

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended March 31, 2000

Commission File Number: 0-19989

Stratus Properties Inc.

Incorporated in Delaware

72-1211572  
(IRS Employer Identification No.)

98 San Jacinto Blvd., Suite 220, Austin, Texas 78701

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 X No

On March 31, 2000, there were issued and outstanding 14,288,270 shares of the registrant's Common Stock, par value \$0.01 per share.

STRATUS PROPERTIES INC.  
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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

STRATUS PROPERTIES INC.  
CONDENSED BALANCE SHEETS (Unaudited)

	March 31, 2000	December 31, 1999
	-----	-----
	(In Thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents, including restricted cash of \$2.6 million and \$2.1 million, respectively, (Note 4)	\$ 3,333	\$ 3,964
Accounts receivable:		
Property sales	15	149
Other	1,427	1,160
Prepaid expenses	345	375
	-----	-----
Total current assets	5,120	5,648
Real estate and facilities, net	89,120	91,664
Investment in and advances to unconsolidated affiliates	8,547	7,254
Other assets	8,963	11,106
	-----	-----
Total assets	\$ 111,750	\$ 115,672
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued liabilities	\$ 445	\$ 900
Accrued interest, property taxes and other	590	1,537
	-----	-----
Total current liabilities	1,035	2,437
Long-term debt	16,828	16,562
Other liabilities	9,769	19,833
Mandatorily redeemable preferred stock	10,000	10,000
Stockholders' equity	74,118	66,840
	-----	-----
Total liabilities and stockholders' equity	\$ 111,750	\$ 115,672
	=====	=====

The accompanying notes are an integral part of these financial statements.

STRATUS PROPERTIES INC.  
STATEMENT OF OPERATIONS (Unaudited)

	Three Months Ended March 31,	
	-----	
	(In Thousands, Except Per Share Amounts)	
Revenues	\$ 2,060	\$ 1,586
Costs and expenses:		
Cost of sales	1,601	1,070
General and administrative expenses	981	734
	-----	-----
Total costs and expenses	2,582	1,804
Operating loss	(522)	(218)
Interest expense	(193)	(269)
Other income (loss), net	7,805	(29)
	-----	-----

Income (loss) before income taxes and equity in affiliates	7,090	(516)
Income tax provision	(40)	(14)
Equity in unconsolidated affiliates' income	228	51
	-----	-----
Net income (loss)	\$ 7,278	\$ (479)
	=====	=====
Net income (loss) per share		
Basic	\$0.51	\$(0.03)
	=====	=====
Diluted	\$0.44	\$(0.03)
	=====	=====
Average shares outstanding		
Basic	14,288	14,288
	=====	=====
Diluted	16,635	14,288
	=====	=====

The accompanying notes are an integral part of these financial statements.

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STRATUS PROPERTIES INC.  
STATEMENTS OF CASH FLOW (Unaudited)

	Three Months Ended March 31,	
	2000	1999
	-----	
	(In Thousands)	
Cash flow from operating activities:		
Net income (loss)	\$ 7,278	\$ (479)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	24	21
Cost of real estate sold	300	1,003
Recognition of deferred Circle C municipal utility reimbursements	(7,430)	-
Equity in unconsolidated affiliates income	(228)	(51)
Long term receivable and other	567	(85)
(Increase) decrease in working capital:		
Accounts receivable and other	888	(41)
Accounts payable and accrued liabilities	(1,322)	(1,222)
	-----	-----
Net cash provided by (used in) operating activities	77	(854)
	-----	-----
Cash flow from investing activities:		
Real estate and facilities	(893)	(1,366)
	-----	-----
Net cash used in investing activities	(893)	(1,366)
	-----	-----
Cash flow from financing activities:		
Proceeds from credit facility, net	185	2,000
	-----	-----
Net cash provided by financing activities	185	2,000
	-----	-----
Net decrease in cash and cash equivalents	(631)	(220)
Cash and cash equivalents at beginning of year	3,964	5,169
	-----	-----
Cash and cash equivalents at end of period	\$ 3,333	\$ 4,949
	=====	=====

The accompanying notes are an integral part of these financial statements.

STRATUS PROPERTIES INC.  
NOTES TO FINANCIAL STATEMENTS

1. EARNINGS PER SHARE

Basic net income (loss) per share of common stock was calculated by dividing net loss applicable to common stock by the weighted-average number of common shares outstanding during each period presented. Diluted net income (loss) per share was calculated by dividing net income (loss) by the weighted-average of common shares outstanding plus the effects of dilutive stock options during each period presented.

Stratus Properties Inc.'s (Stratus) first-quarter 2000 diluted net income per share includes the following:

- . Dilutive options representing 254,000 shares of Stratus' common stock.
- . The assumed redemption of 1,712,000 shares of Stratus' preferred stock for 1,712,000 shares of its common stock.
- . The assumed redemption of Stratus' \$2.8 million of outstanding convertible debt at March 31, 2000 for 381,000 shares of its common stock.

Stratus' first-quarter 1999 diluted net loss per share excluded the following because of their anti-dilutive effect on the loss incurred during the period:

- . Dilutive options representing 191,000 shares of Stratus' common stock.
- . The assumed redemption of 1,712,000 shares of Stratus' preferred stock for 1,712,000 shares of its common stock.
- . The assumed redemption of Stratus' \$2.1 million of outstanding convertible debt at March 31, 1999 for 290,000 shares of its common stock.

Interest accrued on the convertible debt outstanding totaled approximately \$81,000 for the first quarter of 2000 and \$62,000 for the first quarter of 1999. There have been no dividends accrued on Stratus' mandatorily redeemable preferred stock as of March 31, 2000.

Outstanding options to purchase approximately 515,000 shares of common stock, at an average exercise price of \$5.37 during the first quarter of 2000, and 476,000 shares of common stock, at an average exercise price of \$5.29 during the first quarter of 1999, were not included in the computation of diluted income (loss) per share. These options were excluded because their exercise prices were greater than the average market price for the respective periods presented.

2. OLYMPUS RELATIONSHIP and INVESTMENT IN UNCONSOLIDATED AFFILIATES

In May 1998, Stratus and Olympus Real Estate Corporation (Olympus), an affiliate of Hicks, Muse, Tate & Furst Incorporated, formed a strategic alliance to develop certain of Stratus' existing properties and to pursue new real estate acquisition and development opportunities. Under the terms of the agreement, Olympus made a \$10 million investment in Stratus' mandatorily redeemable preferred stock, provided a \$10 million convertible debt financing facility to Stratus and agreed to make available up to \$50 million of additional capital representing its share of direct investments in joint Stratus/Olympus projects. As of March 31, 2000, Stratus had outstanding borrowings of \$2.8 million on the convertible debt facility and Olympus had invested approximately \$13.4 million in joint Stratus/Olympus projects, as further discussed below.

Stratus has investments in three joint ventures. Stratus owns a 49.9 percent interest in each joint venture and Olympus

owns the remaining 50.1 percent interest. Accordingly, Stratus accounts for its investments in the joint ventures utilizing the equity method of accounting. Stratus develops and manages each project undertaken by these joint ventures and receives development fees, sales commissions, and other management fees for its services.

Stratus' three joint ventures are: the Oly Stratus Barton Creek I Joint Venture (Barton Creek Joint Venture), the Oly Walden General Partnership (Walden Partnership) and the Stratus 7000 West Joint Venture (7000 West). The Barton Creek Joint Venture currently consists of two separate subdivisions located in southwest Austin, Texas: "Wimberly Lane" and "Escala Drive." At March 31, 2000 there were 21 remaining single-family homesites at the Wimberly Lane subdivision and there were 49 remaining single-family homesites at the Escala Drive subdivision, some of which are still being developed. The Walden Partnership had

approximately 570 single-family homesites available at the Walden on Lake Houston development in Houston, Texas at March 31, 2000.

The 7000 West Joint Venture has completed and leased the first of two 70,000 square foot office buildings and construction of the second office building is proceeding as scheduled. During the first quarter of 2000, Stratus finalized a previous sale of 5.5 acres of commercial real estate to the 7000 West Joint Venture. Stratus will recognize an approximate gain of \$0.5 million associated with this sale, representing Olympus' 50.1 percent joint venture interest, when the second 70,000 square foot office building is fully constructed and leased.

For a detailed discussion of the Olympus alliance and the initial formation and subsequent transactions of the joint ventures and partnership see Notes 2, 3 and 4 of the "Notes To Financial Statements" included in Stratus' 1999 Annual Report and Form 10-K. Also refer to "Transactions With Olympus Real Estate Corporation" and "Capital Resources and Liquidity" included in Items 7 and 7A "Management's Discussion and Analysis of Financial Condition and Results of Operations and Disclosures of Market Risks" included in Stratus' 1999 Annual Report and Form 10-K.

The Barton Creek Joint Venture distributed approximately \$2.0 million to the partners during the first quarter of 2000 (\$2.4 million from inception through March 31, 2000). Stratus recorded its portion of the distribution, \$1.0 million, as a reduction of its note receivable and related accrued interest relating to its initial sale of land to the joint venture. The other joint ventures have yet to make any distributions. The summarized unaudited financial information of Stratus' unconsolidated affiliates is shown below (in thousands):

	Barton Creek Joint Venture	Walden Partnership	7000 West	Total
	-----	-----	-----	-----
Earnings data for the three months ended March 31, 2000:				
Revenues	\$ 3,249	\$ 449	\$ 170	\$ 3,868
Operating income (loss)	913	(218)	(349)	346
Net income (loss)	977	(192)	(345)	440
Stratus' equity in net income (loss)	488	(88)a	(172)	228a
Earnings data for the three months ended March 31, 1999:				
Revenues	\$ 774	\$ 390	\$ -	\$ 1,164
Operating income (loss)	248	(133)	-	115
Net income (loss)	248	(146)	-	102
STRS' equity in net income (loss)	124	(73)	-	51

a. Includes recognition of \$8,000 of deferred income, representing the difference in Stratus' investment in the Walden Partnership and its underlying equity at the date of acquisition. Stratus will recognize the remaining difference as the related real estate is sold. Through March 31, 2000, Stratus has recognized \$52,000 of a total of \$337,000 of deferred income associated with the Walden Partnership.

### 3. COMMITMENTS and CONTINGENCIES

In late October 1999, Circle C Land Corp. (Circle C), a wholly owned subsidiary of Stratus, and the City of Austin (the City) reached an agreement regarding a portion of Circle C's claims against the City involving the reimbursement of certain previously incurred water, wastewater and drainage infrastructure expenditures following the City's December 1997 annexation of all land lying within the Circle C community. As a result of this agreement, Stratus received approximately \$9.8 million, including \$1.0 million in interest, representing a partial payment of these claims. Stratus has collected a total of \$10.5 million of reimbursements from the City as of March 31, 2000. Stratus will continue to pursue vigorously its approximate \$9.0 million, exclusive of penalties and interest, of remaining claims against the City. Stratus used the proceeds to reduce its outstanding debt.

The partial payment settlement agreement included a contingency provision requiring Stratus to return all reimbursed money to the City and the City to return the related utility infrastructure to Stratus if the City's annexation of the Circle C municipal utility districts (MUD) was reversed or otherwise rescinded, whether by legislative action, final action of the appellate court, or other legal process. In March 2000, the City approved a

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settlement agreement of all disputes between the City and certain third party real estate developers and landowners involved in the Circle C community. Under terms of this settlement, the lawsuits contesting the City's December 1997 annexation of all land within the four Circle C MUDs and the dissolution of the four MUDs have been dismissed with prejudice.

As a result, the refund contingency included in the City's partial settlement of Stratus' reimbursement claim has been eliminated. Stratus has recorded a gain of approximately \$7.4 million in the first quarter of 2000, representing that portion of the reimbursed infrastructure expenditures in excess of Stratus' remaining basis in these assets and related interest income. The remaining \$3.1 million of the proceeds reduced Stratus' investment in Circle C.

### 4. RESTRICTED CASH

Stratus has a requirement under its existing credit facility to deposit funds into an interest reserve account with the lending bank, Comerica. The amount in this account must be sufficient to carry Stratus' debt service for both its term loan and revolving line of credit for the ensuing twelve-month period, adjusted quarterly. Stratus had deposits totaling \$1.3 million in the interest reserve account at March 31, 2000. For additional discussion of Stratus' credit facility and its interest reserve requirements see Note 5 of the "Notes To Financial Statements" included in its 1999 Annual Report and Form 10-K.

At March 31, 2000, Stratus had additional restricted cash deposits totaling \$1.3 million related to additional collateral associated with the Walden Partnership's project development loan. This deposit is reduced by \$0.30 for every \$1.00 in principal the Walden Partnership repays on the loan. For additional discussion of the Walden Partnership project development loan see Item 2. "Management Discussion and Analysis of Financial Condition and Results of Operations" included

elsewhere in this Form 10-Q and Note 4 of the "Notes To Financial Statements" included in Stratus' 1999 Annual Report and Form 10-K.

#### 5. LITIGATION

Stratus is involved in pending litigation involving the City and others, which may affect its property development entitlements and its ability to secure its remaining reimbursements from the City of approximately \$9.0 million, exclusive of penalties and interest, relating to development of its Circle C property. Refer to Item 3 "Legal Proceedings" and Note 6 "Real Estate" in the Stratus' 1999 Annual Report and Form 10-K for a detailed discussion of such litigation matters. For discussion of litigation events subsequent to the Form 10-K refer to Part II - Other Information, "Legal Proceedings" included elsewhere in this Form 10-Q.

