, compared with $1.4 million for third-quarter 2013 and $4.5 million for the first nine months of 2013. For more information about the allocation of general and administrative expenses to our operating segments, see Note 8.

Hotel

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Hotel revenue	$ 9,799	$ 8,371	$ 31,400	$ 28,398
Hotel cost of sales, excluding depreciation	7,548	6,893	22,822	21,705
Depreciation	1,460	1,501	4,390	4,536
General and administrative expenses	83	68	298	258
Operating income (loss)	$ 708	$ (91)	$ 3,890	$ 1,899

Hotel Revenue. Hotel revenue reflects the results of operations for the W Austin Hotel, and primarily includes revenue from room reservations and food and beverage sales. Revenue per Available Room (REVPAR), which is calculated by dividing total room revenue by total rooms available, averaged $264 for third-quarter 2014 and $286 for the first nine months of 2014, compared with $226 for third-quarter 2013 and $251 for the first nine months of 2013. The increase in hotel revenue for the 2014 periods primarily reflects higher room rates and increased food and beverage sales.

Hotel Cost of Sales. Hotel operating costs totaled $7.5 million in third-quarter 2014 and $22.8 million for the first nine months of 2014, compared with $6.9 million in third-quarter 2013 and $21.7 million for the first nine months of 2013. The increase in hotel cost of sales in the 2014 periods primarily reflects increased variable costs, including labor and marketing.

Entertainment

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Entertainment revenue	$ 3,671	$ 3,347	$ 12,689	$ 10,002
Entertainment cost of sales, excluding depreciation	3,066	3,035	9,733	8,524
Depreciation	313	309	943	926
General and administrative expenses	31	27	110	101
Operating income (loss)	$ 261	$ (24)	$ 1,903	$ 451

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Events:				
Events hosted	46	39	142	135
Estimated attendance	52,300	47,100	154,700	151,600
Ancillary net revenue per attendee	$ 33.25	$ 31.62	$ 43.07	$ 34.12
Ticketing:				
Number of tickets sold	37,300	38,600	103,600	99,400
Gross value of tickets sold (in thousands)	$ 2,376	$ 1,965	$ 5,827	$ 5,577

Entertainment Cost of Sales. Entertainment operating costs totaled $3.1 million in third-quarter 2014 and $9.7 million for the first nine months of 2014, compared with $3.0 million in third-quarter 2013 and $8.5 million for the first nine months of 2013. Costs from the Entertainment segment will vary from period to period as a result of the number and types of events hosted.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Rental revenue	$ 1,826	$ 1,512	$ 5,274	$ 4,345
Rental cost of sales, excluding depreciation	1,069 [a]	666	2,521 [a]	2,053
Depreciation	452	421	1,325	1,258
General and administrative expenses	412	273	1,358	900
Operating (loss) income	$ (107)	$ 152	$ 70	$ 134

a. Includes $0.3 million of lease termination charges.

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

Non-Operating Results
Interest Expense, net. Interest expense (before capitalized interest) totaled $2.0 million in third-quarter 2014 and $5.6 million for the first nine months of 2014, compared with $2.9 million in third-quarter 2013 and $8.9 million for the first nine months of 2013. The decrease in interest expense in the 2014 periods primarily reflects lower average interest rates following refinancing transactions. Capitalized interest totaled $1.1 million in the third quarters of 2014 and 2013 and $2.8 million for the first nine months of 2014 and 2013, and is primarily related to development activities at properties in Barton Creek.

Gain (Loss) on Interest Rate Cap Agreement. We recorded less than $0.1 million for third-quarter 2014 and $(0.2) million for the first nine months of 2014, associated with changes in the fair value of our interest rate cap agreement (see Note 5).

Loss on Early Extinguishment of Debt. We recorded a loss on early extinguishment of debt totaling less than $0.1 million for the third quarter and first nine months of 2014 associated with the refinancing of the term loan secured by

5700 Slaughter in July 2014, and $1.4 million for the third quarter and first nine months of 2013 associated with the prepayment of the Beal Bank Nevada loan related to the W Austin Hotel & Residences project.

