

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2022

OR

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

For the transition period from to

Commission file number: 001-37716

S T R A T U S ®

Stratus Properties Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

72-1211572

(I.R.S. Employer Identification No.)

212 Lavaca Street, Suite 300

Austin TX

(Address of principal executive offices)

78701

(Zip Code)

(512) 478-5788

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	STRS	The NASDAQ Stock Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

On April 29, 2022, there were issued and outstanding 8,273,268 shares of the registrant's common stock, par value \$0.01 per share.

STRATUS PROPERTIES INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	March 31, 2022	December 31, 2021
ASSETS		
Cash and cash equivalents	\$ 12,273	\$ 24,229
Restricted cash	10,859	18,294
Real estate held for sale	1,773	1,773
Real estate under development	206,191	181,224
Land available for development	34,816	40,659
Real estate held for investment, net	89,760	90,284
Lease right-of-use assets	10,460	10,487
Deferred tax assets	4,843	6,009
Other assets	22,621	17,214
Assets held for sale - discontinued operations	151,172	151,053
Total assets	\$ 544,768	\$ 541,226
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable	\$ 14,573	\$ 14,118
Accrued liabilities, including taxes	19,682	22,069
Debt	121,446	106,648
Lease liabilities	14,135	13,986
Deferred gain	4,274	4,801
Other liabilities	10,381	17,894
Liabilities held for sale - discontinued operations	149,717	153,097
Total liabilities	334,208	332,613
Commitments and contingencies		
Equity:		
Stockholders' equity:		
Common stock	94	94
Capital in excess of par value of common stock	188,971	188,759
Accumulated deficit	(6,691)	(8,963)
Common stock held in treasury	(22,205)	(21,753)
Total stockholders' equity	160,169	158,137
Noncontrolling interests in subsidiaries	50,391	50,476
Total equity	210,560	208,613
Total liabilities and equity	\$ 544,768	\$ 541,226

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

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

	Three Months Ended March 31,	
	2022	2021
Revenues:		
Real estate operations	\$ 19	\$ 6,556
Leasing operations	3,080	4,818
Total revenues	<u>3,099</u>	<u>11,374</u>
Cost of sales:		
Real estate operations	1,366	4,360
Leasing operations	984	2,052
Depreciation	873	1,586
Total cost of sales	<u>3,223</u>	<u>7,998</u>
General and administrative expenses	3,167	4,324
Gain on sale of assets	(4,812)	(22,931)
Total	<u>1,578</u>	<u>(10,609)</u>
Operating income	1,521	21,983
Interest expense, net	(15)	(1,056)
Loss on extinguishment of debt	—	(63)
Other income, net	6	3
Income before income taxes and equity in unconsolidated affiliates' loss	1,512	20,867
Benefit from (provision for) income taxes	302	(2,691)
Equity in unconsolidated affiliates' loss	(2)	(2)
Net income from continuing operations	<u>1,812</u>	<u>18,174</u>
Net income (loss) from discontinued operations	375	(2,508)
Net income and total comprehensive income	2,187	15,666
Total comprehensive loss (income) attributable to noncontrolling interests	85	(6,722)
Net income and total comprehensive income attributable to common stockholders	<u>\$ 2,272</u>	<u>\$ 8,944</u>
Basic net income (loss) per share attributable to common stockholders:		
Continuing operations	\$ 0.23	\$ 1.39
Discontinued operations	0.05	(0.30)
	<u>\$ 0.28</u>	<u>\$ 1.09</u>
Diluted net income (loss) per share attributable to common stockholders:		
Continuing operations	\$ 0.23	\$ 1.38
Discontinued operations	0.04	(0.30)
	<u>\$ 0.27</u>	<u>\$ 1.08</u>
Weighted-average shares of common stock outstanding:		
Basic	8,251	8,223
Diluted	<u>8,355</u>	<u>8,273</u>

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

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

	Three Months Ended March 31,	
	2022	2021
Cash flow from operating activities:		
Net income	\$ 2,187	\$ 15,666
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	873	3,002
Cost of real estate sold	—	3,112
Gain on sale of assets	(4,812)	(22,931)
Loss on extinguishment of debt	—	63
Debt issuance cost amortization and stock-based compensation	515	529
Equity in unconsolidated affiliates' loss	2	2
Deferred income taxes	1,167	—
Purchases and development of real estate properties	(4,864)	(2,489)
(Increase) decrease in other assets	(5,559)	238
Decrease in accounts payable, accrued liabilities and other	(7,629)	(7,563)
Net cash used in operating activities	<u>(18,120)</u>	<u>(10,371)</u>
Cash flow from investing activities:		
Capital expenditures	(14,724)	(1,009)
Proceeds from sale of assets	—	59,488
Payments on master lease obligations	(182)	(270)
Other, net	—	(5)
Net cash (used in) provided by investing activities	<u>(14,906)</u>	<u>58,204</u>
Cash flow from financing activities:		
Borrowings from credit facility	10,000	17,000
Payments on credit facility	—	(26,227)
Borrowings from project loans	5,111	458
Payments on project and term loans	(1,172)	(28,708)
Stock-based awards net payments	(452)	(157)
Distributions to noncontrolling interests	—	(13,087)
Financing costs	(17)	(53)
Net cash provided by (used in) financing activities	<u>13,470</u>	<u>(50,774)</u>
Net decrease in cash, cash equivalents and restricted cash	(19,556)	(2,941)
Cash, cash equivalents and restricted cash at beginning of year	70,139	34,183
Cash, cash equivalents and restricted cash at end of period	<u>\$ 50,583</u>	<u>\$ 31,242</u>

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

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

	Stockholders' Equity								
	Common Stock				Common Stock Held in Treasury			Noncontrolling Interests in Subsidiaries	Total Equity
	Number of Shares	At Par Value	Capital in Excess of Par Value	Accum- ulated Deficit	Number of Shares	At Cost	Total		
Balance at December 31, 2021	9,388	\$ 94	\$ 188,759	\$ (8,963)	1,143	\$(21,753)	\$ 158,137	\$ 50,476	\$ 208,613
Exercised and vested stock-based awards	39	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	212	—	—	—	212	—	212
Tender of shares for stock-based awards	—	—	—	—	11	(452)	(452)	—	(452)
Total comprehensive income (loss)	—	—	—	2,272	—	—	2,272	(85)	2,187
Balance at March 31, 2022	<u>9,427</u>	<u>\$ 94</u>	<u>\$ 188,971</u>	<u>\$ (6,691)</u>	<u>1,154</u>	<u>\$(22,205)</u>	<u>\$ 160,169</u>	<u>\$ 50,391</u>	<u>\$ 210,560</u>
Balance at December 31, 2020	9,358	\$ 94	\$ 186,777	\$(66,357)	1,137	\$(21,600)	\$ 98,914	\$ 10,850	\$ 109,764
Exercised and vested stock-based awards	19	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	182	—	—	—	182	—	182
Grant of restricted stock units under the Profit Participation Incentive Plan	—	—	1,162	—	—	—	1,162	—	1,162
Tender of shares for stock-based awards	—	—	—	—	6	(153)	(153)	—	(153)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(13,087)	(13,087)
Total comprehensive income	—	—	—	8,944	—	—	8,944	6,722	15,666
Balance at March 31, 2021	<u>9,377</u>	<u>\$ 94</u>	<u>\$ 188,121</u>	<u>\$(57,413)</u>	<u>1,143</u>	<u>\$(21,753)</u>	<u>\$ 109,049</u>	<u>\$ 4,485</u>	<u>\$ 113,534</u>

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

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

1. GENERAL

The unaudited consolidated financial statements, and the accompanying notes, are prepared in accordance with generally accepted accounting principles in the United States (GAAP) and should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2021, included in Stratus Properties Inc.'s (Stratus) Annual Report on Form 10-K for the year ended December 31, 2021 (Stratus 2021 Form 10-K) filed with the United States (U.S.) Securities and Exchange Commission. The information furnished herein reflects all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods reported and consist of normal recurring adjustments. Operating results for the first quarter of 2022 are not necessarily indicative of the results that may be expected for the year ending December 31, 2022. Refer to Note 4 for a discussion of Stratus' discontinued operations.

Related Party Transactions. During the first quarter of 2022, Stratus had an arrangement with Whitefish Partners, LLC (Whitefish Partners), formerly known as Austin Retail Partners, LLC, for services provided by a consultant of Whitefish Partners who is the son of Stratus' President and Chief Executive Officer. Payments to Whitefish Partners for the consultant's consulting services and expense reimbursements totaled \$173 thousand in first-quarter 2022 and \$37 thousand in first-quarter 2021. The first quarter of 2022 included a cash payment under Stratus' Profit Participation Incentive Plan (PPIP). As of March 31, 2022, the consultant has one outstanding award under the PPIP. In addition, during first-quarter 2022, the Compensation Committee of Stratus' Board of Directors (the Compensation Committee) approved an award to be granted to the consultant under the PPIP related to another development project. Refer to Note 7 for discussion of the PPIP. In April 2022, Stratus hired the consultant as an employee at the same annual salary as his compensation under the contract with Whitefish Partners. As an employee, he is eligible for the same health and retirement benefits provided to all Stratus employees.

2. EARNINGS PER SHARE

Stratus' basic net income per share of common stock was calculated by dividing the net income attributable to common stockholders by the weighted-average shares of common stock outstanding during the period. A reconciliation of net income and weighted-average shares of common stock outstanding for purposes of calculating diluted net income per share (in thousands, except per share amounts) follows:

	Three Months Ended March 31,	
	2022	2021
Income from continuing operations	\$ 1,812	\$ 18,174
Net income (loss) from discontinued operations	375	(2,508)
Net income	2,187	15,666
Net loss (income) attributable to noncontrolling interests in subsidiaries	85	(6,722)
Net income attributable to Stratus common stockholders	<u>\$ 2,272</u>	<u>\$ 8,944</u>
Basic weighted-average shares of common stock outstanding	8,251	8,223
Add shares issuable upon exercise or vesting of dilutive stock options and restricted stock units (RSUs) ^a	104	50
Diluted weighted-average shares of common stock outstanding	<u>8,355</u>	<u>8,273</u>
Basic net income (loss) per share attributable to common stockholders		
Continuing operations	\$ 0.23	\$ 1.39
Discontinued operations	0.05	(0.30)
	<u>\$ 0.28</u>	<u>\$ 1.09</u>
Diluted net income (loss) per share attributable to common stockholders		
Continuing operations	\$ 0.23	\$ 1.38
Discontinued operations	0.04	(0.30)
	<u>\$ 0.27</u>	<u>\$ 1.08</u>

a. Excludes 4 thousand shares of common stock for the three months ended March 31, 2022, and 16 thousand shares of common stock for the three months ended March 31, 2021, associated with RSUs that were anti-dilutive.

3. LIMITED PARTNERSHIPS

Stratus, through its subsidiaries, is a partner in the following limited partnerships: The Saint George Apartments, L.P., Stratus Block 150, L.P., The Saint June, L.P., Stratus Kingwood Place, L.P. and The Saint Mary, L.P. For additional information regarding Stratus' partnerships, refer to Note 2 in the Stratus 2021 Form 10-K.

Stratus Block 150, L.P. In the first quarter of 2022, pursuant to the limited partnership agreement, wholly owned subsidiaries of Stratus contributed an additional \$1.4 million in cash to Stratus Block 150, L.P. No additional capital contributions are required to be made by the partners. As of March 31, 2022, Stratus holds, in the aggregate, a 31.0 percent indirect controlling equity interest in Stratus Block 150, L.P. As of March 31, 2022, JBM Trust, a related party to Stratus, holds a 5.9 percent equity interest in Stratus Block 150, L.P. For additional information regarding Stratus' related parties, including JBM Trust, refer to Notes 1 and 2 in the Stratus 2021 Form 10-K.

Accounting for Limited Partnerships. Stratus has performed evaluations and concluded that The Saint George Apartments, L.P., Stratus Block 150, L.P., The Saint June, L.P., Stratus Kingwood, L.P. and The Saint Mary, L.P. are variable interest entities and that Stratus is the primary beneficiary. Accordingly, the partnerships' results are consolidated in Stratus' financial statements. Stratus will continue to evaluate which entity is the primary beneficiary of these partnerships in accordance with applicable accounting guidance.

Stratus' consolidated balance sheets include the following assets and liabilities of the partnerships (in thousands):

	March 31, 2022	December 31, 2021
Assets:		
Cash and cash equivalents	\$ 8,504	\$ 7,432
Restricted cash	5,170	11,809
Real estate under development	72,776	62,692
Land available for development	7,702	7,641
Real estate held for investment	31,417	31,399
Other assets	3,159	3,160
Total assets	<u>128,728</u>	<u>124,133</u>
Liabilities:		
Accounts payable and accrued liabilities	9,894	6,661
Debt	46,334	46,096
Total liabilities	<u>56,228</u>	<u>52,757</u>
Net assets	<u>\$ 72,500</u>	<u>\$ 71,376</u>

4. ASSET SALES

Block 21 Pending Sale - Discontinued Operations. Block 21 is Stratus' wholly owned mixed-use real estate property in downtown Austin, Texas. Block 21 contains the 251-room W Austin Hotel and is home to Austin City Limits Live at the Moody Theater, a 2,750-seat entertainment venue that serves as the location for the filming of Austin City Limits, the longest running music series in American television history. Block 21 also includes Class A office space, retail space and the 3TEN ACL Live entertainment venue and business.

In December 2019, Stratus announced that it had agreed to sell Block 21 to Ryman Hospitality Properties, Inc. (Ryman) for \$275.0 million. Ryman deposited \$15.0 million in earnest money to secure its performance under the agreements governing the sales. In May 2020, Ryman delivered a termination letter, which was agreed to and accepted by Stratus, terminating the agreements to sell Block 21 and authorizing the release of Ryman's \$15.0 million in earnest money to Stratus, which Stratus recorded as operating income in 2020.

In October 2021, Stratus entered into new agreements to sell Block 21 to Ryman for \$260.0 million. The purchase price includes Ryman's assumption of approximately \$137 million of existing Block 21 mortgage debt and is subject to an expected downward adjustment of \$5.0 million. The remainder of the purchase price will be paid in cash. The transaction is expected to close prior to June 1, 2022, but remains subject to the timely satisfaction or waiver of various closing conditions, including the consent of the loan servicer to the purchaser's assumption of the existing mortgage loan; the consent of the hotel operator, an affiliate of Marriott, to the purchaser's assumption of the hotel operating agreement; the absence of a material adverse effect; and other customary closing conditions. The Block 21 purchase agreement will terminate if all conditions to closing are not satisfied or waived by the parties. Ryman has deposited \$5.0 million in earnest money to secure its performance under the agreements governing the sale. Of the total purchase price, \$6.9 million will be held in escrow for 12 months after the closing, subject to a longer retention period with respect to any required reserve for pending claims.

In accordance with accounting guidance, Stratus reported the results of operations of Block 21 as discontinued operations in the consolidated statements of comprehensive income because the disposal represents a strategic shift that had a major effect on operations, and presented the assets and liabilities of Block 21 as held for sale - discontinued operations in the consolidated balance sheets for all periods presented. Block 21 did not have any other comprehensive income and Stratus' consolidated statements of cash flows are reported on a combined basis without separately presenting discontinued operations.

The carrying amounts of Block 21's major classes of assets and liabilities in the consolidated balance sheets follow (in thousands):

	March 31, 2022	December 31, 2021
Assets:		
Cash and cash equivalents	\$ 9,509	\$ 9,172
Restricted cash ^a	17,942	18,444
Real estate held for investment, net	120,634	120,452
Other assets	3,087	2,985
Total assets	\$ 151,172	\$ 151,053
Liabilities:		
Accounts payable and accrued liabilities, including taxes	\$ 4,268	\$ 6,200
Debt ^b	136,054	136,684
Other liabilities	9,395	10,213
Total liabilities	\$ 149,717	\$ 153,097

- a. Most restricted cash would be received by Ryman upon the closing of the sale.
- b. In 2016, Stratus completed the refinancing of the W Austin Hotel & Residences. Goldman Sachs Mortgage Company provided a \$150.0 million, ten-year, non-recourse term loan with a fixed interest rate of 5.58 percent per annum and payable monthly based on a 30-year amortization. Balances include net reductions for unamortized debt issuance costs of \$0.5 million at March 31, 2022, and \$0.6 million at December 31, 2021.

Block 21's results of operations in the consolidated statements of comprehensive income consists of the following (in thousands):

	Three Months Ended March 31,	
	2022	2021
Revenues:^a		
Hotel	\$ 5,871	\$ 2,118
Entertainment	5,340	608
Leasing operations and other	726	414
Total revenue	11,937	3,140
Cost of sales:		
Hotel	4,743	2,901
Entertainment	4,139	1,279
Leasing operations and other	471	337
Depreciation	— ^b	1,416
Total cost of sales	9,353	5,933
General and administrative expenses	100	220
Operating income (loss)	2,484	(3,013)
Interest expense, net	(1,945)	(1,979)
(Provision for) benefit from income taxes	(164)	2,484
Net income (loss)	\$ 375	\$ (2,508)

- a. In accordance with accounting guidance, amounts are net of eliminations of intercompany sales totaling \$321 thousand in first-quarter 2022 and \$262 thousand in first-quarter 2021.
- b. In accordance with accounting guidance, depreciation is not recognized subsequent to classification as assets held for sale, which occurred in the fourth quarter of 2021.

Capital expenditures associated with discontinued operations totaled \$182 thousand in first-quarter 2022 and \$107 thousand in first-quarter 2021.

The Oaks at Lakeway. In 2017, Stratus sold The Oaks at Lakeway to FHF I Oaks at Lakeway, LLC for \$114.0 million in cash. The Oaks at Lakeway is an H-E-B, L.P.-anchored retail project located in Lakeway, Texas. The parties entered into three master lease agreements at closing: (1) one covering unleased in-line retail space, with a 5-year term (the In-line Master Lease), (2) one covering the hotel pad with a 99-year term (the Hotel Master Lease) and (3) one covering four unleased pad sites, three of which have 10-year terms, and one of which has a 15-year term (the Pad Site Master Lease). For additional information, refer to Note 9 in the Stratus 2021 Form 10-K under the heading "Deferred Gain on Sale of The Oaks at Lakeway."

The In-Line Master Lease expired in February 2022 and the Hotel Master Lease was terminated in November 2020. As such, Stratus has no further obligations under these two master leases. With respect to the Pad Site Master Lease, Stratus has leased the one pad site with a 15-year term, reducing the monthly rent payment net of rent collections for this pad site to approximately \$2,500. Stratus may assign this lease to the purchaser and terminate the obligation under the Pad Site Master Lease for this pad site with a payment of \$560,000 to the purchaser. The lease term for the remaining three unleased pad sites under the Pad Site Master Lease expires in February 2027. To the extent leases are executed for the remaining three unleased pad sites, tenants open for business, and the leases are then assigned to the purchaser, the master lease obligation could be reduced further.

