

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, 2001

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

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

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, 2001, there were issued and outstanding 14,298,270 shares of the registrant's Common Stock, par value \$0.01 per share.

STRATUS PROPERTIES INC.
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STRATUS PROPERTIES INC.
Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

STRATUS PROPERTIES INC.
CONDENSED BALANCE SHEETS (Unaudited)

	March 31, 2001	December 31, 2000
	-----	-----
	(In Thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents, including restricted cash of \$1.2 million and \$0.6 million, respectively	\$ 1,434	\$ 7,996
Accounts receivable:		
Property sales	10	43
Other	547	553
Prepaid expenses	221	218
	-----	-----
Total current assets	2,212	8,810
Real estate and facilities, net	99,497	93,005
Investment in and advances to unconsolidated affiliates	7,094	7,596
Other assets	4,774	2,482
	-----	-----
Total assets	\$ 113,577	\$ 111,893
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued liabilities	\$ 2,575	\$ 1,920
Accrued interest, property taxes and other	435	1,486
	-----	-----
Total current liabilities	3,010	3,406
Long-term debt	11,640	8,440
Other liabilities	7,827	8,967
Mandatorily redeemable preferred stock	10,000	10,000
Stockholders' equity	81,100	81,080
	-----	-----
Total liabilities and stockholders' equity	\$ 113,577	\$ 111,893
	=====	=====

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

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STRATUS PROPERTIES INC.
STATEMENTS OF INCOME (Unaudited)

Three Months Ended
March 31,

2001 2000

	-----	-----
	(In Thousands, Except Per Share Amounts)	
Revenues	\$ 1,426	\$ 2,113
Costs and expenses:		
Cost of sales	637	1,654
General and administrative expenses	743	981
	-----	-----
Total costs and expenses	1,380	2,635
	-----	-----
Operating income (loss)	46	(522)
Interest expense	(93)	(193)
Other income, net	219	7,805
	-----	-----
Income before income taxes and equity in affiliates	172	7,090
Income tax provision	-	(40)
Equity in unconsolidated affiliates' (loss) income	(152)	228
	-----	-----
Net income	\$ 20	\$ 7,278
	=====	=====
Net income per share		
Basic	\$ -	\$0.51
	=====	=====
Diluted	\$ -	\$0.44
	=====	=====
Average shares outstanding		
Basic	14,298	14,288
	=====	=====
Diluted	16,533	16,635
	=====	=====

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

STRATUS PROPERTIES INC.
STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended March 31,	
	----- 2001 -----	----- 2000 -----
	(In Thousands)	
Cash flow from operating activities:		
Net income	\$ 20	\$ 7,278
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	32	24
Cost of real estate sold	563	300
Recognition of deferred Circle C municipal utility reimbursements	-	(7,430)
Equity in unconsolidated affiliates' loss (income)	152	(228)
(Increase) decrease in working capital:		
Accounts receivable and other	36	888
Accounts payable and accrued liabilities	(97)	(1,322)
Recognition of deferred revenues, long term receivable and other	(1,361)	567
	-----	-----
Net cash (used in) provided by operating activities	(655)	77

	-----	-----
Cash flow from investing activities:		
Real estate and facilities	(7,015)	(893)
Investment in Lakeway project	(2,000)	-
	-----	-----
Net cash used in investing activities	(9,015)	(893)
	-----	-----
Cash flow from financing activities:		
Net proceeds from credit facility	3,108	185
	-----	-----
Net cash provided by financing activities	3,108	185
	-----	-----
Net decrease in cash and cash equivalents	(6,562)	(631)
Cash and cash equivalents at beginning of year	7,996	3,964
	-----	-----
Cash and cash equivalents at end of period	\$ 1,434	\$ 3,333
	=====	=====

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

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STRATUS PROPERTIES INC.
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reclassifications. Certain prior year amounts have been reclassified to conform to the year 2001 presentation.

Recent Accounting Pronouncements. In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133, as subsequently amended, is effective for fiscal years beginning after June 15, 2000 and establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. Stratus adopted SFAS 133 effective January 1, 2001, with its adoption having no impact on its financial position or results of operations. Stratus currently has no derivative instruments, as defined in SFAS 133.

Share Purchase Program. In February 2001, Stratus' Board of Directors authorized an open market stock purchase program for up to 1.4 million shares of Stratus' common stock. The purchases may occur over time depending on many factors, including the market price of Stratus stock; Stratus' operating results, cash flow and financial position; and general economic and market conditions. No purchases have been made under this program through April 27, 2001.

2. EARNINGS PER SHARE

Following is a reconciliation of net income and weighted average common shares outstanding for purposes of calculating basic and diluted net income per share (in thousands, except per share amounts):

Three Months Ended March 31,	
-----	-----
2001	2000
-----	-----

Basic net income per share of common stock:

Net income	\$ 20	\$ 7,278
	=====	=====
Weighted average common shares outstanding	14,298	14,288
	-----	-----
Basic net income per share of common stock	\$0.00	\$0.51
	=====	=====
Diluted net income per share of common stock:		
Net Income	\$ 20	\$ 7,278
Add: Interest expense from assumed conversion of convertible debt, net of income tax effect	-	80
	-----	-----
	\$ 20	\$ 7,358
	=====	=====
Weighted average common shares outstanding	14,298	14,288
Dilutive stock options	523	254
Assumed redemption of preferred stock	1,712	1,712
Assumed redemption of convertible debt	-	381
Weighted average common shares outstanding for purposes of calculating diluted net income per share	-----	-----
	16,533	16,635
	-----	-----
Diluted net income per share	\$0.00	\$0.44
	=====	=====

Interest accrued on the convertible debt outstanding totaled approximately \$91,000 for the first quarter of 2001 and \$81,000 during the first quarter of 2000. Although the debt was convertible into 429,000 shares in the first quarter of 2001, it was excluded from the diluted net income per share calculation because the effect of an assumed redemption of the convertible debt was anti-dilutive. There have been no dividends accrued on Stratus' mandatorily redeemable preferred stock through March 31, 2001.

Outstanding options to purchase approximately 284,000 shares of common stock, at an average exercise price of \$6.19 per share during the first quarter of 2001, and 515,000 shares of common stock, at an

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average exercise price of \$5.37 per share during the first quarter of 2000, were not included in the computation of diluted net income per share. These options were excluded because their exercise prices were greater than the average market price for Stratus' common stock during the respective periods presented.

3. OLYMPUS RELATIONSHIP and INVESTMENT IN UNCONSOLIDATED AFFILIATES

In May 1998, Stratus and Olympus Real Estate Corporation (Olympus), 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. Olympus has the right to redeem the mandatorily redeemable preferred stock at any time on or after May 22, 2001. As of March 31, 2001, Stratus had \$3.1 million of borrowings outstanding 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 Joint Venture). The Barton Creek Joint Venture currently consists of two separate subdivisions, "Wimberly Lane" and "Escala Drive", located in southwest Austin, Texas. At March 31, 2001 there was one remaining single-family homesite at the Wimberly Lane subdivision and 22 remaining single-family homesites at the Escala Drive subdivision. The Walden Partnership had 491 single-family homesites available at the Walden on Lake Houston development in Houston, Texas at March 31, 2001. The 7000 West Joint Venture consists of two fully constructed and leased 70,000 square foot office buildings located in the Lantana development in southwest Austin.

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' 2000 Annual Report on 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' 2000 Annual Report on Form 10-K.

The Barton Creek Joint Venture distributed approximately \$0.7 million to the partners during the first quarter of 2001 (\$17.1 million from its inception through March 31, 2001). Stratus' portion of the distributions, approximately \$8.6 million, have been recorded as repayment of the Barton Creek notes receivable and related accrued interest (\$6.9 million) and a \$1.7 million reduction of its investment in the Barton Creek Joint Venture. Stratus recorded the entire amount of its portion of the first-quarter 2001 distribution, approximately \$0.4 million, as a reduction of its investment in the Barton Creek Joint Venture. All future distributions by the Barton Creek Joint Venture will reduce Stratus' investment in the joint venture as a return of partner's capital. No other joint venture made a distribution during the first quarter of 2001. 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, 2001:				
Revenues	\$ 223	\$ 437	\$ 701	\$ 1,361
Operating loss	(39)	(272)	(118)	(429)
Net loss	(33)	(212)	(79)	(324)
Stratus' equity in net loss	(16)	(98)a	(38)	(152)

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	Barton Creek Joint Venture	Walden Partnership	7000 West	Total
	-----	-----	-----	-----
Earnings data for the three months ended March 31, 2000:				
Revenues	\$ 3,688	\$ 459	\$ 169	\$ 4,316
Operating income (loss)	913	(218)	(349)	346
Net income (loss)	977	(192)	(345)	440

- a. Includes recognition of deferred income totaling \$8,000 in the both the first quarter of 2001 and 2000, representing the difference in Stratus' investment in the Walden Partnership and its underlying equity at the date of acquisition. Stratus will recognize the remaining deferred income as the related real estate is sold. Through March 31, 2001, Stratus had recognized \$117,000 of a total of \$337,000 of deferred income associated with the Walden Partnership.

4. LAKEWAY TRANSACTION

Stratus, since mid-1998, has provided development, management, operating and marketing services for the Lakeway project, located near Austin, Texas, for a fixed monthly fee. In January 2001, Stratus and the owner of the project entered into an expanded development management agreement covering a 552-acre portion of the Lakeway project known as the "Schramm/Spillman Tract." Stratus invested \$2.0 million in the project and has the right to receive enhanced management and development fees and sales commissions as well as a net profits interest in the property. Stratus will serve as an exclusive management agent for the purposes of developing, managing, maintaining, operating and marketing the project's property. Stratus' future services may require it to obtain project development financing of up to \$4.0 million. Such additional project development financing, if any, would be non-recourse to the owner and secured by the property at the project. Any such project development financing would not be an obligation of Stratus and accordingly, would not be consolidated within its financial statements.

5. RESTRICTED CASH

At March 31, 2001, Stratus had restricted cash deposits totaling \$1.2 million. Stratus had \$0.6 million deposited in a special account representing 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. The remaining \$0.6 million of restricted cash represents funds made available to the bank as partial payment of Stratus' borrowings outstanding on the \$20 million revolving credit facility that were not applied to Stratus' account until early April 2001. For additional discussion of the Walden Partnership project development loan, see Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Form 10-Q and Note 4 of "Notes to Financial Statements" included in Stratus' 2000 Annual Report on Form 10-K.

6. SUBSEQUENT EVENT.

On May 10, 2001, the shareholders of Stratus approved an amendment to Stratus' certificate of incorporation to permit a reverse 1-for-50 common stock split followed immediately by a forward 25-for-1 common stock split. This transaction will allow Stratus' shareholders who hold fewer than 50 common stock shares to convert their shares into less than one share in the reverse 1-for-50 split and receive cash payments equal to the fair value of those fractional interests. Stratus shareholders who hold more than 50 shares of Stratus' common stock will hold one-half the number of shares common stock immediately after this transaction, with any shareholder holding an odd number of shares, which results in a fractional share being retained, being entitled to a cash payment equal to the fair value of the fractional share. Fair value of the fractional shares will be calculated by valuing each outstanding share of Stratus common stock held at the close of business on the effective date, May 25, 2001, at the average daily closing price per share of Stratus' common stock for the ten trading days immediately preceding the effective date. The number of shares outstanding of Stratus' mandatorily redeemable preferred stock (see Note 3 of "Notes To Financial Statements" included in Stratus' 2000 Annual Report on Form 10-K) are not affected by this transaction; however, the conversion price in

effect immediately prior to the transaction would effectively be doubled to reflect the effects of the transaction. The earnings per share amounts reflected in this Quarterly Report on Form 10-Q do not reflect this transaction.