Other Income, net. We recorded other income of less than $0.1 million for the third quarter and first nine months of 2014, compared with less than $0.1 million for third-quarter 2013 and $1.4 million for the first nine months of 2013. The decrease in other income in the first nine months of 2014 primarily reflects interest received in connection with a Barton Creek MUD reimbursement and a gain on the recovery of land previously sold in the first nine months of 2013.

Equity in Unconsolidated Affiliates' (Loss) Income. We account for our interests in our unconsolidated affiliates, Crestview Station, Stump Fluff and Guapo Enterprises, using the equity method. Our equity in the net (loss) income of these entities totaled $(0.2) million for third-quarter 2014 and $0.2 million for the first nine months of 2014, compared with $(0.1) million for third-quarter 2013 and less than $(0.1) million for the first nine months of 2013. The first nine months of 2014 benefited from the third closing in the take-down agreement between Crestview Station and DR Horton and events hosted by Stump Fluff during the South by Southwest festival.

Provision for Income Taxes. We recorded a provision for income taxes of $0.1 million for third-quarter 2014, $0.2 million for third-quarter 2013 and $0.6 million for the first nine months of 2014 and 2013. Our tax provisions for both the 2014 and 2013 periods include the Texas state margin tax. The difference between our consolidated effective income tax rate for each of the 2014 and 2013 periods, compared to the U.S. federal statutory income tax rate of 35 percent, is primarily attributable to the realization of deferred tax assets.

Net (Income) Loss Attributable to Noncontrolling Interests in Subsidiaries. Net (income) loss attributable to noncontrolling interests in subsidiaries totaled $(0.2) million for third-quarter 2014 and $(3.0) million for the first nine months of 2014, compared with $1.0 million for third-quarter 2013 and $(2.1) million for the first nine months of 2013. The increase for the 2014 periods primarily relates to income from the W Austin Hotel & Residences project.

CAPITAL RESOURCES AND LIQUIDITY

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

Comparison of Cash Flows for the Nine Months Ended September 30, 2014 and 2013

Cash (used in) provided by operating activities totaled $(25.1) million during the first nine months of 2014, compared with $46.9 million during the first nine months of 2013. Operating cash flows for the 2014 period decreased by $36.5 million compared to the 2013 period because of fewer developed property sales principally resulting from decreases in condominium unit sales at the W Austin Residences and lot sales at Verano Drive as inventories have declined. Additionally, expenditures for purchases and development of real estate properties increased to $47.6 million during the first nine months of 2014 compared with $14.1 million during the first nine months of 2013, primarily reflecting increased development costs for The Oaks at Lakeway and our Barton Creek properties, and the purchase of land in Magnolia, Texas.

Cash used in investing activities totaled $0.9 million during the first nine months of 2014, compared with $2.1 million during the first nine months of 2013. During the the first nine months of 2014 Stratus received distributions from Crestview Station totaling $1.3 million. During the first nine months of 2013 Stratus made contributions of $1.1 million to its unconsolidated affiliates.

Cash provided by (used in) financing activities totaled $31.3 million for the first nine months of 2014, compared with $(12.1) million for the first nine months of 2013. During the first nine months of 2014, net borrowings on the Comerica credit facility totaled $18.7 million, compared with net payments of $14.9 million for the first nine months of 2013. Net borrowings on the BoA loan, the Lakeway Construction loan, the Barton Creek Village term loan and other project and term loans totaled $17.7 million for the first nine months of 2014, compared with net borrowings of $33.1 million for the first nine months of 2013. Noncontrolling interest distributions for the Block 21 Joint Venture and the Parkside Village Joint Venture totaled $4.3 million for the first nine months of 2014, compared with distributions primarily for the Block 21 Joint Venture of $28.0 million for the first nine months of 2013. For a description of our outstanding debt, see Note 7 of the 2013 Form 10-K and Note 6 of this Form 10-Q. See also “Credit Facility and Other Financing Arrangements” for a discussion of our outstanding debt at September 30, 2014.