In the first quarter of 2022, Stratus reassessed its plans with respect to construction of the remaining buildings on the three remaining unleased pad sites and determined that, rather than execute leases and build the buildings, it is less costly to continue to pay the monthly rent (approximately \$77 thousand per month) pursuant to the Pad Site Master Lease until the lease expires in February 2027. In connection with this determination, Stratus reversed an accrual of costs to lease and construct these buildings, resulting in recognition of an additional \$4.8 million of gain in first-quarter 2022. A contract liability of \$4.3 million is presented as a deferred gain in the consolidated balance sheets at March 31, 2022, compared with \$4.8 million at December 31, 2021. The reduction in the deferred gain balance primarily reflects master lease payments. The remaining deferred gain balance is expected to be reduced primarily by future master lease payments.

The Saint Mary. In January 2021, The Saint Mary, L.P. sold The Saint Mary for \$60.0 million. After closing costs and payment of the outstanding construction loan, the sale generated net proceeds of approximately \$34 million. In first-quarter 2021, after establishing a reserve for remaining costs of the partnership, Stratus received \$20.9 million from the subsidiary in connection with the sale and \$12.9 million of the net proceeds were distributed to the noncontrolling interest owners. Stratus recognized a pre-tax gain on the sale of \$22.9 million (\$16.2 million net of noncontrolling interests) in first-quarter 2021. Stratus also recognized a \$63 thousand loss on extinguishment of debt in first-quarter 2021 related to the repayment of The Saint Mary construction loan.

The Saint Mary had rental revenue of \$0.1 million in first-quarter 2021 prior to the sale. Interest expense, net of capitalized amounts, related to The Saint Mary construction loan was less than \$0.1 million in first-quarter 2021.

Kingwood Place Pending Land Sale. In September 2021, Stratus entered into a contract to sell the multi-family tract of land at Kingwood Place, which was planned for approximately 275 multi-family units, for \$5.5 million. The sale, if consummated, is expected to close by mid-2022.

5. FAIR VALUE MEASUREMENTS

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

The carrying value for certain Stratus financial instruments (i.e., cash and cash equivalents, restricted cash, accounts payable and accrued liabilities) approximates fair value because of their short-term nature and generally negligible credit losses.

A summary of the carrying amount and fair value of Stratus' debt follows (in thousands):

	March 31, 2022		December 31, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Liabilities:				
Debt	\$ 121,446	\$ 122,747	\$ 106,648	\$ 108,091

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

6. DEBT

The components of Stratus' debt follow (in thousands):

	March 31, 2022	December 31, 2021
Comerica Bank credit facility	\$ 10,000	\$ —
Jones Crossing loan	24,067	24,042
The Annie B land loan	13,877	13,847
New Caney land loan	4,262	4,496
Paycheck Protection Program loan	38	156
Construction loans:		
Kingwood Place	32,457	32,249
Lantana Place	21,997	22,098
Magnolia Place	6,542	2,077
West Killeen Market	6,040	6,078
Amarra Villas credit facility	2,166	1,605
Total debt ^a	<u>\$ 121,446</u>	<u>\$ 106,648</u>

a. Includes net reductions for unamortized debt issuance costs of \$1.1 million at March 31, 2022, and \$1.2 million at December 31, 2021. Total debt does not include debt associated with Block 21, which is reflected in liabilities held for sale. Refer to Note 4 for further discussion.

Comerica Bank credit facility. As of March 31, 2022, Stratus had \$49.7 million available under its \$60.0 million Comerica Bank credit facility, with letters of credit totaling \$347 thousand committed against the credit facility. In April 2022, Stratus borrowed \$20.0 million on the credit facility, of which the majority of the funds were used to make a U.S. Federal tax payment for Stratus' 2021 tax liability. In May 2022, Stratus and Comerica Bank entered into an amendment to extend the maturity date of the Comerica Bank credit facility from September 27, 2022, to December 26, 2022, increase the letter of credit sublimit from \$7.5 million to \$11.5 million and change the benchmark rate from the London Interbank Offered Rate (LIBOR) to the Bloomberg Short-Term Bank Yield Index (BSBY) Rate. Advances under the credit facility now bear interest at the one-month BSBY Rate (with a floor of 0.0 percent) plus 4.0 percent.

New Caney land loan. In March 2022, Stratus extended the maturity of the loan for an additional 12 months to March 8, 2023, which required a principal payment of \$0.2 million and will require a second principal payment of \$0.2 million in September 2022. Stratus also entered into an amendment to the New Caney land loan to convert the benchmark rate from LIBOR to the Secured Overnight Financing Rate (SOFR). The loan now bears interest at SOFR plus 3.0 percent, subject to the applicable margin adjustment.

PPP loan. In April 2020, Stratus received a \$4.0 million loan under the Paycheck Protection Program (PPP loan) of the Coronavirus Aid, Relief, and Economic Security Act, which was signed into law on March 27, 2020. The PPP loan matured and the remaining balance was repaid by Stratus on April 15, 2022. Of the original loan amount, \$3.7 million was forgiven in August 2021.

Lantana Place construction loan. In January 2022, Stratus entered into an amendment to the Lantana Place construction loan to extend the date through which Stratus can request advances under the loan through December 31, 2022.

Amarra Villas credit facility. In March 2022, Stratus subsidiaries and Comerica Bank agreed to an extension of the maturity date to June 19, 2022, while they negotiate a modification of this facility.

For additional information regarding Stratus' debt, refer to Note 6 in the Stratus 2021 Form 10-K.

Interest Expense and Capitalization. Interest costs (before capitalized interest) totaled \$1.1 million in first-quarter 2022 and \$2.3 million in first-quarter 2021. Stratus' capitalized interest totaled \$1.1 million in first-quarter 2022 and \$1.3 million in first-quarter 2021. Capitalized interest is primarily related to development activities at Barton Creek, The Annie B, The Saint George and Magnolia Place.

7. PROFIT PARTICIPATION INCENTIVE PLAN

In July 2018, the Compensation Committee unanimously adopted the PPIP, which provides participants with economic incentives tied to the success of the development projects designated by the Compensation Committee as approved projects under the PPIP. Estimates related to the awards may change over time as a result of differences between projected and actual development progress and costs, market conditions and the timing of capital transactions or valuation events. During the first quarter of 2022, the Compensation Committee designated The Saint June as an approved project under the PPIP although no awards for this project were granted as of March 31, 2022. Refer to Note 8 of the Stratus 2021 Form 10-K for further discussion.

The sale of The Saint Mary in January 2021 was a capital transaction under the PPIP. During February 2022, \$2.1 million was paid in cash to eligible participants.

In September 2021, Lantana Place reached a valuation event under the PPIP. The profit pool was \$3.9 million, of which \$0.2 million was paid in cash during February 2022. The remaining accrued liability under the PPIP related to Lantana Place totaled \$3.7 million at March 31, 2022, and is expected to be settled in RSUs awarded to eligible participants in the first half of 2022.

The sale of The Santal in December 2021 was a capital transaction under the PPIP. During February 2022, \$5.0 million was paid in cash to eligible participants, subject to the PPIP's limits on cash compensation paid to certain officers. Amounts due under the PPIP above the limits are converted to an equivalent number of RSUs with a one-year vesting period. The remaining accrued liability under the PPIP related to The Santal totaled \$1.7 million at March 31, 2022, and is expected to be settled in RSUs awarded to eligible participants in the first half of 2022.

A summary of PPIP costs follows (in thousands):

	Three Months Ended March 31,	
	2022	2021
Charged to general and administrative expense	\$ 15	\$ 495
Capitalized to project development costs	51	224
Total PPIP costs	\$ 66	\$ 719

The accrued liability for the PPIP totaled \$7.9 million at March 31, 2022, and \$15.2 million at December 31, 2021 (included in other liabilities).

8. INCOME TAXES

Stratus' accounting policy for and other information regarding its income taxes are further described in Notes 1 and 7 in the Stratus 2021 Form 10-K.

Stratus had deferred tax assets (net of deferred tax liabilities) totaling \$11.3 million at March 31, 2022 and \$12.4 million at December 31, 2021. Stratus' deferred tax assets had valuation allowances totaling \$6.5 million at March 31, 2022, and \$6.4 million at December 31, 2021. Management has concluded that the pending sale of Block 21 is sufficient positive evidence to support the ability to realize certain deferred tax assets expected to be realized from the sale, which resulted in Stratus recording a \$4.2 million non-cash tax credit in the fourth quarter of 2021 to reduce the related valuation allowance. Stratus continues to maintain a valuation allowance on its remaining deferred tax assets.

In evaluating the recoverability of the remaining deferred tax assets, management considered available positive and negative evidence, giving greater weight to the uncertainty regarding projected future financial results. Upon a change in facts and circumstances, management may conclude that sufficient positive evidence exists to support a reversal of, or decrease in, the valuation allowance in the future, which would favorably impact Stratus' results of operations. Stratus' future results of operations may be negatively impacted by an inability to realize a tax benefit for future tax losses or for items that will generate additional deferred tax assets that are not more likely than not to be realized.

The difference between Stratus' consolidated effective income tax rate of (20) percent in first-quarter 2022 and the U.S. Federal statutory income tax rate of 21 percent was primarily attributable to the release of a reserve on uncertain tax positions related to the 2015 through 2017 U.S. Federal tax audit, which was closed in the first quarter of 2022. The difference between Stratus' consolidated effective income tax rate of 13 percent in first-quarter 2021 and the U.S. Federal statutory income tax rate of 21 percent was primarily attributable to noncontrolling interests in subsidiaries, the presence of a full valuation allowance against certain U.S. Federal deferred tax assets as of March 31, 2021, and the Texas state margin tax.

9. BUSINESS SEGMENTS

As a result of the pending sale of Block 21, Stratus has two operating segments: Real Estate Operations and Leasing Operations. Block 21, which encompassed Stratus' hotel and entertainment segments, along with some leasing operations, is reflected as discontinued operations.

The Real Estate Operations segment is comprised of Stratus' real estate assets (developed for sale, under development and available for development), which consists of its properties in Austin, Texas (including the Barton Creek community; the Circle C community; the Lantana community, including a portion of Lantana Place planned for a multi-family phase now known as The Saint Julia, and the land for The Saint George and The Annie B); in Lakeway, Texas, located in the greater Austin area (Lakeway); in College Station, Texas (a portion of Jones Crossing and vacant pad sites); in Killeen, Texas (one vacant pad site at West Killeen Market); and in Magnolia, Texas (Magnolia Place), Kingwood, Texas (land for future multi-family development, for which a sale is pending, and a vacant pad site) and New Caney, Texas (New Caney), located in the greater Houston area.

The Leasing Operations segment is comprised of Stratus' real estate assets, both residential and commercial, that are leased or available for lease and includes West Killeen Market, Lantana Place, Kingwood Place and the completed portion of Jones Crossing. The segment also included The Saint Mary until its sale in January 2021 and The Santal until its sale in December 2021.

Stratus uses operating income or loss to measure the performance of each segment. General and administrative expenses, which primarily consist of employee salaries, wages and other costs, are managed on a consolidated basis and are not allocated to Stratus' operating segments. The following segment information reflects management determinations that may not be indicative of what the actual financial performance of each segment would be if it were an independent entity.

Revenues from Contracts with Customers. Stratus' revenues from contracts with customers follow (in thousands):

	Three Months Ended March 31,	
	2022	2021
Real Estate Operations:		
Developed property sales	\$ —	\$ 4,040
Undeveloped property sales	—	2,500
Commissions and other	19	16
	<u>19</u>	<u>6,556</u>
Leasing Operations:		
Rental revenue	3,080	4,818
	<u>3,080</u>	<u>4,818</u>
Total revenues from contracts with customers	<u>\$ 3,099</u>	<u>\$ 11,374</u>

Financial Information by Business Segment. The following segment information was prepared on the same basis as Stratus' consolidated financial statements (in thousands).

	Real Estate Operations ^a	Leasing Operations	Corporate, Eliminations and Other ^b	Total
Three Months Ended March 31, 2022:				
Revenues:				
Unaffiliated customers	\$ 19	\$ 3,080	\$ —	\$ 3,099
Intersegment	4	—	(4)	—
Cost of sales, excluding depreciation	1,366	984	—	2,350
Depreciation	25	852	(4)	873
General and administrative expenses	—	—	3,167 ^c	3,167
Gain on sale of assets	—	(4,812) ^d	—	(4,812)
Operating (loss) income	<u>\$ (1,368)</u>	<u>\$ 6,056</u>	<u>\$ (3,167)</u>	<u>\$ 1,521</u>
Capital expenditures and purchases and development of real estate properties	\$ 4,864	\$ 14,542	\$ 182	\$ 19,588
Total assets at March 31, 2022	254,212	106,652	183,904 ^e	544,768
Three Months Ended March 31, 2021:				
Revenues:				
Unaffiliated customers	\$ 6,556	\$ 4,818	\$ —	\$ 11,374
Intersegment	4	—	(4)	—
Cost of sales, excluding depreciation	4,360	2,052	—	6,412
Depreciation	64	1,544	(22)	1,586
General and administrative expenses	—	—	4,324	4,324
Gain on sale of assets	—	(22,931) ^f	—	(22,931)
Operating income (loss)	<u>\$ 2,136</u>	<u>\$ 24,153</u>	<u>\$ (4,306)</u>	<u>\$ 21,983</u>
Capital expenditures and purchases and development of real estate properties	\$ 2,489	\$ 902	\$ 107	\$ 3,498
Total assets at March 31, 2021	161,488	180,758 ^g	159,625 ^e	501,871

a. Includes sales commissions and other revenues together with related expenses.

b. Includes consolidated general and administrative expenses and eliminations of intersegment amounts.

c. The decrease in first-quarter 2022, compared to first-quarter 2021, is primarily the result of \$0.8 million incurred in first-quarter 2021 for consulting, legal and public relation costs for Stratus' successful proxy contest and the real estate investment trust exploration process as well as a \$0.5 million decrease in employee incentive compensation costs associated with the PPIP.

d. Represents a gain recognized on the reversal of accruals for costs to lease and construct buildings under a master lease arrangement that Stratus entered into in connection with its sale of The Oaks at Lakeway in 2017.

e. Includes assets held for sale associated with discontinued operations at Block 21, which totaled \$151.2 million at March 31, 2022, and \$140.5 million at March 31, 2021.

f. Represents the gain on the January 2021 sale of The Saint Mary.

g. Includes \$68.5 million of assets held for sale related to The Santal, which was sold in the fourth quarter of 2021.

10. SUBSEQUENT EVENTS

Stratus evaluated events after March 31, 2022, and through the date the financial statements were issued, and determined any events or transactions occurring during this period that would require recognition or disclosure are appropriately addressed in these financial statements.

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

In Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), "we," "us," "our" and "Stratus" refer to Stratus Properties Inc. and all entities owned or controlled by Stratus Properties Inc. You should read the following discussion in conjunction with our consolidated financial statements and accompanying notes, related MD&A and discussion of our business and properties included in our Annual Report on Form 10-K for the year ended December 31, 2021 (2021 Form 10-K) filed with the United States (U.S.) Securities and Exchange Commission (SEC) and the unaudited consolidated financial statements and accompanying notes included in this Form 10-Q. The results of operations reported and summarized below are not necessarily indicative of future operating results, and future results could differ materially from those anticipated in forward-looking statements (refer to "Cautionary Statement" and Part II, Item 1A. "Risk Factors" herein and Part I, Item 1A. "Risk Factors" of our 2021 Form 10-K for further discussion). All subsequent references to "Notes" refer to Notes to Consolidated Financial Statements (Unaudited) located in Part I, Item 1. "Financial Statements" herein, unless otherwise stated.

OVERVIEW

We are a diversified real estate company with headquarters in Austin, Texas. We are engaged primarily in the acquisition, entitlement, development, management and sale of commercial, and multi-family and single-family residential real estate properties, and real estate leasing in the Austin, Texas area, and other select, fast-growing markets in Texas. We generate revenues and cash flows from the sale of our developed properties and the lease of our retail, mixed-use and multi-family properties. Refer to Note 9 for discussion of our operating segments and "Business Strategy" below for a discussion of our business strategy.

Block 21 is our wholly owned mixed-use real estate property located on a two-acre city block in downtown Austin that contains the W Austin Hotel, consisting of a 251-room luxury hotel, and office, retail and entertainment space. In October 2021, we entered into new agreements to sell Block 21 to Ryman Hospitality Properties, Inc. (Ryman) for \$260.0 million, subject to an expected downward adjustment of \$5.0 million. The transaction is expected to close prior to June 1, 2022, but remains subject to the timely satisfaction or waiver of various closing conditions. The sale of Block 21 would eliminate our Hotel and Entertainment segments. As a result, our hotel and entertainment operations, as well as the leasing operations associated with Block 21, are reported as discontinued operations for all periods presented in the financial statements included in this Form 10-Q. Refer to "Results of Operations - Discontinued Operations" and Note 4 for further discussion.

BUSINESS STRATEGY

Our portfolio consists of approximately 1,700 acres of undeveloped acreage and acreage under development for commercial and multi-family and single-family residential projects, as well as several completed commercial and residential projects.

Our primary business objective is to create value for stockholders by methodically developing and enhancing the value of our properties and then selling them or holding them for lease. Our full cycle development program of acquiring properties, securing and maintaining development entitlements, developing and stabilizing properties, and selling them or holding them as part of our leasing operations is a key element of our strategy. We may also seek to refinance properties, in order to benefit from the increased value of the property, from lower interest rates or in connection with holding them for lease once the properties have been completed and stabilized.

We believe that Austin and other select, fast-growing markets in Texas continue to be attractive locations. Many of our developments are in locations where development approvals have historically been subject to regulatory constraints, which has made it difficult to obtain or change entitlements. Most of our Austin properties, which are located in desirable areas with significant regulatory constraints, are entitled and have utility capacity for full buildout. As a result, we believe that through strategic planning, development and marketing, we can maximize and fully realize their value.

Our development plans require significant additional capital, which we may pursue through joint ventures or other arrangements. Our business strategy requires us to rely on cash flow from operations and debt financing as our primary sources of funding for our liquidity needs. However, we have increasingly relied on project-level equity financing of our subsidiaries. We have formed and expect to continue to pursue strategic relationships as part of our overall strategy for particular development projects and may enter into similar equity financing arrangements in the future. See Note 3 for further discussion.