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Remarks

The information furnished herein should be read in conjunction with Stratus' financial statements contained in its 2000 Annual Report on 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.

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, 2001, and the related statements of income and cash flows for the three-month periods ended March 31, 2001 and 2000. 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, 2000, and the related statements of operations, stockholders' equity and cash flows for the year then ended (not presented herein), and, in our report dated January 25, 2001, 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, 2000, 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
April 27, 2001 (except with
respect to the matter discussed
in Note 6, as to which the
date is May 10, 2001)

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

OVERVIEW

Management's discussion and analysis presented below should be read in conjunction with our discussion and analysis of financial results contained in our 2000 Annual Report on Form 10-K. The operating results summarized in this report are not necessarily indicative of our future operating results.

We acquire, develop, manage and sell 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 3).

DEVELOPMENT ACTIVITIES

Stratus Properties

In the fourth quarter of 2000 we received final subdivision plat approval from the City of Austin (the City) to develop approximately 170 acres of commercial and multi-family real estate within our Lantana development. The required infrastructure development at the site, known as "Rialto Drive," is proceeding as planned with completion expected in fourth quarter of 2001. We also broke ground on the first of two 75,000 square foot office buildings at Rialto Drive during the first quarter of 2001. Full development of the 170 acres is expected to consist of over 800,000 square feet of office and retail space and 400 multi-family units, which will be developed by an apartment developer pursuant to our sale of a 36.4-acre multi-family tract in December 2000 (see "Result of Operations" below).

We commenced construction of a new subdivision within the Barton Creek community during the fourth quarter of 2000. This subdivision, Mirador, adjoins the successful Escala Drive subdivision, which is owned by our Barton Creek Joint Venture (see below). Our development plan for the Mirador subdivision consists of 34 estate lots, averaging 3.5 acres in size, which we expect will be completed in September 2001.

Unconsolidated Affiliates

We own 49.9 percent of three joint ventures and Olympus owns the remaining 50.1 percent interests. Accordingly, we account for our investments in these joint ventures using 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 3 included elsewhere in this Form 10-Q for the summarized unaudited results of operations of our unconsolidated affiliates for the three month periods ended March 31, 2001 and 2000.

Barton Creek Joint Venture

The Oly Stratus Barton Creek I Joint Venture (Barton Creek Joint Venture) currently consists of two separate subdivisions: "Wimberly Lane" and "Escala Drive." Construction of the Wimberly Lane subdivision, consisting of 75 developed residential lots, was completed during the first quarter of 1999. We had only one Wimberly Lane lot remaining to be sold at March 31, 2001. We sold two Wimberly Lane lots during the first quarter of 2001 for a total of \$0.2 million. During the first quarter of 2000 we sold 12 Wimberly Lane lots, which represented \$1.3 million of the Barton Creek Joint Venture's revenues for that period.

Construction of the Escala Drive subdivision was completed during the second quarter of 2000. As of March 31, 2001, 32 of the original 54 multi-acre residential lots had been sold. These residential lots are the largest developed to date within the Barton Creek community, although our planned Mirador subdivision will have similar sized developed lots (see "Stratus Properties" above). There were no Escala Drive residential lot sales during the first quarter of 2001 (see "Capital Resources and Liquidity" below). During the first quarter of 2000, we sold the

initial five Escala Drive lots, which represented \$2.1 million of the Barton Creek Joint Venture's revenues for that period.

The Barton Creek Joint Venture distributed approximately \$0.7 million to the partners in the first quarter of 2001. We recorded our share of these distributions, approximately \$0.4 million, as a return of our investment in the joint venture.

Walden Partnership

At March 31, 2001, the Walden Partnership had 491 single-family homesites to market at the Walden on Lake Houston development in Houston, Texas. The Partnership sold eight single-family homesites during the first quarter of 2001 compared with sales of 17 single-family homesites during the first quarter of 2000. At March 31, 2001, the Walden Partnership's borrowings outstanding under its project development loan facility totaled \$1.4 million. In September 1998, we deposited \$2.5 million of restricted cash as additional collateral for the related project development loan facility. For every \$1.00 of this facility's principal that is repaid by the Partnership, there is a \$0.30 reduction of our restricted amount. Remaining funds deposited in this restricted account totaled \$0.6 million at March 31, 2001 and December 31, 2000.

7000 West

We have two fully leased and occupied 70,000 square foot office buildings at the Lantana Corporate Center, known as 7000 West. In our role as manager of 7000 West, we arranged for a \$6.6 million project loan facility to finance construction of the first office building. The construction of the second building required additional financing, which was provided by an additional \$7.7 million financing under the 7000 West development loan facility negotiated in the first quarter of 2000. Borrowings outstanding under 7000 West's project loan facility totaled \$12.6 million at March 31, 2001 and \$12.0 million at December 31, 2000.

RESULTS OF OPERATIONS

Summary operating results follow (in thousands):

	First Quarter	
	2001	2000
	-----	-----
Revenues:		
Undeveloped properties:		
Recognition of deferred revenues	\$ 1,112	\$ 811
	-----	-----
Total undeveloped properties	1,112	811
Developed properties	-	403
Commissions, management fees and other	314	899
	-----	-----
Total revenues	\$ 1,426	\$ 2,113
	=====	=====
Operating income (loss)	\$ 46	\$ (522)
Net income	20	7,278

Operating Results

Our undeveloped properties revenues consisted solely of the recognition of previously deferred revenues during both the first quarter of 2001 and 2000. The majority of the deferred revenue recognized during the first quarter of 2001 was associated with the sale of a 36.4-acre multi-family Lantana tract in December

2000. In this transaction we sold the property for \$5.3 million, but deferred \$3.5 million of the revenues and \$1.6 million of the related gain. We are recognizing these deferred amounts pro rata as the required infrastructure construction is completed. As discussed in "Development Activities" above, construction at the Rialto Drive project is proceeding, resulting in our recognizing \$1.1 million of the deferred revenues and \$0.5 million of the related gain during the first quarter of 2001.

When we sell real estate to an entity we jointly own with Olympus, we defer recognizing revenues from the sale related to our ownership interest until sales are made to unrelated parties. The sale of two Wimberly Lane single-family homesites by the Barton Creek Joint Venture during the first quarter resulted in our recognition of previously deferred revenues of less than \$0.1 million for the period. The Barton Creek Joint Venture sold 17 Wimberly Lane single-family homesites and five Escala Drive residential lots during the first quarter of 2000, which resulted in our recognition of previously deferred revenues totaling \$0.8 million in that period. At March 31, 2001 we had a total of \$3.4 million of deferred revenues and \$1.8 million of related gains remaining to be recognized associated with our sales of real estate to the Barton Creek Joint Venture.

We currently have no developed property inventory but we are developing lots that may be available in the third quarter of 2001 (see "Development Activities," above). Our first-quarter 2000 developed property revenues included the sale of 15 single-family homesites. Lots available for sale by our unconsolidated affiliates are not included in our developed property revenues (see "Unconsolidated Affiliates" above).

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Commissions, management fees and other income decreased to \$0.3 million during the first quarter of 2001 compared to \$0.9 million during the first quarter of 2000. Generally, our commissions, management fees and other income have been increasing over the past three years as we continue to expand that aspect of our business. The decrease during the first quarter of 2001 from the same period last year primarily reflects the decrease in sales by our unconsolidated affiliates. See "Capital Resources and Liquidity" below for a discussion of our expanded management services agreement associated with the Lakeway project near Austin, Texas.

Cost of sales totaled \$0.6 million during the first quarter of 2001 compared to \$1.7 million during the first quarter of 2000. The decrease primarily reflects a reimbursement of certain infrastructure costs previously charged to expense or relating to properties previously sold, which reduced the first quarter of 2001 cost of sales by \$0.8 million. The decrease in cost of sales also reflects the reduced sales activity during the first quarter of 2001.

Our general and administrative expense totaled \$0.7 million during the first quarter of 2001 compared with \$1.0 million during the first quarter of 2000. The decrease between the periods primarily reflects reduced administrative costs resulting from the implementation of a new accounting system and other initiatives to reduce costs.

Non-Operating Results

Interest expense, net of capitalized interest, totaled \$0.1 million during the first quarter of 2001 compared to \$0.2 million for the first quarter of 2000, reflecting our reduced borrowings outstanding. Capitalized interest totaled \$0.2 million in the first quarter of 2001 and \$0.3 million in the first quarter of 2000.

In March 2000, the City approved a settlement agreement of all its disputes with 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 were dismissed with prejudice. Accordingly, the City's partial payments of our reimbursement claim, totaling \$10.5 million as of March 31, 2000, were no longer subject to a repayment contingency. As a result, we recorded approximately \$7.4 million of these previously deferred proceeds in other income during the first quarter of 2000. 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 settled our disputes with the City related to the remaining amounts of the Circle C MUDs in the fourth quarter of 2000, when we received \$6.9 million from the City as full and final settlement of our claim. See Note 6 to the "Notes To Financial Statements" included within our 2000 Annual Report on Form 10-K for discussion of the settlement of our Circle C MUD reimbursement claim.

CAPITAL RESOURCES AND LIQUIDITY

Net cash provided by (used in) operating activities totaled \$(0.7) million during the first quarter of 2001 compared with \$0.1 million during the first quarter of 2000. The decrease primarily reflects reduced distributions received from the Barton Creek Joint Venture and reduced revenues from lower sales activity. Cash used in investing activities totaled \$9.0 million during the first quarter of 2001 compared with \$0.9 million during the same period in 2000, reflecting an increase in our net real estate and facilities expenditures (see "Development Activities" above) and the \$2.0 million investment in the Lakeway project, near Austin, Texas (see below). Financing activities provided cash of \$3.1 million during the first quarter of 2001 and \$0.2 million during the first quarter of 2000 reflecting net borrowings on our commercial bank lines of credit.

At March 31, 2001, we had debt of \$11.6 million compared to debt of \$8.4 million at December 31, 2000 and \$16.8 million at March 31, 2000. Our debt outstanding at March 31, 2001 included \$5.0 million of borrowings outstanding on our unsecured term loan, which matures in December 2005, \$3.5 million of borrowings under our \$20 million revolver, which matures in December 2002, and \$3.1 million of borrowings under our \$10 million convertible debt facility with Olympus (see Note 3), which matures in May 2004. The availability under the \$20 million revolving line of credit was reduced to \$18 million to satisfy the \$2.0 million interest reserve account requirement at March 31, 2001. We are currently considering an offer from the lender of the unsecured term loan, First American Asset Management, that provides for an additional \$5 million unsecured term loan. For a discussion of our bank credit facilities see Note 5 included in the "Notes To Financial Statements" included in our 2000 Annual Report on Form 10-K.

Since mid-1998, we have provided development, management, operating, and marketing services for the Lakeway project, located near Austin, for a fixed monthly fee. In January 2001, we and the owner of the project entered into an expanded development management agreement covering a 552-acre portion of the Lakeway development known as the "Schramm/Spillman Tract" and we invested \$2.0 million in the project. Under the expanded development management agreement, we will receive enhanced management and development fees and sales commissions as well as a net profits interest in the property. As exclusive managing agent of the project, we have negotiated a tentative sale of the entire 552-acre tract to a purchaser, who intends to close the sale over four installments over the next twelve months, with the first installment scheduled for late May 2001. However, in the event that the sale does not close as anticipated, we have a preliminary agreement with a bank that would provide the necessary financing to develop the project.