Credit Facility and Other Financing Arrangements

At September 30, 2014, we had total debt of $187.8 million, compared with $151.3 million at December 31, 2013. The increase is primarily related to increased borrowing under our Comerica revolving credit facility, the Lakeway Construction loan and the Magnolia loan. Our debt outstanding at September 30, 2014, consisted of the following:

- $98.6 million under the BoA loan.
- $23.0 million under the five unsecured term loans with Diversified Real Estate Income Fund (DREIF), formerly American Strategic Income Portfolio or ASIP, which include an $8.0 million loan, a $5.0 million loan, two $3.5 million loans and a $3.0 million loan.
- $18.7 million under the $48.0 million Comerica credit facility, which is comprised of a $35.0 million revolving loan, $16.3 million of which was available at September 30, 2014; a $3.0 million tranche for letters of credit, with no amounts outstanding ($2.7 million of letters of credit committed); and a $10.0 million construction loan, with no amounts outstanding ($1.4 million of letters of credit committed). The Comerica credit facility is secured by substantially all of our assets except for properties that are encumbered by separate loan financing.
- $17.7 million under a $19.7 million construction loan, which is secured by the assets at Parkside Village.
- $14.0 million under the Lakeway Construction loan (see Note 6).
- $6.1 million under the United/Slaughter loan (see Note 6).
- $6.0 million under the Barton Creek Village term loan (see Note 6).
- $3.8 million under the Magnolia loan (see Note 6).

The Comerica credit facility and our DREIF unsecured term loans contain customary financial covenants, including a requirement that we maintain a minimum total stockholders' equity balance of $110.0 million. As of September 30, 2014, Stratus' total stockholders' equity was $124.9 million.

The following table summarizes our debt maturities as of September 30, 2014 (in thousands):

	2014	2015	2016	2017	2018	Thereafter	Total
BoA Loan[a]	$ 381	$ 1,564	$ 96,703	$ —	$ —	$ —	$ 98,648
DREIF Loans[b]	—	15,000	8,000	—	—	—	23,000
Comerica Credit Facility[c]	—	18,718	—	—	—	—	18,718
Parkside Village Loan	—	480	480	480	480	15,752	17,672
Lakeway Construction Loan	—	—	—	—	—	13,961	13,961
United/Slaughter Loan	—	—	—	—	—	6,066	6,066
Barton Creek Village Term Loan	35	141	146	153	160	5,332	5,967
Magnolia Loan	—	—	3,750	—	—	—	3,750
Total	$ 416	$ 35,903	$ 109,079	$ 633	$ 640	$ 41,111	$ 187,782

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

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

c. The facility matures in February 2015.

Stratus expects to repay or refinance its near-term debt maturities in the normal course of business.

NEW ACCOUNTING STANDARDS

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

OFF-BALANCE SHEET ARRANGEMENTS

There have been no material changes in our off-balance sheet arrangements since December 31, 2013. See Note 10 of the 2013 Form 10-K for further information.

CAUTIONARY STATEMENT

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

We caution readers that forward-looking statements are not guarantees of future performance, and our actual results may differ materially from those anticipated, projected or assumed in the forward-looking statements. Important factors that can cause our actual results to differ materially from those anticipated in the forward-looking statements include, but are not limited to, our ability to service our debt and the availability of financing, a decrease in the demand for real estate in the Austin, Texas market, changes in economic and business conditions, reduction in discretionary spending by consumers and corporations, competition from other real estate developers, hotel operators and/or entertainment venue operators and promoters, business opportunities that may be presented to and/or pursued by us, the failure of third parties to satisfy debt service obligations, the failure to complete agreements with strategic partners and/or appropriately manage relationships with strategic partners, the termination of sales contracts or letters of intent due to, among other factors, the failure of one or more closing conditions or market changes, the failure to attract customers for our developments or their failure to satisfy their purchase commitments, increases in interest rates, declines in the market value of our assets, increases in operating costs, including real estate taxes and the cost of construction materials, changes in external perception of the W Austin Hotel, changes in consumer preferences, changes in laws, regulations or the regulatory environment affecting the development of real estate, opposition from special interest groups with respect to development projects, weather-related risks and other factors described in more detail under "Risk Factors" in Part I, Item 1A. of our 2013 Form 10-K.