As described in this report and in our 2021 Form 10-K, in December 2021, one of our wholly owned subsidiaries sold The Santal multi-family property for \$152.0 million, which after closing costs and payment of the outstanding project loan, generated net proceeds of approximately \$74 million. In January 2021, one of our subsidiaries sold The Saint Mary multi-family property for \$60.0 million of which we received approximately \$21.9 million after closing costs, payment of the construction loan, reserves for remaining costs of the partnership and distributions to noncontrolling interest owners. Net proceeds of the sales were used to pay down the balance of our \$60.0 million Comerica Bank credit facility and for other corporate purposes.

As previously mentioned, the sale of Block 21 is expected to close prior to June 1, 2022, but remains subject to the timely satisfaction or waiver of various closing conditions. If completed, the sale of Block 21 will result in substantial additional cash proceeds of approximately \$115 million pre-tax and \$90 million after-tax (before prorations, but including post-closing escrow amounts).

Our Board of Directors (Board) and management team are engaged in a strategic planning process, which includes consideration of the uses of proceeds from sales in 2021 and the pending sale of Block 21, and of our long-term business strategy. Potential uses of proceeds may include a combination of further deleveraging, returning cash to shareholders and reinvesting in our project pipeline. We expect to provide additional information after the Block 21 transaction is concluded and our Board and management have had the opportunity to assess market conditions and the capital requirements for our development pipeline.

OVERVIEW OF FINANCIAL RESULTS FOR FIRST-QUARTER 2022

As a result of the pending sale of Block 21, we have two operating segments: Real Estate Operations and Leasing Operations. Block 21, which encompassed our hotel and entertainment segments, along with some leasing operations, is reflected as discontinued operations. We operate primarily in Austin, Texas and in other select, fast-growing markets in Texas.

Our Real Estate Operations encompass our activities associated with our acquisition, entitlement, development, and sale of real estate. The current focus of our real estate operations is multi-family and single-family residential properties and retail and mixed-use properties. We may sell or lease the real estate we develop, depending on market conditions. Real estate that we develop and then lease becomes part of our Leasing Operations. Revenue in our Real Estate Operations may be generated from the sale of properties that are developed, undeveloped or under development, depending on market conditions. Developed property sales can include an individual tract of land that has been developed and permitted for residential use or a developed lot with a residence already built on it. In addition to our developed properties, we have a development portfolio that consists of approximately 1,700 acres of commercial and multi-family and single-family residential projects under development or undeveloped land held for future use.

Revenue in our Leasing Operations is generated from the lease of space at retail and mixed-use properties that we developed and the lease of residences in the multi-family projects that we developed. We also generate income from the sale of our leased properties, depending on market conditions.

Our revenues totaled \$3.1 million in first-quarter 2022, compared with \$11.4 million in first-quarter 2021. The decrease in revenues in first-quarter 2022, compared to first-quarter 2021, is primarily a result of no real estate sales occurring in first-quarter 2022 because of a decrease in available inventory of developed properties in our Real Estate Operations segment and a decrease in leasing revenue as a result of the sales of The Saint Mary and The Santal multi-family projects in 2021. Refer to "Results of Operations" below for further discussion of our segments.

Our net income attributable to common stockholders totaled \$2.3 million, or \$0.27 per diluted share in first-quarter 2022, compared to \$8.9 million, or \$1.08 per diluted share, in first-quarter 2021. Our results for first-quarter 2022 included a \$4.8 million pre-tax gain recognized on the reversal of accruals for costs to lease and construct buildings under a master lease arrangement that Stratus entered into in connection with its sale of The Oaks at Lakeway in 2017. Refer to Note 4 under the heading "The Oaks at Lakeway" for additional discussion. Net income attributable to common stockholders in first-quarter 2021 included a \$22.9 million pre-tax gain (\$16.2 million net of noncontrolling interests) on the January 2021 sale of The Saint Mary, a 240-unit luxury garden-style multi-family project in the Circle C community, partially offset by a \$2.5 million net loss from discontinued operations as our hotel and entertainment operations were impacted by the COVID-19 pandemic.

RECENT DEVELOPMENT ACTIVITIES

Current Residential Activities

Barton Creek

In first-quarter 2022, we sold no residential units or lots. As of March 31, 2022, two developed Amarra Drive Phase III lots remained unsold.

The Villas at Amarra Drive (Amarra Villas) project is a 20-unit development in the Barton Creek community for which we completed construction of the first seven homes during 2017 and 2018. We sold the last two completed homes in 2019. We began construction on the next two Amarra Villas homes during the first quarter of 2020, which are expected to be completed in mid-2022. In 2021, we began construction of one additional home and in March 2022, we began construction on another two homes. As of May 13, 2022, two homes were under contract to sell (one which we began construction on in 2020 and one which we began construction on in 2021). As of May 13, 2022, a total of 11 units (3 of which are under construction and 8 of which construction has not started) remain available for sale of the initial 20-unit project.

In third-quarter 2021, we began construction on The Saint June, a 182-unit luxury garden-style multi-family project within the Amarra development. The Saint June is expected to be comprised of multiple buildings featuring one, two and three bedroom units for lease with amenities that include a resort-style clubhouse, fitness center, pool and extensive green space. The first units of The Saint June are currently expected to be completed in fourth-quarter 2022 with completion of the project expected in first-quarter 2023. This project is being built consistent with our sustainability, wellness and conservation goals.

We continue to progress the development plans for Holden Hills, our final large residential development within the Barton Creek community consisting of 495 acres and designed to feature 475 unique residences to be developed in multiple phases with a focus on health and wellness, sustainability and energy conservation. We currently expect to secure final permits to start construction in September 2022. Subject to obtaining financing and other market conditions, we currently expect to complete site work for Phase I, including the construction of road, utility, drainage and other required infrastructure, approximately 17 months from the issuance of our final permits. Accordingly, our current projections anticipate that we could begin closing sales of certain home sites in Holden Hills in late 2024. We may sell the developed home sites, or may elect to build and sell, or build and lease, homes on some or all of the home sites, depending on financing and market conditions.

Using a conceptual approach similar to that used for Holden Hills, we continue to progress the development plans for Section N, our approximately 570-acre tract located along Southwest Parkway in the southern portion of the Barton Creek community. If successful, this new project would be designed as a dense, mid-rise, mixed-use project surrounded by an extensive greenspace amenity, resulting in a significant potential increase in development density, as compared to our prior plans.

The Annie B

In September 2021, we purchased the land and announced plans for The Annie B, a proposed luxury high-rise rental project in downtown Austin to be developed as a 400-foot tower, consisting of approximately 420,000 square feet with approximately 300 luxury multi-family units for lease and ground level retail. We currently expect to finalize development plans, secure development financing and begin construction by late 2022 or early 2023. This project will be built consistent with our sustainability, wellness and conservation goals.

The Saint George

In December 2021, we purchased the land for The Saint George, a proposed 316-unit luxury wrap-style multi-family project to be constructed in north-central Austin. While we continue the planning for the project and obtaining the entitlement and permit approvals, we currently expect to begin construction in the second quarter of 2022 and to achieve substantial completion by mid-2024. We are negotiating a construction loan for the project.

Lantana Multi-Family, Kingwood Place and Other Residential

We have advanced development plans for the multi-family component of Lantana Place, a partially developed, mixed-use development project located south of Barton Creek in Austin, and, subject to securing an acceptable capital structure and other market conditions, currently expect to begin construction in third-quarter 2022 with expected completion in mid-2024. The multi-family component is now known as The Saint Julia and is expected to consist of 306 units.

We are evaluating a sale of a portion of the land for the single-family and multi-family residential components of Magnolia Place, an H-E-B, L.P (H-E-B) grocery shadow-anchored, mixed-use project in Magnolia, Texas. We also continue to evaluate options for the multi-family component of Jones Crossing, an H-E-B grocery anchored, mixed-use development located in College Station, Texas.

In September 2021, we entered into a contract to sell a multi-family tract of land currently planned for approximately 275 multi-family units for \$5.5 million at Kingwood Place, an H-E-B grocery anchored, mixed-use project in Kingwood, Texas. If consummated, the sale is expected to close in third-quarter 2022.

For further discussion of our multi-family and single-family residential properties, refer to MD&A and the related sections in Items 1. and 2. "Business and Properties" in our 2021 Form 10-K.

Current Commercial Activities

Magnolia Place

In August 2021, we began construction on the first phase of development of Magnolia Place, our H-E-B grocery shadow-anchored, mixed-use project in Magnolia, Texas. Magnolia Place is currently planned to consist of 4 retail buildings totaling approximately 35,000 square feet, 5 retail pad sites to be sold or ground leased, 194 single-family lots and approximately 500 multi-family units. The first phase of development consists of 2 retail buildings totaling 18,987 square feet, all 5 pad sites, and the road, utility and drainage infrastructure necessary to support the entire development. The first two retail buildings are expected to be available for occupancy in third-quarter 2022. In mid-2021, H-E-B began construction on its 95,000-square-foot grocery store on an adjoining 18-acre site owned by H-E-B, which is expected to open in fourth-quarter 2022.

Lantana Place

As of March 31, 2022, we had signed leases for approximately 85 percent of the retail space at Lantana Place, including the anchor tenant, Moviehouse & Eatery, and a ground lease for an AC Hotel by Marriott. Lantana Place is our partially developed, mixed-use development project within the Lantana community south of Barton Creek in Austin, Texas.

Kingwood Place

Kingwood Place is our H-E-B-anchored, mixed-use development project in Kingwood, Texas (in the greater Houston area). We have constructed approximately 152,000 square feet of retail space at Kingwood Place, including an H-E-B grocery store, and we have signed ground leases on four of the retail pads. One pad site remains available for lease. As of March 31, 2022, we had signed leases for approximately 85 percent of the retail space, including the H-E-B grocery store. We are exploring a potential sale or refinancing of Kingwood Place.

Jones Crossing

As of March 31, 2022, we had signed leases for substantially all of the retail space at the first phase of Jones Crossing. Jones Crossing is our H-E-B-anchored, mixed-use project in College Station, Texas. We are exploring a potential sale or refinancing of Jones Crossing.

West Killeen Market

As of March 31, 2022, we had signed leases for approximately 70 percent of the retail space at West Killeen Market, our retail project located in Killeen, Texas, shadow-anchored by an adjacent H-E-B grocery store. Only one unsold pad site remains at West Killeen Market. We are exploring a potential sale or refinancing of West Killeen Market.

For further discussion of our commercial properties, refer to MD&A and the related sections in Items 1. and 2. "Business and Properties" in our 2021 Form 10-K.

Potential Development Projects and Pipeline

Our development plans for the Annie B, Holden Hills, Section N and The Saint Julia will require significant additional capital, which we currently intend to pursue through bank debt and third-party equity capital arrangements, and we are negotiating a loan for The Saint George project. We are also pursuing other development projects. These potential development projects and projects in our pipeline require extensive additional permitting and will be dependent on market conditions and financing. Because of the nature and cost of the approval and development

process and uncertainty regarding market demand for a particular use, there is uncertainty regarding the nature of the final development plans and whether we will be able to successfully execute the plans.

Supply Chain Disruptions

Supply chain disruptions impacting our industry have begun to delay some of our projects under construction, and may impact the timing of projects on which we plan to start construction in the future. Our contractors have experienced delays on our projects primarily related to delivery of certain residential electrical components and laminated structural wood materials. We understand that suppliers are taking actions to try to mitigate the delays; however, their efforts may not be successful. While these constraints have not had a material impact on the expected timing or cost of our projects under construction, that may change in the future. Because we engage third-party general contractors to construct our projects on a fixed-price or guaranteed maximum price basis, our exposure to cost increases on projects under construction is limited; however, supply constraints may increase our costs of or delay future projects. Refer to "Risk Factors" included in Part II, Item 1A. herein.

RESULTS OF OPERATIONS

We are continually evaluating the development and sale potential of our properties and will continue to consider opportunities to enter into transactions involving our properties, including possible sales, joint ventures or other arrangements. As a result, and because of numerous factors affecting our business activities as described herein and in our 2021 Form 10-K, our past operating results are not necessarily indicative of our future results. We use operating income or loss to measure the performance of each operating segment. Corporate, eliminations and other includes consolidated general and administrative expenses, which primarily consist of employee compensation and other costs described herein.

The following table summarizes our operating results for the first quarters of 2022 and 2021 (in thousands):

	Three Months Ended March 31,	
	2022	2021
Operating (loss) income:		
Real Estate Operations ^a	\$ (1,368)	\$ 2,136
Leasing Operations	6,056 ^b	24,153 ^c
Corporate, eliminations and other ^d	(3,167)	(4,306)
Operating income	\$ 1,521	\$ 21,983
Interest expense, net	\$ (15)	\$ (1,056)
Net income from continuing operations	\$ 1,812	\$ 18,174
Net income (loss) from discontinued operations	\$ 375	\$ (2,508)
Net income attributable to common stockholders	\$ 2,272	\$ 8,944

a. Includes sales commissions and other revenues together with related expenses.

b. Includes a \$4.8 million gain recognized on the reversal of accruals for costs to lease and construct buildings under a master lease arrangement that Stratus entered into in connection with its sale of The Oaks at Lakeway in 2017. Refer to Note 4 under the heading "The Oaks at Lakeway" for additional discussion.

c. Includes a \$22.9 million gain on the January 2021 sale of The Saint Mary.

d. Includes consolidated general and administrative expenses and eliminations of intersegment amounts.

As a result of the pending sale of Block 21, we currently have two operating segments: Real Estate Operations and Leasing Operations (refer to Note 9). The following is a discussion of our operating results by segment.

Real Estate Operations

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

	Three Months Ended March 31,	
	2022	2021
Revenues:		
Developed property sales	\$ —	\$ 4,040
Undeveloped property sales	—	2,500
Commissions and other	23	20
Total revenues	23	6,560
Cost of sales, including depreciation	1,391	4,424
Operating (loss) income	\$ (1,368)	\$ 2,136

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

	Three Months Ended March 31,					
	2022			2021		
	Lots/Units	Revenues	Average Cost Per Lot/Unit	Lots/Units	Revenues	Average Cost Per Lot/Unit
Barton Creek						
Amarra Drive:						
Phase III lots	—	\$ —	\$ —	2	\$ 1,640	\$ 332
W Austin Residences at Block 21:						
Condominium unit	—	—	—	1	2,400	1,721
Total Residential	—	\$ —	—	3	\$ 4,040	—

The decrease in revenues in first-quarter 2022, compared to first-quarter 2021, reflects no sales in first-quarter 2022, as available inventory of developed properties in our Real Estate Operations segment is limited.

Undeveloped Property Sales. In first-quarter 2021, we sold a five-acre multi-family tract of land in Amarra Drive for \$2.5 million.

Cost of Sales. Cost of sales includes costs of property sold, project operating and marketing expenses and allocated overhead costs, partly offset by reductions for certain municipal utility district (MUD) reimbursements. Cost of sales decreased to \$1.4 million in first-quarter 2022 from \$4.4 million in first-quarter 2021, primarily reflecting the absence of sales in first-quarter 2022.

Leasing Operations

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

	Three Months Ended March 31,	
	2022	2021
Rental revenue	\$ 3,080	\$ 4,818
Rental cost of sales, excluding depreciation	984	2,052
Depreciation	852	1,544
Gain on sale of assets	(4,812)	(22,931)
Operating income	\$ 6,056	\$ 24,153

Rental Revenue. Rental revenue primarily includes revenue from Lantana Place, Jones Crossing, Kingwood Place and West Killeen Market, and until their sales in December 2021 and January 2021, respectively, our multi-family projects The Santal and The Saint Mary. The decrease in rental revenue in first-quarter 2022, compared with first-quarter 2021, primarily reflects the sale of The Santal in December 2021, partly offset by increased revenue at Lantana Place. The Santal had rental revenue of \$2.2 million in first-quarter 2021.

Rental Cost of Sales and Depreciation. Rental cost of sales and depreciation expense decreased in first-quarter 2022, compared with the first-quarter 2021, primarily as a result of the sale of The Santal.

Gain on Sale of Assets. In the first quarter of 2022, we recognized a gain on the reversal of accruals for costs to lease and construct buildings under a master lease arrangement that Stratus entered into in connection with its sale of The Oaks at Lakeway in 2017. Refer to Note 4 under the heading “The Oaks at Lakeway” for further discussion.

In January 2021, one of our subsidiaries sold The Saint Mary for \$60.0 million. After closing costs and payment of the outstanding construction loan, the sale generated net proceeds of approximately \$34 million. In first-quarter 2021, after establishing a reserve for remaining costs of the partnership, we received \$20.9 million from the subsidiary in connection with the sale and \$12.9 million of the net proceeds were distributed to the noncontrolling interest owners. We recognized a pre-tax gain on the sale of \$22.9 million (\$16.2 million net of noncontrolling interests) in first-quarter 2021.

Corporate, Eliminations and Other

Corporate, eliminations and other (refer to Note 9) includes consolidated general and administrative expenses, which primarily consist of employee compensation and other costs. Consolidated general and administrative expenses decreased to \$3.2 million in first-quarter 2022 from \$4.3 million in first-quarter 2021, primarily reflecting \$0.8 million incurred in first-quarter 2021 for consulting, legal and public relation costs for Stratus' successful proxy contest and the real estate investment trust exploration process as well as a \$0.5 million decrease in employee incentive compensation costs associated with the Profit Participation Incentive Plan.

Non-Operating Results

Interest Expense, Net. Interest costs (before capitalized interest) totaled \$1.1 million in first-quarter 2022 compared with \$2.3 million in first-quarter 2021. Interest costs in first-quarter 2022 were lower, compared to first-quarter 2021, primarily reflecting reductions in debt balances, including the lower outstanding balance on the Comerica Bank credit facility and the repayment of The Santal loan.

Capitalized interest totaled \$1.1 million in first-quarter 2022 compared to \$1.3 million in first-quarter 2021. Capitalized interest is primarily related to development activities at Barton Creek, The Annie B, The Saint George and Magnolia Place.

Loss on Extinguishment of Debt. We recorded a \$63 thousand loss on extinguishment of debt in first-quarter 2021 associated with the repayment of The Saint Mary construction loan upon the sale of the property.

Benefit from (Provision for) Income Taxes. We recorded a benefit from income taxes of \$0.3 million in first-quarter 2022, compared to a provision for income taxes of \$2.7 million in first-quarter 2021. Refer to Note 8 for further discussion of income taxes.