In February 2001, our Board of Directors authorized an open market stock purchase program for up to 1.4 million shares of our common stock representing approximately 10 percent of our then outstanding common stock. The purchases may occur over time depending on many factors, including: the market price of our common stock; our operating results, cash flows and financial position; possible redemption of our mandatorily redeemable preferred stock held by Olympus (Olympus may redeem the preferred stock any time on or after May 22, 2001); and general economic and market conditions. We have yet to make any open market share purchases under this program as of May 14, 2001.

On May 10, 2001, our shareholders approved an amendment to our certificate of incorporation to permit a reverse 1-for-50 common stock split followed immediately by a forward 25-for-1 common stock split. This transaction will allow our shareholders who hold fewer than 50 shares of common stock to convert them into less than one share of our common stock in the reverse 1-for-50 split and receive cash payments equal to the fair value of those fractional interests. Our shareholders who hold more than 50 shares of our common stock will hold one-half the number of shares common stock immediately after this transaction, with any shareholder holding an odd number of shares, which results in a fractional share being retained, being entitled to a cash payment equal to the fair value of the fractional share. Fair value of the fractional shares will be calculated by valuing each outstanding share of Stratus common stock held at the close of business on the effective date, May 25, 2001, at the average daily closing price per share of Stratus' common stock for the ten trading days immediately preceding the effective date. We estimate that the costs to complete this transaction will total approximately \$0.5 million. This transaction will reduce our future annual reporting and related costs.

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. As a result of our settlement of certain entitlement and reimbursement issues with the City during 2000, we have initiated a plan to develop a significant portion of our Austin-area properties with planned capital expenditures for 2001 significantly exceeding the development expenditures incurred during each of the past three years. However, if our revenues continue to be impacted by the recent downturn in the information technology business sector, which has negatively affected Austin's business climate, we may be required to defer some of our near-term development plans until the real estate market improves. We expect our properties will continue to be attractive and to be a source of value for our shareholders.

We are continuing to actively pursue additional development and management fee opportunities, both individually and through our existing relationships with institutional capital sources. We 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 anticipated sales, debt repayments, future reimbursement for infrastructure costs, future events related to financing 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 on Form 10-K for the year ended December 31, 2000.

PART II. - OTHER INFORMATION

Item 1. Legal Proceedings.

Over the past several years we have been involved in regulatory matters and litigation involving entitlements and/or development of our Austin-area properties. These matters were settled during 2000. For a detailed discussion on these matters see Item 3, "Legal Proceedings" and Note 6, "Real Estate" included in our 2000 Annual Report on Form 10-K.

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

(a) Our Annual Meeting of Stockholders was held May 10, 2001 (the Annual Meeting). Proxies were solicited pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

(b) At the Annual Meeting William H. Armstrong III was elected to serve until the 2004 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, James C. Leslie 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
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William H. Armstrong III	12,466,759	1,050,121

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 2001. Holders of 13,393,135 shares voted for, holders of 41,101 shares voted against and holders of 79,644 shares abstained from voting on such proposal.

At the Annual Meeting, the stockholders voted on and failed to approve a proposal to adopt Stratus' 2001 Stock Incentive Plan in the form presented in Stratus' proxy statement dated March 29, 2001. Holders of 3,203,117 shares voted for, holders of 4,863,351 shares voted against and holders of 133,646 shares abstained from voting on such proposal. There were broker non-votes consisting of 5,316,766 shares with respect to the proposal.

At the Annual Meeting, the stockholders voted on and approved a proposal to amend Stratus' Certificate of Incorporation to effect a 1 for 50 reverse stock split followed immediately by a 25 for 1 forward stock split in the form presented in Stratus' proxy statement dated March 29, 2001. Holders of 12,256,092 shares voted for, holders of 1,199,024 shares voted against and holders of 61,764 shares abstained from voting on such proposal.

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

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

- (b) During the period covered by this Quarterly Report on Form 10-Q, the registrant filed two Current Reports on Form 8-K reporting events under Item 5. The first report was dated January 5, 2001 and the second was dated February 9, 2001.

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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.

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

Date: May 15, 2001

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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 Exhibit 3.1 to Stratus' 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 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.
- 10.2 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.
- 10.3 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.
- 10.4 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.
- 10.5 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.
- 10.6 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.
- 10.7 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.
- 10.8 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.
- 10.9 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.
- 10.10 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.
- 10.11 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.
- 10.12 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.
- 10.13 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.
- 10.14 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.
- 10.15 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.
- 10.16 Guaranty Agreement dated December 31, 1999 by and between Stratus Properties Inc. and Comerica Bank-Texas. Incorporated by reference to Stratus' Quarterly Report on Form 10-Q for the Quarter ended March 31, 2000.
- 10.17 Guaranty Agreement dated February 24, 2000 by and between Stratus Properties Inc. and Comerica Bank-Texas. Incorporated by reference to Stratus' Quarterly Report on Form 10-Q for the Quarter ended March 31, 2000.
- 10.18 Development Management Agreement by and between Commercial Lakeway Limited Partnership, as owner, and Stratus Properties Inc., as development manager, dated January 26, 2001.
- 10.19 Amended Loan Agreement dated December 27, 2000 by and between Stratus Properties Inc. and Comerica-Bank Texas. Incorporated by reference to Exhibit 10.19 to the Stratus 2000 Form 10-K.
- 10.20 Loan Agreement dated December 28, 2000 by and between Stratus Properties Inc. and Holliday Fenoliglio Fowler, L.P., subsequently assigned to an affiliate of First American Asset Management. Incorporated by reference to Exhibit 10.20 to the Stratus 2000 Form 10-K.
- 10.21 Stratus' Performance Incentive Awards Program, as amended effective February 11, 1999. Incorporated by reference to Exhibit 10.18 to Stratus' 1998 Form 10-K.
- 10.22 Stratus Stock Option Plan, as amended. Incorporated by reference to Exhibit 10.9 to Stratus' 1997 Form 10-K.
- 10.23 Stratus 1996 Stock Option Plan for Non-Employee Directors, as amended. Incorporated by reference to Exhibit 10.10 to Stratus' 1997 Form 10-K.
- 10.24 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.
- 15.1 Letter dated April 27, 2001 from Arthur Andersen LLP regarding the unaudited financial statements.

Development Management Agreement

By and Between

COMMERCIAL LAKEWAY LIMITED PARTNERSHIP,
as Owner

And

STRATUS PROPERTIES INC.,
as Development Manager

Dated as of

January 26, 2001

Development Management Agreement

THIS DEVELOPMENT MANAGEMENT AGREEMENT (this "Agreement") is made effective as of the 26th day of January, 2001 (the "Effective Date"), by and between COMMERCIAL LAKEWAY LIMITED PARTNERSHIP, a Delaware limited partnership, as Owner of the hereinafter-defined Property (the "Owner") and STRATUS PROPERTIES INC., a Delaware corporation, as development manager (the "Development Manager").

RECITALS

A. Owner is the owner and holder of fee title in and to that certain property located in Travis County, Texas, containing approximately 552 acres of land and known as the Vista Royale - Non-Commercial Tract, the Vista Royale - Commercial Tract and the Spillman Tract, as legally and more particularly described on Exhibit "A" attached hereto and incorporated herein by this reference (the "Property"),

B. Owner desires to engage the services of Development Manager for the purposes of developing, managing, maintaining, operating and selling the Property.

C. Development Manager desires to accept such engagement and to perform such services, and acknowledges that it is familiar with Owner's current Business Plan (hereinafter defined) for the Property and the Development Budget (hereinafter defined) approved by Owner for the Property as of the date of this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Partners hereby agree as follows:

ARTICLE 1
Definitions

1.1 Definitions. As used in this Agreement, the following terms shall have the following meanings:

"Affiliate" shall mean, when used with reference to a specified Person, any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the specified Person. As used in this definition of Affiliate, the term "Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract, or otherwise.

"Agreement" shall have the meaning set forth in the Preamble to this Agreement.

"Business Day" shall mean any day other than a Saturday, Sunday, or holiday on which national banking associations or other financial institutions in the States of New York or Texas are authorized or required to be closed.

"Business Plan" shall mean the business plan prepared by Development Manager and submitted to Owner, within fifteen (15) days after the Effective Date, for Owner's approval, in Owner's sole discretion, and subsequently attached hereto as Exhibit "B" and incorporated herein, and as may be amended from time to time in accordance with the provisions hereof.

"Cash Flow" for any period shall mean any and all cash revenues generated from the ownership, sale, lease and other operation of the Property by Owner or Development Manager on behalf of Owner and any and all capital transaction proceeds, minus the sum of (i) any operating and capital expenses incurred in connection with the development, operation, management, maintenance and sale of all or any portion of the Property, including without limitation any payments of interest and principal required by the lender of any Project Loan, and (ii) reasonable reserve(s) for necessary or desirable operating and capital expenses of the Property that are anticipated to be incurred or to become due and payable within six (6) months as Development Manager, in the exercise of its reasonable discretion and as is consistent with the Development Budget and the Business Plan, shall determine and as shall be approved by Owner. General overhead expenses of Owner which are allocable to the Property and other properties owned or controlled by Owner shall be allocated to the Property for purposes of determining Cash Flow on a pro rata basis as reasonably determined by Owner.

"Completion" shall mean lien-free completion (or substantial completion if adequate reserves in amounts acceptable to Owner have been fully funded), of all pre-development, development and construction activities described in the Business Plan in accordance with the terms thereof, as evidenced by appropriate and necessary governmental inspections, approvals, licenses and permits, certificate(s) of completion certified by project architect(s) and lien waivers obtained from all architects, engineers, general contractors, subcontractors, tradesmen, materialmen and other suppliers of services and materials in connection with the development of the Property.

"Development Budget" shall mean the budget prepared by Development Manager and submitted to Owner, within fifteen (15) days after the Effective Date, for Owner's approval, in Owner's sole discretion, and subsequently attached hereto as Exhibit "C" and incorporated herein, as may be amended from time to time in accordance with the provisions hereof.

"Development Manager" shall have the meaning set forth in the Preamble to this Agreement.

"Development Manager Cash Consideration" shall mean the cash consideration to be paid by Development Manager to Owner, in

immediately available funds, in the amount of Two Million Dollars (\$2,000,000.00), on or before the Effective Date hereof, in consideration for the contractual rights and privileges granted to Development Manager herein.

"Development Manager Representative" shall have the meaning set forth in Section 2.2.

"Distribution Period" shall mean (i) the period beginning on the date of Completion and payment in full of all principal, interest and other charges payable under the Project Loans, and ending on the last day of the calendar month in which such Completion and payment has occurred, and (ii) each calendar month thereafter.

"Effective Date" shall have the meaning set forth in the preamble to this Agreement.

"Major Decision" means any decision with respect to (1) approval of the Business Plan, (2) approval of the Development Budget, (3) approval of all architects, engineers, design consultants, general contractors, subcontractors and other professionals necessary or desirable in connection with the planning, development and construction of any improvements on any portion of the Property, (4) approval of the plans and specifications for any improvements to be constructed on the Property, and the subsequent approval of all change orders or amendments thereto the cost of which is reasonably estimated to exceed the lesser of (a) ten percent (10%) of the annual budgeted amount for any such improvements or (b) \$100,000, (5) approval of any financing or refinancing, whether secured or unsecured, including without limitation the Project Loans, unless previously approved in the Business Plan or Development Budget, (6) approval of acquisition of any additional property, (7) approval of any sale, exchange or other disposition of all or any portion of the Property, (8) undertaking or consenting to any environmental testing or inspections in, on, under or in respect of the Property, (9) entering into any consent decrees or acknowledging any liability (particularly environmental liability) with respect to the Property, (8) creating, establishing or changing any trade name or other fictitious name with respect to the Property, (10) approval of any contract for services or materials rendered in connection with the planning, development, construction, management, maintenance, repair and operation of any portion of the Property, the value of which exceeds or is budgeted to exceed \$5,000.00, and modifying, amending, supplementing or terminating any contract or agreement entered into with the consent of Owner, unless the failure to do so would conflict with the Business Plan or Development Budget, (11) approving any site plans, site plan amendments, proffers, special exceptions, permits or other land use matters which are inconsistent in any respect with the Business Plan, (12) instituting any legal action with respect to the Property, settling any legal action with respect to the Property or confessing judgment against Owner or otherwise with respect to the Property, (13) approving any settlement of insurance claims or condemnation awards, and (14) approval of any amendments to this Agreement. Any and all Major Decisions shall require the approval of Owner, which may be granted, denied or conditioned as determined by Owner in Owner's sole and absolute discretion.