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Remarks

The information furnished herein should be read in conjunction with Stratus' financial statements contained in its 1999 Annual Report and Form 10-K. The information furnished herein reflects all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the periods. All such adjustments are, in the opinion of management, of a normal recurring nature

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#### REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders  
of Stratus Properties Inc.:

We have reviewed the accompanying condensed balance sheet of Stratus Properties Inc. (a Delaware corporation), as of March 31, 2000, the related statements of operations and cash flow for the three month periods ended March 31, 2000 and 1999. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the balance sheet of Stratus Properties Inc. as of December 31, 1999, and the related statements of operations, stockholders' equity and cash flow for the year then ended (not presented herein), and in our report dated January 19, 2000, based on our audit, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed balance sheet as of December 31, 1999, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

/s/ ARTHUR ANDERSEN LLP

Austin, Texas  
May 1, 2000

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

OVERVIEW

We are engaged in the acquisition, development, management and sale of commercial and residential real estate. We conduct real estate operations on properties we own and through unconsolidated affiliates we jointly own with Olympus Real Estate Corporation (Olympus) pursuant to a strategic alliance formed in May 1998 (see Note 2).

Our principal real estate holdings are in the Austin, Texas area and consist of approximately 2,300 acres of undeveloped residential, multi-family and commercial property located in southwest Austin within the Barton Creek community and 500 acres of undeveloped residential, multi-family and commercial property known as the Lantana tract, south of and adjacent to the Barton Creek community. Our remaining Austin acreage consists of about 1,300 acres of undeveloped commercial and multi-family property within the Circle C Ranch development, also located in southwest Austin.

As of March 31, 2000, we also own nine developed lots, 120 acres of undeveloped residential property and 33 acres of undeveloped commercial and multi-family property located in Dallas, Houston and San Antonio, Texas, which are being actively marketed. These real estate interests are managed by unaffiliated professional real estate developers who have been retained to provide master planning, zoning, permitting, development, construction and marketing services for the properties.

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DEVELOPMENT ACTIVITIES

Stratus Properties

Development is progressing at several sections of the Barton Creek community, including the completion of utility infrastructure that will serve a significant portion of the 2,300 acres of undeveloped property at Barton Creek, and preliminary development of approximately 200 new single-family homesites in the vicinity of the new Tom Fazio-designed "Fazio Canyons" golf course, which was completed in September 1999. We expect that a number of these homesites will be available for sale by late 2000.

In April 2000, we received final subdivision plat approval from the City of Austin (the City) to develop approximately 160 acres of commercial and multi-family real estate within the Lantana community. Development activities at this commercial development, which we anticipate will include office, retail and multi-family sites, are expected to commence during the second quarter of 2000.

Unconsolidated Affiliates

We have investments in three joint ventures in which we own a 49.9 percent interest and Olympus owns the remaining 50.1 percent interest. Accordingly, we account for our investments in the joint ventures utilizing the equity method of accounting. We develop and manage each project undertaken by these joint ventures and receive development fees, sales commissions, and other management fees for our services. See Note 2 included elsewhere in this Form 10-Q for the summarized unaudited results of operations of our unconsolidated affiliates' for the first quarters of 2000 and 1999.

Barton Creek Joint Venture

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The Oly Stratus Barton Creek I Joint Venture (Barton Creek Joint Venture) currently consists of two separate subdivisions: "Wimberly Lane" and "Escala Drive." The Wimberly Lane subdivision, in which we completed construction of 75 developed



residential lots during the first quarter of 1999, had 21 of these developed lots remaining at March 31, 2000. We sold 12 of the Wimberly Lane lots during the first quarter of 2000, which represented \$1.3 million of the Barton Creek Joint Venture's revenues for the period. In the first quarter of 1999, we sold eight of the Wimberly Lane developed residential lots for \$0.8 million, which represented all of Barton Creek Joint Venture's revenues for that period. The Escala Drive subdivision, which we are currently developing, will consist of 54 multi-acre residential lots when completed. These residential lots will be the largest developed to date within the Barton Creek community.

Construction of the final of these 54 planned lots is anticipated to be completed by mid-2000. We sold the initial five Escala Drive residential lots in the first quarter of 2000 which contributed \$2.1 million to the Barton Creek Joint Venture's revenues. The Barton Creek Joint Venture distributed approximately \$2.0 million to the partners in the first quarter of 2000. We recorded our share of the distribution, \$1.0 million, as a reduction of our notes receivable and related accrued interest relating to the initial sale of land to the joint venture.

#### Walden Partnership

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The Walden Partnership is currently marketing single-family homesites at the Walden on Lake Houston development in Houston, Texas. During the three months ended March 31, 2000, the Partnership sold 17 single-family homesites compared with eight single-family homesites during the comparable period last year. At March 31, 2000, the Walden Partnership's outstanding borrowings totaled \$3.5 million on its project development loan facility. In September 1998, we deposited \$2.5 million of restricted cash with the bank as additional collateral for the related project development loan facility. However, for every \$1.00 of facility's principal that is repaid by the Partnership, the bank allows for a \$0.30 reduction of our restricted amount. Accordingly, we had a total of \$1.3 million deposited within the bank's restricted account at March 31, 2000 and \$1.5 million at December 31, 1999.

#### 7000 West

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The first 70,000 square foot office building at the 140,000 square foot Lantana Corporate Center, which is commonly referred to as 7000 West, is fully leased and occupied. During the first quarter of 2000, we completed a transaction admitting Olympus as our joint venture partner in the second 70,000 square foot office building at 7000 West. In this transaction, we finalized the second phase of a prior sale of 5.5 acres of commercial real estate to the joint venture. In early April 2000, we received approximately \$0.5 million, which we used to repay outstanding borrowings on our term loan (see Note 5 of "Notes To Financial Statements")

included in our 1999 Annual Report and Form 10-K). Revenues from this sale of \$1.1 million and the related gain of approximately \$0.9 million have been deferred until the completion of construction and leasing of the second building, which is anticipated to occur by the third quarter of 2000. At that time we anticipate recognizing Olympus' 50.1 percent of the sale and related gain of \$0.5 million. In our role as manager, we arranged for a \$6.6 million project loan facility for 7000 West, which was utilized to construct the first office building. The construction of the second building required additional financing, which was provided when we arranged for an additional \$7.7 million of availability on the 7000 West development loan facility in the first quarter of 2000. Outstanding borrowings under 7000 West's project loan facility totaled \$6.3 million at March 31, 2000.

Summary operating results follow (in thousands):

	First Quarter	
	2000	1999
Revenues:		
Undeveloped properties:		
Recognition of deferred revenues	\$ 811	\$ 155
Developed properties	350	1,152
Commissions, management fees and other	899	279
	-----	-----
Total revenues	2,060	1,586
Operating loss	(522)	(218)
Net income (loss)	7,278	(479)

#### Operating Results

During the first quarters of 2000 and 1999 our undeveloped property revenues consisted solely of the recognition of previously deferred revenues from the sale of undeveloped real estate to unconsolidated affiliates. When we sell real estate to an entity we jointly own with Olympus, we defer recognizing the portion of revenues from the sale related to our interest until all or a portion of the real estate is ultimately sold to unrelated parties. Our recognition of deferred revenues resulted from the Barton Creek Joint Venture's sale of 12 Wimberly Lane single family homesites and five Escala Drive homesites during the first quarter of 2000 compared with sales of eight Wimberly Lane homesites during the first quarter of 1999. The remaining \$5.4 million of deferred revenues, which originally totaled \$7.1 million and resulted from our retained interest in the sales of 28 acres and 174 acres of undeveloped residential real estate in the Wimberly Lane and Escala Drive subdivisions, respectively, to the Barton Creek Joint Venture, will be recognized as this acreage is developed and sold by the Barton Creek Joint Venture.

Revenues from developed properties represented the sale of 15 single-family homesites during the first quarter of 2000 and 21 single-family homesites for the first quarter of 1999. We have no remaining developed lots in our Austin or Dallas developments and only nine remaining developed lots in our Houston and San Antonio developments. Lots available for sale by our unconsolidated affiliates are not included in these amounts (see "Unconsolidated Affiliates" above).

Commissions, management fees and other revenue totaled \$0.8 million for the first quarter of 2000 compared to \$0.3 million for the first quarter of 1999. This increase primarily reflects the increase in sales commissions on properties we sold for the Barton Creek Joint Venture during the first quarter of 2000 compared with the same period last year.

Cost of sales increased to \$1.6 million for the first quarter of 2000 compared with \$1.1 million for the first quarter of 1999. The increase primarily reflects a reimbursement of certain infrastructure costs previously charged to expense or relating to properties previously sold, which reduced cost of sales by \$0.8 million during the first quarter of 1999.

General and administrative expenses increased to \$1.0 million in the first quarter of 2000 from \$0.7 million during the first quarter of 1999. The increase primarily reflects increased personnel costs offset in part by a decrease in legal expenses. Legal expense has decreased to \$0.1 million for the first quarter of 2000 from \$0.2 million for the first quarter of 1999. The

decrease in legal expense reflects reduced activities associated with the anticipated ruling from the Texas Supreme Court related to a hearing presented in December 1998, that may resolve various issues between the City and us.

During 1995, the Texas State legislature enacted legislation that enabled us to create a series of municipal utility districts (MUDs) to serve the Barton Creek development. Once established, the MUDs issue bonds, the proceeds of which are used to reimburse us for costs related to the installation of major utility, drainage and water quality infrastructure. During the first quarter of 2000, we received the second of three \$1.0 million payments from the City as reimbursement for the costs associated with the construction of the Lantana Pump Station. We used the proceeds from this reimbursement to reduce our outstanding borrowings under our term loan. During the first quarter of 1999, we received approximately \$1.1 million in partial reimbursement of infrastructure costs relating to the Barton Creek development, which included \$0.8 million related to costs previously expensed (see discussion above). We expect to receive additional reimbursements in the future for infrastructure costs related to the Barton Creek development from the proceeds of MUD bonds issued. However, the timing and the amount of future Barton Creek MUD reimbursements are uncertain. For information concerning Circle C MUD reimbursements currently being litigated, see "Non-Operating Results" below and Part II, Item 1, "Legal Proceedings."

#### Non-Operating Results

Interest expense totaled \$193,000 during the first quarter of 2000 and \$269,000 for the first quarter of 1999. The decrease reflects an increase in capitalized interest, which totaled \$346,000 during the first quarter of 2000 and \$253,000 during the first quarter of 1999.

In March 2000, the City approved a settlement agreement of all disputes between the City and other Austin-area real estate developers and landowners concerning the Circle C community. Under terms of this settlement, the lawsuits contesting the City's December 1997 annexation of all land within the four Circle C MUDs and the dissolution of the four MUDs have been dismissed with prejudice. Accordingly, the City's partial payments of our reimbursement claim, currently totaling \$10.5 million, are no longer subject to a repayment contingency and we have recorded approximately \$7.4 million of these previously deferred proceeds in other income. This amount represents that portion of the reimbursed infrastructure expenditures in excess of our remaining basis in these assets as well as related interest income on the reimbursements. The remaining \$3.1 million was recorded as a reduction of our investment in Circle C. We are continuing to pursue vigorously our remaining \$9.0 million claim, exclusive of penalties and interest, against the City, however no amounts have been recorded for these claims as of March 31, 2000.

#### CAPITAL RESOURCES AND LIQUIDITY

Net cash provided by operating activities totaled \$0.1 million during the first quarter of 2000 compared with a use of \$0.9 million during the first quarter of 1999. The increase primarily reflects a distribution received from the Barton Creek Joint Venture, which was recorded as a reduction of our related notes receivable. Cash used in investing activities totaled \$0.9 million during the first quarter of 2000 compared with \$1.4 million during the same period in 1999, reflecting our net real estate and facilities expenditures. The decrease in our real estate and facilities costs reflect the construction costs of the first 70,000 square foot office building at 7000 West being included in our consolidated results until the formation of the 7000 West Joint Venture in August 1999. Financing activities provided cash of \$0.2 million during the first quarter of 2000 and \$2.0 million during the first quarter of 1999 reflecting borrowings on the respective lines of credit available at the time.

At March 31, 2000, we had debt of \$16.8 million compared to debt of \$31.2 million at March 31, 1999. Our outstanding debt at March 31, 2000 included \$12.5 million outstanding on our term loan, \$1.5 million of borrowings under our \$10 million revolver, both of which mature in December 2002, and \$2.8 million of borrowings under our \$10 million convertible debt facility with Olympus (see Note 2), which matures in May 2004. Our revolving line of credit's availability has been reduced by \$0.9 million at March 31, 2000 in order to make up the shortfall in an interest reserve account. The balance of funds we deposited into this restricted interest reserve account totaled \$1.3 million at March 31, 2000. We anticipate fully funding the interest reserve

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account during the second quarter making the entire \$10 million revolving line of credit available. For a complete discussion of our bank facility see Note 5 included in the "Notes To Financial Statements" included in our 1999 Annual Report and Form 10-K.

Our future operating cash flows and, ultimately, our ability to develop our properties and expand our business will be largely dependent on the level of our real estate sales. In turn, these sales will be significantly affected by future real estate values, regulatory issues, development costs, interest rate levels and our ability to continue to protect our land use and development entitlements. Significant development expenditures remain to be incurred for our Austin-area properties prior to their eventual sale. Our capital expenditures during the remainder of 2000 will be limited to essential levels as we work to preserve our land use and related rights in various disputes with the City and others, as more fully explained in Part II Item 1, "Legal Proceedings." Resolving our entitlement and reimbursement issues with the City remains our primary near-term objective. The timing of our future capital expenditures could be accelerated if disputes over our land use and related rights were to be satisfactorily resolved.