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

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures. Our chief executive officer and chief financial officer, with the participation of management, have evaluated the effectiveness of our “disclosure controls and procedures” (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, they have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) Changes in internal control over financial reporting. There was no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2014, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table sets forth shares of our common stock that we repurchased during the three months ended September 30, 2014.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[a]	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs[a]
July 1 to 31, 2014	—	$ —	—	1,000,755
August 1 to 31, 2014	—	—	—	1,000,755
September 1 to 30, 2014	—	—	—	1,000,755
Total	—	—	—	

a. In February 2001, our Board of Directors (the Board) approved an open market share purchase program for up to 0.7 million shares of our common stock. In November 2013, the Board approved an increase in the open market share purchase program from 0.7 million shares to 1.7 million shares of our common stock. The program does not have an expiration date.

Stratus' loan agreements with Comerica Bank and Diversified Real Estate Income Fund require approval for any common stock repurchases.

Item 6. Exhibits.

The exhibits to this report are listed in the Exhibit Index beginning on page E-1 hereof.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STRATUS PROPERTIES INC.

By: /s/ Erin D. Pickens

Erin D. Pickens
Senior Vice President and
Chief Financial Officer
(authorized signatory and
Principal Financial Officer)

Date: November 13, 2014

Table of Contents

STRATUS PROPERTIES INC.
EXHIBIT INDEX

			Incorporated by Reference		
Exhibit Number	Exhibit Title	Filed with this Form 10-Q	Form	File No.	Date Filed
3.1	Composite Certificate of Incorporation of Stratus Properties Inc.		8-A/A	000-19989	8/26/2010
3.2	By-laws of Stratus Properties Inc., as amended as of November 6, 2007.		10-Q	000-19989	8/11/2008
4.1	Amended and Restated Rights Agreement, dated as of April 13, 2012, between Stratus Properties Inc. and Computershare Shareowner Services LLC, as Rights Agent, which includes the Form of Certificate of Designations of Series C Participating Cumulative Preferred Stock, the Form of Right Certificate, and the Summary of Stockholder Rights.		8-K	000-19989	4/18/2012
4.2	Investor Rights Agreement by and between Stratus Properties Inc. and Moffett Holdings, LLC, dated as of March 15, 2012.		8-K	000-19989	3/20/2012
4.3	Assignment and Assumption Agreement by and between Moffett Holdings, LLC and LCHM Holdings, LLC.		13D	000-19989	3/5/2014
10.1	Construction Loan Agreement among Stratus Lakeway Center, L.L.C., as Borrower and PlainsCapital Bank, as Administrative Agent and the Other Financial Institutions Party Thereto as Lenders dated as of September 29, 2014.		8-K	000-19989	10/3/2014
10.2	First Amendment to Construction Loan Agreement among Stratus Lakeway Center L.L.C., as Borrower, PlainsCapital Bank, as Administrative Agent and the Other Financial Institutions Party Thereto as Existing Lender and New Lender dated as of November 7, 2014.	X			
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).	X			
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).	X			
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.	X			
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.	X			
101.INS	XBRL Instance Document.	X			
101.SCH	XBRL Taxonomy Extension Schema.	X			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.	X			
101.DEF	XBRL Taxonomy Extension Definition Linkbase.	X			
101.LAB	XBRL Taxonomy Extension Label Linkbase.	X			
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.	X			