Total Comprehensive Loss (Income) Attributable to Noncontrolling Interests in Subsidiaries. Our partners' share of losses (income) totaled \$0.1 million in first-quarter 2022, compared to \$(6.7) million in first-quarter 2021. In first-quarter 2021, our partners were allocated \$6.7 million of the gain from the sale of The Saint Mary.

Discontinued Operations

Block 21 is our wholly owned mixed-use real estate property located on a two-acre city block in downtown Austin that contains the W Austin Hotel, consisting of a 251-room luxury hotel, and office, retail and entertainment space. The hotel is managed by W Hotel Management, Inc. a subsidiary of Starwood Hotels & Resorts Worldwide, Inc., which is a subsidiary of Marriott International, Inc. The entertainment space is occupied by Austin City Limits Live at the Moody Theater (ACL Live) and 3TEN ACL Live. ACL Live is a 2,750-seat live music and entertainment venue and production studio that serves as the location for the filming of Austin City Limits, the longest running music series in American television history. 3TEN ACL Live, which opened in March 2016, has a capacity of approximately 350 people and is designed to be more intimate than ACL Live.

As a result of our October 2021 entry into new agreements to sell Block 21 to Ryman for \$260.0 million, our hotel and entertainment operations, as well as the leasing operations associated with the Block 21 property, are reported as discontinued operations for all periods presented in the accompanying financial statements. Refer to Note 4 for further discussion.

The transaction is expected to close prior to June 1, 2022, but remains subject to the timely satisfaction or waiver of various closing conditions, including the consent of the loan servicers to the purchaser's assumption of the existing mortgage loan, the consent of the hotel operator, an affiliate of Marriott, to the purchaser's assumption of the hotel operating agreement, the absence of a material adverse effect, and other customary closing conditions. The Block

21 purchase agreement will terminate if all conditions to closing are not satisfied or waived by the parties. Ryman has deposited \$5.0 million in earnest money to secure its performance under the agreements governing the sale. Of the total purchase price, \$6.9 million will be held in escrow for 12 months after the closing, subject to a longer retention period with respect to any required reserve for pending claims. We expect to record a pre-tax gain of approximately \$120 million upon closing of the sale (approximately \$95 million after-tax). The purchase price is payable by the assumption of the Block 21 loan with the balance to be paid in cash. We expect the net sale proceeds before taxes to be approximately \$115 million and the after-tax proceeds to be approximately \$90 million before prorations, but including post-closing escrow amounts.

Net income (loss) from discontinued operations totaled \$0.4 million in first-quarter 2022 and \$(2.5) million in first-quarter 2021. We reported higher hotel and entertainment revenue in first-quarter 2022 as the impacts of the COVID-19 pandemic had a significant impact on first-quarter 2021 results.

The following is a discussion of our key operating results within discontinued operations.

Hotel Revenue. Hotel revenue primarily includes revenue from W Austin Hotel room reservations and food and beverage sales. Hotel revenues were \$5.9 million in first-quarter 2022 and \$2.1 million in first-quarter 2021. The increase in Hotel revenues in first-quarter 2022, compared to first-quarter 2021, is primarily a result of higher room reservations and food and beverage sales as the impacts of the COVID-19 pandemic had a significant impact on first-quarter 2021 results. First-quarter 2022 Hotel revenue was approximately 70 percent of pre-pandemic Hotel revenue in first-quarter 2019. Revenue per available room (RevPAR), which is calculated by dividing total room revenue by the average total rooms available, was \$165 in first-quarter 2022, compared with \$51 in first-quarter 2021.

Entertainment Revenue. Entertainment revenue primarily reflects the results of operations for ACL Live, including ticket sales, revenue from private events, sponsorships, personal seat license sales and suite sales, and sales of concessions and merchandise. Entertainment revenue also reflects revenues associated with events hosted at 3TEN ACL Live. Revenues from the Entertainment segment vary from period to period as a result of factors such as the price of tickets and number of tickets sold, as well as the number and type of events hosted at ACL Live and 3TEN ACL Live. Entertainment revenues totaled \$5.3 million in first-quarter 2022 and \$0.6 million in first-quarter 2021. The increase in entertainment revenue primarily reflects an increase in the number of events hosted at ACL Live and 3TEN ACL Live as the impacts of the COVID-19 pandemic had a significant impact on first-quarter 2021 results. First-quarter 2022 Entertainment revenue was approximately 10 percent greater than pre-pandemic Entertainment revenue in first-quarter 2019. As of August 2021, ACL Live and 3TEN ACL Live are operating at full capacity.

Certain key operating statistics specific to the concert and event hosting industry are included below to provide additional information regarding our ACL Live and 3TEN ACL Live operating performance.

	Three Months Ended March 31,	
	2022	2021
ACL Live		
Events:		
Events hosted	48	28
Estimated attendance	53,882	3,416
Ticketing:		
Number of tickets sold	54,947	3,710
Gross value of tickets sold (in thousands)	\$ 2,964	\$ 373
3TEN ACL Live		
Events:		
Events hosted	44	22
Estimated attendance	7,100	1,828
Ticketing:		
Number of tickets sold	3,413	114
Gross value of tickets sold (in thousands)	\$ 99	\$ 3

CAPITAL RESOURCES AND LIQUIDITY

Volatility in the real estate market, including the markets in which we operate, can impact the timing of and proceeds received from sales of our properties, which may cause uneven cash flows from period to period. However, we believe that the unique nature and location of our assets will provide us positive cash flows over time.

Comparison of Cash Flows for the Three Months Ended March 31, 2022 and 2021

Operating Activities. Cash used in operating activities totaled \$18.1 million in first-quarter 2022, compared with \$10.4 million in first-quarter 2021. Expenditures for purchases and development of real estate properties totaled \$4.9 million in first-quarter 2022 and \$2.5 million in first-quarter 2021, primarily related to development of our Barton Creek properties, particularly Amarra Villas and, to a lesser extent, Holden Hills. The cash outflows resulting from the decrease in accounts payable, accrued liabilities and other in first-quarter 2022 and first-quarter 2021 are primarily related to the timing of property tax payments. The cash outflow resulting from the increase in other assets in first-quarter 2022 is primarily related to a \$4.0 million deposit that we delivered to the city of Austin to secure our obligation to construct certain subdivision improvements related to the Holden Hills project.

Investing Activities. Cash (used in) provided by investing activities totaled \$(14.9) million in first-quarter 2022 and \$58.2 million in first-quarter 2021. Capital expenditures totaled \$14.7 million in first-quarter 2022, primarily for The Saint June and Magnolia Place projects, and \$1.0 million in first-quarter 2021, primarily for the Magnolia Place and Lantana Place projects.

In first-quarter 2021, we received proceeds, net of closing costs, from the sale of The Saint Mary of \$59.5 million.

Financing Activities. Cash provided by (used in) financing activities totaled \$13.5 million in first-quarter 2022 and \$(50.8) million in first-quarter 2021. In first-quarter 2022, net borrowings on the Comerica Bank credit facility totaled \$10.0 million, compared with net repayments of \$9.2 million in first-quarter 2021, primarily using proceeds from the sale of The Saint Mary. In first-quarter 2022, net borrowings on other project and term loans totaled \$3.9 million, primarily reflecting borrowings on the Magnolia Place construction loan. In first-quarter 2021, net repayments on other project and term loans totaled \$28.3 million, primarily reflecting the repayment of The Saint Mary construction loan. Refer to “Credit Facility, Other Financing Arrangements and Liquidity Outlook” below for a discussion of our outstanding debt at March 31, 2022.

In first-quarter 2021, we paid distributions to noncontrolling interest owners of \$13.1 million, primarily related to the sale of The Saint Mary.

Credit Facility, Other Financing Arrangements and Liquidity Outlook

At March 31, 2022, we had total debt of \$122.5 million based on the principal amounts outstanding, compared with \$107.9 million at December 31, 2021. Consolidated debt at both dates excluded the Block 21 loan of approximately \$137 million. Our Comerica Bank credit facility, which is comprised of a \$60.0 million revolving line of credit, had \$49.7 million available at March 31, 2022, net of letters of credit totaling \$347 thousand committed against the credit facility. In April 2022, we borrowed \$20.0 million on the credit facility, of which the majority of the funds were used to make a U.S. Federal tax payment for our 2021 tax liability. Refer to “Debt Maturities and Other Contractual Obligations” below for a table illustrating the timing of principal payments due on our outstanding debt as of March 31, 2022.

Our debt agreements require compliance with specified financial covenants. Refer to MD&A in our 2021 Form 10-K for a discussion of the financial covenants in our debt agreements. As of March 31, 2022, we were in compliance with all of our financial covenants; however, for each quarter since second-quarter 2020 our Block 21 subsidiary did not pass the debt service coverage ratio financial test under the Block 21 loan, which, though not a financial covenant, caused the Block 21 subsidiary to enter into a “Trigger Period” as discussed below.

Stratus’ and its subsidiaries’ debt arrangements contain significant limitations that may restrict Stratus’ and its subsidiaries’ ability to, among other things: borrow additional money or issue guarantees; pay dividends, repurchase equity or make other distributions to equityholders; make loans, advances or other investments; create liens on assets; sell assets; enter into sale-leaseback transactions; enter into transactions with affiliates; permit a change of control; sell all or substantially all of its assets; and engage in mergers, consolidations or other business combinations. Our Comerica Bank credit facility and The Annie B land loan require Comerica Bank’s prior written consent for any common stock repurchases in excess of \$1.0 million or any dividend payments.

The Block 21 loan agreement, which is excluded from consolidated debt and presented within liabilities held for sale, is secured by the Block 21 assets and contains financial tests that we must meet in order to avoid a "Trigger Period." Specifically, we must maintain (i) a net worth in excess of \$125 million and (ii) liquid assets having a market value of at least \$10 million, each as defined in the Block 21 loan agreement. Additionally, our Block 21 subsidiary must maintain a trailing-12-month debt service coverage ratio, tested quarterly, as defined in the Block 21 loan agreement. If any of these financial tests are not met, a "Trigger Period", which is not a default, results. As a result of the pandemic, our Block 21 subsidiary has not met the debt service coverage ratio test each quarter beginning with the June 30, 2020, test date, resulting in a "Trigger Period." During a "Trigger Period," any cash generated from the Block 21 project in excess of amounts necessary to fund loan obligations, budgeted operating expenses and specified reserves would not be available to be distributed to us until after we meet a higher debt service coverage ratio requirement for two consecutive quarters.

Although the Block 21 loan agreement is a non-recourse loan, we may contribute cash to our Block 21 subsidiary in order to prevent our Block 21 subsidiary from defaulting under the Block 21 loan agreement. Additionally, under our Block 21 subsidiary's hotel operating agreement, the hotel operator may, and has, requested funds from us when it reasonably determines that such funds are required in order to fund the operation of the hotel and specified reserves. Pursuant to such provisions, we contributed \$13.7 million in 2021, \$2.5 million in first-quarter 2022 and, depending on the timing of the sale of Block 21, we expect additional contributions to total as much as \$0.6 million in second-quarter 2022.

We project that we will be able to meet our debt service and other cash obligations for at least the next 12 months. In May 2022, we entered into an amendment with Comerica Bank to extend the maturity date of the Comerica Bank credit facility from September 27, 2022, to December 26, 2022. We are in discussions with the lender to remove Holden Hills from the collateral pool for the facility, finance the Holden Hills project under a separate loan agreement and enter into a revised revolving credit facility with a lower borrowing limit secured by the remaining collateral under the facility. We expect to be able to extend or refinance all of our loans prior to their maturity dates. No assurances can be given that the results anticipated by our projections will occur. Refer to "Risk Factors" included in Part I, Item 1A. and Note 6 in our 2021 Form 10-K.

Our ability to meet our cash obligations over the longer term, including our significant debt maturities in 2023, will depend on our future operating and financial performance and cash flows, including our ability to sell or lease properties profitably and extend or refinance debt as it becomes due, which is subject to economic, financial, competitive and other factors beyond our control, including risks related to the COVID-19 pandemic.

DEBT MATURITIES AND OTHER CONTRACTUAL OBLIGATIONS

The following table summarizes our debt maturities based on the principal amounts outstanding as of March 31, 2022 (in thousands), excluding debt related to Block 21 included in liabilities held for sale:

	2022	2023	2024	2025	2026	Total
Comerica Bank credit facility ^a	\$ 10,000	\$ —	\$ —	\$ —	\$ —	\$ 10,000
Jones Crossing loan	—	—	—	—	24,500	24,500
The Annie B land loan	—	14,000	—	—	—	14,000
New Caney land loan	—	4,275	—	—	—	4,275
PPP loan	38	—	—	—	—	38
Construction loans:						
Kingwood Place ^b	32,586	—	—	—	—	32,586
Lantana Place	604	21,454	—	—	—	22,058
West Killeen Market	6,052	—	—	—	—	6,052
Magnolia Place	—	—	6,827	—	—	6,827
Amarra Villas credit facility	2,166	—	—	—	—	2,166
Total	\$ 51,446	\$ 39,729	\$ 6,827	\$ —	\$ 24,500	\$ 122,502

a. In May 2022, we entered into an amendment to extend the maturity date of the \$60.0 million Comerica Bank credit facility from September 27, 2022, to December 26, 2022, pending completion of our discussions with the lender to amend the facility in connection with the financing of Holden Hills as discussed elsewhere in this report.

- b. Matures December 6, 2022. We have the option to extend the maturity date for two additional 12-month periods, subject to certain debt service coverage conditions, which we expect to meet for the first extension period after an approximate \$5.1 million paydown upon the closing of the pending sale of the multi-family tract.

Other than the debt transactions discussed in Note 6, there have been no material changes in our contractual obligations since December 31, 2021. Refer to MD&A in our 2021 Form 10-K for further information regarding our contractual obligations.

CRITICAL ACCOUNTING ESTIMATES

There have been no changes in our critical accounting estimates from those discussed in our 2021 Form 10-K.

NEW ACCOUNTING STANDARDS

No new accounting standards in 2022 have had a material impact on us.

OFF-BALANCE SHEET ARRANGEMENTS

There have been no material changes in our off-balance sheet arrangements since December 31, 2021. Refer to Note 9 in our 2021 Form 10-K for further information.

CAUTIONARY STATEMENT

This Quarterly Report on Form 10-Q contains forward-looking statements in which we discuss factors we believe may affect our future performance. Forward-looking statements are all statements other than statements of historical fact, such as plans, projections or expectations related to whether and when the sale of Block 21 will be completed, our estimated gain and net cash proceeds from the sale of Block 21 and potential uses of such proceeds, potential results of our Board and management's strategic planning process, the impacts of the COVID-19 pandemic, our ability to meet our future debt service and other cash obligations, future cash flows and liquidity, our expectations about the Austin and Texas real estate markets, the planning, financing, development, construction, completion and stabilization of our development projects, plans to sell, recapitalize, or refinance properties, future operational and financial performance, MUD reimbursements for infrastructure costs, regulatory matters, leasing activities, tax rates, the impact of inflation and interest rate changes, future capital expenditures and financing plans, possible joint ventures, partnerships, or other strategic relationships, other plans and objectives of management for future operations and development projects, and future dividend payments and share repurchases. The words "anticipate," "may," "can," "plan," "believe," "potential," "estimate," "expect," "project," "target," "intend," "likely," "will," "should," "to be" and any similar expressions and/or statements are intended to identify those assertions as forward-looking statements.

Under our Comerica Bank credit facility, we are not permitted to repurchase our common stock in excess of \$1.0 million or pay dividends on our common stock without Comerica Bank's prior written consent. The declaration of dividends or decision to repurchase our common stock is at the discretion of our Board, subject to restrictions under our Comerica Bank credit facility, and will depend on our financial results, cash requirements, projected compliance with covenants in our debt agreements, outlook and other factors deemed relevant by the Board.

We caution readers that forward-looking statements are not guarantees of future performance, and our actual results may differ materially from those anticipated, expected, projected or assumed in the forward-looking statements. Important factors that can cause our actual results to differ materially from those anticipated in the forward-looking statements include, but are not limited to, the occurrence of any event, change or other circumstance that could delay the closing of the sale of Block 21, or result in the termination of the agreements to sell Block 21, the results of our Board and management's strategic planning process, the ongoing COVID-19 pandemic and any future major public health crisis, increases in inflation and interest rates, supply chain disruptions, declines in the market value of our assets, increases in operating costs, including real estate taxes and the cost of building materials and labor, our ability to pay or refinance our debt or comply with or obtain waivers of financial and other covenants in debt agreements and to meet other cash obligations, our ability to collect anticipated rental payments and close projected asset sales, the availability and terms of financing for development projects and other corporate purposes, our ability to enter into and maintain joint ventures, partnerships, or other strategic relationships, including risks associated with such joint ventures, our ability to implement our business strategy successfully, including our ability to develop, construct and sell or lease properties on terms our Board

considers acceptable, market conditions or corporate developments that could preclude, impair or delay any opportunities with respect to plans to sell, recapitalize or refinance properties, our ability to obtain various entitlements and permits, a decrease in the demand for real estate in select markets in Texas where we operate, changes in economic, market and business conditions, including as a result of the war in Ukraine, reductions in discretionary spending by consumers and businesses, competition from other real estate developers, the termination of sales contracts or letters of intent because of, among other factors, the failure of one or more closing conditions or market changes, the failure to attract customers or tenants for our developments or such customers' or tenants' failure to satisfy their purchase commitments or leasing obligations, changes in consumer preferences, industry risks, changes in laws, regulations or the regulatory environment affecting the development of real estate, opposition from special interest groups or local governments with respect to development projects, weather- and climate-related risks, loss of key personnel, environmental and litigation risks, cybersecurity incidents and other factors described in more detail under the heading "Risk Factors" in Part I, Item 1A. of our 2021 Form 10-K, filed with the SEC, and "Risk Factors" included in Part II, Item 1A. herein.

Investors are cautioned that many of the assumptions upon which our forward-looking statements are based are likely to change after the date the forward-looking statements are made. Further, we may make changes to our business plans that could affect our results. We caution investors that we undertake no obligation to update our forward-looking statements, which speak only as of the date made, notwithstanding any changes in our assumptions, business plans, actual experience, or other changes.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer, with the participation of management, have evaluated the effectiveness of our "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this quarterly report on Form 10-Q. Based on this evaluation, they have concluded that our disclosure controls and procedures were effective as of March 31, 2022.

(b) Changes in internal control over financial reporting. There was no change in our internal control over financial reporting that occurred during the quarter ended March 31, 2022, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors.

We are supplementing the risk factors described under Part I, Item 1A. "Risk Factors" of our 2021 Form 10-K with the risk factor set forth below, which should be read in conjunction with the risk factors and other disclosures in this report and in our 2021 Form 10-K.