"Owner" shall mean COMMERCIAL LAKEWAY LIMITED PARTNERSHIP, a Delaware limited partnership, together with its successors and assigns.

"Owner Account" shall have the meaning set forth in Section 3.7(a).

"Owner Representative" shall have the meaning set forth in Section 2.3.

"Owner's Residual Value" shall mean Five Million One Hundred Thousand Dollars (\$5,100,000.00), as of the Effective Date hereof.

"Person" shall mean an individual, partnership, joint venture, limited partnership, limited liability company, foreign limited liability company, trust, business trust, estate, corporation, custodian, trustee, executor, administrator, nominee, association, cooperative or entity in a representative capacity.

"Property Account" shall have the meaning set forth in Section 3.7(b).

"Project Loans" shall mean the Project Mortgage Loan and the Project Unsecured Loan.

"Project Mortgage Loan" shall mean that certain revolving line of credit loan obtained by Development Manager from Comerica Bank to Owner, as borrower, solely for the purpose of financing the costs of development, operation, management, maintenance and sale of all or any portion of the Property. The Project Mortgage Loan shall be in the maximum principal amount of Four Million Dollars (\$4,000,000.00), with interest on the principal balance from time to time outstanding at a rate not to exceed LIBOR plus 250 basis points, and an upfront loan commitment fee not to exceed Twenty Thousand Dollars (\$20,000.00). The terms of the Project Mortgage Loan and all note(s), documents, agreements, instruments and certificates executed in connection therewith shall be a Major Decision requiring the approval of Owner, which may be granted, denied or conditioned as determined by Owner in Owner's sole and absolute discretion. The Project Mortgage Loan shall be non-recourse in all respects to Owner, and any recourse obligations or liabilities, including without limitation environmental liabilities, shall be guaranteed by Development Manager; provided, however, that the Project Mortgage Loan may be secured, among other things, by a first lien mortgage on the Property. The Project Mortgage Loan documents may provide (if permitted by the lender) that Development Manager shall be subrogated to the rights of the lender in the event and to the extent that Development Manager pays the Project Mortgage Loan pursuant to the terms of any such guaranty, and may enforce such rights against Owner, subject to the rights of the lender, as security for repayment of sums so advanced by Development Manager.

"Project Team" shall have the meaning set forth in Section 2.2.

"Project Unsecured Loan" shall mean an unsecured loan made by Development Manager to Owner solely for the purpose of financing the costs of development, operation, management, maintenance and sale of all or any portion of the Property, as more particularly provided in Section 3.8(a) hereof. The Project Unsecured Loan shall be in a maximum principal amount approved by Owner. Interest on the outstanding principal balance from time to time outstanding shall accrue but not be compounded, at a rate of interest equal to the "Prime Rate" (defined below), and shall be payable with principal at the earlier of (i) maturity of the Project Unsecured Loan on December 31, 2005, or (ii) the date of termination of the Term of this Agreement. The terms of the Project Unsecured Loan and all note(s), documents, agreements, instruments and certificates executed in connection therewith shall be mutually and reasonably acceptable to Development Manager and Owner. The Project Unsecured Loan shall be recourse only to Owner and the assets of Owner (and not to Owner's general and limited partners and the partners, members, shareholders, officers, directors and employees of Owner's partners), and shall be subordinate in all respects to the Project Mortgage Loan. For purposes hereof, the term "Prime Rate" shall mean the rate of interest published from time to time in The Wall Street Journal as the "Prime Rate"; if more than one "Prime Rate" is published in The Wall Street Journal for a day, the "Prime Rate" for purposes hereof shall be the average of such rates; if The Wall Street Journal ceases to publish a "Prime Rate", then the "Prime Rate" for purposes hereof shall be a comparable interest rate index mutually and reasonably acceptable to Development Manager and Owner.

"Property" shall have the meaning set forth in the Recitals to this Agreement. Unless the context clearly indicates otherwise, the term "Property" shall mean "all or any portion of the Property".

"Single Purchaser Transaction" shall mean any transaction or series of transactions pursuant to one or more contracts of sale or other agreements in which all or substantially all of the Property is sold, at one time or in two or more installments, to a single purchaser (or to title-holding designees of a single purchaser), provided that all or substantially all of the Property is sold and transferred within a period not to exceed fifteen (15) months from the Effective Date of this Agreement.

"Term" shall have the meaning set forth in Section 5.3.

ARTICLE 2 Engagement of Development Manager

2.1 Appointment of Development Manager. Owner hereby appoints Development Manager as exclusive management agent for the purposes of developing, managing, maintaining, operating and selling the Property, and Development Manager hereby accepts such appointment, with the responsibilities and obligations and upon the terms and conditions set forth in this Agreement. Development Manager shall perform each and all of its obligations under this Agreement in an efficient and first class manner consistent with the Business Plan and the Development Budget and shall exercise best efforts and due diligence in all of its endeavors.

2.2 Project Team. Development Manager shall provide a project team (the "Project Team") to perform its obligations hereunder, which Project Team shall be the responsibility of Development Manager and shall be staffed with employees of Development Manager. The members of the Project Team shall be subject to the prior approval of Owner, which shall not be unreasonably withheld. The members of the initial Project Team are listed on Exhibit "D" attached hereto and incorporated herein by this reference, and are hereby approved by Owner. Development Manager shall designate a qualified and experienced member of the Project Team as its representative (the "Development Manager Representative") to act for and on behalf of Development Manager when recommendations, consents, approvals or commitments from Development Manager are required under this Agreement, and to function as the principal source of liaison and communication with Owner. The Development Manager Representative is subject to the prior approval of Owner. William H. Armstrong III is hereby designated as the initial Development Manager Representative, who is hereby approved by Owner. Development Manager may not reassign or replace any member of the Project Team, name any new individual to fill such position or replace the Development Manager Representative without the prior approval of Owner in each instance; provided, however, that notwithstanding anything to the contrary set forth in this Section 2.2, Development Manager shall not, as a result of this Section 2.2, be compelled to continue to employ any member of the Project Team, and in the event any member ceases to be employed by Development Manager, Development Manager shall not be considered in default hereunder, unless three (3) or more members of the Project Team or the Development Manager Representative cease to be employed by Development Manager and have not been replaced by employee(s) which have been approved by Owner. Development Manager shall remove from the Project Team any member as reasonably requested by Owner from time to time.

2.3 Owner Representative. Owner shall designate one or more representative(s) (whether one or more, the "Owner Representative") to act for and on behalf of Owner when consents, approvals or commitments from Owner are required under this Agreement and to function as the principal source of liaison and communication with Development Manager. If more than one Owner Representative is designated by Owner, each such Owner Representative shall have authority to communicate on behalf of

Owner, and Development Manager shall be entitled to rely upon the communication of any such Owner Representative. Larry Goland is hereby designated as the initial Owner Representative. Owner may in its sole discretion replace the Owner Representative from time to time, and add or subtract Owner Representatives, subject to prior written notice thereof to Development Manager.

ARTICLE 3
Duties and Obligations of Development Manager

3.1 Expenses. All obligations and expenses approved by Owner in writing, including without limitation all expenses provided for in the Development Budget, and incurred by Development Manager in the performance of its duties hereunder in accordance with the provisions hereof, shall be paid out of funds on deposit from time to time in the Property Account, as provided in Sections 3.7 and 3.8 hereof, except as otherwise specifically provided in this Agreement. Without Owner's prior written consent or as authorized in the Business Plan or Development Budget, Development Manager shall not incur any cost not specifically set forth in the most recently approved Development Budget.

3.2 Contracts. Subject to the provisions of Section 3.4 hereof, to the extent necessary to fulfill its obligations under this Agreement, Development Manager shall (i) identify and, with the prior written approval of Owner or as set forth in the Business Plan or Development Budget, enter into, in Owner's name, contracts with architects, engineers, tradesmen and other independent contractors to perform services necessary or advisable for the development, operation, maintenance or sale of all or any portion of the Property; and (ii) with the prior written approval of Owner or as set forth in the Business Plan or Development Budget, place orders, in Development Manager's name on behalf of Owner, for such equipment, tools, appliances, materials and supplies as are reasonable and necessary to properly develop, manage, operate or maintain the Property. Except with the prior written consent of Owner, every contract entered into by Development Manager for or in connection with the Property shall include as a condition thereof the right by Owner to terminate, with or without cause, on thirty (30) days' prior written notice, without the payment of a cancellation fee. Development Manager shall deliver to Owner a copy of each and every contract entered into in connection with the Property, whether or not Owner's approval thereof is required, within fifteen (15) days after full execution thereof.

3.3 Management Standard; Specific Development Services. Subject to the provisions of Section 3.4 hereof, Development Manager shall manage the development, operation, management, maintenance and sale of the Property in accordance with the "Management Standard" (as defined in Section 5.1 hereof). Without limiting the generality of the foregoing or any other provisions of this Agreement, Development Manager shall perform, among other services and obligations, the following specific services.

- (a) Pre-Development Services. Development Manager shall:
 - (i) Obtain all necessary land use approvals and permits and other governmental authorizations and entitlements;
 - (ii) Hire any architects, land planners, engineers or other design consultants necessary for the planning, development and construction of any improvements on any portion of the Property;
 - (iii) Supervise and/or assist the architect(s), land planners, and engineer(s) in the preparation of all necessary plans and specification
 - (iv) Supervise and/or assist the engineer(s),

consultant(s) and/or other professional(s) in performing all necessary tests and investigations, including environmental and soil tests; and

- (v) Review and approve (or disapprove) bills, invoices and applications for payment, all of which shall be at reasonable, market rates and terms of payment, received from the architect(s), engineer(s), land planners, consultant(s) and/or other professional(s) engaged in connection with the Property.

(b) Construction Services. Development Manager shall:

- (i) Finalize all plans and specifications and any required approvals thereof;
- (ii) Supervise and/or assist the general contractor(s) for compliance with construction contracts, project schedules and project budgets;
- (iii) Supervise and/or assist the architect(s) in review and approval (or disapproval) of applications for payment, change orders, construction change directives, shop drawings, product data, samples and other submittals;
- (iv) Review and approve (or disapprove) bills, invoices and applications for payment, all of which shall be at reasonable, market rates and terms of payment, received from the general contractor(s), subcontractor(s), materialmen and/or other trades engaged in connection with any construction of improvements on the Property; and
- (v) Coordinate the transfer to Owner of all warranties, guarantees, affidavits, releases, waivers of liens, bonds, insurance certificates, manuals and other submittals.