FIRST AMENDMENT TO CONSTRUCTION LOAN AGREEMENT

DATED AS OF
NOVEMBER 7, 2014

AMONG

STRATUS LAKEWAY CENTER L.L.C.,
AS BORROWER,

PLAINSCAPITAL BANK,
AS ADMINISTRATIVE AGENT,

AND

THE LENDERS PARTY HERETO

FIRST AMENDMENT TO CONSTRUCTION LOAN AGREEMENT

THIS FIRST AMENDMENT TO CONSTRUCTION LOAN AGREEMENT (the "***First Amendment to Loan Agreement***" or this "***Amendment***") is entered into effective as of November 7, 2014, among **STRATUS LAKEWAY CENTER L.L.C.,** a Texas limited liability company ("***Borrower***"), **PLAINSCAPITAL BANK**, a state banking association, as Administrative Agent, and the financial institutions executing this Amendment as Existing Lender and New Lender, respectively, each as defined below.

R E C I T A L S

A. Borrower, the Lenders party thereto and Administrative Agent are parties to that certain Construction Loan Agreement dated as of September 29, 2014 (the "***Original Loan Agreement***").

B. Immediately prior to the Effective Date, the Existing Lender owns 100% of the Loan.

C. Borrower, the undersigned Lenders and Administrative Agent desire to amend the Original Loan Agreement as hereinafter provided.

D. Upon the Effective Date, New Lender shall become a Lender under the Original Loan Agreement as hereinafter provided.

NOW, THEREFORE, in consideration of these premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. **Same Terms**. All terms used herein which are defined in the Original Loan Agreement shall have the same meanings when used herein, unless the context hereof otherwise requires or provides. In addition, (i) all references in the Loan Documents to the "Agreement" shall mean the Original Loan Agreement, as amended by this Amendment, as the same shall hereafter be amended from time to time, and (ii) all references in the Loan Documents to the "Loan Documents" shall mean the Loan Documents, as amended by this Amendment, as the same shall hereafter be amended from time to time. In addition, the following terms have the meanings set forth below:

"***Effective Date***" means November 7, 2014.

"***Existing Lender***" means PlainsCapital Bank, a state banking association.

"***Modification Papers***" means this Amendment and all of the other documents and agreements executed in connection with the transactions contemplated by this Amendment.

"***New Lender***" means Southside Bank, a state banking association.

2. **Conditions Precedent**. The obligations and agreements of Administrative Agent and the undersigned Lenders as set forth in this Amendment are subject to the satisfaction (in the opinion of Administrative Agent), unless waived in writing by Administrative Agent and New Lender, of each of the following conditions (and upon such satisfaction, this Amendment shall be deemed to be effective as of the Effective Date):

A. **First Amendment to Loan Agreement**. Administrative Agent shall have received copies of this Amendment duly executed by Borrower and the Required Lenders.

B. **Note for New Lender**. Borrower shall have executed and delivered to New Lender a Note in the form of Exhibit H to the Original Loan Agreement.

C. **Upfront Fees**. New Lender shall have received payment of an upfront fee in the amount of $125,000, and Existing Lender shall have received payment of an upfront fee in the amount of $14,300.

D. **Fees and Expenses**. Borrower shall have paid to Administrative Agent all out-of-pocket fees and expenses (including reasonable attorneys' fees and expenses) incurred by Administrative Agent in connection with the preparation, negotiation and execution of the Modification Papers.

E. **Representations and Warranties**. All representations and warranties contained herein or in the other Modification Papers or otherwise made in writing in connection herewith or therewith shall be true and correct in all material respects with the same force and effect as though such representations and warranties have been made on and as of the Effective Date except: (i) to the extent that any such representation or warranty expressly relates solely to an earlier date, in which case such representation or warranty is true and correct in all material respects as of such earlier date and (ii) the representations and warranties contained in subsections (a) and (b) of Section 11.2 of the Original Loan Agreement shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 9.1 of the Original Loan Agreement.

3. **Amendments to Original Loan Agreement**. On the Effective Date, the Original Loan Agreement shall be deemed to be amended as follows:

(a) The figure "$35,000,000" shall be changed to the figure "$37,860,000" in the sixth and seventh sentences in Section 2.1(b).

(b) In Section 5.1(a) of the Original Loan Agreement, the reference to "78,455 acres" shall be changed to "78.455 acres".