Supply chain constraints may further delay completion of our projects under construction, may impact the timing of projects we plan to start in the future, and may increase our costs.

Supply chain disruptions impacting our industry have begun to delay some of our projects under construction, and may impact the timing of projects on which we plan to start construction in the future. Our industry has also continued to experience increases in costs of land, construction materials and labor. Because we engage third-party general contractors to construct our projects on a fixed-price or guaranteed maximum price basis, our exposure to cost increases on projects under construction is limited; however, supply constraints may increase our costs of, or delay, future projects. In addition, rising costs and delays in delivery of materials may increase the risk of default by contractors and subcontractors. Accordingly, time delays or increases in construction costs resulting from supply chain disruptions may impact our ability to realize anticipated returns on projects and have a material adverse impact on our cash flow and profits. Refer to Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion.

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

There were no unregistered sales of equity securities and no repurchases of common stock during the three months ended March 31, 2022.

Item 5. Other Information.

As previously reported, on March 9, 2022, C. Donald Whitmire, Jr., Stratus' principal accounting officer, informed Stratus of his intention to retire effective June 30, 2022. On May 12, 2022, Stratus' Board appointed Erin D. Pickens as Stratus' principal accounting officer, effective upon Mr. Whitmire's retirement on June 30, 2022. Ms. Pickens will continue to serve as Stratus' Senior Vice President and Chief Financial Officer. Ms. Pickens' employment information and compensatory arrangements are incorporated herein by reference as set forth in Stratus' [2021 Form 10-K under the heading "Information About Our Executive Officers"](#) and [Definitive Proxy Statement on Schedule 14A filed with the SEC on April 8, 2022, under the heading "Executive Officer Compensation."](#)

On May 13, 2022, Stratus and certain of its wholly-owned subsidiaries, Stratus Properties Operating Co., L.P., a Delaware limited partnership, Circle C Land, L.P., a Texas limited partnership, Austin 290 Properties, Inc., a Texas corporation, The Villas at Amarra Drive, L.L.C., a Texas limited liability company, and Stratus Lakeway Center, L.L.C., a Texas limited liability company (collectively with Stratus, the Borrowers), as borrowers, and Comerica Bank (Comerica), as lender, entered into the Third Modification Agreement (the Third Modification) and Amended and Restated Revolving Promissory Note (the Amended Note and collectively with the Third Modification, the Modification Documents), which amend that certain Loan Agreement and Revolving Promissory Note, respectively, each dated June 29, 2018, by and between Borrowers, another two of Stratus' wholly-owned subsidiaries, 210 Lavaca Holdings, L.L.C., a Texas limited liability company, and Magnolia East 149, L.L.C., a Texas limited liability company (the Released Borrowers), and Comerica (the Original Loan Documents). The Original Loan Documents were previously amended by that certain Modification Agreement, effective April 14, 2020, and that certain Second Modification Agreement, effective June 12, 2020, each by and between Borrowers, the Released Borrowers and Comerica (as amended, the Loan Documents). The Loan Documents provide for a \$60.0 million secured revolving credit facility.

The Modification Documents amend the Loan Documents to (i) extend the maturity date of the credit facility from September 27, 2022, to December 26, 2022, (ii) increase the letter of credit sublimit from \$7.5 million to \$11.5 million, (iii) effect the removal of the Released Borrowers' property from the collateral pool for the facility and (iv) change the benchmark rate from the London Interbank Offered Rate to the Bloomberg Short-Term Bank Yield Index (BSBY) Rate. Advances under the credit facility now bear interest at the one-month BSBY Rate (with a floor of 0.0 percent) plus 4.0 percent.

Stratus is in discussions with Comerica to remove Holden Hills from the collateral pool for the facility, finance the Holden Hills project under a separate loan agreement and enter into a revised revolving credit facility with a lower borrowing limit secured by the remaining collateral under the facility. However, there can be no assurance that Stratus will obtain any additional amendments to the Loan Documents.

The foregoing description of the Modification Documents does not purport to be complete and is qualified in its entirety by reference to the full text of the Amended Note and the Third Modification, respectively, copies of which are attached hereto as Exhibits 10.2 and 10.5, and are incorporated herein by reference.

Item 6. Exhibits.

Exhibit Number	Exhibit Title	Filed with this Form 10-Q	Incorporated by Reference		
			Form	File No.	Date Filed
2.1	Agreement of Sale and Purchase, dated February 15, 2017, between Stratus Lakeway Center, LLC and FHF I Oaks at Lakeway, LLC.		8-K	001-37716	2/21/2017
2.2	Agreement of Sale and Purchase, dated October 26, 2021 between Stratus Block 21, L.L.C. and Ryman Hospitality Properties, Inc.		10-K	001-37716	3/31/2022

Exhibit Number	Exhibit Title	Filed with this Form 10-Q	Incorporated by Reference		
			Form	File No.	Date Filed
2.3	Membership Interest Purchase Agreement, dated October 26, 2021 between Stratus Block 21 Investments, L.P. and Ryman Hospitality Properties, Inc.		10-K	001-37716	3/31/2022
2.4	Agreement of Sale and Purchase, by and between Santal, L.L.C., as seller, and BG-QR GP, LLC, as purchaser, dated as of September 20, 2021.		10-Q	001-37716	11/15/2021
2.5	First Amendment to Agreement of Sale and Purchase, by and between Santal, L.L.C., as seller, and BG-QR GP, LLC, as purchaser, effective as of October 13, 2021.		10-Q	001-37716	11/15/2021
2.6	Second Amendment to Agreement of Sale and Purchase, by and between Santal, L.L.C., as seller, and Berkshire Multifamily Income Realty-OP, L.P., as purchaser, dated as of November 3, 2021.		10-Q	001-37716	11/15/2021
3.1	Composite Certificate of Incorporation of Stratus Properties Inc.		8-A/A	001-37716	8/13/2021
3.2	Second Amended and Restated By-Laws of Stratus Properties Inc., as amended effective August 3, 2017.		10-Q	001-37716	8/9/2017
4.1	Investor Rights Agreement by and between Stratus Properties Inc. and Moffett Holdings, LLC dated as of March 15, 2012.		8-K	000-19989	3/20/2012
4.2	Assignment and Assumption Agreement by and among Moffett Holdings, LLC, LCHM Holdings, LLC and Stratus Properties Inc., dated as of March 3, 2014.		13D	005-42652	3/5/2014
10.1	Loan Agreement by and between Stratus Properties Inc., certain of its subsidiaries and Comerica Bank, dated as of June 29, 2018.		8-K	001-37716	7/5/2018
10.2	Amended and Restated Revolving Promissory Note by and between Stratus Properties Inc., certain of its subsidiaries and Comerica Bank, dated as of May 13, 2022.	X			
10.3	Modification Agreement by and between Stratus Properties Inc., certain of its subsidiaries and Comerica Bank, effective as of April 14, 2020.		8-K	001-37716	4/17/2020
10.4	Second Modification Agreement by and between Stratus Properties Inc., certain of its subsidiaries and Comerica Bank, effective as of June 12, 2020.		8-K	001-37716	6/15/2020
10.5	Third Modification Agreement by and between Stratus Properties Inc., certain of its subsidiaries and Comerica Bank, effective as of May 13, 2022.	X			
10.6	Construction Loan Agreement by and between Lantana Place, L.L.C., as borrower, and Southside Bank, as lender, dated April 28, 2017.		8-K	001-37716	5/3/2017
10.7	Promissory Note by and between Lantana Place, L.L.C. and Southside Bank dated April 28, 2017.		10-K	001-37716	3/31/2022
10.8	First Amendment to Construction Loan Agreement by and between Lantana Place, L.L.C., as borrower, and Southside Bank, as lender, dated December 13, 2017.		10-K	001-37716	3/16/2018
10.9	Loan Modification Agreement by and between Lantana Place, L.L.C., as borrower, and Southside Bank, as lender, effective as of June 19, 2020.		10-Q	001-37716	6/25/2020

Exhibit Number	Exhibit Title	Filed with this Form 10-Q	Incorporated by Reference		
			Form	File No.	Date Filed
10.10	Second Modification Agreement by and between Lantana Place, L.L.C. and Southside Bank, effective as of January 4, 2021.		10-K	001-37716	3/15/2020
10.11	Loan Modification Agreement by and between Lantana Place, L.L.C. and Southside Bank, effective as of January 13, 2022.		10-K	001-37716	3/31/2022
10.12	Guaranty Agreement by Stratus Properties Inc. in favor of Southside Bank dated April 28, 2017.		10-K	001-37716	3/31/2022
10.13 [†]	Amended and Restated Limited Partnership Agreement of Stratus Block 150, L.P. entered into by and among The Stratus Block 150 GP, L.L.C., Stratus Properties Operating Co., L.P., and several Class B Limited Partners.		10-Q	001-37716	11/15/2021
10.14 [†]	First Amendment to the Amended and Restated Limited Partnership Agreement of Stratus Block 150, L.P.	X			
10.15 *	Severance and Change of Control Agreement between Stratus Properties Inc. and William H. Armstrong III, effective April 1, 2022.		10-K	001-37716	3/31/2022
10.16 *	Severance and Change of Control Agreement between Stratus Properties Inc. and Erin D. Pickens, effective April 1, 2022.		10-K	001-37716	3/31/2022
10.17 *	Stratus Properties Inc. 2022 Stock Incentive Plan.		8-K	001-37716	5/13/2022
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).	X			
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).	X			
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.	X			
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.	X			
101.INS	XBRL Instance Document - the XBRL Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.	X			
101.SCH	Inline XBRL Taxonomy Extension Schema.	X			
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase.	X			
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase.	X			
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase.	X			
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase.	X			
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101).	X			

* Indicates management contract or compensatory plan or arrangement.

[†] Certain identified information has been excluded from this exhibit because it is both not material and is the type that the registrant customarily and actually treats as private or confidential.

SIGNATURE

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

STRATUS PROPERTIES INC.

By: /s/ Erin D. Pickens

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

Date: May 16, 2022



Amended and Restated Revolving Promissory Note
 One-Month Bloomberg Short-Term Bank Yield Index Rate (BSBY)

AMOUNT \$60,000,000.00	NOTE DATE May 13, 2022	MATURITY DATE December 26, 2022
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1. Promise to Pay. ON OR BEFORE THE MATURITY DATE, as stated above, FOR VALUE RECEIVED, the undersigned promise(s) to pay to the order of COMERICA BANK (herein called “**Bank**”), at any office of the Bank in the State of Texas, the principal sum of Sixty Million and No/100^{ths} Dollars (U.S.) (\$60,000,000.00), or so much of said sum as has been advanced and is then outstanding under this Amended and Restated Revolving Promissory Note (this “**Note**”), together with interest thereon in accordance with the terms and conditions of this Note. Capitalized terms used but not defined in this Note shall have the meaning given to such capitalized terms in the Loan Agreement.

2. Payments; Interest.

2.1. Payment Amount; Payment Date; Computation Period. This Note is a note under which Advances, repayments and re-Advances may be made from time to time, subject to the terms and conditions of this Note and the Loan Agreement (as hereinafter defined); provided, however, in no event shall Bank be obligated to make any Advances hereunder (notwithstanding anything expressed or implied herein or elsewhere to the contrary) in the event that any Event of Default (as defined in the Loan Agreement) then exists, or if Bank has sent written notice to the undersigned in accordance with the Loan Documents of any condition or event which, with the passage of time, would constitute an Event of Default, and which has not been cured.

The principal balance outstanding at any time may not exceed the face amount hereof), but amounts repaid may be reborrowed in accordance with the Loan Agreement. The books and records of the Bank shall be the best evidence of the principal amount and the unpaid interest amount owing at any time under this Note and shall be conclusive absent manifest error. No interest shall accrue under this Note until the date of the first Advance made by the Bank; after that interest on all Advances shall accrue at the Applicable Interest Rate and be computed on the principal balance outstanding from time to time under this Note until the same is paid in full.

When the aggregate unpaid principal amount of all Advances made at any time under this Note equals the Maximum Loan Amount, no further advances shall be available under this Note.

Subject to the terms and conditions of this Note, the unpaid principal balance outstanding under this Note from time to time shall bear interest at the BSBY Rate plus the Applicable Margin except during any period of time during which, in accordance with the terms and conditions of this Note, the Indebtedness hereunder shall bear interest at the SOFR Rate plus the Applicable Margin.

Accrued and unpaid interest on the unpaid principal balance of each outstanding Advance hereunder shall be payable monthly, in arrears, commencing on the fifth (5th) day after the first (1st) month after the date of this Note, and on each succeeding Installment Payment Date thereafter. Interest accruing hereunder shall be computed on the basis of a 360-day year and shall be assessed for the actual number of days elapsed, and in such computation, effect shall be given to any change in the Applicable Interest Rate as a result of any change in the interest rate on the date of each such change.

Payments under this Note shall be first applied to accrued and unpaid interest hereunder and the balance, if any, to principal.

The term “**Loan Agreement**” hereunder shall mean that certain Loan Agreement dated June 29, 2018 by and between Bank, the undersigned and Magnolia East 149, L.L.C., a Texas limited liability company (“**Magnolia**”), as the same may be further supplemented, amended or restated from time to time.

2.2. Interest Rate. Subject to the terms and conditions of this Note, the unpaid principal balance of all Indebtedness outstanding under this Note from time to time shall bear interest at the Applicable Interest Rate. The BSBY Rate shall be the initial basis for the Applicable Interest Rate under this Note and effective as of the Interest Period commencing on the date of this Note and continuing for each succeeding Interest Period ending thereafter, the unpaid principal balance of all Indebtedness outstanding under this Note shall bear interest at the Applicable Interest Rate based upon the BSBY Rate for the Interest Period applicable thereto. The foregoing shall not in any way whatsoever limit or otherwise affect any of Bank's rights or remedies under this Note upon the occurrence of any Default hereunder, or any condition or event which, with the giving of notice or the running of time, or both, would constitute a Default. No interest shall accrue under this Note until the date of the first Advance made by Bank; after that, interest on all Advances shall accrue and be computed on the principal balance outstanding from time to time under this Note in accordance with the terms hereof until the same is paid in full.

2.3. Default Rate; Late Payments. From and after the occurrence of any Event of Default (as defined in the Loan Agreement, and also referred to in this Note as a “**Default**”), and so long as any such Default remains unremedied or uncured thereafter, the Indebtedness outstanding under this Note shall bear interest at the Default Rate (as defined in the Loan Agreement), which interest shall be payable upon demand. In addition to the foregoing, a late payment charge equal to five percent (5%) of each late payment hereunder may be charged on any payment not received by Bank within ten (10) calendar days after the payment due date therefor, but acceptance of payment of any such charge shall not constitute a waiver of any Default hereunder; provided, however, the late charge shall not be applicable with respect to the outstanding principal balance of this Note upon the maturity of this Note (whether occurring by virtue of acceleration, on the stated maturity date, or otherwise).

In no event shall the interest payable under this Note at any time exceed the Maximum Lawful Rate (as defined in the Loan Agreement). Reference is made to Section 2.10 of Addendum 2 of the Loan Agreement for the terms related to the application of the Maximum Lawful Rate.

2.4. Evidence of Advances. The amount from time to time outstanding under this Note, the Applicable Interest Rate(s), the Interest Period(s), if applicable, and the amount and date of any repayment shall be noted on Bank's records, which records shall be conclusive evidence thereof, absent manifest error; provided, however, any failure by Bank to make any such notation, or any error in any such notation, shall not relieve the undersigned of its/their obligations to repay Bank all amounts payable by the undersigned to Bank under or pursuant to this Note, when due in accordance with the terms hereof.

2.5. Business Day. Subject to the definition of an “Interest Period” hereunder, in the event that any payment under this Note becomes due and payable on any day which is not a Business Day, the due date thereof shall be extended to the next succeeding Business Day, and, to the extent applicable, interest shall continue to accrue and be payable thereon during such extension at the rates set forth in this Note.

2.6. Legal Tender. All payments to be made by the undersigned to Bank under or pursuant to this Note shall be in immediately available United States funds, without setoff or counterclaim, and in the event that any payments submitted hereunder are in funds not available until collected, said payments shall continue to bear interest until collected. The undersigned hereby authorize(s) Bank to charge any account(s) of the undersigned (or any of them) with Bank for all sums due hereunder when due in accordance with the terms hereof.

2.7. Interest Limitation.

In no event shall the interest payable under this Note at any time exceed the Maximum Rate. The term "Maximum Rate", as used herein, shall mean at the particular time in question the maximum nonusurious rate of interest which, under applicable law, may then be charged on this Note. If on any day the Applicable Interest Rate hereunder in respect of any Indebtedness under this Note shall exceed the Maximum Rate for that day, the rate of interest applicable to such Indebtedness shall be fixed at the Maximum Rate on that day and on each day thereafter until the total amount of interest accrued on the unpaid principal balance of this Note equals the total amount of interest which would have accrued if there had been no Maximum Rate. If such maximum rate of interest changes after the date hereof, the Maximum Rate shall be automatically increased or decreased, as the case may be, without notice to the undersigned from time to time as of the effective date of each change in such maximum rate. For purposes of determining the Maximum Rate under the law of the State of Texas, the applicable interest rate ceiling shall be the "weekly ceiling" from time to time in effect under Chapter 303 of the Texas Finance Code, as amended.