We are continuing to actively pursue additional development and management fee opportunities, both individually and through our existing relationships with Olympus and other institutional capital sources. We continue to be able to obtain capital from Olympus for the development of existing properties in which we desire third-party equity participation, and also believe we can obtain bank financing at a reasonable cost for developing our properties. However, obtaining land acquisition financing is generally expensive and uncertain.

#### CAUTIONARY STATEMENT

Management's discussion and analysis of financial condition and results of operations contains forward-looking statements regarding future reimbursement for infrastructure costs, future events related to financing, the anticipated outcome of litigation and regulatory matters, the expected results of our business strategy and other plans and objectives of management for future operations and activities. Important factors that could cause actual results to differ materially from our expectations include economic and business conditions, business opportunities that may be presented to and pursued by us, changes in laws or regulations and other factors, many of which are beyond our control and other factors that are described in more detail under the heading "Cautionary Statements" in our Annual Report and Form 10-K for the year ended December 31, 1999.

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The results of operations reported and summarized above are not necessarily indicative of future operating results.

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PART II. - OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved in various regulatory matters and litigation involving entitlement and/or development of our Austin-area properties. For a detailed discussion on these matters see Item 3, "Legal Proceedings" and Note 6, "Real Estate" included in our 1999 Annual Report and Form 10-K. Below is a summary of the cases in which we are currently involved.

**The City's WQPZ Action:** The City of Austin, Texas v. Horse Thief Hollow Ranch, Ltd., et al., Cause No. 98-00248 (Travis County 345th Judicial District Court, Texas filed 1/9/98). On January 9, 1998, the City filed suit in Travis County District Court against 14 Water Quality Protection Zones (WQPZs) and their owners, including the Barton Creek WQPZ, challenging the constitutionality of the legislation authorizing the creation of water quality zones. The Attorney General of Texas intervened in this suit and the Circle C WQPZ litigation, described below, to join in the defense of the legislation. A summary judgment hearing was conducted in the Travis County District Court on July 9, 1998. The District Court entered an order granting the City's motion for summary judgment and declaring the WQPZ legislation unconstitutional. All parties agreed to the form of an order which permitted an expedited appeal directly to the Texas Supreme Court. Oral argument was presented to the Texas Supreme Court on December 9, 1998. A ruling is expected in the near future.

**Circle C WQPZ Litigation:** L.S. Ranch, Ltd. And Circle C Land Corp., v. The City of Austin, Texas, Cause No. 97-1048 (Hays County 207th Judicial District Court, Texas filed 10/31/97). Circle C Land Corp., a wholly owned subsidiary of Stratus, filed a WQPZ (Circle C WQPZ) covering a portion of the Circle C development, consisting of 554 acres located outside the boundaries of any municipal utility district. In November 1997, Stratus sought a declaratory judgment in the Hays County District Court to confirm the validity of the Circle C WQPZ.

On September 4, 1998, the Hays County District Court ruled that the WQPZ enabling legislation was constitutional and that the Circle C WQPZ was validly created. The City has appealed the Hays County District Court's ruling to the Texas Third Court of Appeals. Both parties submitted briefs and on September 15, 1999 oral argument was presented to the Third Court of Appeals.

The principal issue involved in this case, the constitutionality of the enabling legislation authorizing the creation of WQPZs, is already pending before the Texas Supreme Court in the City's WQPZ action described above and is expected to be resolved in connection with that case. Assuming the Texas Supreme Court determines that the enabling legislation is constitutional, certain important collateral issues are pending before the Third Court of Appeals. Those issues, which involve the application of the WQPZ enabling legislation to Stratus' WQPZ at Circle C, are expected to be resolved in Stratus' favor.

**Annexation/Circle C MUD Reimbursement Suit:** Circle C Land Corp. v. The City of Austin, Texas, Cause No. 97-13994 (Travis County 53rd Judicial District Court, Texas filed 12/19/97). On December 19, 1997, the City annexed all land formerly lying within the Circle C project. If the City's annexation is valid, Stratus' property located within Circle C's municipal utility districts (MUD) and annexed by the City is subject to the City's zoning and development regulations. Additionally, the City is required to assume all MUD debt and reimburse Stratus for a significant portion of the costs incurred for water, wastewater and drainage infrastructure. Because the City failed to pay these costs upon annexation, as required by statute, Stratus sued the City. The City paid a portion of Stratus' claim, as described below. A trial of the balance of Stratus' claim has been set for August 1, 2000.

The City's total reimbursement obligation to the Circle C developers, resulting from its annexation, is estimated at \$22 million. On October 29, 1999, Circle C Land Corp. and the City

reached an agreement in which Stratus received \$9.8 million (including \$1 million of interest) as partial payment of its MUD reimbursement claims. On January 14, 2000, Stratus received an additional \$0.3 million from the City resulting from both parties agreeing to the adjustment of prior engineering and accounting estimates. Stratus has received a total of \$10.5 million under this partial payment settlement as of March 31, 2000. Under the terms of the agreement, Stratus would be required to return the money to the City and the City would be required to

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return the utility infrastructure to Stratus if the City's annexation is reversed or otherwise legally rescinded, whether by legislative action, final action of the appellate court or other legal process.

In March 2000, the City approved a settlement agreement of all disputes between the City and certain third party developers and landowners involved in Circle C. Under the terms of this settlement, the lawsuits contesting the City's December 1997 annexation of all land within the four Circle C MUDs and the dissolution of the four MUDs have been dismissed with prejudice.

As a result, Stratus' agreement with the City is no longer subject to rescission.

During the 1999 legislative session two laws were enacted enhancing Stratus' MUD reimbursement claim against the City, as described in "Legislative Matters" below. These laws became effective on September 1, 1999, and Stratus is accordingly entitled to penalties and interest on its remaining outstanding delinquent Circle C MUD reimbursements, which are estimated at approximately \$9.0 million, exclusive of penalties and interest. Stratus will continue to pursue this action vigorously.

Legislative Matters: In the 1997 Texas State legislative session, a bill to reorganize a state governmental agency inadvertently repealed the provisions of law (H.B. 4 and S.B. 1704), that established grandfathered rights for previously permitted lands. In response to the legislature's inadvertent repeal, the City enacted an ordinance establishing regulations on land development that effectively eliminated the grandfathered rights. The City attempted to apply these regulations to portions of Stratus' Circle C and Lantana properties. In response, Stratus undertook to assert and defend its grandfathered entitlements vigorously. In April 1999, the Texas State House of Representatives and Senate vveerrwwheellmngly approved H.B. 1704, which reinstated the grandfathered rights previously inadvertently repealed. This bill became law effective on May 11, 1999.

Three other laws were enacted during the second quarter of 1999, which are expected to have a positive impact on Stratus' development rights for its Austin-area properties and strengthen its position in collecting the Circle C MUD reimbursements currently being litigated (see "Annexation/Circle C MUD Reimbursements Suit" above). The three laws enacted are: S.B. 262, which requires a municipality that annexed property in a MUD to pay penalties and interest on utility infrastructure reimbursements associated with the annexed properties that are not timely paid by the municipality; S.B. 1165, which validates the creation of existing water quality protection zones; and S.B. 89, which requires a municipality to pay developers for utility infrastructure within a MUD controlled and operated by a municipality in conjunction with an annexation, regardless of whether or not the municipality's annexation is ultimately validated.

Item 4. Submission of Matters to a Vote of Security Holders.

(a) Our Annual Meeting of Stockholders was held May 11, 2000 (the Annual Meeting). Proxies were solicited pursuant to

Regulation 14A under the Securities Exchange Act of 1934, as amended.

(b) At the Annual Meeting James C. Leslie was elected to serve until the 2003 Annual Meeting of Stockholders. In addition to the director elected at the Annual Meeting, the terms of the following directors continued after the Annual Meeting: Robert L. Adair III, William H. Armstrong III, and Michael D. Madden.

(c) At the Annual Meeting, holders of Stratus' Common Stock elected one director with the number of votes cast for or withheld from the nominee as follows:

Name	For	Withheld
James C. Leslie	13,610,839	51,912

With respect to the election of the director, there were no abstentions.

At the Annual Meeting, the stockholders also voted on and approved a proposal to ratify the appointment of Arthur Andersen LLP to act as the independent auditors to audit our and our subsidiaries' financial statements for the year 2000. Holders of 13,600,954 shares voted for, holders of 41,415 shares voted against and holders of 20,382 shares abstained from voting on, such proposal.

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Item 6. Exhibits and Reports on Form 8-K.

(a) The exhibits to this report are listed in the Exhibit Index appearing on page E-1 hereof.

(b) The registrant filed no Current Reports on Form 8-K during the period covered by this Quarterly Report on Form 10-Q.

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/ C. Donald Whitmire, Jr.

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C. Donald Whitmire Jr.  
Vice President & Controller  
(authorized signatory and  
Principal Accounting Officer)

Date: May 12, 2000

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STRATUS PROPERTIES INC.  
EXHIBIT INDEX

Exhibit  
Number

- 3.1 Amended and Restated Certificate of Incorporation of Stratus. Incorporated by reference to Stratus' Exhibit 3.1 to 1998 Form 10-K.
- 3.2 By-laws of Stratus, as amended as of February 11, 1999. Incorporated by Reference to Exhibit 3.2 to Stratus' 1998 Form 10-K.

- 4.1 Stratus' Certificate of Designations of Series A Participating Cumulative Preferred Stock. Incorporated by reference to Exhibit 4.1 to Stratus' 1992 Form 10-K.
- 4.2 Rights Agreement dated as of May 28, 1992 between Stratus and Mellon Securities Trust Company, as Rights Agent. Incorporated by reference to Exhibit 4.2 to Stratus' 1992 Form 10-K.
- 4.3 Amendment No. 1 to Rights Agreement dated as of April 21, 1997 between Stratus and the Rights Agent. Incorporated by reference to Exhibit 4 to Stratus' Current Report on Form 8-K dated April 21, 1997.
- 4.4 The loan agreement by and between Comerica Bank-Texas and Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land Corp. and Austin 290 Properties Inc. dated December 21, 1999. Incorporated by reference to Exhibit 4.4 to Stratus 1999 Form 10-K.
- 4.5 Certificate of Designations of the Series B Participating Preferred Stock of Stratus Properties Inc. Incorporated by reference to Exhibit 4.1 to Stratus' Current Report on Form 8-K dated June 3, 1998.
- 4.6 Investor Rights Agreement, dated as of May 22, 1998, by and between Stratus Properties Inc. and Oly/Stratus Equities, L.P. Incorporated by reference to Exhibit 4.2 to Stratus' Current Report on Form 8-K dated June 3, 1998.
- 4.7 Loan Agreement, dated as of May 22, 1998, by and among Stratus Ventures I Borrower L.L.C., Oly Lender Stratus, L.P. and Stratus Properties Inc. Incorporated by reference to Exhibit 4.3 to Stratus' Current Report on Form 8-K dated June 3, 1998.
- 10.1 Amended and Restated Services Agreement, dated as of December 23, 1997 between FM Services Company and Stratus. Incorporated by reference to Exhibit 10.2 to Stratus' 1997 Form 10-K.
- 10.2 Joint Venture Agreement between Freeport-McMoRan Resource Partners, Limited Partnership and the Partnership, dated June 11, 1992. Incorporated by reference to Exhibit 10.3 to Stratus' 1992 Form 10-K.
- 10.3 Development and Management Agreement dated and effective as of June 1, 1991 by and between Longhorn Development Company and Precept Properties, Inc. (the "Precept Properties Agreement"). Incorporated by reference to Exhibit 10.8 to Stratus' 1992 Form 10-K.
- 10.4 Assignment dated June 11, 1992 of the Precept Properties Agreement by and among FTX (successor by merger to FMI Credit Corporation, as successor by merger to Longhorn Development Company), the Partnership and Precept Properties, Inc. Incorporated by reference to Exhibit 10.9 to Stratus' 1992 Form 10-K.
- 10.5 Master Agreement, dated as of May 22, 1998, by and among Oly Fund II GP Investments, L.P., Oly Lender Stratus, L.P., Oly/Stratus Equities, L.P., Stratus Properties Inc. and Stratus Ventures I Borrower L.L.C. Incorporated by reference to Exhibit 99.1 to Stratus' Current Report on Form 8-K dated June 3, 1998.
- 10.6 Securities Purchase Agreement, dated as of May 22, 1998, by and between Oly/Stratus Equities, L.P. and Stratus Properties Inc. Incorporated by reference to Exhibit 99.2 to Stratus' Current Report on Form 8-K dated June 3, 1998.