(c) Schedule 1.1 to the Original Loan Agreement shall be replaced by Schedule 1.1 attached to this Amendment.

4. **Confirmation of Occurrence of Syndication Event**. The parties confirm that upon the occurrence of the Effective Date, the Syndication Event shall be deemed to have occurred.

5. **Adjustment of Pro Rata Shares of Lenders**. The New Lender has become a Lender upon its execution of this Amendment, and on the Effective Date, the New Lender shall assume all rights and obligations of a Lender under the Original Loan Agreement, as amended hereby. The Administrative Agent, the Lenders and the Borrower hereby consent to New Lender's acquisition of an interest in the Aggregate Commitments and its Pro Rata Share. The Lenders have agreed among themselves, in consultation with the Borrower, to reallocate their respective Commitments and Pro Rata Shares as set forth on Schedule 1.1, and the Administrative Agent and the Borrower hereby consent to such reallocation. The Administrative Agent, the Lenders and the Borrower hereby waive (a) any requirement that an Assignment and Assumption or any other documentation be executed in connection with such

reallocation, and (b) the payment of any processing and recordation fee to the Administrative Agent. Notwithstanding the foregoing, the reallocation of the Commitments and Pro Rata Shares among the Lenders shall be deemed to have been consummated pursuant to the terms of an Assignment and Assumption attached as Exhibit G to the Original Loan Agreement as if the Lenders had executed an Assignment and Assumption with respect to such reallocation. On the Effective Date, the Commitment and Pro Rata Share of each Lender shall be as set forth on Schedule 1.1 attached to this Amendment, and shall be reflected in the Register maintained by Administrative Agent.

6. **Concerning the New Lender**.

(a) In connection herewith, the Existing Lender irrevocably sells and assigns to New Lender, and New Lender hereby irrevocably purchases and assumes from the Existing Lender, as of the Effective Date, so much of Existing Lender's Commitment, the Loan and participations in Lakeway Letter of Credit, and rights and obligations in its capacity as a Lender under the Original Loan Agreement, the other Loan Documents, and any other documents or instruments delivered pursuant thereto (including without limitation any guaranties and, to the extent permitted to be assigned under applicable law, all claims (including without limitation contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity), suits, causes of action and any other right of the Existing Lender against any Person, whether known or unknown, arising under or in connection with the Original Loan Agreement, the other Loan Documents and any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby), such that the Existing Lender's and the New Lender's Commitment, Pro Rata Share of the Loan and participations in Lakeway Letter of Credit, and rights and obligations as a Lender shall be equal to its Pro Rata Share and Commitment set forth on Schedule 1.1 to this Amendment. Existing Lender agrees that the provisions of the form of Assignment and Assumption (including Annex 1) attached as Exhibit G to the Loan Agreement shall apply to it as assignor of such "Commitment." Each party hereto agrees to execute an Assignment and Assumption or related ancillary documentation to give effect to the foregoing if requested by the Administrative Agent.

(b) Upon the Effective Date, the Loan and participations in the Lakeway Letter of Credit of the Existing Lender outstanding immediately prior to the Effective Date shall be, and hereby are, restructured, rearranged, renewed, extended and continued as provided in this Amendment and shall continue as the Loan and participations in the Lakeway Letter of Credit of the Existing Lender and New Lender under the Original Loan Agreement, as amended by the Modification Papers (as so amended, the ***"Loan Agreement"***).

(c) New Lender represents and warrants to the Administrative Agent as follows:

(i) it has received a copy of the Original Loan Agreement, together with copies of the most recent financial statements of the Borrower delivered pursuant thereto;

(ii) it has, independently and without reliance upon any Lender or any related party of the Administrative Agent or any Lender (an ***"Agent-Related Person"***) and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition and creditworthiness of the Loan Parties and their respective Subsidiaries, and all applicable bank or other regulatory laws relating to the transactions contemplated by the Loan Agreement, and made its own decision to enter into the Loan

Agreement and to extend credit to the Borrower and the other Loan Parties under the Loan Agreement;

(iii) it will, independently and without reliance upon any Lender or any Agent-Related Person and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under the Loan Agreement and the other Loan Documents, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, and other condition and creditworthiness of the Borrower and the other Loan Parties.