(c) Sales and Marketing Services. Development Manager shall:

- (i) Review the Property to determine its physical condition, relative market appeal, quality of location, market and area trends, and potential for value enhancement prior to entering the market;
- (ii) Develop and prepare for Owner's review and approval a detailed marketing plan (the "Marketing Plan"), consistent with the Business Plan and the Development Budget, setting forth a comprehensive strategy for sale of homesites and other portions of the Property;
- (iii) At Development Manager's sole discretion, supervise and/or assist consultant(s) and/or other professional(s) in the design, installation, production, implementation, dissemination and maintenance of the following to be used for marketing and selling homesites and other portions of the Property:
 - (a) Site signs,
 - (b) Directional signs,
 - (c) Brochures, direct mail, flyers, sales packages and other print collateral,
 - (d) Radio, print, internet and television advertising, and
 - (e) Promotional events;
- (iv) Market for sale to the general public, homebuilders, and other real estate companies, via direct mail, print advertising and on the internet, as deemed appropriate by Development Manager, and as otherwise reasonably requested by Owner, homesites and other portions of the Property based upon a price schedule set forth in the Marketing Plan, the Business Plan or Development Budget, or as otherwise approved in writing by Owner;
- (v) Solicit, identify and qualify prospective purchasers of

homesites and other portions of the Property, and provide prospective purchasers with additional information and coordinate site visits of the Property;

- (vi) Promptly inform Owner of all offers and inquiries received from brokers, prospective purchasers or anyone else with respect to the all or any portion of the Property;
- (vii) Negotiate letters of intent, contracts of sale and similar agreements prospective purchasers and Owner, and provide Owner with analyses and comparisons of each competing offer and counteroffer and recommend to Owner which offer to accept;
- (viii) Prepare deeds and other closing documentation for execution by or on behalf of Owner, and coordinate with the appropriate parties to secure all documents and information required for closing on any sale of homesites and other portions of the Property; and
- (ix) Review and approve (or disapprove) bills, invoices and applications for payment, all of which shall be at reasonable, market rates and terms of payment, received from the consultant(s), other professional(s), media sources, and/or other trades engaged in connection with any marketing, advertising, promotions, or public relations on the Property.

(d) Single Purchaser Transaction. Notwithstanding anything to the contrary set forth above, in the event that the Property is sold in a Single Purchaser Transaction, Development Manager shall be required to perform only the specific Sales and Marketing Services that are described in clauses (vii), (viii) and (ix) of Subsection 3.3(c) above, to the extent applicable, and shall be required to perform only the specific Pre-Development Services and Construction Services as are required or necessary to be performed by or on behalf of Owner as set forth in the contract of sale or other agreement pursuant to which the Single Purchaser Transaction is consummated.

3.4 Major Decisions. Notwithstanding anything to the contrary set forth in this Agreement, all Major Decisions shall be made by Owner, in consultation with Development Manager. Further notwithstanding anything to the contrary set forth in this Agreement, Owner shall have the right from time to time, in Owner's sole reasonable discretion, to review and approve, disapprove or advise Development Manager with respect to any matter related to Development Manager's services and obligations, whether or not such matter is the subject of a Major Decision.

3.5 Insurance.

(a) Owner's Insurance. Owner shall cause to be placed and kept in force all forms of insurance as Owner deems prudent and reasonable given the nature of the Property. All such insurance coverage shall be placed with such companies, in such amounts, and with such beneficial interests appearing therein as Owner deems prudent and reasonable given the nature of the Property. Owner shall procure appropriate clauses in, or endorsements on, all of the policies whereby the insurer names Development Manager as an additional insured, and the insurer waives subrogation and agrees to not terminate any such policy or reduce coverage or amount without giving Owner and Development Manager at least thirty (30) days' prior written notice.

(b) Development Manager's Insurance. Development Manager shall cause to be placed and kept in force at all times during the term of this Agreement (i) comprehensive public liability insurance with primary coverage of not less than Two Million Dollars (\$2,000,000.00) combined single limit for bodily injury or property damage with a annual aggregate of not less than Five Million Dollars (\$5,000,000.00), (ii) errors and omissions insurance, (iii) fidelity bond or insurance, (iv) workers' compensation insurance in amounts not less than the minimum amounts required by applicable state law and employer's liability insurance, and (v) all other forms of insurance as Development Manager deems prudent and reasonable given the nature of the

Property and Development Manager's obligations hereunder. All such insurance coverage shall be placed with such companies, in such amounts, and with such beneficial interests appearing therein as Development Manager deems prudent and reasonable given the nature of the Property and Development Manager's obligations hereunder, as reasonably approved by Owner. Development Manager shall procure appropriate clauses in, or endorsements on, all of the policies whereby the insurer names Owner as an additional insured and agrees to give Owner not less than thirty (30) days' written notice prior to any modification or termination of any policy or failure to renew or other lapse in coverage, and the insurer waives subrogation and agrees to not terminate any such policy or reduce coverage or amount without giving Development Manager and Owner at least thirty (30) days prior written notice.

(c) Development Manager Obligations. Development Manager shall promptly investigate and make a full and timely written report to Owner and, if Owner requests, to Owner's insurance company as to all accidents, claims for damages relating to the ownership, operation and maintenance of the Property and any damage or destruction to the Property and the estimated cost of repair thereof, and shall prepare any and all reports required by Owner and, if Owner requests, by its insurance company in connection therewith. All such reports shall be timely filed with the insurance company as required under the terms of the insurance policy involved. Without obtaining the prior written approval of Owner, which may be granted or withheld in Owner's sole discretion, Development Manager shall not settle any claims against insurance companies arising out of any policies or take any other action in connection with such settlements, including the execution of proofs of loss, the adjustment of losses, signing of receipts and collection of money. The cost of the insurance and all premiums therefor shall be paid out of funds on deposit from time to time in the Property Account, as provided in Sections 3.7 and 3.8 hereof, except for fidelity bond insurance which shall be the sole responsibility of, and at the sole expense of, Development Manager. Development Manager shall assist Owner in completing any insurance applications, questionnaires, etc. reasonably requested by Owner or Owner's insurance agent or insurance company.

3.6 Development Budgets; Business Plans. Notwithstanding the delivery and approval of the Development Budget and Business Plan attached as exhibits to this Agreement, Development Manager shall prepare the items described herein.

(a) Initial Development Budget and Business Plan. Within fifteen (15) days after the Effective Date hereof, Development Manager shall submit to Owner, for Owner's approval, in Owner's sole discretion, a proposed initial development budget and business plan for the Property, which proposed development budget and business plan shall reflect thereon projections of all receipts (if any) and operating costs and expenses, capital expenditures and reserves that Development Manager, in the exercise of good business judgment, believes will be received or necessary to be incurred, as the case may be, to develop, operate, manage, maintain and sell the Property during calendar year 2001. Owner shall promptly notify Development Manager of any objections to the proposed initial development budget or business plan, and Development Manager and Owner shall negotiate in good faith to resolve any such objections. In the event that Owner shall not have approved the proposed initial development budget and business plan delivered pursuant to this Subsection 3.6(a), in Owner's sole discretion, within thirty (30) days after receipt thereof, this Agreement shall be deemed terminated and of no further force and effect, the Development Manager Cash Consideration paid to Owner shall be refunded promptly to Development Manager without interest or other yield, this Agreement shall terminate automatically and the parties hereto shall have no further liabilities or obligations hereunder, except as set forth in Section 5.6 hereof.

(b) Annual Development Budget and Business Plan. On or prior to November 1 of each calendar year during the Term hereof, commencing on November 1, 2001, Development Manager shall

submit to Owner, for Owner's approval, a proposed development budget and business plan for the Property on an annual basis for the upcoming calendar year, which proposed development budget and business plan shall reflect thereon projections of all receipts (if any) and operating costs and expenses, capital expenditures and reserves that Development Manager, in the exercise of good business judgment, believes will be received or necessary to be incurred, as the case may be, to develop, operate, manage, maintain and sell the Property during such calendar year. Such proposed development budgets and business plans shall be submitted by Development Manager solely as good faith estimates, without warranty of their accuracy or attainability; provided, however, that, except as otherwise expressly provided in this Agreement, Development Manager shall not be reimbursed by Owner for, and Development Manager hereby expressly indemnifies Owner against, any and all loss, cost, damage, expense or claim in connection with any unauthorized expenditure or liability incurred by any action taken by Development Manager.

(c) Contents. Without limiting the foregoing, each development budget and business plan proposed by Development Manager pursuant to Subsections 3.6(a) and 3.6(b) above shall include between them: (i) a projected income statement for the Property, (ii) a projected balance sheet for the Property, (iii) a schedule of projected operations and cash flow, (iv) a reasonable estimate and projected budget of gross receipts and operating expenses, itemized in a manner acceptable to Owner, (v) a projected budget for capital expenditures and replacements, (vi) an identification of staffing to be employed, (vii) separate estimates of the Management Fee, Development Fee and Brokerage Commissions, (viii) a narrative description of the program for the development and marketing of the Property, and (ix) any and all other matters reasonably requested by Owner.

(d) Owner Approval. Owner shall, within thirty (30) days after receipt of a proposed development budget and business plan delivered pursuant to Subsection 3.6(b) above, approve or disapprove such development budget and business plan in its sole discretion. Owner shall provide Development Manager written notice of its approval or disapproval; provided, that in the event Owner fails to do so, the Development Budget or Business Plan, as the case may be, from the previous year shall control until a new development budget or business plan is approved. Within fifteen (15) days after Owner submits any objection to the proposed development budget or business plan, Development Manager shall submit a revised development budget or business plan to Owner, as the case may be. As used herein, the defined terms "Business Plan" and "Development Budget" shall refer to the then-current Development Budget and Business Plan as approved by Owner and as amended and/or modified from time to time with Owner's approval.

(e) Owner's Amendments to Development Budget and Business Plan. Owner may, from time to time, submit to Development Manager, for Development Manager's approval, proposed amendment(s) to the Development Budget and/or Business Plan. Development Manager shall, within fifteen (15) days after receipt of a proposed amendment to the Development Budget or Business Plan, provide Owner with written notice of its approval or disapproval of such amendment. Owner and Development Manager shall use good faith efforts to agree upon any such amendment; provided, however, that in the event the parties fail to agree, such amendment shall nevertheless become effective within sixty (60) days after first proposed by Owner. The Development Manager's failure to agree to any such amendment proposed by Owner shall not be grounds for termination of this Agreement by Owner.

3.7 Owner Account and Property Account.

(a) Owner Account. Development Manager shall establish and maintain in a banking or other financial institution approved by Owner or set forth in the Business Plan from time to time throughout the Term of this Agreement, a separate bank or similar account in the name of, and under the sole dominion and control of, Owner for the deposit of all moneys

received with respect to the Property (the "Owner Account"). Development Manager shall also establish such other special bank or similar accounts as may be approved by Owner. All revenue from the Property, including without limitation all sales proceeds, rent receipts, royalties, user fees, commissions, forfeited deposits, insurance proceeds, condemnation or litigation awards and all interest earned on any of the foregoing, shall be promptly deposited in the Owner Account. Development Manager shall not have the right or authority, express or implied, to withdraw any funds from the Owner Account at any time. Owner shall not withdraw any funds from the Owner Account, except as required pursuant to Section 3.7(a) hereof, until the earlier of (a) the commencement of the first Distribution Period, or (b) termination of the Term hereof in accordance with the terms of Section 5.3 hereof; provided, however, that Owner shall have the right from time to time, in consultation with Development Manager, to withdraw funds from the Owner Account to repay principal under the Project Mortgage Loan.

(b) Property Account. Development Manager also shall establish and maintain in a banking or other financial institution approved by Owner or set forth in the Business Plan from time to time throughout the Term of this Agreement, a separate bank or similar account in the name of Owner to process funds as described in Section 3.8 (the "Property Account"). Development Manager shall be entitled to make withdrawals from, or draw checks upon, the Property Account to pay operating expenses of the Property in accordance with the terms and conditions of this Agreement.