This Note and all the other Loan Documents are intended to be performed in accordance with, and only to the extent permitted by, all applicable usury laws. If any provision hereof or of any of the other Loan Documents or the application thereof to any person or circumstance shall, for any reason and to any extent, be invalid or unenforceable, neither the application of such provision to any other person or circumstance nor the remainder of the instrument in which such provision is contained shall be affected thereby and shall be enforced to the greatest extent permitted by law. It is expressly stipulated and agreed to be the intent of the holder hereof to at all times comply with the usury and other applicable laws now or hereafter governing the interest payable on the indebtedness evidenced by this Note. If the applicable law is ever revised, repealed or judicially interpreted so as to render usurious any amount called for under this Note or under any of the other Loan Documents, or contracted for, charged, taken, reserved or received with respect to the indebtedness evidenced by this Note, or if Bank's exercise of the option to accelerate the maturity of this Note, or if any prepayment by the undersigned or prepayment agreement results (or would, if complied with, result) in the undersigned having paid, contracted for or being charged for any interest in excess of that permitted by law, then it is the express intent of the undersigned and Bank that this Note and the other Loan Documents shall be limited to the extent necessary to prevent such result and all excess amounts theretofore collected by Bank shall be credited on the principal balance of this Note or, if fully paid, upon such other Indebtedness as shall then remain outstanding (or, if this Note and all other Indebtedness have been paid in full, refunded to the undersigned), and the provisions of this Note and the other Loan Documents shall immediately be deemed reformed and the amounts thereafter collectable hereunder and thereunder reduced, without the necessity of the execution of any new document, so as to comply with the then applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder or thereunder. All sums paid, or agreed to be paid, by the undersigned for the use, forbearance, detention, taking, charging, receiving or reserving of the indebtedness of the undersigned to Bank under this Note or arising under or pursuant to the other Loan Documents shall, to the maximum extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of such indebtedness until payment in full so that the rate or amount of interest on account of such indebtedness does not exceed the usury ceiling from time to time in effect and applicable to such indebtedness for so long as such indebtedness is outstanding. To the extent federal law permits Bank to contract for, charge or receive a greater amount of interest, Bank will rely on federal law instead of the Texas Finance Code, as supplemented by Texas Credit Title, for the purpose of determining the Maximum Rate. Additionally, to the maximum extent permitted by applicable law now or hereafter in effect, Bank may, at its option and from time to time, implement any other method of computing the Maximum Rate under the Texas Finance Code, as supplemented by Texas Credit Title, or under other applicable law, by giving notice, if required, to the undersigned as provided by applicable law now or hereafter in effect. Notwithstanding anything to the contrary contained herein or in any of the other Loan Documents, it is not the intention of Bank to accelerate the maturity of any interest that has not accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

2.8. No Responsibility for Changes to the Applicable Interest Rate. The undersigned acknowledges that (i) the methods of calculation, publication schedule, rate revision practices, or availability of any Benchmark Rate at any time may change without notice, and (ii) any Benchmark Rate may be withdrawn, modified, or amended without notice. Bank does not warrant or accept any responsibility for, and shall not have any liability with respect to, the administration, submission, or any other matter related to any Benchmark Rate.

Each determination by Bank of any Benchmark Rate shall be conclusive and binding for all purposes, absent manifest error.

2.9. Rate Conforming Changes. Notwithstanding anything to the contrary herein or in any other Loan Document, Bank shall have the right to make Rate Conforming Changes from time to time and, any amendments or modifications to any Loan Document implementing or evidencing such Rate Conforming Changes will become effective without any further action or consent of the undersigned.

3. Prepayments. In the event that any Benchmark Rate is the basis for the Applicable Interest Rate for the principal Indebtedness outstanding under this Note, and any payment or prepayment of any such Indebtedness shall occur on any day other than the last day of the Interest Period applicable thereto (whether voluntarily, by acceleration, required payment or otherwise), or if the undersigned shall fail to make any payment of principal or interest hereunder at any time that such Benchmark Rate is the basis for the Applicable Interest Rate hereunder in respect of such Indebtedness, the undersigned shall reimburse Bank, on demand, for any resulting loss, cost or expense incurred by Bank as a result thereof, including, without limitation, any such loss, cost or expense incurred in obtaining, liquidating, employing or redeploying deposits from third parties whether or not Bank shall have funded or committed to fund such Advance. Such amount payable by the undersigned to Bank may include, without limitation, an amount equal to the excess, if any, of (a) the amount of interest which would have accrued on the amount so prepaid, or not so borrowed, for the period from the date of such prepayment or of such failure to borrow, through the last day of the relevant Interest Period, at the applicable rate of interest for such Advance provided under this Note, over (b) the amount of interest (as reasonably determined by Bank) which would have accrued to Bank on such amount by placing such amount on deposit for a comparable period with leading banks in the interbank market. Calculation of any amounts payable to Bank under this paragraph shall be made as though Bank shall have actually funded or committed to fund the relevant Advance at the Benchmark Rate through the purchase of an underlying deposit in an amount equal to the amount of such Advance and having a maturity comparable to the relevant Interest Period; provided, however, that Bank may fund any Advance based on such Benchmark Rate in any manner it deems fit and the foregoing assumptions shall be utilized only for the purpose of the calculation of amounts payable under this paragraph. Upon the written request of the undersigned, Bank shall deliver to the undersigned a certificate setting forth the basis for determining such losses, costs and expenses, which certificate shall be conclusively presumed correct, absent manifest error. The undersigned may prepay all or any part of the outstanding balance of any Indebtedness hereunder which at any time without premium or penalty. Any prepayment hereunder shall also be accompanied by the payment of all accrued and unpaid interest on the amount so prepaid. Partial prepayments hereunder shall be applied to the installments hereunder in the inverse order of their maturities.

4. Unavailability of Applicable Interest Rate; Change of Law.

4.1. Generally. If, at any time, Bank's obligation to maintain any of the Indebtedness hereunder at an Applicable Interest Rate based on the then current Benchmark Rate is suspended in accordance with the terms of this Note, then (a) the Fallback Rate at such time will replace such Benchmark Rate for all purposes hereunder, (b) the Applicable Interest Rate hereunder in respect of such Indebtedness will be the Applicable Interest Rate based upon such Fallback Rate, and (c) Bank shall have the right to make Rate Conforming Changes as provided above, in each case, without any further action or consent of the undersigned.

4.2. Bank Unable to Determine the Applicable Interest Rate. If, at any time, Bank determines (which determination shall be conclusive and binding for all purposes) that, (a) Bank is unable to determine or ascertain the then current Benchmark Rate, or (b) the then current Benchmark Rate will not adequately and fairly cover or reflect the cost to Bank of maintaining any of the Indebtedness under this Note (including, without limitation, as a result of the alteration of the methods of calculation or availability of such Benchmark Rate), Bank shall promptly give notice thereof to the undersigned. Thereafter, until Bank notifies the undersigned that the foregoing conditions or circumstances no longer exist, the right of the undersigned to request an Advance based on such Benchmark Rate and any obligation of Bank to maintain any of the Indebtedness outstanding under this

Note at an Applicable Interest Rate based on such Benchmark Rate shall be suspended, and the Fallback Rate will replace such Benchmark in accordance with the provisions of Section 4.1.

4.3. Legal Impossibility. If, at any time, Bank determines (which determination shall be conclusive and binding for all purposes) that any Change in Law shall make it unlawful or impossible, or that any Governmental Authority has asserted that it is unlawful, for Bank to make or maintain any of the Indebtedness under this Note with interest based upon the then current Benchmark Rate, Bank shall promptly give written notice thereof to the undersigned specifying such Change in Law. Thereafter, (a) until Bank notifies the undersigned that such conditions or circumstances no longer exist, the right of the undersigned to request an Advance based on such Benchmark Rate and any obligation of Bank to maintain any of the Indebtedness hereunder at an Applicable Interest Rate based on such Benchmark Rate shall be suspended and the Fallback Rate will replace such Benchmark Rate in accordance with Section 4.1.

4.4. Yield Maintenance. If any Change in Law shall (a) subject Bank to any tax, duty or other charge with respect to this Note or any Indebtedness hereunder, or shall change the basis of taxation of payments to Bank of the principal of or interest under this Note or any other amounts due under this Note in respect thereof (except for changes in the rate of tax on the overall net income of Bank imposed by the jurisdiction in which Bank's principal executive office is located); or (b) impose, modify or deem applicable any reserve (including, without limitation, any imposed by the Board of Governors of the Federal Reserve System), special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended by Bank, or shall impose on Bank or the interbank markets any other condition affecting this Note or the Indebtedness hereunder; and the result of any of the foregoing is to increase the cost to Bank of maintaining any part of the Indebtedness hereunder or to reduce the amount of any sum received or receivable by Bank under this Note by an amount deemed by the Bank to be material, then the undersigned shall pay to Bank, within fifteen (15) days of the undersigned's receipt of written notice from Bank demanding such compensation, such additional amount or amounts as will compensate Bank for such increased cost or reduction. A certificate of Bank, prepared in good faith and in reasonable detail by Bank and submitted by Bank to the undersigned, setting forth the basis for determining such additional amount or amounts necessary to compensate Bank shall be conclusive and binding for all purposes, absent manifest error.

4.5. Changes to Capital or Liquidity. In the event that any Change in Law affects or would affect the amount of capital or liquidity required or expected to be maintained by Bank (or any corporation controlling Bank), and Bank determines that the amount of such capital or liquidity is increased by or based upon the existence of any obligations of Bank hereunder or the maintaining of any Indebtedness hereunder, and such increase has the effect of reducing the rate of return on Bank's (or such controlling corporation's) capital as a consequence of such obligations or the maintaining of such Indebtedness hereunder to a level below that which Bank (or such controlling corporation) could have achieved but for such circumstances (taking into consideration its policies with respect to capital adequacy and liquidity), then the undersigned shall pay to Bank, within fifteen (15) days of the undersigned's receipt of written notice from Bank demanding such compensation, such additional amount or amounts as will compensate Bank (or such controlling corporation) for any increase in the amount of capital and/or liquidity and reduced rate of return which Bank reasonably determines to be allocable to the existence of any obligations of the Bank hereunder or to maintaining any Indebtedness hereunder. A certificate of Bank as to the amount of such compensation, prepared in good faith and in reasonable detail by the Bank and submitted by Bank to the undersigned, shall be conclusive and binding for all purposes absent manifest error.

5. Indebtedness; Collateral. The Indebtedness is secured by and Bank is granted a security interest in and lien upon the Collateral. Notwithstanding the above, (i) to the extent that any portion of the Indebtedness is a consumer loan, that portion shall not be secured by any deed of trust or mortgage on or other security interest in any of the undersigned's principal dwelling or in any of the undersigned's real property which is not a purchase money security interest as to that portion, unless expressly provided to the contrary in another place, or (ii) if the

undersigned (or any of them) has (have) given or give(s) Bank a deed of trust or mortgage covering California real property, that deed of trust or mortgage shall not secure this Note or any other indebtedness of the undersigned (or any of them), unless expressly provided to the contrary in another place, or (iii) if the undersigned (or any of them) has (have) given or give(s) the Bank a deed of trust or mortgage covering real property which, under Texas law, constitutes the homestead of such person, that deed of trust or mortgage shall not secure this Note or any other indebtedness of the undersigned (or any of them) unless expressly provided to the contrary in another place.

If an Event of Default (as defined in the Loan Agreement) occurs and is continuing, then the Bank may, at its option and without prior notice to the undersigned (or any of them), declare any or all of the Indebtedness to be immediately due and payable, sell or liquidate all or any portion of the Collateral, set off against the Indebtedness any amounts owing by the Bank to the undersigned (or any of them), charge interest at the Default Rate and exercise any one or more of the rights and remedies granted to the Bank by any Loan Document or given to it under applicable law.

6. Miscellaneous.

6.1. Right of Setoff. The undersigned authorize(s) the Bank to charge any account(s) of the undersigned (or any of them) with the Bank for any and all sums due hereunder when due; provided, however, that such authorization shall not affect any of the undersigned's obligation to pay to the Bank all amounts when due, whether or not any such account balances that are maintained by the undersigned with the Bank are insufficient to pay to the Bank any amounts when due, and to the extent that such accounts are insufficient to pay to the Bank all such amounts, the undersigned shall remain liable for any deficiencies until paid in full.

6.2. Joint and Several Liability. If this Note is signed by two or more parties (whether by all as makers or by one or more as an accommodation party or otherwise), the obligations and undertakings under this Note shall be that of all and any two or more jointly and also of each severally. This Note shall bind the undersigned, and the undersigned's respective heirs, personal representatives, successors and assigns.

6.3. Waiver. Except for notices expressly required under any of the Loan Documents, the undersigned waive(s) presentment, demand, protest, notice of dishonor, notice of demand or intent to demand, notice of acceleration or intent to accelerate, and all other notices, and agree(s) that no extension or indulgence to the undersigned (or any of them) or release, substitution or nonenforcement of any security, or release or substitution of any of the undersigned, any guarantor or any other party, whether with or without notice, shall affect the obligations of any of the undersigned. The undersigned waive(s) all defenses or right to discharge available under Section 3-605 of the Texas Uniform Commercial Code and waive(s) all other suretyship defenses or right to discharge. The undersigned agree(s) that the Bank has the right to sell, assign, or grant participations or any interest in, any or all of the Indebtedness, and that, in connection with this right, but without limiting its ability to make other disclosures to the full extent allowable, the Bank may disclose all documents and information which the Bank now or later has relating to the undersigned or the Indebtedness. The undersigned agree(s) that the Bank may provide information relating to this Note or relating to the undersigned to the Bank's parent, affiliates, subsidiaries and service providers.

6.4. Collection Costs. The undersigned agree(s) to pay or reimburse to Bank, or any other holder or owner of this Note, on demand, for any and all costs and expenses of Bank (including, without limit, court costs, legal expenses and reasonable attorneys' fees, whether inside or outside counsel is used, whether or not suit is instituted, and, if suit is instituted, whether at the trial court level, appellate level, in a bankruptcy, probate or administrative proceeding or otherwise) incurred in connection with the preparation, execution, delivery, amendment, administration, and performance of this Note and the related documents, or incurred in collecting or attempting to collect this Note or the Indebtedness, or incurred in any other matter or proceeding relating to this Note or the Indebtedness.

6.5. Entire Agreement; Governing Law. The undersigned acknowledge(s) and agree(s) that there are no contrary agreements, oral or written, establishing a term of this Note and agree(s) that the terms and conditions of this Note may not be amended, waived or modified except in a writing signed by an officer of the Bank expressly stating that the writing constitutes an amendment, waiver or modification of the terms of this Note. As used in this Note, the word “undersigned” means, individually and collectively, each maker, accommodation party, endorser and other party signing this Note in a similar capacity. If any provision of this Note is unenforceable in whole or part for any reason, the remaining provisions shall continue to be effective. Chapter 346 of the Texas Finance Code (and as the same may be incorporated by reference in other Texas statutes) shall not apply to the Indebtedness evidenced by this Note. **THIS NOTE INCORPORATES SECTION 8.2 OF THE LOAN AGREEMENT BY THIS REFERENCE AS IF THE SAME WERE INCLUDED HEREIN IN ITS ENTIRETY.**

6.6. Multiple Counterparts/Scanned Originals. This Note or any of the other Loan Documents (i) may be executed in several counterparts, and each executed copy shall constitute an original instrument, but such counterparts shall together constitute but one and the same instrument, and (ii) a photocopy, facsimile, .pdf or scanned copy of an executed counterpart of this Note or any of the other Loan Documents shall be sufficient to bind the party whose signature appears hereon. In addition, the undersigned acknowledges and agrees to provide originals of this Note and the other Loan Documents to Bank upon its request. Notwithstanding the foregoing, if any of the Loan Documents require an original be recorded or filed with a county or other governmental agency (e.g., mortgages or deeds of trust), the funding of any loan or the advance of any draw request hereunder will be delayed until either Bank receives evidence that the document has actually been recorded with a county or other governmental agency, whichever the case may be, or Bank has been issued gap insurance acceptable to Bank by a title insurance company approved by Bank.

6.7. No Waiver. No delay or failure of Bank in exercising any right, power or privilege hereunder shall affect such right, power or privilege, nor shall any single or partial exercise thereof preclude any further exercise thereof, or the exercise of any other power, right or privilege. The rights of Bank under this Note are cumulative and not exclusive of any right or remedies which Bank would otherwise have, whether by other instruments or by law.

6.8. Waiver of Jury Trial. **THE UNDERSIGNED AND BANK, BY ACCEPTANCE OF THIS NOTE, ACKNOWLEDGE THAT THE RIGHT TO TRIAL BY JURY IS A CONSTITUTIONAL ONE, BUT THAT IT MAY BE WAIVED UNDER CERTAIN CIRCUMSTANCES. TO THE EXTENT PERMITTED BY LAW, EACH PARTY, AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF THEIR CHOICE, KNOWINGLY AND VOLUNTARILY, AND FOR THEIR MUTUAL BENEFIT, WAIVES ANY RIGHT TO TRIAL BY JURY IN THE EVENT OF LITIGATION REGARDING THE PERFORMANCE OR ENFORCEMENT OF, OR IN ANY WAY RELATED TO, THIS NOTE OR THE INDEBTEDNESS.**

6.9. Time. Time is of the essence with respect to the undersigned’s obligations under this Note.

6.10. Payments Set Aside. To the extent that any payment by or on behalf of the undersigned is made to Bank, or Bank exercises its right of setoff, and such payment or the proceeds of such setoff or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by Bank in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any bankruptcy law or otherwise, then to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such setoff had not occurred.

6.11. Captions. The article and section headings used in this Note are for convenience of reference only and shall not affect, alter or define the meaning or interpretation of the text of any article or section contained in this Note.

7. Definitions. For the purposes of this Note, the following terms have the following meanings:

“**Advance**” means a borrowing requested by the undersigned and made by Bank under this Note, and shall include a BSBY Rate-based Advance and (subject to the terms of this Note) a Term SOFR Rate-based Advance, or a Prime Rate-based Advance.

“**Applicable Floor**” means 0.0% per annum.

“**Applicable Interest Rate**” means the BSBY Rate plus the Applicable Margin or (subject to the terms of this Note) the Term SOFR Rate plus the Applicable Margin, or the Prime Referenced Rate plus the Applicable Margin, as otherwise determined in accordance with the terms and conditions of this Note.

“**Applicable Margin**” means (i) with respect to the BSBY Rate, four percent (4.0%) per annum, (ii) with respect to the Term SOFR Rate, the per annum Applicable Margin for the BSBY Rate, and (iii) one percent (1.0%) per annum in connection with the Prime Referenced Rate.

“**Benchmark Rate**” means, initially, the BSBY Rate; provided, that if Bank’s obligation to maintain any of the Indebtedness hereunder at an Applicable Interest Rate based on the BSBY Rate or the then current Benchmark Rate is suspended in accordance with the terms of this Note, then “Benchmark Rate” means the applicable Fallback Rate to the extent such Fallback Rate has replaced such prior benchmark rate pursuant to Section 4.1.

“**BSBY Rate**” means, for any Interest Period, the rate per annum equal to the BSBY Screen Rate at or about 8:00 a.m. (Detroit, Michigan time) (or as soon thereafter as practical) as determined for each Interest Period, two (2) Business Days prior to the beginning of such Interest Period with a term of one (1) month; provided that, except for a determination by Bank pursuant to Section 4.2 or Section 4.3 herein, if such rate is not published on such determination date then the rate will be the BSBY Screen Rate on the first Business Day immediately prior thereto; provided, however, and notwithstanding anything to the contrary set forth in this Note, if at any time the BSBY Rate determined as provided herein would be less than the Applicable Floor, then the BSBY Rate shall be deemed to be the Applicable Floor.

“**BSBY Rate-based Advance**” means an Advance which bears interest at the BSBY Rate plus the Applicable Margin, subject to the terms of this Note.