(d) New Lender acknowledges as follows:

(i) no Lender or Agent-Related Person has made any representation or warranty to it, and no act by the Administrative Agent hereafter taken, including any consent to and acceptance of any assignment or review of the affairs of any Loan Party or any Affiliate thereof, shall be deemed to constitute any representation or warranty by any Lender or any Agent-Related Person to any Lender as to any matter, including whether Agent-Related Persons have disclosed material information in their possession;

(ii) except for notices, reports and other documents expressly required to be furnished to the Lenders by the Administrative Agent pursuant to the Original Loan Agreement, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, prospects, operations, property, financial and other condition or creditworthiness of any of the Loan Parties or any of their respective Affiliates which may come into the possession of any Agent-Related Person; and

(iii) on the Effective Date, subject to the satisfaction of the conditions to effectiveness set forth in Section 2 of this Amendment, it shall be deemed automatically to have become a party to the Loan Agreement and have all rights and obligations of a Lender under the Loan Agreement and the other Loan Documents, each as amended by the Modification Papers, as if it were an original Lender signatory thereto.

(e) On the Effective Date, New Lender agrees to be bound by the terms and conditions set forth in the Original Loan Agreement and the other Loan Documents, each as amended by the Modification Papers, applicable to the Lenders as if it were an original Lender signatory thereto (and expressly makes the appointment set forth in, and agrees to the obligations imposed under, Section 15 of the Original Loan Agreement).

7. **Certain Representations**. Borrower represents and warrants that, as of the Effective Date: (a) Borrower has full power and authority to execute the Modification Papers and the Modification Papers constitute the legal, valid and binding obligation of Borrower enforceable in accordance with their terms, except as enforceability may be limited by general principles of equity and applicable Debtor Relief Laws; and (b) no authorization, approval, consent or other action by, notice to, or filing with, any Governmental Authority or other Person is required for the execution, delivery and performance by Borrower thereof; and (c) with respect to the HEB Lease, such lease is currently in force and effect, neither the landlord nor the tenant is in default thereunder, and each of the contingencies set forth in Section 2(f)(3) thereof has been satisfied such that the tenant no longer has any right to terminate such lease pursuant to such section; and (d) each of the conditions set forth in Sections 6.1 through 6.22 of the

Original Loan Agreement has been satisfied; and (e) no Event of Default exists and, to Borrower's knowledge, there exist no facts or circumstances which, with the giving of notice and the passage of time, would reasonably be expected to constitute an Event of Default. In addition, Borrower represents that after giving effect to this Amendment all representations and warranties contained in Section 11 of the Original Loan Agreement, as amended hereby, and the other Loan Documents are true and correct in all material respects on and as of the Effective Date as if made on and as of such date except: (i) to the extent that any such representation or warranty expressly relates solely to an earlier date, in which case such representation or warranty is true and correct in all material respects as of such earlier date and (ii) the representations and warranties contained in Section 11.2 of the Original Loan Agreement shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 9.1 of the Original Loan Agreement.

8. **No Further Amendments.** Except as previously amended in writing or as amended hereby, the Original Loan Agreement shall remain unchanged and all provisions shall remain fully effective between the parties.

9. **Acknowledgments and Agreements**. Borrower acknowledges that on the date hereof all outstanding Obligations are payable in accordance with their terms, and Borrower waives any defense, offset, counterclaim or recoupment with respect thereto. Borrower, Administrative Agent and each Lender do hereby adopt, ratify and confirm the Original Loan Agreement, as amended hereby, and acknowledge and agree that the Original Loan Agreement, as amended hereby, is and remains in full force and effect. Borrower acknowledges and agrees that its liabilities and obligations under the Original Loan Agreement, as amended hereby, and under the other Loan Documents, are not impaired in any respect by this Amendment. Any breach of any representations, warranties and covenants under this Amendment shall be an Event of Default under the Original Loan Agreement, as amended hereby.