3.8 Disbursements by Owner to Development Manager.

(a) Monthly Payments. On or before the twentieth (20th) day of each calendar month, Development Manager shall deliver to Owner a written request for disbursement, setting forth, in reasonable detail, the costs and expenses reasonably estimated to be paid by Development Manager for the upcoming calendar month, together with any other working capital needs of the Property for the upcoming calendar month, in each case, in accordance with the Development Budget (the "Required Monthly Funds"). Development Manager shall also submit reasonable substantiation as requested by Owner for all requested disbursements. In the event that any requested disbursement is not consistent with, or in compliance with, the Development Budget, Development Manager shall set forth such requested disbursements in a separate report and shall set forth a brief explanation for the reason for such discrepancy. Each such written request for Required Monthly Funds shall also include Development Manager's calculation of the monthly Management Fee payable for the preceding calendar month, and a reasonable estimate of the amount of revenues expected to be received in the upcoming calendar month from sales of homesites and other portions of the Property and the amount of any Brokerage Commissions payable in connection with such sales. On or before the first (1st) day of the month for which the particular request for the Required Monthly Funds is made, Owner shall transfer, via wire transfer, from the Owner Account to the Property Account the amount of any shortfall between the amount of the Required Monthly Funds approved by Owner for such calendar month and the balance of available funds, if any, on deposit in the Property Account. Owner and Development Manager hereby acknowledge and agree that if there are insufficient funds in the Property Account and the Owner Account to fund the entire amount of Required Monthly Funds for any month, then the amount of such shortfall shall be funded with proceeds drawn under the Project Mortgage Loan, provided that all such expenses are authorized in the Development Budget. To the extent that funds are not available under the Project Mortgage Loan or the expenses for which funds are required are not authorized in the Development Budget, then Development Manager shall fund the amount of such shortfall to Owner under the Project Unsecured Loan, provided that such unbudgeted expenses are due to change orders approved by Owner or to circumstances which could not have been reasonably foreseen by an experienced and prudent manager of development of a project similar to the Property. To the extent that funds are

required for unbudgeted expenses that are not due to change orders approved by Owner or unforeseeable circumstances as provided in the preceding sentence, then, notwithstanding that funds may be available under the Project Mortgage Loan, Development Manager shall be solely responsible to fund the amount of such shortfall without reimbursement or repayment. Owner shall not be required under any circumstance to incur any out-of-pocket expenses in connection with the development, operation, management, maintenance and sale of the Property.

(b) In the event that any portion of the Required Monthly Funds are required to be drawn under the Project Mortgage Loan, Development Manager shall prepare a draw request in the manner required by the lender of the Project Mortgage Loan and shall submit such draw request to Owner for Owner's approval, at the same time that the related written request for Required Monthly Funds is submitted to Owner. If the draw request is approved by Owner, Owner shall direct that the requested proceeds be disbursed directly into the Property Account.

(c) Emergency Withdrawals. Development Manager shall only be entitled to make withdrawals from the Property Account in accordance with the Development Budget or the Business Plan or in connection with a bona fide emergency due to casualty or act of God under circumstances in which it would be unreasonable to seek to obtain Owner's approval, in which case Development Manager shall be entitled to exceed, by a reasonable amount, the amounts set forth in the Development Budget in order to address such bona fide emergency situation; provided that, within two (2) Business Days after such emergency, Development Manager shall fully inform Owner in writing of the circumstances surrounding such situation and obtain, on a "going-forward" basis only, Owner's approval with respect to Development Manager's handling of similar emergency events at the Property in the future. It is understood that any action taken by Development Manager under this Section 3.8(b) in connection with any particular emergency event shall be considered as being within Development Manager's scope of authority under this Agreement but shall not create any precedent or duty on the part of Development Manager or Owner to take any action in connection with any future event. Nothing contained in this Section 3.8(b) or elsewhere in this Agreement is intended to provide any benefit to any third parties who are not parties hereto, or successors or permitted assigns of parties hereto, or impose upon Development Manager or Owner any duty or obligation to any third parties who are not parties hereto, or successors or permitted assigns of parties hereto, nor shall it have the effect of giving any enforceable rights to any third parties who are not parties hereto or successors or permitted assigns of parties hereto, whether such claims are asserted as third party beneficiary rights or otherwise.

3.9 Costs Not Reimbursed to Development Manager. Unless otherwise provided herein, Owner shall not be obligated to reimburse Development Manager for the payment by Development Manager of (a) any expense for office equipment or office supplies of Development Manager other than those used on the Property and approved in writing by Owner; (b) any overhead expenses of Development Manager incurred in its general offices; (c) unless otherwise consented to by Owner in writing, any salaries, wages and expenses for any personnel, including, without limitation, personnel spending all or a portion of their working hours at or providing services to the Property specifically performing Development Manager's duties hereunder; (d) the cost of fidelity insurance; (e) any accounting costs or overhead costs incurred in connection with the preparation and delivery of the statements and reports required hereunder; or (f) any travel costs incurred by Development Manager not specifically provided for in the Development Budget.

3.10 Records; Reporting.

(a) Records. All statements, receipts, invoices, checks, leases, contracts, worksheets, financial statements, books and records, and all other instruments and documents relating to or arising from the development, operation or

management of the Property shall be the property of Owner; provided, that throughout the Term of this Agreement, all of such items shall be maintained by Development Manager at Development Manager's offices in Austin, Texas in a manner consistent with the terms of this Agreement and with books and records customarily maintained by managing agents of properties similar to the Property. Owner shall have the right to inspect and to copy all such items, at Owner's expense, at all reasonable times, and from time to time, during the term of this Agreement. Upon the termination of this Agreement, all of such books, records and all other information relating to the Property promptly shall be delivered to Owner; provided, however, that at Development Manager's sole expense, Development Manager or its representatives shall have the right, for a reasonable period of time not to exceed three (3) years following such termination, to inspect such books, records and other information for data that directly relates to the period during which Development Manager managed the Property and to make copies thereof, at Development Manager's expense, at the offices of Owner upon reasonable advance notice to Owner.

(b) Statements. Development Manager shall prepare and deliver to Owner on a monthly basis, Development Manager's written estimates of the amounts, if any, by which any categories of the Development Budget must be adjusted to adequately fund the development, operation, management, maintenance and/or sale of the Property for the then current month, although Owner shall be under no obligation to change the Development Budget. Such reports shall include the following information: (i) a statement of operations on the Property during such month and the cost thereof, (ii) a statement of year-to-date operations on the Property, and the cost thereof, (iii) a statement of the actual cost of operations on the Property during such month, compared to the Development Budget which identifies any variance between such costs and the Development Budget, and (iv) a description and explanation of such variances. Development Manager also shall furnish Owner, within thirty (30) days after Owner's request, such further information covering the operation and maintenance of the Property as Owner may reasonably require, including without limitation the following: (i) income statement (accrual basis for taxes and insurance), month and year-to-date versus Development Budget; (ii) variance report (narrative form, month and year-to-date), (iii) balance sheet, (iv) general ledger, (v) rent roll (including security deposit listing), if applicable, (vi) accounts receivable aging report, (vii) bank reconciliation for each account, (viii) calculation of Management Fee, (ix) schedule of reserve and escrow accounts, (x) schedule of capital expenditures, (xi) a re-forecast report, on a monthly basis, of current full year operations compared to the Development Budget with explanations for all material variances, (xii) a marketing qualitative summary of property operations for the preceding month including comments on revenues, expenses, marketing, leases, competition, legal and other issues affecting the Property, and (xiii) any and all other reports reasonably requested by Owner.

(c) Annual Accounting Report. Development Manager agrees (i) to deliver to Owner, within twenty (20) days after the end of each fiscal year, an annual accounting report (including balance sheet, income statement and other financial statements), showing the results of gross receipts, gross operating expenses, net operating income, net cash flow [and the Property Management Fee which would be payable if the Agreement were terminated as of the end of such fiscal year] and any other information necessary to make the computations required hereby or which may be requested by Owner, all for such fiscal year and (ii) to cooperate fully with Owner, at no additional expense to Development Manager, but without limiting Development Manager's obligations under Section 3.10(e), in supplying all of the information and documentation necessary for a nationally recognized firm of certified public accountants selected by Owner (the "Auditor") to prepare and deliver to Owner an audit of the annual accounting report provided by Development Manager to Owner pursuant to this Section 3.10(c) within forty-five (45) days after the end of each fiscal year.

(d) Additional Fiscal Reports. Development Manager shall, upon the request of Owner, prepare for Owner or assist Owner in the preparation of such additional financial reports with respect to the Owner or the Property as Owner may reasonably request or may be required in the preparation of the audited annual accounting to be prepared pursuant to this Section 3.10. Development Manager acknowledges and agrees that the Property Management Fee to be paid under this Agreement includes compensation to Development Manager for the preparation of papers and schedules reasonably necessary for the Auditor to conduct its review of the Property's books and records. To the extent such papers and schedules are not properly prepared, Development Manager agrees to reimburse Owner for the reasonable additional cost and expense incurred by Owner for the Auditor to prepare such papers or schedules.

(e) No Liability for Returns Required by Law. Development Manager shall be responsible for preparing and filing any forms, reports or returns (except Owner's income tax returns) that may be required by law relating to the Property. Development Manager shall also be responsible for any forms, reports or returns that may be required by law relating to any of Development Manager's employees.

3.11 Compliance with Legal Requirements. Development Manager shall take such action as may be necessary to comply with any and all orders or requirements affecting the Property by any federal, state, county or municipal authority having jurisdiction thereover. Development Manager, however, shall not take any such action as long as Owner is contesting, or has affirmed Owner's intention to contest and institutes proceedings contesting, any such order or requirement, except that if failure to comply promptly with any such order or requirement would or might expose Development Manager to criminal liability, Development Manager shall comply with same. Development Manager shall promptly notify Owner in writing of all such orders and notices or requirements. Nothing contained herein shall require Development Manager to employ counsel to represent Owner in any such proceeding or suit.

3.12 Taxes. Development Manager shall timely render the Property for taxation, and obtain and verify bills for real estate, personal property, and all other taxes and assessments, if any, against the Property and promptly pay such tax bills and any other Impositions (as defined below), and assist and cooperate with Owner in connection with all such taxes and assessments in all ways reasonably requested by Owner including applications or petitions of Owner for reduction of taxes or assessments. Owner shall have the option but not the obligation to employ a third party consultant to accomplish the foregoing, in which event, Development Manager shall assist and cooperate with such consultant. As used herein, "Impositions" shall mean all taxes, assessments, special assessments, rents and charges for any easement or agreement maintained as part of or for the benefit of the Property, use and occupancy taxes and charges, water and sewer for public and private utilities, excises, levies, license and permit fees and other governmental charges, general and special, ordinary and extraordinary, unforeseen and foreseen, of any kind and nature whatsoever which at any time prior to or during the term of this Agreement may be assessed, levied, confirmed, imposed upon or grow or become due and payable out of or in respect of, or become a lien on (i) the Property or any part thereof or any appurtenances thereto, or upon any personal property located, or used in connection with, the Property, (ii) the rent, income or other payments (if any) received by or for the account of Owner or anyone claiming by, through or under Owner, (iii) any use or occupation of the Property, (iv) such franchises, licenses and permits as may be appurtenant to the use of the Property, and (v) any document to which Owner is a party transferring an interest or estate in the Property.

4.1 Management Fee. In consideration for the performance of Development Manager's duties and responsibilities under this Agreement, and in exchange for its services provided to Owner and the Property and reimbursement of its reasonable overhead expenses, Development Manager shall be entitled to receive a property management fee (the "Management Fee") in an amount equal to five and one-half percent (5.5%) of the aggregate amount of direct development costs actually incurred in connection with the Property as set forth in the Development Budget during the Term of this Agreement, excluding the cost of land, any interest, principal or other amounts payable in connection with the Project Loans and any other indebtedness and any costs reimbursed to Development Manager in accordance with the terms hereof or as otherwise approved by Owner. The Management Fee shall be payable monthly in arrears, calculated on the basis of the aggregate amount of qualifying costs paid in the previous calendar month.