“**BSBY Screen Rate**” means the Bloomberg Short-Term Bank Yield Index rate (“**BSBY**”), as administered by Bloomberg Index Services Limited (or any successor administrator) and published on the Bloomberg Short-Term Bank Yield Index website at <https://www.bloomberg.com/professional/product/indices/bsby/> (or any successor website), or such other commercially available source providing such rate or quotations as may be designated by Bank from time to time.

“**Business Day**” means any day, other than a Saturday, Sunday or any other day designated as a holiday under Federal or applicable State statute or regulation, on which Bank is open for all or substantially all of its domestic and international business (including dealings in foreign exchange) in Detroit, Michigan; provided, however, for purposes of determining any Benchmark Rate (other than the Prime Referenced Rate), a Business Day shall also exclude a day on which the Securities Industry and Financial Markets Association (“**SIFMA**”) recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. Government Securities.

“**Change in Law**” means the occurrence, after the date hereof, of any of the following: (i) the adoption or introduction of, or any change in any applicable law, treaty, rule or regulation (whether domestic or foreign) now or hereafter in effect and whether or not applicable to Bank on such date, or (ii) any change in interpretation, administration, application or implementation of any such law, treaty, rule or regulation by any Governmental

Authority, or (iii) the issuance, making or implementation by any Governmental Authority of any interpretation, administration, request, rule, regulation, guideline, or directive (whether or not having the force of law), including, without limitation, any risk-based capital guidelines or any interpretation, administration, request, regulation, guideline, or directive relating to liquidity. For purposes of this definition, (x) a change in law, treaty, rule, regulation, interpretation, administration, application or implementation shall include, without limitation, any change made or which becomes effective on the basis of a law, treaty, rule, regulation, interpretation administration or implementation then in force, the effective date of which change is delayed by the terms of such law, treaty, rule, regulation, interpretation, administration, application or implementation, and (y) the Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub. L. 111-203, H.R. 4173) and all requests, rules, regulations, guidelines, interpretations or directives promulgated thereunder or issued in connection therewith shall be deemed to be a “Change in Law”, regardless of the date enacted, adopted, issued or promulgated, whether before or after the date hereof, and (z) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall each be deemed to be a “Change in Law”, regardless of the date enacted, adopted, issued or implemented.

“**Collateral**” means, collectively, all items deposited in any account of any of the undersigned with Bank and all proceeds of such items (cash or otherwise), all account balances of any of the undersigned from time to time with Bank, all property of any of the undersigned from time to time in the possession of Bank and any other collateral, rights and properties described in each and every deed of trust, mortgage, security agreement, pledge, assignment and other security or collateral agreement which has been, or will at any time(s) later be, executed by any (or all) of the undersigned to or for the benefit of Bank.

“**Fallback Rate**” means, as of any date of determination, the first of the following alternative benchmark rates that can be determined by Bank as of such date: (i) the Term SOFR Rate, or (ii) the Prime Referenced Rate; provided, however, and notwithstanding anything to the contrary set forth in this Note, if at any time the Fallback Rate determined as provided herein would be less than the Applicable Floor, then the Fallback Rate shall be deemed to be the Applicable Floor.

“**Governmental Authority**” means the government of the United States of America or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including, without limitation, any supranational bodies such as the European Union or the European Central Bank).

“**Indebtedness**” means, collectively, the indebtedness and liabilities under this Note and any other indebtedness and liabilities of any kind of the undersigned (or any of them) to Bank, and any and all modifications, renewals or extensions of it, whether joint or several, contingent or absolute, now existing or later arising, and however evidenced and whether incurred voluntarily or involuntarily, known or unknown, or originally payable to Bank or to a third party and subsequently acquired by Bank including, without limitation, any late charges; loan fees or charges; overdraft indebtedness; any interest and fees that accrue after the commencement by or against the undersigned in any bankruptcy proceeding regardless of whether such interest and fees are allowed claims in such proceeding; costs incurred by Bank in establishing, determining, continuing or defending the validity or priority of any security interest, pledge or other lien or in pursuing any of its rights or remedies under any Loan Document (or otherwise) or in connection with any proceeding involving Bank as a result of any financial accommodation to the undersigned (or any of them); and reasonable costs and expenses of attorneys and paralegals, whether inside or outside counsel is used, and whether any suit or other action is instituted, and to court costs if suit or action is instituted, and whether any such fees, costs or expenses are incurred at the trial court level or on appeal, in bankruptcy, in administrative proceedings, in probate proceedings or otherwise.

“Installment Payment Date” means June 5, 2022, and the fifth (5th) day of each succeeding month thereafter occurring during the term of this Note.

“Interest Period” means, a period of one (1) month. The initial Interest Period hereunder shall commence as of the date of this Note, as set forth above, and shall end on the numerically corresponding day of the calendar month that is one (1) month thereafter; provided, however, that:

- (a) any Interest Period which would otherwise end on a day which is not a Business Day shall be extended to the next succeeding Business Day, except that if the next succeeding Business Day falls in another calendar month, the Interest Period shall end on the next preceding Business Day, and if any Interest Period begins on the last Business Day of a calendar month or on a day which has no numerically corresponding day in the calendar month during which such Interest Period is to end, it shall end on the last Business Day of such calendar month; and
- (b) no Interest Period shall not extend beyond the Maturity Date.

“Loan Documents” means collectively, this Note and all other documents, instruments and agreements evidencing, governing, securing, guaranteeing or otherwise relating to or executed pursuant to or in connection with this Note or the Indebtedness evidenced hereby (whether executed and delivered prior to, concurrently with or subsequent to this Note), as such documents, instruments or agreements may have been or may hereafter be amended from time to time.

“Maturity Date” means the maturity date of this Note as set forth at the top of Page 1 hereof.

“Person” means any individual, corporation, partnership, joint venture, limited liability company, association, trust, unincorporated association, joint stock company, government, municipality, political subdivision or agency, or other entity.

“Prime Rate” means the greater of (i) the per annum interest rate established by Bank as its prime rate for its borrowers, as such rate may vary from time to time, which rate is not necessarily the lowest rate on loans made by Bank at any such time or (ii) the rate of interest equal to the sum of (a) one percent (1%), and (b) the rate of interest equal to the average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers (the “Overnight Rates”), as published by the Federal Reserve Bank of New York, or, if the Overnight Rates are not so published for any day, the average of the quotations for the Overnight Rates received by Bank from three (3) Federal funds brokers of recognized standing selected by Bank, as the same may be changed from time to time.

“Prime Rate-based Advance” means an Advance which bears interest at the Prime Referenced Rate plus the Applicable Margin, subject to the terms of this Note.

“Prime Referenced Rate” means a per annum interest rate which is equal to the Prime Rate.

“Rate Conforming Changes” means, with respect to any Benchmark Rate, any technical, administrative or operational changes (including, without limitation and as applicable, changes to the definition of the “Applicable Interest Rate,” the definition of “Business Day,” timing and frequency of determining rates and making payments of interest, timing of borrowing requests or prepayment, conversion or continuation notices, length of lookback periods, the applicability and terms of breakage provisions and other technical, administrative or operational matters) that Bank decides may be appropriate to reflect the adoption and implementation of such Benchmark Rate, and to permit the administration thereof by Bank in a manner substantially consistent with market practice (or, if Bank decides that adoption of any portion of such market practice is not administratively feasible or if Bank determines that no market practice for the administration of such Benchmark Rate exists, in such other manner of

administration as Bank decides is reasonably necessary in connection with the administration of this Note and the other Loan Documents).

“**Term SOFR Administrator**” means the CME Group Benchmark Administration Limited (or a successor administrator of the term secured overnight financing rate).

“**Term SOFR Administrator’s Website**” means the website of the Term SOFR Administrator, currently at <https://www.cmegroup.com/market-data/cme-group-benchmark-administration/term-sofr.html>, or any successor source for the secured overnight financing rate identified as such by the Term SOFR Administrator from time to time.

“**Term SOFR Rate**” means, for any Interest Period, the rate per annum equal to the Term SOFR Screen Rate at or about 8:00 a.m. (Detroit, Michigan time) (or as soon thereafter as practical) as determined for each Interest Period, two (2) Business Days prior to the beginning of such Interest Period with a term of one (1) month plus one-half of one percent (.50%); provided that, except for a determination by Bank pursuant to Section 4.2 or Section 4.3 herein, if such rate is not published on such determination date then the Term SOFR Rate will be the Term SOFR Screen Rate on the first Business Day immediately prior thereto; provided, however, and notwithstanding anything to the contrary set forth in this Note, if at any time the Term SOFR Rate determined as provided herein would be less than the Applicable Floor, then the Term SOFR Rate shall be deemed to be the Applicable Floor.

“**Term SOFR Rate-based Advance**” means an Advance which bears interest at the Term SOFR Rate plus the Applicable Margin, subject to the terms of this Note.

“**Term SOFR Screen Rate**” means the CME Term SOFR Reference Rates, as administered by the Term SOFR Administrator and published on the applicable screen page (or such other commercially available source providing such rate or quotations as may be designated by Bank from time to time) on the Term SOFR Administrator’s Website.

8. Amendment and Restatement. This Note amends, restates, supersedes and replaces that certain Revolving Promissory Note dated as of June 29, 2018, made in the principal amount of Sixty Million and No/100Dollars (\$60,000,000.00) by the undersigned and Magnolia, payable to Bank (the “Prior Note”); provided, however, (i) the execution and delivery by the undersigned of this Note shall not, in any manner or circumstance, be deemed to be a payment of, a novation of or to have terminated, extinguished or discharged any of the undersigned’s or Magnolia’s indebtedness evidenced by the Prior Note, all of which indebtedness shall continue under and shall hereinafter be evidenced and governed by this Note, and (ii) all Collateral and guaranties securing or supporting the Prior Note shall continue to secure and support this Note.

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THIS WRITTEN LOAN AGREEMENT (AS DEFINED BY SECTION 26.02 OF THE TEXAS BUSINESS AND COMMERCE CODE) REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

STRATUS PROPERTIES INC.,
a Delaware corporation

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

AUSTIN 290 PROPERTIES, INC.,
a Texas corporation

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

STRATUS PROPERTIES OPERATING CO., L.P., a
Delaware limited partnership

By: STRS L.L.C., a Delaware limited liability company, General
Partner

By Stratus Properties Inc., a Delaware corporation, Sole Member

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

THE VILLAS AT AMARRA DRIVE, L.L.C., a Texas
limited liability company

By: STRS L.L.C., a Delaware limited liability company,
Manager

By Stratus Properties Inc., a Delaware corporation, Sole
Member

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

CIRCLE C LAND, L.P.,
a Texas limited partnership

By: Circle C GP, L.L.C., a Delaware limited liability company,
General Partner

By Stratus Properties Inc., a Delaware corporation, Sole Member

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

STRATUS LAKEWAY CENTER, L.L.C.,
a Texas limited liability company

By: STRS L.L.C., a Delaware limited liability company, Manager

By: Stratus Properties Inc.,
a Delaware corporation,
Sole Member

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

[Signature Page - Third Modification Agreement]

212 Lavaca Street, Suite 300 Austin Texas 78701

STREET ADDRESS CITY STATE ZIP CODE

For Bank's Use Only				
Officer Initials	Loan Group Name	Obligor Name	Note No.	Amount

When recorded, return to: RECORD IN DEED OF TRUST RECORDS
TRAVIS COUNTY, TEXAS
Holland & Knight LLP
1722 Routh Street, Suite 1500
Dallas, Texas 75201
Attention: Monica Hart

NOTICE OF CONFIDENTIALITY RIGHTS; IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OR ALL OF THE FOLLOWING INFORMATION FROM ANY INSTRUMENT THAT TRANSFERS AN INTEREST IN REAL PROPERTY BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER

THIRD MODIFICATION AGREEMENT

This THIRD MODIFICATION AGREEMENT (this "**Agreement**") dated effective as of May 13, 2022 (the "**Effective Date**") by and between STRATUS PROPERTIES INC., a Delaware corporation ("**Stratus**"), STRATUS PROPERTIES OPERATING CO., L.P., a Delaware limited partnership ("**SPOC**"), CIRCLE C LAND, L.P., a Texas limited partnership ("**Circle C**"), AUSTIN 290 PROPERTIES, INC., a Texas corporation ("**Austin**"), THE VILLAS AT AMARRA DRIVE, L.L.C., a Texas limited liability company ("**Amarra**"), and STRATUS LAKEWAY CENTER, L.L.C., a Texas limited liability company ("**Lakeway**") (Stratus, SPOC, Circle C, Austin, Amarra, and Lakeway are sometimes referred to in this Agreement severally as "**Borrower**"), and COMERICA BANK ("**Lender**");

W I T N E S S E T H:

A. The following documents were previously executed and delivered by Borrower, Magnolia East 149, L.L.C., a Texas limited liability company ("**Magnolia**") and 210 Lavaca Holdings, L.L.C., a Texas limited liability company ("**Lavaca**"), to Lender, inter alia, relating to a loan (the "**Loan**") in the original principal sum of \$60,000,000.00, each dated June 29, 2018:

- i. that certain Loan Agreement (the "**Loan Agreement**");
- ii. that certain Revolving Promissory Note, payable to the order of Lender in the original principal sum of \$60,000,000.00 (the "**Existing Note**");
- iii. that certain Deed of Trust, Security Agreement, Fixture Filing and Assignment of Rents from Stratus to Brian P. Foley, Trustee, securing the payment of the Note, covering certain real and personal property described therein, recorded under Clerk's File No. 2018103071 of the Official Public Records of Travis County, Texas (the "**Stratus Deed of Trust**");
- iv. that certain Deed of Trust, Security Agreement, Fixture Filing and Assignment of Rents from Circle C to Brian P. Foley, Trustee, securing the payment of

the Note, covering certain real and personal property described therein, recorded under Clerk's File No. 2018103077 of the Official Public Records of Travis County, Texas (the "**Circle C Deed of Trust**");

v. that certain Deed of Trust, Security Agreement, Fixture Filing and Assignment of Rents from SPOC to Brian P. Foley, Trustee, securing the payment of the Note, covering certain real and personal property described therein, recorded under Clerk's File No. 2018103072 of the Official Public Records of Travis County, Texas (the "**SPOC Deed of Trust**");

vi. that certain Deed of Trust, Security Agreement, Fixture Filing and Assignment of Rents from Amarra to Brian P. Foley, Trustee, securing the payment of the Note, covering certain real and personal property described therein, recorded under Clerk's File No. 2018103073 of the Official Public Records of Travis County, Texas (the "**Amarra Deed of Trust**");

vii. that certain Deed of Trust, Security Agreement, Fixture Filing and Assignment of Rents from Lavaca to Brian P. Foley, Trustee, securing the payment of the Note, covering certain real and personal property described therein, recorded under Clerk's File No. 2018103074 of the Official Public Records of Travis County, Texas (the "**Lavaca Deed of Trust**");

viii. that certain Deed of Trust, Security Agreement, Fixture Filing and Assignment of Rents from Magnolia, to Brian P. Foley, Trustee, securing the payment of the Note, covering certain real and personal property described therein, recorded under Clerk's File No. 2018062488 of the Official Public Records of Montgomery County, Texas (the "**Magnolia Deed of Trust**");

ix. that certain Deed of Trust, Security Agreement, Fixture Filing and Assignment of Rents from Lakeway to Brian P. Foley, Trustee, securing the payment of the Note, covering certain real and personal property described therein, recorded under Clerk's File No. 2018103076 of the Official Public Records of Travis County, Texas (the "**Lakeway Deed of Trust**");

x. that certain Deed of Trust, Security Agreement, Fixture Filing and Assignment of Rents from Austin to Brian P. Foley, Trustee, securing the payment of the Note, covering certain real and personal property described therein, recorded under Clerk's File No. 2018103078 of the Official Public Records of Travis County, Texas, (the "**Austin Deed of Trust**"); and together with the Stratus Deed of Trust, Circle C Deed of Trust, the SPOC Deed of Trust, the Amarra Deed of Trust, and the Lakeway Deed of Trust collectively referred to as the "**Deed of Trust**");

xi. that certain Subordination Agreement, recorded under Clerk's File No. 2018106189 of the Official Public Records of Travis County, Texas, executed by SPOC in favor of Lender (the "**Subordination Agreement**");

xii. that certain Security Agreement, executed by Stratus in favor of Lender (the “**Stratus Security Agreement**”); and

xiii. that certain Assignment of Reimbursables, Credits and Other Fees executed by Borrower, Magnolia and Lavaca in favor of Lender (the “**Assignment of Reimbursables**”).

The instruments described above, the Prior Modifications, this Agreement, the Amended and Restated Note, and all other documents evidencing, securing or otherwise executed in connection with the Loan, being herein collectively called the “**Loan Documents**”;

B. The Loan Documents were previously modified by that certain Modification Agreement dated April 14, 2020, executed by Borrower, Magnolia, Lavaca and Lender (the “**First Modification**”) and that certain Second Modification Agreement dated June 12, 2020, executed by Borrower, Magnolia, Lavaca and Lender, recorded under Clerk's File No. 2020057667 of the Official Public Records of Montgomery County, Texas and recorded under Clerk's File No. 2020097580 of the Official Public Records of Travis County, Texas (the “**Second Modification**”, and together with the First Modification, collectively, the “**Prior Modifications**”);

C. Contemporaneously herewith, Borrower has executed and delivered to Lender that certain Amended and Restated Revolving Promissory Note (together with any and all renewals, modifications, rearrangements, reinstatements, enlargements, or extensions of such promissory note or of any promissory note or notes given in renewal, substitution or replacement therefor, the “**Amended and Restated Promissory Note**” or the “**Note**”) in the stated principal amount of Sixty Million and No/100 Dollars (\$60,000,000.00), in substitution of the Existing Note;

D. Borrower has requested that Lender extend the term of the Note to December 26, 2022, and make certain modifications to the Loan Documents, and Lender is willing to do so on the terms and conditions set forth below; and

E. Lender is the owner and holder of the Existing Note and the Amended and Restated Promissory Note and Borrower is the owner of the legal and equitable title to the Mortgaged Property.

NOW, THEREFORE, for and in consideration of the mutual covenants contained herein and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. **Defined Terms**. Capitalized terms used but not defined in this Agreement shall have the meaning given to such capitalized terms in the Loan Agreement.