- 10.7 Oly Stratus Barton Creek I Amended and Restated Joint Venture Agreement between Oly ABC West I, L.P. and Stratus ABC West I, L.P. dated December 28, 1999. Incorporated by reference to Exhibit 10.7 to the Stratus 1999 Form 10-K.
- 10.8 Amendment No. 1 to the Oly Stratus ABC West I Joint Venture Agreement dated November 9, 1998. Incorporated by reference to Exhibit 10.11 to the Stratus 1998 Third Quarter 10-Q.
- 10.9 Management Agreement between Oly Stratus ABC West I Joint Venture and Stratus Management L.L.C. dated September 30, 1998. Incorporated by reference to Exhibit 10.12 to the Stratus 1998 Third Quarter 10-Q.
- 10.10 Loan Agreement dated September 30, 1998 between Oly Stratus ABC West I Joint Venture and Oly Lender Stratus, L.P. Incorporated by reference to Exhibit 10.13 to the Stratus 1998 Third Quarter 10-Q.
- 10.11 General Partnership Agreement dated April 8, 1998 by and between Oly/Houston Walden, L.P. and Oly/FM Walden, L.P. Incorporated by reference to Exhibit 10.14 to the Stratus 1998 Third Quarter 10-Q.
- 10.12 Amendment No. 1 to the General Partnership Agreement dated September 30, 1998 by and among Oly/Houston Walden, L.P., Oly/FM Walden, L.P. and Stratus Ventures I Walden, L.P. Incorporated by reference to Exhibit 10.15 to the Stratus 1998 Third Quarter 10-Q.
- 10.13 Development Loan Agreement dated September 30, 1998 by and between Oly Walden General Partnership and Bank One, Texas, N.A. Incorporated by reference to Exhibit 10.16 to the Stratus 1998 Third Quarter 10-Q.
- 10.14 Guaranty Agreement dated September 30, 1998 by and between Oly Walden General Partnership and Bank One, Texas, N.A. Incorporated by reference to Exhibit 10.17 to the Stratus 1998 Third Quarter 10-Q.
- 10.15 Management Agreement dated April 9, 1998 by and between Oly/FM Walden, L.P. and Stratus Management, L.L.C. Incorporated by reference to Exhibit 10.18 to the Stratus 1998 Third Quarter 10-Q.
- 10.16 Amended and Restated Joint Venture Agreement dated August 16, 1999 by and between Oly Lantana, L.P., and Stratus 7000 West, Ltd. Incorporated by reference to Exhibit 10.18 to the Quarterly Report on Form 10-Q of Stratus for the Quarter ended September 30, 1999. ("the Stratus 1999 Third Quarter 10-Q".)
- 10.17 The Reimbursement Claim Agreement dated October 29, 1999 by an between Circle C Land Corp. and the City of Austin. Incorporated by reference to Exhibit 10.19 to the Stratus 1999 Third Quarter 10-Q.
- 10.18 Guaranty Agreement dated December 31, 1999 by and between Stratus Properties Inc. and Comerica Bank-Texas.
- 10.19 Guaranty Agreement dated February 24, 2000 by and between Stratus Properties Inc. and Comerica Bank-Texas.
- Executive Compensation Plans and Arrangements (Exhibits 10.20 through 10.23)
- 10.20 Stratus' Performance Incentive Awards Program, as amended effective February 11, 1999. Incorporated by reference to Exhibit 10.18 to Stratus' 1998 Form 10-K.

- 10.21 Stratus Stock Option Plan, as amended.  
Incorporated by reference to Exhibit 10.9 to Stratus'  
1997 Form 10-K.
- 10.22 Stratus 1996 Stock Option Plan for Non-Employee  
Directors, as amended. Incorporated by reference to  
Exhibit 10.10 to Stratus' 1997 Form 10-K.
- 10.23 Stratus Properties Inc. 1998 Stock Option Plan as  
amended effective February 11, 1999. Incorporated by  
reference to Exhibit 10.21 to Stratus' 1998 Form 10-K.

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- 15.1 Letter dated May 1, 2000 from Arthur Andersen LLP  
regarding the unaudited financial statements.
- 27.1 Financial Data Schedule.

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GUARANTY

This GUARANTY ("Guaranty") is executed as of, although not necessarily on, the 31st day of December, 1999, by STRATUS PROPERTIES INC., a Delaware corporation ("Guarantor"), for the benefit of COMERICA BANK-TEXAS, a state banking association ("Lender").

W I T N E S S E T H :

WHEREAS, Lender entered into a Construction Loan Agreement ("Loan Agreement") dated April 9, 1999, with STRATUS 7000 WEST JOINT VENTURE, a Texas joint venture ("Borrower"), pursuant to which Borrower executed that certain Promissory Note dated of even date therewith payable to the order of the Lender in the original principal amount of \$6,600,000.00 (together with all renewals, modifications, increases and extensions thereof, the "Note") under which Borrower became indebted, and may from time to time be further indebted, to Lender with respect to a loan ("Loan") which is secured by the liens and security interests of a deed of trust and a security agreement, each of even date therewith, and further evidenced, secured or governed by other instruments and documents executed in connection with the Loan (collectively the "Loan Documents"); and

WHEREAS, Borrower, Lender and Guarantor entered into that certain Modification Agreement as of the 16th day of August, 1999 (the "Modification Agreement") wherein, among other things, the restructure of the Borrower was requested by Borrower and consented to by Lender; and

WHEREAS, of even date herewith, Borrower, Lender and STRATUS OPERATING CO., L.P., a Delaware limited partnership (formerly Stratus Properties Operating Co., a Delaware general partnership) (the "Operating Company"), have entered into that certain Second Amendment to Construction Loan Agreement (the "Second Amendment"), which provides, among other things, that certain proceeds to be paid to Lender pursuant to the terms of that certain Assignment of Accounts Receivable dated of even date with the Loan Agreement and executed by the Operating Company for the benefit of Lender be released and, in lieu thereof, Guarantor has agreed to execute and deliver to Lender, in substitution and replacement of the limited guaranty delivered to Lender in connection with the Loan Agreement, its unconditional and unlimited guaranty, as more fully set forth below; and

WHEREAS, Lender would not be willing to enter into the Second Amendment unless Guarantor unconditionally guarantees payment to Lender of the Guaranteed Debt (as herein defined); and

WHEREAS, Guarantor is the owner of a direct and indirect interest in Borrower, Guarantor has benefitted from Lender's making the Loan to Borrower and will continue to benefit therefrom, and Guarantor will benefit from Lender's entering into the Second Amendment; and

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WHEREAS, Lender is not willing to make the Loan, or otherwise extend credit, to Borrower unless Guarantor unconditionally guarantees payment to Lender of the Guaranteed Debt (as herein defined); and

NOW, THEREFORE, as an inducement to Lender to enter into the Second Amendment and to extend such additional credit under the Loan as Lender may from time to time agree to extend, and for other good and valuable consideration, the receipt and legal sufficiency of which are hereby acknowledged, the parties do hereby agree as follows:

ARTICLE I

NATURE AND SCOPE OF GUARANTY

I.1 Guaranty of Obligation. Guarantor hereby irrevocably and unconditionally guarantees to Lender and its successors and assigns the payment and performance of the "Guaranteed Debt" (as herein defined) as and when the same shall be due and payable, whether by lapse of time, by acceleration of maturity or otherwise.

Guarantor hereby irrevocably and unconditionally covenants and agrees that it is liable for the Guaranteed Debt as a primary obligor.

I.2 Definition of Guaranteed Debt. As used herein, the term "Guaranteed Debt" means all of the following:

(a) all principal, interest, attorneys' fees, commitment fees, liabilities for costs and expenses and other indebtedness, obligations and liabilities of Borrower to Lender at any time created or arising in connection with the Loan, or any amendment thereto or substitution therefor, including but not limited to the terms of the Modification Agreement and the Second Amendment and to all indebtedness, obligations and liabilities of Borrower to Lender arising under the Note, or under any renewals, modifications, increases and extensions of the Note, or under the Loan Documents;

(b) all liabilities of Borrower for future advances, extensions of credit, sales on account or other value at any time given or made by Lender to Borrower arising under the Loan Documents, as amended, whether or not the advances, creditor value are given pursuant to commitment;

(c) any and all other indebtedness, liabilities, obligations and duties of every kind and character of Borrower to Lender arising under the Loan Documents, as amended, whether now or hereafter existing or arising, regardless of whether such present or future indebtedness, liabilities, obligations or duties be direct or indirect, related or unrelated, liquidated or unliquidated, primary or secondary, joint, several, or joint and several, or fixed or contingent;

(d) any and all post-petition interest and expenses (including attorney's fees) whether or not allowed under any bankruptcy, insolvency, or other similar law; and

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(e) all costs, expenses and fees, including but not limited to court costs and attorneys' fees, arising in connection with the collection of any or all amounts, indebtedness, obligations and liabilities of Borrower to Lender described in items (a) through (d) of this Section.

I.3 Nature of Guaranty. This Guaranty is an irrevocable, absolute, continuing guaranty of payment and performance and not a guaranty of collection. This Guaranty may not be revoked by Guarantor and shall continue to be effective with respect to any Guaranteed Debt arising or created after any attempted revocation by Guarantor and after (if Guarantor is a natural person) Guarantor's death (in which event this Guaranty shall be binding upon Guarantor's estate and Guarantor's legal representatives and heirs). The fact that at any time or from time to time the Guaranteed Debt may be increased, reduced or paid in full shall not release, discharge or reduce the obligation of Guarantor to Lender with respect to indebtedness or obligations of Borrower thereafter incurred (or other Guaranteed Debt thereafter arising) under the Note or otherwise. This Guaranty may be enforced by Lender and any subsequent holder of the Guaranteed Debt and shall not be discharged by the assignment or negotiation of all or part of the Guaranteed Debt.

I.4 Guaranteed Debt Not Reduced by Offset. The Guaranteed Debt and the liabilities and obligations of Guarantor to Lender hereunder, shall not be reduced, discharged or released because or by reason of any existing or future offset, claim or defense of Borrower, or any other party, against Lender or against payment of the Guaranteed Debt, whether such offset, claim or defense arises in connection with the Guaranteed Debt (or the transactions creating the Guaranteed Debt) or otherwise. Without limiting the foregoing or the Guarantor's liability hereunder, to the extent that Lender advances funds or extends credit to Borrower, and does not receive payments or benefits thereon in the amounts and at the times required or provided by applicable agreements or laws, Guarantor is absolutely liable to make such payments to (and confer such benefits on) Lender, on a timely basis.

I.5 Payment by Guarantor. If all or any part of the Guaranteed Debt shall not be punctually paid when due, whether at maturity or earlier by acceleration or otherwise, Guarantor shall, immediately upon demand by Lender, and without presentment, protest, notice of protest, notice of non-payment, notice of intention to accelerate the maturity, notice of acceleration of the maturity, or any other notice whatsoever, pay in lawful money of the United States of America, the amount due on the Guaranteed Debt to Lender at Lender's address as

set forth herein. Such demand(s) may be made at any time coincident with or after the time for payment of all or part of the Guaranteed Debt, and may be made from time to time with respect to the same or different items of Guaranteed Debt. Such demand shall be deemed made, given and received in accordance with the notice provisions hereof.

I.6No Duty to Pursue Others. It shall not be necessary for Lender (and Guarantor hereby waives any rights which Guarantor may have to require Lender), in order to enforce such payment by Guarantor, first to (i) institute suit or exhaust its remedies against Borrower or others liable on the Guaranteed Debt or any other person, (ii) enforce Lender's rights against any collateral which shall ever have been given to secure the Guaranteed Debt, (iii) enforce Lender's rights against any other guarantors of the Guaranteed Debt, (iv) join Borrower or any others liable on the Guaranteed Debt in any action seeking to enforce this Guaranty, (v) exhaust any remedies available to Lender against any collateral which shall ever have been given to secure the Guaranteed Debt, or (vi) resort to any other means of obtaining payment of the Guaranteed Debt. Lender shall not be required to mitigate damages or take any other action to reduce, collect or enforce the Guaranteed Debt.

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I.7Waivers. Guarantor agrees to the provisions of the Loan Documents, as amended, and hereby waives notice of (i) any loans or advances made by Lender to Borrower, (ii) acceptance of this Guaranty, (iii) any amendment or extension of the Note or of any other Loan Documents, (iv) the execution and delivery by Borrower and Lender of any other loan or credit agreement or of Borrower's execution and delivery of any promissory notes or other documents arising under the Loan Documents or in connection with the Mortgaged Property (as defined in the Loan Documents), (v) the occurrence of any breach by Borrower or Event of Default (as defined in the Loan Documents), (vi) Lender's transfer or disposition of the Guaranteed Debt, or any part thereof, (vii) sale or foreclosure (or posting or advertising for sale or foreclosure) of any collateral for the Guaranteed Debt, (viii) protest, proof of non-payment or default by Borrower, or (ix) any other action at any time taken or omitted by Lender, and, generally, all demands and notices of every kind in connection with this Guaranty, the Loan Documents, any documents or agreements evidencing, securing or relating to any of the Guaranteed Debt and the obligations hereby guaranteed. The parties intend that Guarantor shall not be considered a "debtor" as defined in Tex. Bus. & Com. Code Ann. & 9.105, as amended (and any successor statute thereto).

I.8Payment of Expenses. In the event that Guarantor should breach or fail to timely perform any provisions of this Guaranty, Guarantor shall, immediately upon demand by Lender, pay Lender all costs and expenses (including court costs and attorneys' fees) incurred by Lender in the enforcement hereof or the preservation of Lender's rights hereunder. The covenant contained in this Section shall survive the payment of the Guaranteed Debt.

I.9Effect of Bankruptcy. In the event that, pursuant to any insolvency, bankruptcy, reorganization, receivership or other debtor relief law, or any judgment, order or decision thereunder, Lender must rescind or restore any payment, or any part thereof, received by Lender in satisfaction of the Guaranteed Debt, as set forth herein, any prior release or discharge from the terms of this Guaranty given to Guarantor by Lender shall be without effect, and this Guaranty shall remain in full force and effect. It is the intention of Borrower and Guarantor that Guarantor's obligations hereunder shall not be discharged except by Guarantor's performance of such obligations and then only to the extent of such performance.