4.2 Development Fee. In addition to the Management Fee, Development Manager shall be entitled to receive a development fee (the "Development Fee"), in an amount equal to (a) twenty-eight percent (28%) of available Cash Flow, until Development Manager shall have received a Development Fee in an aggregate amount equal to the amount of interest that would have accrued on the Development Manager Cash Consideration if the same bore interest at a rate of eighteen percent (18%) per annum, and Owner shall have received from available Cash Flow an amount equal to the amount of interest that would have accrued on the Owner's Residual Value if the same bore interest at a rate of eighteen percent (18%) per annum, and (b) thereafter, either (x) forty percent (40%) of available Cash Flow in the event that the Property is sold in a Single Purchaser Transaction, or (y) fifty percent (50%) of available Cash Flow in all other cases, subject in any case to the terms and conditions hereof. The Development Fee shall not be payable until Completion and payment in full of all principal, interest and other charges payable under the Project Mortgage Loan and the Project Unsecured Loan. On or before the twentieth (20th) calendar day after the end of the first and each subsequent Distribution Period, Development Manager shall deliver to Owner a written statement of the amount of Cash Flow, if any, generated in such Distribution Period, and the amount, if any, of the Development Fee accrued during such Distribution Period. No later than thirty (30) calendar days after the end of such Distribution Period during which the Property has generated Cash Flow, Owner shall transfer, via wire transfer, from the Owner Account to an account or accounts as may be designated in writing by Development Manager, after payment of all third party obligations, the Development Fee payable to Development Manager for such Distribution Period. The Development Fee, if any, shall be payable in arrears. In the event that there is no Cash Flow for any Distribution Period, no Development Fee shall be payable for such Distribution Period.

4.3 Brokerage Commissions. In addition to the Management Fee and Development Fee, Development Manager shall be entitled to receive sales commissions (a "Brokerage Commission") with respect to consummated sales of homesites and other portions of the Property, calculated at the rates set forth below:

- (a) Six percent (6%) of "gross sales price" (hereinafter defined) for sales, other than a Single Purchaser Transaction, in which no cooperating broker or agent participates; or
- (b) Four percent (4%) of gross sales price for a Single Purchaser Transaction in which no cooperating broker or agent participates; or
- (c) Six percent (6%) of gross sales price for all sales, including a Single Purchaser Transaction, in which the purchaser is represented by one or more cooperating brokers, in which event Development Manager shall be entitled to a portion thereof in an amount not to exceed three percent (3%) of gross sales price, with the balance thereof (not to exceed 6% in the aggregate) being payable to the cooperating broker(s).

If one or more cooperating broker(s) is involved in a sales transaction, Development Manager shall be solely responsible for paying a market rate commission or fee to such cooperating broker(s), and shall indemnify and hold Owner harmless from and against any and all claims by such cooperating broker(s). As used in this Section, the term "gross sales price" shall mean the actual cash price paid by the purchaser at closing for the home site or other portion of the Property, including the amount of any financing assumed or obtained by such purchaser in connection with such purchase. The Brokerage Commission with respect to any sale shall be earned and payable at closing and upon the conveyance of title to such homesite or other portion of the Property.

4.4 Termination; Waiver of Lien Rights. Notwithstanding anything in this Agreement to the contrary, in the event of a termination of this Agreement as provided in Sections 5.3, 5.4 or 5.5 of this Agreement or elsewhere herein, any Management Fee and Brokerage Commissions payable to Development Manager as of the date of termination, and any Development Fee, whether payable prior or subsequent to the date of termination, shall be paid to Development Manager when due. Except as set forth in the immediately preceding sentence, from and after the date of termination of this Agreement, Development Manager shall not be entitled to any further Management Fee or Brokerage Commissions. Except as set forth in the following Section, Development Manager, for itself and on behalf of its personnel providing services under this Agreement, hereby waives any right now existing or hereafter arising to file any lien against all or any portion of the Property for any fees, costs, commissions or other compensation payable under this Agreement.

4.5 Development Manager's Lien. In consideration of the performance of the duties and obligations of Development Manager as set forth herein and to evidence the payment of any Management Fee, Development Fee and Brokerage Commissions payable to Development Manager, Owner hereby agrees to execute and record a Memorandum of this Agreement in the form attached hereto as Exhibit "E" and incorporated herein by this reference, which shall be subordinate in all respects to the mortgage and other security documents securing the Project Mortgage Loan.

ARTICLE V

RELATIONSHIP OF DEVELOPMENT MANAGER TO OWNER

5.1 Use and Maintenance of Premises. Development Manager shall employ its best efforts to develop, operate, manage, maintain and sell the Property in a manner (referred to herein as the "Management Standard") consistent with (i) first class standards consistent with the Business Plan and the Development Budget, (ii) prudent business and management practices applicable to the development, operation, management, maintenance and sale of all or any portion of the Property, and (iii) the requirements of any deeds of trust and other loan documents, certificates of occupancy, permits, licenses, consents or other recorded or unrecorded agreements now or hereafter affecting the Property (collectively referred to herein as the "Key Documents"), or as otherwise reasonably required by Owner. Development Manager shall use all contacts, discount programs and cost-savings measures at its disposal to obtain services, products and tax and insurance rates for the Property at the lowest cost, without sacrificing the quality of such services or products. Development Manager shall perform such other acts and deeds as are reasonable, necessary and proper in the discharge of its duties under this Agreement. Subject to the prior written approval of Owner, Development Manager may obtain goods or services for the Property from direct or indirect affiliates of Development Manager, its officers, directors, shareholders or employees, but only if such goods and services are of at least equal quality and of no higher prices than comparable goods and services obtainable from unaffiliated parties and such goods and services are otherwise competitive with comparable goods and services.

5.2 Sale or Refinancing of the Property. Development

Manager shall assist and cooperate in any attempt(s) by Owner to sell, finance or refinance all or any portion of the Property. Such assistance and cooperation by Development Manager and Development Manager's personnel shall not be deemed to create a broker, principal or similar relationship. Such assistance and cooperation shall include, without limitation, answering prospective purchasers' or lenders' questions about the Property or any portion thereof and, if applicable, preparing rent rolls, notifying tenants about the sale of the Property and obtaining estoppel certificates and other documents from all tenants of the Property in the form required by the prospective purchaser or lender. Development Manager shall also provide, promptly upon request by Owner, (a) an estoppel certificate executed by Development Manager certifying that no uncured default by the Owner exists under this Agreement or, if such a default(s) exists, stating the nature thereof, (b) a certificate in favor of Owner and any lender executed by Development Manager confirming, to the best of Development Manager's actual knowledge, that any representations and warranties made (or to be made) by Owner with respect to the Property, or the condition or operation thereof, in any loan documents executed (or to be executed) by Owner in connection with any sale, financing or refinancing of the Property, are substantially true, correct and complete, or, if not substantially true, correct or complete, stating with particularity why such representations and warranties are not substantially true, correct or complete, and (c) a subordination and attornment agreement executed by Development Manager in accordance with the provisions of Section 6.9 of this Agreement.

5.3 Term. This Agreement shall commence on the Effective Date and shall continue until the earlier to occur of (a) the last day of the calendar month in which the third (3rd) anniversary of the Effective Date occurs, (b) such time as this Agreement is terminated for Cause (as herein defined), or (c) such time as this Agreement is terminated upon the mutual agreement of the parties. The entire term of this Agreement is sometimes herein referred to as the "Term."

5.4 Termination by Owner. Owner, at its option, may terminate this Agreement for "Cause" at any time upon giving written notice thereof. The term Cause shall include (a) any fraud, misrepresentation or misappropriation of funds by Development Manager, or the furnishing of any statement, report, notice, writing or schedule to Owner that Development Manager knows, or reasonably should have known, is untrue or misleading in any material respect on the date as of which the facts set forth therein are stated or certified or the date such statement, report, notice, writing or schedule is furnished to Owner, (b) the failure of Development Manager to comply with any term or condition of this Agreement (except for breach of the Management Standard) and such failure continues for a period of thirty (30) days after written notice thereof by Owner to Development Manager, provided that if such default is not reasonably susceptible of cure within thirty (30) days, then such reasonable time so long as Development Manager is diligently prosecuting the cure of the default, but in no event longer than ninety (90) days, (c) the bankruptcy or insolvency of, the assignment for the benefit of creditors by, or the appointment of a receiver for any of the property of, Development Manager, (d) the sale or other disposition of all or part of the Property or Owner's interest therein; provided that in the case of a partial sale, termination will only apply to those portions of the Property sold, (e) the failure of Development Manager to cure a grossly negligent or illegal act committed by Development Manager against Owner and such failure continues for a period of ten (10) days after written notice thereof by Owner to Development Manager, (f) the failure of Development Manager to cure Development Manager's willful and/or reckless misconduct that causes damage to Owner and such failure continues for a period of ten (10) days after written notice thereof by Owner to Development Manager, or (g) the failure of Development Manager to perform its duties consistent with the Management Standard as reasonably determined by Owner, and such failure continues for a period of thirty (30) days following the date Owner sends written notice to Development Manager specifying in reasonable detail the reasons Owner

believes Development Manager has not performed its duties consistent with the Management Standard.

5.5 Termination by Development Manager. Development Manager, at its option, may terminate this Agreement (a) for the failure of Owner to comply with any term or condition of this Agreement and such failure continues for a period of thirty (30) days after written notice thereof by Owner to Development Manager, provided that if such default is not reasonably susceptible of cure within thirty (30) days, then such reasonable time so long as Owner is diligently prosecuting the cure of the default, but in no event longer than ninety (90) days; or (b) in the event that an amendment to the Development Budget or the Business Plan proposed by Owner and disapproved by Development Manager nevertheless becomes effective pursuant to the terms of Subsection 3.6(e) hereof, provided that such amendment does not result from a breach or default by Development Manager of any of the terms hereof or from circumstances which should have been reasonably foreseeable by an experienced and prudent manager of development of a project similar to the Property, and provided further that such termination shall not become effective until thirty (30) days after delivery of written notice thereof from Development Manager to Owner, which shall not be delivered until after the effective date of such amendment. Notwithstanding a termination of this Agreement by Development Manager pursuant to this Section 5.5, Development Manager shall be entitled to receive the Development Fee as and when the same would otherwise be payable hereunder.

5.6 Obligations Upon Termination.

(a) Upon termination of this Agreement, each party shall continue to be fully liable for their respective obligations which have accrued up to and including the termination date and shall promptly pay to the other all amounts due to the other party under the terms of this Agreement. Such payment shall be made as soon after the effective date of termination as such amounts are determinable. Upon such payment, neither party shall have any further claim or right against the other, except as expressly provided herein.

(b) In the event of termination of this Agreement, upon the effective date of such termination, Development Manager shall (i) surrender and deliver to Owner all revenue from the Property (as described in Section 3.7(a) hereof), if any, and other monies of Owner then held by Development Manager and/or in any bank account (including, without limitation, the Owner Account and the Property Account), (ii) deliver to Owner as received by Development Manager any monies or other property due Owner under this Agreement but received after such termination, and (iii) deliver to Owner everything then held by Development Manager pertaining to the Property, including, without limitation copies of all books, records, keys and all other materials, property and supplies pertaining to the Property and/or this Agreement.