10. **Limitation on Agreements**. The modifications set forth herein are limited precisely as written and, except as expressly set forth herein, shall not be deemed (a) to be a consent under or a waiver of or an amendment to any other term or condition in, or constitute any course of dealing under, the Original Loan Agreement or any of other the Loan Documents, or (b) to prejudice any right or rights which Administrative Agent or any Lender now has or may have in the future under or in connection with the Original Loan Agreement or the other Loan Documents, each as amended hereby, or any of the other documents referred to herein or therein. The Modification Papers shall constitute Loan Documents for all purposes.

11. **Confirmation of Security**. Borrower hereby confirms and agrees that all of the collateral documents (the Deed of Trust and the Guaranty Agreement) which presently secure the Obligations shall continue to secure, in the same manner and to the same extent provided therein, the payment and performance of the Obligations as described in the Original Loan Agreement, as amended hereby.

12. **Counterparts**. This Amendment may be executed in any number of counterparts (including execution by electronic transmission (i.e. pdf attachment)), each of which when executed and delivered shall be deemed an original, but all of which constitute one instrument. In making proof of this Amendment, it shall not be necessary to produce or account for more than one counterpart thereof signed by each of the parties hereto.

13. **Incorporation of Certain Provisions by Reference**. The provisions of Section 16.4 of the Original Loan Agreement captioned "Governing Law, Jurisdiction, Venue" and Section 16.24 of the

Original Loan Agreement captioned "Waiver of Jury Trial" are incorporated herein by reference for all purposes.

14. **Entirety, Etc**. This Amendment and all of the other Loan Documents embody the entire agreement between the parties. THIS AMENDMENT AND ALL OF THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

[Remainder of page intentionally left blank. Signature pages follow.]

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

BORROWER

Address for Notices:

212 Lavaca St., Suite 300
Austin, Texas 78701

STRATUS LAKEWAY CENTER, L.L.C.

By: /s/ Erin D. Pickens
Erin D. Pickens
Senior Vice President

ADMINISTRATIVE AGENT

Address for Notices:

2323 Victory Avenue, Suite 300
Dallas, Texas 75219

PLAINSCAPITAL BANK,
as Administrative Agent

By: /s/ Thomas Ricks
Thomas Ricks
Senior Vice President

EXISTING LENDER

Address for Notices:

2323 Victory Avenue, Suite 300
Dallas, Texas 75219

PLAINSCAPITAL BANK

By: /s/ Thomas Ricks
Thomas Ricks
Senior Vice President

NEW LENDER

Address for Notices:

P.O. Box 1079
Tyler, Texas 75710

SOUTHSIDE BANK

By: /s/ Pam Cunningham
Pam Cunningham
Executive Vice President

SCHEDULE 1.1

SCHEDULE OF LENDERS

Lender	Commitment	Pro Rata Share
PlainsCapital Bank	$37,860,000	60.229080500%
Southside Bank	$25,000,000	39.770919500%
Total	$62,860,000	100.000000000%

Exhibit 31.1

Certification

I, William H. Armstrong III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stratus Properties Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 13, 2014

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

Exhibit 31.2

Certification

I, Erin D. Pickens, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stratus Properties Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 13, 2014

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

Exhibit 32.1

Certification Pursuant to 18 U.S.C. Section 1350
(Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Quarterly Report on Form 10-Q of Stratus Properties Inc. (the "Company") for the quarter ending September 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), William H. Armstrong III, as Chairman of the Board, President & Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 13, 2014

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

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification shall not be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.

Exhibit 32.2

Certification Pursuant to 18 U.S.C. Section 1350
(Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Quarterly Report on Form 10-Q of Stratus Properties Inc. (the "Company") for the quarter ending September 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Erin D. Pickens, as Senior Vice President & Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of her knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 13, 2014

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

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification shall not be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.