1.10Waiver of Subrogation, Reimbursement and Contribution. Notwithstanding anything to the contrary contained in this Guaranty, Guarantor hereby unconditionally and irrevocably waives, releases and abrogates any and all rights it may now or hereafter have under any agreement, at law or in equity (including, without limitation, any law subrogating the Guarantor to the rights of Lender) to assert any claim against or seek contribution, indemnification or any other form of reimbursement from Borrower or any other party liable for payment of any or all of the Guaranteed Debt for any payment made by Guarantor under or in connection with this Guaranty or otherwise until the Guaranteed

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Debt is paid in full.

I.10"Borrower". The term "Borrower" as used herein shall include any new or successor corporation, association, partnership (general or limited), joint venture, trust or other individual or organization formed as a result of any merger, reorganization, sale, transfer, devise, gift or bequest of Borrower or any interest in Borrower.

I.11Multiple Guarantors. If (i) this Guaranty is executed by more than one party constituting the Guarantor, it is specifically agreed that Lender may enforce the provisions hereof with respect to one or more of such parties constituting the Guarantor without seeking to enforce the same as to all or any such parties; or (ii) one or more additional guaranty agreements ("Other Guaranties") are executed by one or more additional guarantors ("Other Guarantors"), which guaranty, in whole or in part, any of the indebtedness or obligations evidenced by the Loan Documents, it is specifically agreed that Lender may enforce the provisions of this Guaranty or of the Other Guaranties with respect to one or more of the parties constituting the Guarantor and/or one or more of the Other Guarantors under the Other Guaranties without seeking to enforce the provisions of this Guaranty or the Other Guaranties as to all or any of the parties constituting the Guarantor or the Other Guarantors. Each of the parties constituting the Guarantor hereby waives any requirement of joinder of all or any other of the parties constituting the Guarantor or all or any of the Other Guarantors in any suit or proceeding to enforce the provisions of this Guaranty or of the Other Guaranties. The liability hereunder of all parties constituting the Guarantor shall be joint and several.

## ARTICLE II

### EVENTS AND CIRCUMSTANCES NOT REDUCING OR DISCHARGING GUARANTOR'S OBLIGATIONS

Guarantor hereby consents and agrees to each of the following, and agrees that Guarantor's obligations under this Guaranty shall not be released, diminished, impaired, reduced or adversely affected by any of the following, and waives any common law, equitable, statutory or other rights (including without limitation rights to notice) which Guarantor might otherwise have as a result of or in connection with any of the following:

II.1Modifications. Any renewal, extension, increase, modification, alteration or rearrangement of all or any part of the Guaranteed Debt, Note, Loan Documents, or other document, instrument, contract or understanding between Borrower and Lender, or any other parties, pertaining to the Guaranteed Debt or any failure of Lender to notify Guarantor of any such action.

II.2Adjustment. Any adjustment, indulgence, forbearance or compromise that might be granted or given by Lender to Borrower or any Guarantor.

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II.3Condition of Borrower or Guarantor. The insolvency, bankruptcy, arrangement, adjustment, composition, liquidation, disability, dissolution or lack of power of Borrower, Guarantor or any other party at any time liable for the payment of all or part of the Guaranteed Debt; or any dissolution of Borrower or Guarantor, or any sale, lease or transfer of any or all of the assets of Borrower or Guarantor, or any changes in the shareholders, partners or members of Borrower or Guarantor; or any reorganization of Borrower or Guarantor.

II.4Invalidity of Guaranteed Debt. The invalidity, illegality or unenforceability of all or any part of the Guaranteed Debt, or any document or agreement executed in connection with the Guaranteed Debt, for any reason whatsoever, including without limitation the fact that (i) the Guaranteed Debt, or any part thereof, exceeds the amount permitted by law, (ii) the act of creating the Guaranteed Debt or any part thereof is ultra vires, (iii) the officers or representatives executing the Note or the other Loan Documents or otherwise creating the Guaranteed Debt acted in excess of their authority, (iv) the Guaranteed Debt violates applicable usury laws, (v) the Borrower has valid defenses, claims or offsets (whether at law, in equity or by agreement) which render the Guaranteed Debt wholly or partially uncollectible from Borrower, (vi) the creation, performance or repayment of the Guaranteed Debt (or the execution, delivery and performance of any document or instrument

representing part of the Guaranteed Debt or executed in connection with the Guaranteed Debt, or given to secure the repayment of the Guaranteed Debt) is illegal, uncollectible or unenforceable, or (vii) the Note or any of the other Loan Documents have been forged or otherwise are irregular or not genuine or authentic, it being agreed that Guarantor shall remain liable hereon regardless of whether Borrower or any other person be found not liable on the Guaranteed Debt or any part thereof for any reason.

II.5 Release of Obligors. Any full or partial release of the liability of Borrower on the Guaranteed Debt, or any part thereof, or of any co-guarantors, or any other person or entity now or hereafter liable, whether directly or indirectly, jointly, severally, or jointly and severally, to pay, perform, guarantee or assure the payment of the Guaranteed Debt, or any part thereof, it being recognized, acknowledged and agreed by Guarantor that Guarantor may be required to pay the Guaranteed Debt in full without assistance or support of any other party, and Guarantor has not been induced to enter into this Guaranty on the basis of a contemplation, belief, understanding or agreement that other parties will be liable to pay or perform the Guaranteed Debt, or that Lender will look to other parties to pay or perform the Guaranteed Debt.

II.6 Other Collateral. The taking or accepting of any other security, collateral or guaranty, or other assurance of payment, for all or any part of the Guaranteed Debt.

II.7 Release of Collateral. Any release, surrender, exchange, subordination, deterioration, waste, loss or impairment (including without limitation negligent, willful, unreasonable or unjustifiable impairment) of any collateral, property or security, at any time existing in connection with, or assuring or securing payment of, all or any part of the Guaranteed Debt.

II.8 Care and Diligence. The failure of Lender or any other party to exercise diligence or reasonable care in the preservation, protection, enforcement, sale or other handling or treatment

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of all or any part of such collateral, property or security, including but not limited to any neglect, delay, omission, failure or refusal of Lender (i) to take or prosecute any action for the collection of any of the Guaranteed Debt or (ii) to foreclose, or initiate any action to foreclose, or, once commenced, prosecute to completion any action to foreclose upon any security therefor, or (iii) to take or prosecute any action in connection with any instrument or agreement evidencing or securing all or any part of the Guaranteed Debt.

II.9 Unenforceability. The fact that any collateral, security, security interest or lien contemplated or intended to be given, created or granted as security for the repayment of the Guaranteed Debt, or any part thereof, shall not be properly perfected or created, or shall prove to be unenforceable or subordinate to any other security interest or lien, it being recognized and agreed by Guarantor that Guarantor is not entering into this Guaranty in reliance on, or in contemplation of the benefits of, the validity, enforceability, collectibility or value of any of the collateral for the Guaranteed Debt.

II.10 Offset. The Note, the Guaranteed Debt and the liabilities and obligations of Guarantor to Lender hereunder, shall not be reduced, discharged or released because of or by reason of any existing or future right of offset, claim or defense of Borrower against Lender, or any other party, or against payment of the Guaranteed Debt, whether such right of offset, claim or defense arises in connection with the Guaranteed Debt (or the transactions creating the Guaranteed Debt) or otherwise.

II.11 Merger. The reorganization, merger or consolidation of Borrower into or with any other corporation or entity.

II.12 Preference. Any payment by Borrower to Lender is held to constitute a preference under bankruptcy laws, or for any reason Lender is required to refund such payment or pay such amount to Borrower or someone else.

II.13 Other Actions Taken or Omitted. Any other action taken or omitted to be taken with respect to the Loan Documents, as amended, the Guaranteed Debt, or the security and collateral therefor, whether or not such action or omission prejudices Guarantor or increases the likelihood that Guarantor will be required

to pay the Guaranteed Debt pursuant to the terms hereof, it is the unambiguous and unequivocal intention of Guarantor that Guarantor shall be obligated to pay the Guaranteed Debt when due, notwithstanding any occurrence, circumstance, event, action, or omission whatsoever, whether contemplated or un contemplated, and whether or not otherwise or particularly described herein, which obligation shall be deemed satisfied only upon the full and final payment and satisfaction of the Guaranteed Debt.

### ARTICLE III

#### REPRESENTATIONS AND WARRANTIES

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To induce Lender to enter into the Loan Documents and extend credit to Borrower, Guarantor represents and warrants to Lender as follows:

III.1Benefit. Guarantor is an affiliate of Borrower, is the owner of a direct or indirect interest in Borrower, and has received, or will receive, direct or indirect benefit from the making of this Guaranty with respect to the Guaranteed Debt.

III.2Familiarity and Reliance. Guarantor is familiar with, and has independently reviewed books and records regarding, the financial condition of the Borrower and is familiar with the value of any and all collateral intended to be created as security for the payment of the Note or Guaranteed Debt; however, Guarantor is not relying on such financial condition or the collateral as an inducement to enter into this Guaranty.

III.3No Representation by Lender. Neither Lender nor any other party has made any representation, warranty or statement to Guarantor in order to induce the Guarantor to execute this Guaranty.

III.4Guarantor's Financial Condition. As of the date hereof, and after giving effect to this Guaranty and the contingent obligation evidenced hereby, Guarantor is, and will be, solvent, and has and will have assets which, fairly valued, exceed its obligations, liabilities (including contingent liabilities) and debts, and has and will have property and assets sufficient to satisfy and repay its obligations and liabilities.

III.5Legality. The execution, delivery and performance by Guarantor of this Guaranty and the consummation of the transactions contemplated hereunder do not, and will not, contravene or conflict with any law, statute or regulation whatsoever to which Guarantor is subject or constitute a default (or an event which with notice or lapse of time or both would constitute a default) under, or result in the breach of, any indenture, mortgage, deed of trust, charge, lien, or any contract, agreement or other instrument to which Guarantor is a party or which may be applicable to Guarantor. This Guaranty is a legal and binding obligation of Guarantor and is enforceable in accordance with its terms, except as limited by bankruptcy, insolvency or other laws of general application relating to the enforcement of creditors' rights.

III.6Financial Information. All of the financial information provided by Guarantorto Lender is true and correct in all respects. Guarantor shall furnish to Lender financial statements of Guarantor prepared in accordance the terms of the Loan Agreement.

III.7Survival. All representations and warranties made by Guarantor herein shall survive the execution hereof.

### ARTICLE IV

#### SUBORDINATION OF CERTAIN INDEBTEDNESS

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IV.1Subordination of All Guarantor Claims. As used herein, the term "Guarantor Claims" shall mean all debts and liabilities of Borrower to Guarantor, whether such debts and liabilities now exist or are hereafter incurred or arise, or whether the obligations of Borrower thereon be direct, contingent, primary, secondary, several, joint and several, or otherwise,



and irrespective of whether such debts or liabilities be evidenced by note, contract, open account, or otherwise, and irrespective of the person or persons in whose favor such debts or liabilities may, at their inception, have been, or may hereafter be created, or the manner in which they have been or may hereafter be acquired by Guarantor. The Guarantor Claims shall include without limitation all rights and claims of Guarantor against Borrower (arising as a result of subrogation or otherwise) as a result of Guarantor's payment of all or a portion of the Guaranteed Debt. Upon the occurrence of an Event of Default (as defined in the Loan Documents) or the occurrence of an event which would, with the giving of notice or the passage of time, or both, constitute an Event of Default, Guarantor shall not receive or collect, directly or indirectly, from Borrower or any other party any amount upon the Guarantor Claims.

IV.2 Claims in Bankruptcy. In the event of receivership, bankruptcy, reorganization, arrangement, debtor's relief, or other insolvency proceedings involving Guarantor as debtor, Lender shall have the right to prove its claim in any such proceeding so as to establish its rights hereunder and receive directly from the receiver, trustee or other court custodian dividends and payments which would otherwise be payable upon Guarantor Claims. Guarantor hereby assigns such dividends and payments to Lender. Should Lender receive, for application upon the Guaranteed Debt, any such dividend or payment which is otherwise payable to Guarantor, and which, as between Borrower and Guarantor, shall constitute a credit upon the Guarantor Claims, then upon payment to Lender in full of the Guaranteed Debt, Guarantor shall become subrogated to the rights of Lender to the extent that such payments to Lender on the Guarantor Claims have contributed toward the liquidation of the Guaranteed Debt, and such subrogation shall be with respect to that proportion of the Guaranteed Debt which would have been unpaid if Lender had not received dividends or payments upon the Guarantor Claims.

IV.3 Payments Held in Trust. In the event that, notwithstanding anything to the contrary in this Guaranty, Guarantor should receive any funds, payment, claim or distribution which is prohibited by this Guaranty, Guarantor agrees to hold in trust for Lender an amount equal to the amount of all funds, payments, claims or distributions so received, and agrees that it shall have absolutely no dominion over the amount of such funds, payments, claims or distributions so received except to pay them promptly to Lender, and Guarantor covenants promptly to pay the same to Lender.

IV.4 Liens Subordinate. Guarantor agrees that any liens, security interests, judgment liens, charges or other encumbrances upon Borrower's assets securing payment of the Guarantor Claims shall be and remain inferior and subordinate to any liens, security interests, judgment liens, charges or other encumbrances upon Borrower's assets securing payment of the Guaranteed Debt, regardless of whether such encumbrances in favor of Guarantor or Lender presently exist or are hereafter created or attach. Without the prior written consent of Lender, Guarantor shall not (i) exercise or enforce any creditor's right it may have against Borrower, or (ii) foreclose, repossess, sequester or otherwise take steps or institute any action or proceedings (judicial or otherwise, including without

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limitation the commencement of, or joinder in, any liquidation, bankruptcy, rearrangement, debtor's relief or insolvency proceeding) to enforce any liens, mortgages, deeds of trust, security interest, collateral rights, judgments or other encumbrances on assets of Borrower held by Guarantor.