5.7 Negation of Partnership, Joint Venture or Lease. Nothing in this Agreement shall constitute, or be construed to be or to create, a partnership, joint venture or lease between Owner and Development Manager with respect to the Property. In the performance of this Agreement, Development Manager shall act solely as an independent contractor. Neither this Agreement nor any agreements, instruments, documents or transactions contemplated hereby shall in any respect be interpreted, deemed or construed as making either party a partner, joint venturer, principal or agent with, or with respect to, the other party or as creating any similar relationship or entity, and each party hereto agrees that it will not make any contrary assertion, contention, claim or counterclaim in any action, suit or other legal proceedings involving Development Manager and Owner. Nothing in this Agreement shall be deemed or construed to create in, or convey to, Development Manager any interest in the Property, and Development Manager expressly hereby waives any claim of right or interest in or to the Property, and further hereby waives any right to file a lis pendens, lien or other

encumbrance against the Property at any time and for any reason.

5.8 Indemnification. Development Manager shall be liable for and shall indemnify and hold harmless Owner (and each partner, venturer, employee, agent, shareholder, director and officer of Owner) from any and all loss, damage, liability, cost or expense (including reasonable attorneys' fees) arising out of (i) any breach by Development Manager of Development Manager's obligations hereunder, including, without limitation any breach of the Management Standard, or (ii) the negligence or willful misconduct of Development Manager. Owner shall indemnify and hold harmless Development Manager (and each employee, agent, director, shareholder are officer of Development Manager) from any and all loss, damage, liability, cost or expense (including reasonable attorneys' fees) arising out of (x) a breach by Owner of Owner's obligations hereunder, or (y) Owner's negligence or willful misconduct.

5.9 Owner's Limited Liability. No general or limited partner in or of Owner, whether direct or indirect, or any disclosed or undisclosed officers, shareholders, principals, directors, employees, partners, servants or agents of Owner or any of the foregoing or any investment advisor of Owner (including any assignee or successor of Owner) or other holder of any equity interest in Owner, shall be personally liable for the performance of Owner's obligations under this Agreement. Owner shall not be liable for, and Development Manager expressly hereby waives any right to make a claim for, any consequential or punitive damages. The liability of Owner (including any assignee or successor of Owner) for Owner's obligations hereunder shall be limited solely to the equity interest of Owner in the Property.

5.10 Development Manager's Limited Liability. No general or limited partner in or of Development Manager, whether direct or indirect, or any disclosed or undisclosed officers, shareholders, principals, directors, employees, partners, servants or agents of Development Manager or any of the foregoing or any investment advisor of Development Manager (including any assignee or successor of Development Manager) or other holder of any equity interest in Development Manager, shall be personally liable for the performance of Development Manager's obligations under this Agreement. Development Manager shall not be liable for, and Owner expressly hereby waives any right to make a claim for, any consequential or punitive damages.

ARTICLE VI
MISCELLANEOUS

6.1 No Assignment by Development Manager, Etc. Without the prior written consent of Owner, which consent may be granted or withheld in Owner's sole discretion, Development Manager shall not have the right to assign, transfer or convey any of Development Manager's right, title or interest hereunder, nor shall Development Manager have the right to delegate any of the obligations or duties required to be kept or performed by Development Manager hereunder, nor shall Development Manager assign, transfer or hypothecate any interest of Development Manager in the Management Fee or the Development Fee to any party, including without limitation as collateral security for any indebtedness. For purposes hereof, any event (whether voluntary or involuntary) resulting in a dissolution, merger, consolidation or reorganization of Development Manager, or the sale or transfer of any controlling interest therein, without the prior written consent of Owner in each instance, shall be deemed to be an assignment in violation of this Section.

6.2 Notices. All notices, demands, consents, approvals and requests given by either party to the other hereunder shall be in writing and sent via the U.S. Postal Service by registered or certified mail, postage prepaid or via a nationally recognized overnight delivery service (e.g. Federal Express) and addressed to the appropriate party at the respective addresses shown below. All such notices shall be deemed given on the earlier of actual receipt or refusal of receipt by the addressee. The respective addresses and additional notice parties are as follows:

If to Owner: Commercial Lakeway Limited Partnership
c/o Credit Suisse First Boston Mortgage Capital LLC
277 Park Avenue
New York, New York 10172
Attn: Lawrence Goland

With a copy to: Commercial Lakeway Limited Partnership
c/o Credit Suisse First Boston Mortgage Capital LLC
Eleven Madison Avenue
New York, New York 10172
Attn: Pamela McCormack, Esq.

And a copy to: Shaw Pittman
2300 N Street, N.W.
Washington, D.C. 20037
Attn: Thomas R. Petty, Esq.

If to Development Stratus Properties Inc.
Manager: 98 San Jacinto Boulevard, Suite 220
Austin, Texas 78701
Attn: William H. Armstrong, III

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

Any party may at any time change its respective address by sending written notice to the other parties of the change in the manner hereinabove prescribed.

6.3 GOVERNING LAW. THIS AGREEMENT IS BEING EXECUTED AND DELIVERED AND IS INTENDED TO BE PERFORMED IN THE STATE OF TEXAS, AND THE TERMS AND PROVISIONS HEREOF SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

6.4 Not a Third Party Beneficiary Contract. Neither this Agreement nor any part hereof nor any service, relationship or other matter alluded to herein shall inure to the benefit of any third party (specifically including any lender, tenants or contractors), to any trustee in bankruptcy, to any assignee for the benefit of creditors, to any receiver by reason of insolvency, to any other fiduciary or officer representing a bankruptcy or insolvent estate of either party or to the creditors or claimants of such an estate. In addition, this Agreement shall terminate and be of no further force or effect upon the filing of any bankruptcy petition by or against Development Manager.

6.5 Validity. If any term or provision of this Agreement or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Agreement, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Agreement shall be valid and be enforced to the fullest extent permitted by law.

6.6 Entire Agreement. This Agreement contains the entire agreement between the parties hereto with respect to the matters herein contained and any agreement hereafter made shall be ineffective to effect any change or modification, in whole or in part, unless such agreement is in writing and signed by the party against whom enforcement of the change or modification is sought. This Agreement shall bind, and inure to the benefit of, the parties hereto and their respective successors, legal representatives and assigns.

6.7 Attorneys' Fees. If either Owner or Development Manager employs an attorney to enforce or defend its rights hereunder, the prevailing party shall be entitled to recover its reasonable attorneys' fees, costs and expenses incurred in connection with such enforcement or defense.

6.8 INDEMNIFICATION PROVISIONS. THIS AGREEMENT CONTAINS INDEMNIFICATION PROVISIONS SPECIFICALLY DESCRIBED IN SECTION 5.8 HEREOF.

6.9 Subordination. This Agreement and any extension hereof shall be subordinate to any mortgage or similar security instrument now or hereafter affecting the Property, and all renewals, modifications, consolidations, replacements and extensions thereof (a "Mortgage"). Development Manager further agrees to attorn to the holder of any Mortgage or similar security instrument affecting the Property, and any successor or assignee thereof, upon Owner's being dispossessed by such holder of Owner's interest in all or any portion of the Property. The provisions of this Section 6.9 shall be self-operative and no further instrument of subordination or attornment shall be required. Development Manager shall execute promptly any certificate or other document that Owner or any mortgagee or other security holder may request as to such subordination and/or attornment, which certificate or document may include such customary and normal provisions as Owner may determine in its sole discretion. In the event that Development Manager fails to execute and deliver such certificate or document on or before five (5) business days after written notice to Development Manager by Owner, then without any further notice and opportunity to cure, such failure by Development Manager shall be deemed to be an event for Cause hereunder.

6.10 Representations, Warranties and Covenants of Development Manager. In order to induce Owner to enter into this Agreement, Development Manager hereby represents and warrants to, and covenants and agrees with, Owner as follows:

(a) Development Manager is a Delaware corporation, is duly formed and legally existing under the laws of the state of its formation and is duly qualified to do business in the State of Texas.

(b) Development Manager has full power and authority to enter into this Agreement and to carry out the transactions herein contemplated, and that the undersigned officers of Development Manager have all necessary authority to execute and deliver this Agreement on behalf of Development Manager.

(c) This Agreement has been duly executed and delivered by Development Manager and constitutes the legal, valid and binding obligations of Development Manager enforceable in accordance with their terms, subject to laws applicable generally to creditor's rights.

(d) Development Manager shall deliver to Owner, upon the effective date hereof (i) a good standing certificate from the State of Texas, and (ii) an incumbency certificate and resolutions of Development Manager authorizing the execution and delivery by Development Manager of this Agreement, certified by an authorized officer of Development Manager as being true, correct and complete.

(e) There is no claim, litigation, proceedings or governmental investigation pending, or as far as is known to Development Manager, threatened, against Development Manager or relating to the Property or the transactions contemplated by this Agreement which does, or may reasonably be expected to, affect the ability of Development Manager to enter into this Agreement or to carry out its obligations hereunder, and, to Development Manager's actual knowledge, there is no basis for any such claim, litigation, proceedings or governmental investigation.

(f) Neither the consummation of the actions contemplated by this Agreement on the part of Development Manager to be performed, nor the fulfillment of the terms, conditions and provisions of this Agreement, conflicts with or will result in the breach of any of the terms, conditions or provisions of, or constitute a default under, any agreement, indenture, instrument or undertaking to which Development Manager is a party or by which it is bound.

(g) Development Manager is familiar with and abides by all Federal, state, local and other applicable laws, rules and regulations with respect to (1) land sales, (2) real estate settlement procedures, (3) non-discrimination based on race, gender and otherwise, (4) the licensure and regulation of brokers, agents and other real estate professionals generally, and (5) all other obligations and services of Development Manager under this Agreement. Development Manager covenants to comply with all such laws, rules and regulations now and hereafter in effect at all times during the Term of this Agreement. Development Manager specifically hereby represents that it and its personnel providing sales services hereunder are, to the extent required by law, duly licensed, and covenants, at its sole cost and expense, to obtain and keep in full force and effect throughout the Term of this Agreement all licenses and permits required to be maintained by Development Manager and its personnel in connection with the rendering of services hereunder.

(h) The Development Budget attached hereto is accurate and complete and is sufficient for the purposes of developing, managing, maintaining, operating and selling the Property in accordance with the Business Plan and the terms of this Agreement, and Development Manager has obtained a bona fide, binding and legally enforceable commitment for financing satisfying the terms of this Agreement and sufficient to fund all costs and expenses set forth on the Development Budget.

(i) The Business Plan attached hereto is feasible and can be completed within the Term of this Agreement at an aggregate cost not to exceed the Development Budget, and Development Manager is not aware of any pending or threatened moratoria or proposed or enacted laws, statutes, ordinances, regulations, rules or orders which would limit the development, construction and sale of the Property as contemplated in the Business Plan.

(j) All necessary and required inspections, approval, permits and licenses have been obtained to permit, as a matter of right, without special permit, special exception or variance, the development of the Vista Royale - non-commercial tract into [131] single-family homesites.

6.11 Publicity and Public Relations. Owner shall have the exclusive right to control, manage and monitor all publicity and public relations with respect to the Property or Owner's ownership thereof.

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IN WITNESS WHEREOF, intending to be legally bound hereby, the parties hereto have executed this Development Management Agreement under seal as of the day and year hereinabove first written.

WITNESS:

OWNER:

COMMERCIAL LAKEWAY LIMITED
PARTNERSHIP,
a Delaware limited partnership

/s/ witness
(Seal)

By: /s/ Edward J. Santoro

Name: witness
Title: Director

Name: Edward J. Santoro
Title: Vice President

WITNESS:

DEVELOPMENT MANAGER:

STRATUS PROPERTIES INC.,
a Delaware corporation

/s/ Kenneth N. Jones
(Seal)
Name: Kenneth N. Jones

By: /s/ William H. Armstrong III

Name: William H. Armstrong III

Title: General Counsel

Title: President

Exhibit 15.1

April 27, 2001

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, 2001, which includes our report dated April 27, 2001 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