## ARTICLE V

### MISCELLANEOUS

V.1 Waiver. No failure to exercise, and no delay in exercising, on the part of Lender, any right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right. The rights of Lender hereunder shall be in addition to all other rights provided by law. No modification or waiver of any provision of this Guaranty, nor consent to departure therefrom, shall be effective unless in writing and no such consent or waiver shall extend beyond the particular case and purpose involved. No notice or demand given in any case shall constitute a waiver of the right to take other action in the same, similar or other instances without such notice or demand.

V.2Notices. All notices or other communications required or permitted to be given pursuant hereto shall be in writing and shall be deemed properly given if (i) mailed by first class United States mail, postage prepaid, registered or certified with return receipt requested; (ii) by delivering same in person to the intended addressee; or (iii) by delivery to an independent third party commercial delivery service for same day or next day delivery and providing for evidence of receipt at the office of the intended addressee. Notice so mailed shall be effective upon its deposit with the United States Postal Service or any successor thereto; notice sent by a commercial delivery service shall be effective upon delivery to such commercial delivery service; notice given by personal delivery shall be effective only if and when received by the addressee; and notice given by other means shall be effective only if and when received at the designated address of the intended addressee. Either party shall have the right to change its address for notice hereunder to any other location within the continental United States by the giving of thirty (30) days notice to the other party in the manner set forth herein. For purposes of such notices, the addresses of the parties shall be as follows:

Lender:Comerica Bank-Texas  
1601 Elm Street, 2nd Floor  
Dallas, Texas 75201  
Attn: National Real Estate Services

Guarantor:Stratus Properties Inc.  
98 San Jacinto Boulevard, Suite 220  
Austin, Texas 78791  
Attn:William H. Armstrong, III

With a copy to:Armbrust Brown & Davis, L.L.P.  
100 Congress Avenue  
Suite 1300  
Austin, Texas 78701  
Attn:Kenneth Jones, Esq.

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V.3GOVERNING LAW. THIS GUARANTY IS EXECUTED AND DELIVERED AS AN INCIDENT TO A LENDING TRANSACTION NEGOTIATED, CONSUMMATED, AND PERFORMABLE IN DALLAS COUNTY, TEXAS, AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

ANY ACTION OR PROCEEDING AGAINST GUARANTOR UNDER OR IN CONNECTION WITH THIS GUARANTY MAY BE BROUGHT IN ANY STATE OR FEDERAL COURT IN DALLAS COUNTY, TEXAS. GUARANTOR HEREBY IRREVOCABLY (i) SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF SUCH COURTS, AND (ii) WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH ACTION OR PROCEEDING BROUGHT IN SUCH COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. GUARANTOR AGREES THAT SERVICE OF PROCESS UPON IT MAY BE MADE BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, AT ITS ADDRESS SPECIFIED HEREIN. NOTHING HEREIN SHALL AFFECT THE RIGHT OF LENDER TO SERVE PROCESS IN ANY OTHER MATTER PERMITTED BY LAW OR SHALL LIMIT THE RIGHT OF LENDER TO BRING ANY ACTION OR PROCEEDING AGAINST GUARANTOR OR WITH RESPECT TO ANY OF GUARANTOR'S PROPERTY IN COURTS IN OTHER JURISDICTIONS. ANY ACTION OR PROCEEDING BY GUARANTOR AGAINST LENDER SHALL BE BROUGHT ONLY IN A COURT LOCATED IN DALLAS COUNTY, TEXAS.

V.4Invalid Provisions. If any provision of this Guaranty is held to be illegal, invalid, or unenforceable under present or future laws effective during the term of this Guaranty, such provision shall be fully severable and this Guaranty shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part of this Guaranty, and the remaining provisions of this Guaranty shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance from this Guaranty, unless such continued effectiveness of this Guaranty, as modified, would be contrary to the basic understandings and intentions of the parties as expressed herein.

V.5Amendments. This Guaranty may be amended only by an instrument in writing executed by the party or an authorized representative of the party against whom such amendment is sought to be enforced.

V.6Parties Bound; Assignment. This Guaranty shall be binding upon and inure

to the benefit of the parties hereto and their respective successors, assigns and legal representatives; provided, however, that Guarantor may not, without the prior written consent of Lender, assign any of its rights, powers, duties or obligations hereunder.

V.7Headings. Section headings are for convenience of reference only and shall in no way affect the interpretation of this Guaranty.

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V.8Recitals. The recital and introductory paragraphs hereof are a part hereof, form a basis for this Guaranty and shall be considered prima facie evidence of the facts and documents referred to therein.

V.9Counterparts. To facilitate execution, this Guaranty may be executed in as many counterparts as may be convenient or required. It shall not be necessary that the signature or acknowledgment of, or on behalf of, each party, or that the signature of all persons required to bind any party, or the acknowledgment of such party, appear on each counterpart. All counterparts shall collectively constitute a single instrument. It shall not be necessary in making proof of this Guaranty to produce or account for more than a single counterpart containing the respective signatures of, or on behalf of, and the respective acknowledgments of, each of the parties hereto. Any signature or acknowledgment page to any counterpart may be detached from such counterpart without impairing the legal effect of the signatures or acknowledgments thereon and thereafter attached to another counterpart identical thereto except having attached to it additional signature or acknowledgment pages.

V.10Rights and Remedies. If Guarantor becomes liable for any indebtedness owing by Borrower to Lender, by endorsement or otherwise, other than under this Guaranty, such liability shall not be in any manner impaired or affected hereby and the rights of Lender hereunder shall be cumulative of any and all other rights that Lender may ever have against Guarantor. The exercise by Lender of any right or remedy hereunder or under any other instrument, or at law or in equity, shall not preclude the concurrent or subsequent exercise of any other right or remedy.

V.11ENTIRETY. THIS GUARANTY EMBODIES THE FINAL, ENTIRE AGREEMENT OF GUARANTOR AND LENDER WITH RESPECT TO GUARANTOR'S GUARANTY OF THE GUARANTEED DEBT AND SUPERSEDES ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS, AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THE SUBJECT MATTER HEREOF. THIS GUARANTY IS INTENDED BY GUARANTOR AND LENDER AS A FINAL AND COMPLETE EXPRESSION OF THE TERMS OF THE GUARANTY, AND NO COURSE OF DEALING BETWEEN GUARANTOR AND LENDER, NO COURSE OF PERFORMANCE, NO TRADE PRACTICES, AND NO EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OR OTHER EXTRINSIC EVIDENCE OF ANY NATURE SHALL BE USED TO CONTRADICT, VARY, SUPPLEMENT OR MODIFY ANY TERM OF THIS GUARANTY AGREEMENT. THERE ARE NO ORAL AGREEMENTS BETWEEN GUARANTOR AND LENDER.

V.12Release of Guaranty. Upon full and final payment of the indebtedness evidenced by the Note, performance of all obligations under the Loan Documents and satisfaction of the Guaranteed Debt, this Guaranty will be released and of no further force and effect.

V.13Capitalized Terms. Capitalized terms used herein shall have the same meaning as provided in the Loan Agreement, except as otherwise specified herein.

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EXECUTED as of the day and year first above written.

GUARANTOR:

STRATUS PROPERTIES INC.,  
a Delaware corporation

By: /s/ William H. Armstrong, III

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Name: William H. Armstrong, III

Title:Chairman of the Board, President  
and Chief Executive Officer

STATE OF TEXAS                    &  
  &  
COUNTY OF \_\_\_\_\_            &

This instrument was ACKNOWLEDGED before me this \_\_\_\_\_ day of \_\_\_\_\_,  
2000, by William H. Armstrong, III, the Chairman of the Board, President and  
Chief Executive Officer of STRATUS PROPERTIES INC., a Delaware corporation, on  
behalf of said corporation.

[S E A L]  
Notary Public - State of Texas  
My Commission Expires:

\_\_\_\_\_ Printed Name of Notary Public

GUARANTY

This GUARANTY ("Guaranty") is executed as of February 24, 2000, by STRATUS PROPERTIES, INC., a Delaware corporation ("Guarantor"), for the benefit of COMERICA BANK-TEXAS, a state banking association ("Lender").

W I T N E S S E T H :

WHEREAS, Lender has entered into a Construction Loan Agreement ("Loan Agreement") of even date herewith, with Stratus 7000 West Joint Venture, a Texas joint venture ("Borrower"), pursuant to which Borrower has executed that certain Promissory Note dated of even date herewith payable to the order of the Lender in the original principal amount of \$7,700,000.00 (together with all renewals, modifications, increases and extensions thereof, the "Note") under which Borrower has become indebted, and may from time to time be further indebted, to Lender with respect to a loan ("Loan") made or to be made by Lender to Borrower, up to the principal amount of the Note, to finance the cost of development and construction of an office building consisting of approximately 66,475 square feet of leasable space and related amenities and improvements (the "Phase II Improvements") upon certain real property (the "Land") located in Travis County, Texas, which Loan is secured by the liens and security interests of a Second Amended and Restated Deed of Trust ("Deed of Trust") upon the Land (as more fully defined in the Loan Agreement) executed by Borrower for the benefit of Lender of even date herewith, which amends and restates that prior Amended and Restated Deed of Trust dated effective as of April 9, 1999, recorded under Document No. 1999009453 of the Official Records of Travis County, Texas, as modified by the Modification Agreement dated August 16, 1999 and recorded under Document No. 1999093007 of the Official Records of Travis County, Texas, covering both the Phase I and Phase II Improvements (as more fully defined in the Loan Agreement) (the Phase I and Phase II Improvements are hereinafter sometimes collectively referred to as the "Project"), of even date herewith, and is further evidenced, secured or governed by other instruments and documents executed in connection with the Loan of even date herewith (collectively the "Loan Documents"); and

WHEREAS, Lender is not willing to make the Loan, or otherwise extend credit, to Borrower unless Guarantor unconditionally guarantees payment to Lender of the Guaranteed Obligations (as herein defined) and unless Guarantor is willing to guarantee the completion of the Phase II Improvements; and

WHEREAS, Guarantor is the owner of a direct or indirect interest in Borrower, and Guarantor will directly benefit from Lender's making the Loan to Borrower.

WHEREAS, any capitalized terms not otherwise defined herein shall have the meaning ascribed to said term in the Loan Agreement.

NOW, THEREFORE, as an inducement to Lender to enter into the Loan Agreement and to make the Loan to Borrower as described therein, and to extend such additional credit as Lender may from time to time agree to extend, and for other good and valuable consideration, the receipt and legal sufficiency of which are hereby acknowledged, the parties do hereby agree as follows:

ARTICLE I

NATURE AND SCOPE OF GUARANTY

I.1 Guaranty of Obligation. Guarantor hereby irrevocably and unconditionally guarantees to Lender and its successors and assigns the payment and performance of the "Guaranteed Debt" (as herein defined) as and when the same shall be due and payable, whether by lapse of time, by acceleration of maturity or otherwise. Guarantor

hereby irrevocably and unconditionally covenants and agrees that it is liable for the Guaranteed Debt as a primary obligor.

I.2 Definition of Guaranteed Debt. As used herein, the term "Guaranteed Debt" means all of the following:

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(a) all principal, interest, attorneys' fees, commitment fees, liabilities for costs and expenses and other indebtedness, obligations and liabilities of Borrower to Lender at any time created or arising in connection with the Loan, or any amendment thereto or substitution therefor, and all indebtedness, obligations and liabilities of Borrower to Lender arising under the Note, or under any renewals, modifications, increases and extensions of the Note, the Loan Agreement, or under any of the Loan Documents;

(b) all liabilities of Borrower for future advances, extensions of credit, sales on account or other value at any time given or made by Lender to Borrower arising under the Loan Documents, as amended, whether or not the advances, credit or value are given pursuant to commitment;

(c) any and all other indebtedness, liabilities, obligations and duties of every kind and character of Borrower to Lender arising under the Loan Documents, whether now or hereafter existing or arising, regardless of whether such present or future indebtedness, liabilities, obligations or duties be direct or indirect, related or unrelated, liquidated or unliquidated, primary or secondary, joint, several, or joint and several, or fixed or contingent;

(d) any and all post-petition interest and expenses (including attorney's fees) whether or not allowed under any bankruptcy, insolvency, or other similar law; and

(e) all costs, expenses and fees, including but not limited to court costs and attorneys' fees, arising in connection with the collection of any or all amounts, indebtedness, obligations and liabilities of Borrower to Lender described in items (a) through (d) of this Section.

I.3 Nature of Guaranty. This Guaranty is an irrevocable, absolute, continuing guaranty of payment and performance and not a guaranty of collection. This Guaranty may not be revoked by Guarantor and shall continue to be effective with respect to any Guaranteed Debt arising or created after any attempted revocation by Guarantor and after (if Guarantor is a natural person) Guarantor's death (in which event this Guaranty shall be binding upon Guarantor's estate and Guarantor's legal representatives and heirs). The fact that at any time or from time to time the Guaranteed Debt may be increased, reduced or paid in full shall not release, discharge or reduce the obligation of Guarantor to Lender with respect to indebtedness or obligations of Borrower thereafter incurred (or other Guaranteed Debt thereafter arising) under the Note or otherwise. This Guaranty may be enforced by Lender and any subsequent holder of the Guaranteed Debt and shall not be discharged by the assignment or negotiation of all or part of the Guaranteed Debt.

I.4 Guaranteed Debt Not Reduced by Offset. The Guaranteed Debt and the liabilities and obligations of Guarantor to Lender hereunder, shall not be reduced, discharged or released because or by reason of any existing or future offset, claim or defense of Borrower, or any other party, against Lender or against payment of the Guaranteed Debt, whether such offset, claim or defense arises in connection with the Guaranteed Debt (or the transactions creating the Guaranteed Debt) or otherwise. Without limiting the foregoing or the Guarantor's liability hereunder, to the extent that Lender advances funds or extends credit to Borrower, and does not receive payments or benefits thereon in the amounts and at the times required or provided by applicable agreements or laws, Guarantor is absolutely liable to make such payments to (and confer

such benefits on) Lender, on a timely basis.

I.5Payment by Guarantor. If all or any part of the Guaranteed Debt shall not be punctually paid when due, whether at maturity or earlier by acceleration or otherwise, Guarantor shall, immediately upon demand by Lender, and without presentment, protest, notice of protest, notice of non-payment, notice of intention to accelerate the maturity, notice of acceleration of the maturity, or any other notice whatsoever, pay in lawful money of the United States of America, the amount due on the Guaranteed Debt to Lender at Lender's address as set forth herein. Such demand(s) may be made at any time coincident with or after the time for payment of all or part of the Guaranteed Debt, and may be made from time to time with respect to the same or different items

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of Guaranteed Debt. Such demand shall be deemed made, given and received in accordance with the notice provisions hereof.

I.6No Duty to Pursue Others. It shall not be necessary for Lender (and Guarantor hereby waives any rights which Guarantor may have to require Lender), in order to enforce such payment by Guarantor, first to (i) institute suit or exhaust its remedies against Borrower or others liable on the Guaranteed Debt or any other person, (ii) enforce Lender's rights against any collateral which shall ever have been given to secure the Guaranteed Debt, (iii) enforce Lender's rights against any other guarantors of the Guaranteed Debt, (iv) join Borrower or any others liable on the Guaranteed Debt in any action seeking to enforce this Guaranty, (v) exhaust any remedies available to Lender against any collateral which shall ever have been given to secure the Guaranteed Debt, or (vi) resort to any other means of obtaining payment of the Guaranteed Debt. Lender shall not be required to mitigate damages or take any other action to reduce, collect or enforce the Guaranteed Debt.

I.7Waivers. Guarantor agrees to the provisions of the Loan Documents, as amended, and hereby waives notice of (i) any loans or advances made by Lender to Borrower, (ii) acceptance of this Guaranty, (iii) any amendment or extension of the Note or of any other Loan Documents, (iv) the execution and delivery by Borrower and Lender of any other loan or credit agreement or of Borrower's execution and delivery of any promissory notes or other documents arising under the Loan Documents or in connection with the Project, (v) the occurrence of any breach by Borrower or Event of Default (as defined in the Loan Documents), (vi) Lender's transfer or disposition of the Guaranteed Debt, or any part thereof, (vii) sale or foreclosure (or posting or advertising for sale or foreclosure) of any collateral for the Guaranteed Debt, (viii) protest, proof of non-payment or default by Borrower, or (ix) any other action at any time taken or omitted by Lender, and, generally, all demands and notices of every kind in connection with this Guaranty, the Loan Documents, any documents or agreements evidencing, securing or relating to any of the Guaranteed Debt and the obligations hereby guaranteed. The parties intend that Guarantor shall not be considered a "debtor" as defined in Tex. Bus. & Com. Code Ann. § 9.105, as amended (and any successor statute thereto).

I.8Payment of Expenses. In the event that Guarantor should breach or fail to timely perform any provisions of this Guaranty, Guarantor shall, immediately upon demand by Lender, pay Lender all costs and expenses (including court costs and attorneys' fees) incurred by Lender in the enforcement hereof or the preservation of Lender's rights hereunder. The covenant contained in this Section shall survive the payment of the Guaranteed Debt.

I.9Effect of Bankruptcy. In the event that, pursuant to any insolvency, bankruptcy, reorganization, receivership or other debtor relief law, or any judgment, order or decision thereunder, Lender must rescind or restore any payment, or any part thereof, received by Lender in satisfaction of the Guaranteed Debt, as set forth herein, any prior release or discharge from the terms of this

Guaranty given to Guarantor by Lender shall be without effect, and this Guaranty shall remain in full force and effect. It is the intention of Borrower and Guarantor that Guarantor's obligations hereunder shall not be discharged except by Guarantor's performance of such obligations and then only to the extent of such performance.

1.10Waiver of Subrogation, Reimbursement and Contribution. Notwithstanding anything to the contrary contained in this Guaranty, Guarantor hereby unconditionally and irrevocably waives, releases and abrogates any and all rights it may now or hereafter have under any agreement, at law or in equity (including, without limitation, any law subrogating the Guarantor to the rights of Lender) to assert any claim against or seek contribution, indemnification or any other form of reimbursement from Borrower or any other party liable for payment of any or all of the Guaranteed Debt for any payment made by Guarantor under or in connection with this Guaranty or otherwise until the Guaranteed Debt is paid in full.

I.10"Borrower". The term "Borrower" as used herein shall include any new or successor corporation, association, partnership (general or limited), joint venture, trust or other individual or organization formed as a result of any merger, reorganization, sale, transfer, devise, gift or bequest of Borrower or any interest in Borrower.

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I.11Multiple Guarantors. If (i) this Guaranty is executed by more than one party constituting the Guarantor, it is specifically agreed that Lender may enforce the provisions hereof with respect to one or more of such parties constituting the Guarantor without seeking to enforce the same as to all or any such parties; or (ii) one or more additional guaranty agreements ("Other Guaranties") are executed by one or more additional guarantors ("Other Guarantors"), which guaranty, in whole or in part, any of the indebtedness or obligations evidenced by the Loan Documents, it is specifically agreed that Lender may enforce the provisions of this Guaranty or of the Other Guaranties with respect to one or more of the parties constituting the Guarantor and/or one or more of the Other Guarantors under the Other Guaranties without seeking to enforce the provisions of this Guaranty or the Other Guaranties as to all or any of the parties constituting the Guarantor or the Other Guarantors. Each of the parties constituting the Guarantor hereby waives any requirement of joinder of all or any other of the parties constituting the Guarantor or all or any of the Other Guarantors in any suit or proceeding to enforce the provisions of this Guaranty or of the Other Guaranties. The liability hereunder of all parties constituting the Guarantor shall be joint and several.

## ARTICLE II

### EVENTS AND CIRCUMSTANCES NOT REDUCING OR DISCHARGING GUARANTOR'S OBLIGATIONS

Guarantor hereby consents and agrees to each of the following, and agrees that Guarantor's obligations under this Guaranty shall not be released, diminished, impaired, reduced or adversely affected by any of the following, and waives any common law, equitable, statutory or other rights (including without limitation rights to notice) which Guarantor might otherwise have as a result of or in connection with any of the following:

II.1Modifications. Any renewal, extension, increase, modification, alteration or rearrangement of all or any part of the Guaranteed Debt, Note, Loan Documents, or other document, instrument, contract or understanding between Borrower and Lender, or any other parties, pertaining to the Guaranteed Debt or any failure of Lender to notify Guarantor of any such action.

II.2Adjustment. Any adjustment, indulgence, forbearance or compromise that might be granted or given by Lender to Borrower or



any Guarantor.

II.3Condition of Borrower or Guarantor. The insolvency, bankruptcy, arrangement, adjustment, composition, liquidation, disability, dissolution or lack of power of Borrower, Guarantor or any other party at any time liable for the payment of all or part of the Guaranteed Debt; or any dissolution of Borrower or Guarantor, or any sale, lease or transfer of any or all of the assets of Borrower or Guarantor, or any changes in the shareholders, partners or members of Borrower or Guarantor; or any reorganization of Borrower or Guarantor.

II.4Invalidity of Guaranteed Debt. The invalidity, illegality or unenforceability of all or any part of the Guaranteed Debt, or any document or agreement executed in connection with the Guaranteed Debt, for any reason whatsoever, including without limitation the fact that (i) the Guaranteed Debt, or any part thereof, exceeds the amount permitted by law, (ii) the act of creating the Guaranteed Debt or any part thereof is ultra vires, (iii) the officers or representatives executing the Note or the other Loan Documents or otherwise creating the Guaranteed Debt acted in excess of their authority, (iv) the Guaranteed Debt violates applicable usury laws, (v) the Borrower has valid defenses, claims or offsets (whether at law, in equity or by agreement) which render the Guaranteed Debt wholly or partially uncollectible from Borrower, (vi) the creation, performance or repayment of the Guaranteed Debt (or the execution, delivery and performance of any document or instrument representing part of the Guaranteed Debt or executed in connection with the Guaranteed Debt, or given to secure the repayment of the Guaranteed Debt) is illegal, uncollectible or unenforceable, or (vii) the Note or any of the other Loan Documents have been forged or otherwise are irregular or not genuine or authentic, it being agreed that Guarantor shall remain liable hereon regardless of whether Borrower or any other person be found not liable on the Guaranteed Debt or any part thereof for any reason.

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II.5Release of Obligors. Any full or partial release of the liability of Borrower on the Guaranteed Debt, or any part thereof, or of any co-guarantors, or any other person or entity now or hereafter liable, whether directly or indirectly, jointly, severally, or jointly and severally, to pay, perform, guarantee or assure the payment of the Guaranteed Debt, or any part thereof, it being recognized, acknowledged and agreed by Guarantor that Guarantor may be required to pay the Guaranteed Debt in full without assistance or support of any other party, and Guarantor has not been induced to enter into this Guaranty on the basis of a contemplation, belief, understanding or agreement that other parties will be liable to pay or perform the Guaranteed Debt, or that Lender will look to other parties to pay or perform the Guaranteed Debt.

II.6Other Collateral. The taking or accepting of any other security, collateral or guaranty, or other assurance of payment, for all or any part of the Guaranteed Debt.

II.7Release of Collateral. Any release, surrender, exchange, subordination, deterioration, waste, loss or impairment (including without limitation negligent, willful, unreasonable or unjustifiable impairment) of any collateral, property or security, at any time existing in connection with, or assuring or securing payment of, all or any part of the Guaranteed Debt.

II.8Care and Diligence. The failure of Lender or any other party to exercise diligence or reasonable care in the preservation, protection, enforcement, sale or other handling or treatment of all or any part of such collateral, property or security, including but not limited to any neglect, delay, omission, failure or refusal of Lender (i) to take or prosecute any action for the collection of any of the Guaranteed Debt or (ii) to foreclose, or initiate any action to foreclose, or, once commenced, prosecute to completion any action to foreclose upon any security therefor, or (iii) to

take or prosecute any action in connection with any instrument or agreement evidencing or securing all or any part of the Guaranteed Debt.

II.9Unenforceability. The fact that any collateral, security, security interest or lien contemplated or intended to be given, created or granted as security for the repayment of the Guaranteed Debt, or any part thereof, shall not be properly perfected or created, or shall prove to be unenforceable or subordinate to any other security interest or lien, it being recognized and agreed by Guarantor that Guarantor is not entering into this Guaranty in reliance on, or in contemplation of the benefits of, the validity, enforceability, collectibility or value of any of the collateral for the Guaranteed Debt.

II.10Offset. The Note, the Guaranteed Debt and the liabilities and obligations of Guarantor to Lender hereunder, shall not be reduced, discharged or released because of or by reason of any existing or future right of offset, claim or defense of Borrower against Lender, or any other party, or against payment of the Guaranteed Debt, whether such right of offset, claim or defense arises in connection with the Guaranteed Debt (or the transactions creating the Guaranteed Debt) or otherwise.

II.11Merger. The reorganization, merger or consolidation of Borrower into or with any other corporation or entity.

II.12Preference. Any payment by Borrower to Lender is held to constitute a preference under bankruptcy laws, or for any reason Lender is required to refund such payment or pay such amount to Borrower or someone else.

II.13Other Actions Taken or Omitted. Any other action taken or omitted to be taken with respect to the Loan Documents, as amended, the Guaranteed Debt, or the security and collateral therefor, whether or not such action or omission prejudices Guarantor or increases the likelihood that Guarantor will be required to pay the Guaranteed Debt pursuant to the terms hereof, it is the unambiguous and unequivocal intention of Guarantor that Guarantor shall be obligated to pay the Guaranteed Debt when due, notwithstanding any occurrence, circumstance, event, action, or omission whatsoever, whether contemplated or un contemplated, and whether or not otherwise or particularly described herein, which obligation shall be deemed satisfied only upon the full and final payment and satisfaction of the Guaranteed Debt.

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### ARTICLE III

#### REPRESENTATIONS AND WARRANTIES

To induce Lender to enter into the Loan Documents and extend credit to Borrower, Guarantor represents and warrants to Lender as follows:

III.1Benefit. Guarantor is an affiliate of Borrower, is the owner of a direct or indirect interest in Borrower, and has received, or will receive, direct or indirect benefit from the making of this Guaranty with respect to the Guaranteed Debt.

III.2Familiarity and Reliance. Guarantor is familiar with, and has independently reviewed books and records regarding, the financial condition of the Borrower and is familiar with the value of any and all collateral intended to be created as security for the payment of the Note or Guaranteed Debt; however, Guarantor is not relying on such financial condition or the collateral as an inducement to enter into this Guaranty.

III.3No Representation by Lender. Neither Lender nor any other party has made any representation, warranty or statement to Guarantor in order to induce the Guarantor to execute this Guaranty.

III.4 Guarantor's Financial Condition. As of the date hereof, and after giving effect to this Guaranty and the contingent obligation evidenced hereby, Guarantor is, and will be, solvent, and has and will have assets which, fairly valued, exceed its obligations, liabilities (including contingent liabilities) and debts, and has and will have property and assets sufficient to satisfy and repay its obligations and liabilities.

III.5 Legality. The execution, delivery and performance by Guarantor of this Guaranty and the consummation of the transactions contemplated hereunder do not, and will not, contravene or conflict with any law, statute or regulation whatsoever to which Guarantor is subject or constitute a default (or an event which with notice or lapse of time or both would constitute a default) under, or result in the breach of, any indenture, mortgage, deed of trust, charge, lien, or any contract, agreement or other instrument to which Guarantor is a party or which may be applicable to Guarantor. This Guaranty is a legal and binding obligation of Guarantor and is enforceable in accordance with its terms, except as limited by bankruptcy, insolvency or other laws of general application relating to the enforcement of creditors' rights.

III.6 Financial Information. All of the financial information provided by Guarantor to Lender is true and correct in all respects. Guarantor shall furnish to Lender financial statements of Guarantor prepared in accordance the terms of the Loan Agreement.

III.7 Survival. All representations and warranties made by Guarantor herein shall survive the execution hereof.

#### ARTICLE IV

##### SUBORDINATION OF CERTAIN INDEBTEDNESS

IV.1 Subordination of All Guarantor Claims. As used herein, the term "Guarantor Claims" shall mean all debts and liabilities of Borrower to Guarantor, whether such debts and liabilities now exist or are hereafter incurred or arise, or whether the obligations of Borrower thereon be direct, contingent, primary, secondary, several, joint and several, or otherwise, and irrespective of whether such debts or liabilities be evidenced by note, contract, open account, or otherwise, and irrespective of the person or persons in whose favor such debts or liabilities may, at their inception, have been, or may hereafter be created, or the manner in which they have been or may hereafter be acquired by Guarantor. The Guarantor Claims shall include without limitation all rights and claims of Guarantor against Borrower (arising as a result of subrogation or otherwise) as a result of Guarantor's payment of all or a portion of the Guaranteed Debt. Upon the occurrence of an Event of Default (as defined in the Loan Documents) or the occurrence of an event which would, with the giving of notice or the

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passage of time, or both, constitute an Event of Default, Guarantor shall not receive or collect, directly or indirectly, from Borrower or any other party any amount upon the Guarantor Claims.

IV.2 Claims in Bankruptcy. In the event of receivership, bankruptcy, reorganization, arrangement, debtor's relief, or other insolvency proceedings involving Guarantor as debtor, Lender shall have the right to prove its claim in any such proceeding so as to establish its rights hereunder and receive directly from the receiver, trustee or other court custodian dividends and payments which would otherwise be payable upon Guarantor Claims. Guarantor hereby assigns such dividends and payments to Lender. Should Lender receive, for application upon the Guaranteed Debt, any such dividend or payment which is otherwise payable to Guarantor, and which, as between Borrower and Guarantor, shall constitute a credit upon the Guarantor Claims, then upon payment to Lender in full of

the Guaranteed Debt, Guarantor shall become subrogated to the rights of Lender to the extent that such payments to Lender on the Guarantor Claims have contributed toward the liquidation of the Guaranteed Debt, and such subrogation shall be with respect to that proportion of the Guaranteed Debt which would have been unpaid if Lender had not received dividends or payments upon the Guarantor Claims.

IV.3 Payments Held in Trust. In the event that, notwithstanding anything to the contrary in this Guaranty, Guarantor should receive any funds, payment, claim or distribution which is prohibited by this Guaranty, Guarantor agrees to hold in trust for Lender an amount equal to the amount of all funds, payments, claims or distributions so received, and agrees that it shall have absolutely no dominion over the amount of such funds, payments, claims or distributions so received except to pay them promptly to Lender, and Guarantor covenants promptly to pay the same to Lender.

IV.4 Liens Subordinate. Guarantor agrees that any liens, security interests, judgment liens, charges or other encumbrances upon Borrower's assets securing payment of the Guarantor Claims shall be and remain inferior and subordinate to any liens, security interests, judgment liens, charges or other encumbrances upon Borrower's assets securing payment of the Guaranteed Debt, regardless of whether such encumbrances in favor of Guarantor or Lender presently exist or are hereafter created or attach. Without the prior written consent of Lender, Guarantor shall not (i) exercise or enforce any creditor's right it may have against Borrower, or (ii) foreclose, repossess, sequester or otherwise take steps or institute any action or proceedings (judicial or otherwise, including without limitation the commencement of, or joinder in, any liquidation, bankruptcy, rearrangement, debtor's relief or insolvency proceeding) to enforce any liens, mortgages, deeds of trust, security interest, collateral rights, judgments or other encumbrances on assets of Borrower held by Guarantor.

## ARTICLE V

### MISCELLANEOUS

V.1 Waiver. No failure to exercise, and no delay in exercising, on the part of Lender, any right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right. The rights of Lender hereunder shall be in addition to all other rights provided by law. No modification or waiver of any provision of this Guaranty, nor consent to departure therefrom, shall be effective unless in writing and no such consent or waiver shall extend beyond the particular case and purpose involved. No notice or demand given in any case shall constitute a waiver of the right to take other action in the same, similar or other instances without such notice or demand.

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V.2 Notices. All notices or other communications required or permitted to be given pursuant hereto shall be in writing and shall be deemed properly given if (i) mailed by first class United States mail, postage prepaid, registered or certified with return receipt requested; (ii) by delivering same in person to the intended addressee; or (iii) by delivery to an independent third party commercial delivery service for same day or next day delivery and providing for evidence of receipt at the office of the intended addressee. Notice so mailed shall be effective upon its deposit with the United States Postal Service or any successor thereto; notice sent by a commercial delivery service shall be effective upon delivery to such commercial delivery service; notice given by personal delivery shall be effective only if and when received by the addressee; and notice given by other means shall be effective only if and when received at the designated address of the intended addressee. Either party shall have the right to change its address for notice hereunder to any other location within the continental

United States by the giving of thirty (30) days notice to the other party in the manner set forth herein. For purposes of such notices, the addresses of the parties shall be as follows:

Lender:Comerica Bank-Texas  
1601 Elm Street, 2nd Floor  
Dallas, Texas 75201  
Attn: National Real Estate Services

Guarantor:Stratus Properties Inc.  
98 San Jacinto Boulevard, Suite 220  
Austin, Texas 78791  
Attn:William H. Armstrong, III

With a copy to:Armbrust Brown & Davis, L.L.P.  
100 Congress Avenue  
Suite 1300  
Austin, Texas 78701  
Attn:Kenneth Jones, Esq.

V.3GOVERNING LAW. THIS GUARANTY IS EXECUTED AND DELIVERED AS AN INCIDENT TO A LENDING TRANSACTION NEGOTIATED, CONSUMMATED, AND PERFORMABLE IN DALLAS COUNTY, TEXAS, AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

ANY ACTION OR PROCEEDING AGAINST GUARANTOR UNDER OR IN CONNECTION WITH THIS GUARANTY MAY BE BROUGHT IN ANY STATE OR FEDERAL COURT IN DALLAS COUNTY, TEXAS. GUARANTOR HEREBY IRREVOCABLY (i) SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF SUCH COURTS, AND (ii) WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH ACTION OR PROCEEDING BROUGHT IN SUCH COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. GUARANTOR AGREES THAT SERVICE OF PROCESS UPON IT MAY BE MADE BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, AT ITS ADDRESS SPECIFIED HEREIN. NOTHING HEREIN SHALL AFFECT THE RIGHT OF LENDER TO SERVE PROCESS IN ANY OTHER MATTER PERMITTED BY LAW OR SHALL LIMIT THE RIGHT OF LENDER TO BRING ANY ACTION OR PROCEEDING AGAINST GUARANTOR OR WITH RESPECT TO ANY OF GUARANTOR'S PROPERTY IN COURTS IN OTHER JURISDICTIONS. ANY ACTION OR PROCEEDING BY GUARANTOR AGAINST LENDER SHALL BE BROUGHT ONLY IN A COURT LOCATED IN DALLAS COUNTY, TEXAS.

V.4Invalid Provisions. If any provision of this Guaranty is held to be illegal, invalid, or unenforceable under present or future laws effective during the term of this Guaranty, such provision shall be fully severable and this Guaranty shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part of this Guaranty, and the remaining provisions of this Guaranty shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance from this Guaranty, unless such

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continued effectiveness of this Guaranty, as modified, would be contrary to the basic understandings and intentions of the parties as expressed herein.

V.5Amendments. This Guaranty may be amended only by an instrument in writing executed by the party or an authorized representative of the party against whom such amendment is sought to be enforced.

V.6Parties Bound; Assignment. This Guaranty shall be binding upon and inure to the benefit of the parties hereto and their respective successors, assigns and legal representatives; provided, however, that Guarantor may not, without the prior written consent of Lender, assign any of its rights, powers, duties or obligations hereunder.

V.7Headings. Section headings are for convenience of reference only and shall in no way affect the interpretation of this Guaranty.

V.8Recitals. The recital and introductory paragraphs hereof

are a part hereof, form a basis for this Guaranty and shall be considered prima facie evidence of the facts and documents referred to therein.

V.9Counterparts. To facilitate execution, this Guaranty may be executed in as many counterparts as may be convenient or required. It shall not be necessary that the signature or acknowledgment of, or on behalf of, each party, or that the signature of all persons required to bind any party, or the acknowledgment of such party, appear on each counterpart. All counterparts shall collectively constitute a single instrument. It shall not be necessary in making proof of this Guaranty to produce or account for more than a single counterpart containing the respective signatures of, or on behalf of, and the respective acknowledgments of, each of the parties hereto. Any signature or acknowledgment page to any counterpart may be detached from such counterpart without impairing the legal effect of the signatures or acknowledgments thereon and thereafter attached to another counterpart identical thereto except having attached to it additional signature or acknowledgment pages.

V.10Rights and Remedies. If Guarantor becomes liable for any indebtedness owing by Borrower to Lender, by endorsement or otherwise, other than under this Guaranty, such liability shall not be in any manner impaired or affected hereby and the rights of Lender hereunder shall be cumulative of any and all other rights that Lender may ever have against Guarantor. The exercise by Lender of any right or remedy hereunder or under any other instrument, or at law or in equity, shall not preclude the concurrent or subsequent exercise of any other right or remedy.

V.11ENTIRETY. THIS GUARANTY EMBODIES THE FINAL, ENTIRE AGREEMENT OF GUARANTOR AND LENDER WITH RESPECT TO GUARANTOR'S GUARANTY OF THE GUARANTEED DEBT AND SUPERSEDES ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS, AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THE SUBJECT MATTER HEREOF. THIS GUARANTY IS INTENDED BY GUARANTOR AND LENDER AS A FINAL AND COMPLETE EXPRESSION OF THE TERMS OF THE GUARANTY, AND NO COURSE OF DEALING BETWEEN GUARANTOR AND LENDER, NO COURSE OF PERFORMANCE, NO TRADE PRACTICES, AND NO EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OR OTHER EXTRINSIC EVIDENCE OF ANY NATURE SHALL BE USED TO CONTRADICT, VARY, SUPPLEMENT OR MODIFY ANY TERM OF THIS GUARANTY AGREEMENT. THERE ARE NO ORAL AGREEMENTS BETWEEN GUARANTOR AND LENDER.

V.12Release of Guaranty. Upon full and final payment of the indebtedness evidenced by the Note, performance of all obligations under the Loan Documents and satisfaction of the Guaranteed Debt, this Guaranty will be released and of no further force and effect.

V.13Capitalized Terms. Capitalized terms used herein shall have the same meaning as provided in the Loan Agreement, except as otherwise specified herein.

EXECUTED as of the day and year first above written.

GUARANTOR:

STRATUS PROPERTIES INC.,  
a Delaware corporation

By: /s/ William H. Armstrong, III

-----  
Name: William H. Armstrong, III  
Title: Chairman of the Board,  
President and Chief Executive Officer

STATE OF TEXAS &  
COUNTY OF \_\_\_\_\_ &

This instrument was ACKNOWLEDGED before me this 24 day of February, 2000, by William H. Armstrong, III, the Chairman of the Board, President and Chief Executive Officer of STRATUS PROPERTIES INC., a Delaware corporation, on behalf of said corporation.

[S E A L]  
Notary Public - State of Texas  
My Commission Expires:

\_\_\_\_\_ Printed Name of Notary Public

Exhibit 15.1

May 1, 2000

Stratus Properties Inc.  
98 San Jacinto Blvd.  
Austin, TX 78701

Gentlemen:

We are aware that Stratus Properties Inc. has incorporated by reference in its Registration Statements (File Nos. 33-78798, 333-31059 and 333-52995) its Form 10-Q for the quarter ended March 31, 2000, which includes our report dated May 1, 2000 covering the unaudited interim financial information contained therein. Pursuant to Regulation C of the Securities Act of 1933 (the Act), this report is not considered a part of the registration statements prepared or certified by our firm or a report prepared or certified by our firm within the meaning of Sections 7 and 11 of the Act.

Very truly yours,

/s/ Arthur Andersen LLP



<ARTICLE> 5

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This schedule contains summary financial information extracted from Stratus Properties Inc.'s financial statements at March 31, 2000 and the three months then ended, and is qualified in its entirety by reference to such statements.

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