2. **Extension of Maturity Date**. The maturity date of the Note is hereby extended to December 26, 2022 (the “**Maturity Date**”), and the liens, security interests, assignments and other rights evidenced by the Loan Documents are hereby renewed and extended to secure payment of the Note as extended hereby. Without limiting the foregoing, the term “Maturity Date” and other references to the maturity of the Loan or the Note used in the Note, any Deed of Trust, the Loan Agreement and other Loan Documents are likewise amended to mean and refer

to “December 26, 2022” (or such earlier date on which the entire unpaid principal amount of the Loan becomes due and payable whether by the lapse of time, acceleration or otherwise; provided, however, if any such date is not a Business Day, then the Maturity Date shall be the next succeeding Business Day). Borrower shall have no further rights to extend the maturity date of the Note.

3. **Substitution of Promissory Note.** Lender acknowledges receipt of the Amended and Restated Promissory Note and confirms that the Amended and Restated Promissory Note is in substitution for (and not in addition to) the Existing Note. From and after the date hereof, all references in the Loan Documents, including the Guaranty, to the “Note” (or similar reference) shall mean the Amended and Restated Promissory Note.

4. **Modification of Loan Agreement.**

(a) Section 2 of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

Subject to the terms, conditions and procedures of this Agreement and each other Loan Document including, but not limited to, the terms, conditions and procedures set forth in the Defined Terms Addendum and Loan Terms, Conditions and Procedures Addendum, Bank agrees to make credit available to the Borrowers on such dates and in such amounts as the Borrowers shall request from time to time or as may otherwise be agreed to by Borrowers and Bank.

The Loan is a \$60,000,000 revolving credit facility that is evidenced by the Note and the other Loan Documents, and which is subject to the Letter of Credit Sublimit. At no time shall the Letter of Credit Liabilities exceed \$11,500,000 and Borrower shall not have the right to request Bank issue a new Letter of Credit at any time the Letter of Credit Liabilities equals or exceeds \$11,500,000.

(b) The following definition in Section 1.1 of Addendum 1 to the Loan Agreement is hereby deleted in its entirety and replaced with the following:

“**Letter of Credit Sublimit**” shall mean a maximum of \$11,500,000 of the Loan that may be allocated for Letter of Credit Liabilities, subject to the terms and conditions of this Agreement.

5. **Letters of Credit.** As of the date hereof, three (3) Letters of Credit in the aggregate face amount of \$347,221.00 have been issued under and are outstanding pursuant to the Loan Agreement.

6. **Release of Magnolia Deed of Trust.** The Partial Release Price (as defined in the Loan Agreement) for the Magnolia Deed of Trust has been paid in full. The Magnolia Deed of Trust has been released and is of no further force and effect except for those provisions in the Magnolia Deed of Trust that expressly survive the release of the Magnolia Deed of Trust. All

references to “Magnolia East 149, L.L.C.”, “Magnolia” or other similar reference are hereby deleted from the Loan Documents.

7. **Release of Lavaca Deed of Trust.** The Partial Release Price (as defined in the Loan Agreement) for the Lavaca Deed of Trust has been paid in full. The Lavaca Deed of Trust has been released and is of no further force and effect except for those provisions in the Lavaca Deed of Trust that expressly survive the release of the Lavaca Deed of Trust. All references to “210 Lavaca Holdings, L.L.C.”, “Lavaca” or other similar reference are hereby deleted from the Loan Documents.

8. **Representations and Warranties.** Borrower hereby represents and warrants that (a) Borrower is the sole legal and beneficial owner of the Mortgaged Property (other than the Mortgaged Property which has been released by Lender from the liens of the Deed of Trust); (b) Borrower is duly organized and legally existing under the laws of the state of its organizations and is duly qualified to do business in the State of Texas; (c) the execution and delivery of, and performance under this Agreement are within Borrower’s power and authority without the joinder or consent of any other party and have been duly authorized by all requisite action and are not in contravention of law or the powers of Borrower’s articles of incorporation and bylaws; (d) this Agreement constitutes the legal, valid and binding obligations of Borrower enforceable in accordance with its terms; (e) the execution and delivery of this Agreement by Borrower do not contravene, result in a breach of or constitute a default under any deed of trust, loan agreement, indenture or other contract, agreement or undertaking to which Borrower is a party or by which Borrower or any of its properties may be bound (nor would such execution and delivery constitute such a default with the passage of time or the giving of notice or both) and do not violate or contravene any law, order, decree, rule or regulation to which Borrower is subject; and (f) to the best of Borrower’s knowledge there exists no uncured default under any of the Loan Documents. Borrower agrees to indemnify and hold Lender harmless against any loss, claim, damage, liability or expense (including without limitation reasonable attorneys’ fees) incurred as a result of any representation or warranty made by it herein proving to be untrue in any respect.

9. **Further Assurances.** Borrower, upon request from Lender, agrees to execute such other and further documents as may be reasonably necessary or appropriate to consummate the transactions contemplated herein or to perfect the liens and security interests intended to secure the payment of the loan evidenced by the Note.

10. **Default; Remedies.** If Borrower shall fail to keep or perform any of the covenants or agreements contained herein or if any statement, representation or warranty contained herein is false, misleading or erroneous in any material respect, subject to the applicable notice and/or cure periods provided in Section 6.1 of the Loan Agreement, Borrower shall be deemed to be in default under the Deed of Trust and Lender shall be entitled at its option to exercise any and all of the rights and remedies granted pursuant to the any of the Loan Documents or to which Lender may otherwise be entitled, whether at law or in equity.

11. **Endorsement to Mortgagee Title Policy.** Contemporaneously with the execution and delivery hereof, and as a condition to the effectiveness of this Agreement, Borrower shall, at its sole cost and expense, arrange for recordation of this Agreement in each county where the Mortgaged Property is located and obtain and deliver to Lender an

endorsement of the Title Policy insuring the lien of the Deed of Trust, under Procedural Rule P-9b(3) of the applicable title insurance rules and regulations, in form and content acceptable to Lender, stating that the company issuing said Title Policy will not claim that policy coverage has terminated or that policy coverage has been reduced, solely by reason of the execution of this Agreement.

12. **Ratification of Loan Documents.** Except as provided herein, the terms and provisions of the Loan Documents shall remain unchanged and shall remain in full force and effect. Any modification herein of any of the Loan Documents shall in no way adversely affect the security of the Deed of Trust and the other Loan Documents for the payment of the Note. The Loan Documents as modified and amended hereby are hereby ratified and confirmed in all respects. All liens, security interests, mortgages and assignments granted or created by or existing under the Loan Documents remain unchanged and continue, unabated, in full force and effect, to secure Borrower's obligation to repay the Note.

13. **Liens Valid; No Offsets or Defenses.** Borrower hereby acknowledges that the liens, security interests and assignments created and evidenced by the Loan Documents are valid and subsisting and further acknowledges and agrees that there are no offsets, claims or defenses to any of the Loan Documents.

14. **Merger; No Prior Oral Agreements.** This Agreement supersedes and merges all prior and contemporaneous promises, representations and agreements. No modification of this Agreement or any of the Loan Documents, or any waiver of rights under any of the foregoing, shall be effective unless made by supplemental agreement, in writing, executed by Lender and Borrower. Lender and Borrower further agree that this Agreement may not in any way be explained or supplemented by a prior, existing or future course of dealings between the parties or by any prior, existing, or future performance between the parties pursuant to this Agreement or otherwise.

15. **Costs and Expenses.** Contemporaneously with the execution and delivery hereof, Borrower shall pay, or cause to be paid, all costs and expenses incident to the preparation hereof and the consummation of the transactions specified herein, including without limitation title insurance policy endorsement charges, recording fees and fees and expenses of legal counsel to Lender.

16. **Release of Lender.** Borrower hereby releases, remises, acquits and forever discharges Lender, together with its employees, agents, representatives, consultants, attorneys, fiduciaries, servants, officers, directors, partners, predecessors, successors and assigns, subsidiary corporations, parent corporations, and related corporate divisions (all of the foregoing hereinafter called the "**Released Parties**"), from any and all actions and causes of action, judgments, executions, suits, debts, claims, demands, liabilities, obligations, damages and expenses of any and every character, known or unknown, direct and/or indirect, at law or in equity, of whatsoever kind or nature, whether heretofore or hereafter accruing, for or because of any matter or things done, omitted or suffered to be done by any of the Released Parties prior to and including the Effective Date, and in any way directly or indirectly arising out of or in any way connected to this Agreement or any of the Loan Documents or any of the transactions associated therewith, or the Mortgaged Property, including specifically but not limited to claims of usury.

17. **Counterparts**. This Agreement may be executed in any number of counterparts with the same effect as if all parties hereto had signed the same document. All such counterparts shall be construed together and shall constitute one instrument, but in making proof hereof it shall only be necessary to produce one such counterpart.

18. **Severability**. If any covenant, condition, or provision herein contained is held to be invalid by final judgment of any court of competent jurisdiction, the invalidity of such covenant, condition, or provision shall not in any way affect any other covenant, condition or provision herein contained.

19. **Time of the Essence**. It is expressly agreed by the parties hereto that time is of the essence with respect to this Agreement.

20. **Representation by Counsel**. The parties acknowledge and confirm that each of their respective attorneys have participated jointly in the review and revision of this Agreement and that it has not been written solely by counsel for one party. The parties hereto therefore stipulate and agree that the rule of construction to the effect that any ambiguities are to or may be resolved against the drafting party shall not be employed in the interpretation of this Agreement to favor either party against the other.

21. **Governing Law**. This Agreement and the rights and duties of the parties hereunder shall be governed for all purposes by the law of the State of Texas and the law of the United States applicable to transactions within said State.

22. **Successors and Assigns**. The terms and provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

23. **Notice of No Oral Agreements**. Borrower and Lender hereby take notice of and agree to the following:

A. **PURSUANT TO SUBSECTION 26.02(b) OF THE TEXAS BUSINESS AND COMMERCE CODE, A LOAN AGREEMENT IN WHICH THE AMOUNT INVOLVED THEREIN EXCEEDS \$50,000 IN VALUE IS NOT ENFORCEABLE UNLESS THE AGREEMENT IS IN WRITING AND SIGNED BY THE PARTY TO BE BOUND OR BY THAT PARTY'S AUTHORIZED REPRESENTATIVE.**

B. **PURSUANT TO SUBSECTION 26.02(c) OF THE TEXAS BUSINESS AND COMMERCE CODE, THE RIGHTS AND OBLIGATIONS OF THE PARTIES TO THE LOAN DOCUMENTS SHALL BE DETERMINED SOLELY FROM THE LOAN DOCUMENTS, AND ANY PRIOR ORAL AGREEMENTS BETWEEN THE PARTIES ARE SUPERSEDED BY AND MERGED INTO THE LOAN DOCUMENTS.**

C. **THE LOAN DOCUMENTS AND THIS AGREEMENT REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES THERETO**

AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES THERETO. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, this Agreement is executed on the respective dates of acknowledgement below but is effective as of the date first above written.

BORROWER:

STRATUS PROPERTIES INC.,
a Delaware corporation

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

STRATUS PROPERTIES OPERATING CO., L.P., a
Delaware limited partnership

By: STRS L.L.C., a Delaware limited liability company,
General Partner

By Stratus Properties Inc., a Delaware corporation, Sole
Member

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

CIRCLE C LAND, L.P.,
a Texas limited partnership

By: Circle C GP, L.L.C., a Delaware limited liability
company, General Partner

By Stratus Properties Inc., a Delaware corporation, Sole
Member

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

AUSTIN 290 PROPERTIES, INC.,
a Texas corporation

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

THE VILLAS AT AMARRA DRIVE, L.L.C., a Texas
limited liability company

By: STRS L.L.C., a Delaware limited liability company,
Manager

By Stratus Properties Inc., a Delaware corporation, Sole
Member

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

STRATUS LAKEWAY CENTER, L.L.C.,
a Texas limited liability company

By: STRS L.L.C., a Delaware limited liability company,
Manager

By: Stratus Properties Inc., a Delaware corporation,
Sole Member

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

STATE OF TEXAS §
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 12th day of May, 2022, by Erin D. Pickens, Senior Vice President of Stratus Properties Inc., a Delaware corporation, on behalf of said corporation.

[SEAL] Notary Public, State of /s/ Megan Lynn Polanco
My Commission Expires: 05/10/23
Printed Name of Notary: Megan Lynn Polanco

STATE OF TEXAS §
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 12th day of May, 2022, by Erin D. Pickens, Senior Vice President of Stratus Properties Inc., a Delaware corporation, Sole Member of STRS L.L.C., a Delaware limited liability company, General Partner of Stratus Properties Operating Co., L.P., a Delaware limited partnership, on behalf of said corporation, limited liability company and limited partnership.

[SEAL] Notary Public, State of /s/ Megan Lynn Polanco
My Commission Expires: 05/10/23
Printed Name of Notary: Megan Lynn Polanco

STATE OF TEXAS §
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 12th day of May, 2022, by Erin D. Pickens, Senior Vice President of Stratus Properties Inc., a Delaware corporation, Sole Member of Circle C GP, L.L.C., a Delaware limited liability company, General Partner of Circle C Land, L.P., a Texas limited partnership, on behalf of said corporation, limited liability company and limited partnership.

[SEAL] Notary Public, State of /s/ Megan Lynn Polanco
My Commission Expires: 05/10/23
Printed Name of Notary: Megan Lynn Polanco

STATE OF TEXAS §
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 12th day of May, 2022, by Erin D. Pickens, Senior Vice President of Austin 290 Properties, Inc., a Texas corporation, on behalf of said corporation.

[SEAL] Notary Public, State of /s/ Megan Lynn Polanco
My Commission Expires: 05/10/23
Printed Name of Notary: Megan Lynn Polanco

STATE OF TEXAS §
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 12th day of May, 2022, by Erin D. Pickens, Senior Vice President of Stratus Properties Inc., a Delaware corporation, Sole Member of STRS L.L.C., a Delaware limited liability company, Manager of The Villas at Amarra Drive, L.L.C., a Texas limited liability company, on behalf of said corporation and limited liability companies.

[SEAL] Notary Public, State of /s/ Megan Lynn Polanco
My Commission Expires: 05/10/23
Printed Name of Notary: Megan Lynn Polanco

STATE OF TEXAS §
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 12th day of May, 2022, by Erin D. Pickens, Senior Vice President of Stratus Properties Inc., a Delaware corporation, Sole Member of STRS L.L.C., a Delaware limited liability company, Manager of Stratus Lakeway Center, L.L.C., a Texas limited liability company, on behalf of said corporation and limited liability companies.

[SEAL] Notary Public, State of /s/ Megan Lynn Polanco
My Commission Expires: 05/10/23
Printed Name of Notary: Megan Lynn Polanco

[Signature Page – Third Modification Agreement]

Certain identified information has been excluded from this exhibit because it is both not material and is the type that the registrant customarily and actually treats as private or confidential. Information that was omitted has been noted in this document with a placeholder identified by the mark “[***]”.

**FIRST AMENDMENT TO THE
AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT
OF STRATUS BLOCK 150, L.P.**

This First Amendment to the Amended and Restated Limited Partnership Agreement of Stratus Block 150, L.P. (this “**First Amendment**”) is made and entered into by **STRATUS BLOCK 150 GP, L.L.C.**, a Texas limited liability company (the “**General Partner**”), to be effective as of March 31, 2022 (the “**Effective Date**”).

RECITALS:

A. **STRATUS BLOCK 150, L.P.**, a Texas limited partnership (the “**Partnership**”), is governed by that certain Amended and Restated Limited Partnership Agreement of Stratus Block 150, L.P. dated effective as of August 31, 2021 (the “**Partnership Agreement**”).

B. The General Partner and the Class A Limited Partner (as defined in the Partnership Agreement) made additional Capital Contributions (as defined in the Partnership Agreement) in accordance with Sections 4.2(b) and 4.2(c) of the Partnership Agreement.

C. Pursuant to the authority granted to the General Partner in Section 4.1(b) of the Partnership Agreement, the General Partner desires to amend the Partnership Agreement as set forth in this First Amendment to the reflect the Capital Interests, Voting Interests, and Capital Contributions of the Partners as of the Effective Date.

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements contained in this First Amendment, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Partnership Agreement is hereby amended as follows:

1. **Amendment to Exhibit A.** Exhibit A of the Partnership Agreement is hereby replaced with the Exhibit A attached hereto and incorporated herein.

2. **Ratification of Partnership Agreement, As Amended.** Except as amended by this First Amendment, the Partnership Agreement is hereby ratified, confirmed, and approved.

Executed effective as of the Effective Date.

GENERAL PARTNER:

STRATUS BLOCK 150 GP, L.L.C., a Texas limited liability company, General Partner

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

EXHIBIT A

**TO THE FIRST AMENDMENT
TO THE AMENDED AND RESTATED
LIMITED PARTNERSHIP AGREEMENT
OF STRATUS BLOCK 150, L.P.**

**Partners' Capital Interests, Voting Interests,
and Capital Contributions through March 31, 2022**

<u>Partners</u>	<u>Capital Interest</u>	<u>Voting Interest</u>	<u>Capital Contributions</u>
<i>General Partner:</i>			
Stratus Block 150 GP, L.L.C.	0.123893805%	0.123893805%	\$21,000
<i>Class A Limited Partner:</i>			
Stratus Properties Operating Co., L.P.	30.849557522%	30.849557522%	\$5,229,000
<i>Class B Limited Partners:</i>			
[***]	5.899705015%	5.899705015%	\$1,000,000
[***]	5.899705015%	5.899705015%	\$1,000,000
[***]	11.799410029%	11.799410029%	\$2,000,000
[***]	8.849557522%	8.849557522%	\$1,500,000
[***]	5.899705015%	5.899705015%	\$1,000,000
JBM Trust	5.899705015%	5.899705015%	\$1,000,000
[***]	5.899705015%	5.899705015%	\$1,000,000
[***]	5.899705015%	5.899705015%	\$1,000,000
[***]	4.424778761%	4.424778761%	\$750,000
[***]	2.949852507%	2.949852507%	\$500,000
[***]	1.474926254%	1.474926254%	\$250,000
[***]	1.474926254%	1.474926254%	\$250,000
[***]	1.474926254%	1.474926254%	\$250,000
[***]	1.179941003%	1.179941003%	\$200,000
Class B Limited Partners Subtotal:	69.026548673%	69.026548673%	\$11,700,000
Total:	100.00%	100.00%	\$16,950,000

I, William H. Armstrong III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stratus Properties Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 16, 2022

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

Certification

I, Erin D. Pickens, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stratus Properties Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 16, 2022

By: /s/ Erin D. Pickens

Erin D. Pickens

Senior Vice President and
Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q of Stratus Properties Inc. (the “Company”) for the quarter ended March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), William H. Armstrong III, as Chairman of the Board, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

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

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

Dated: May 16, 2022

By: /s/ William H. Armstrong III

William H. Armstrong III
Chairman of the Board,
President and Chief Executive Officer

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

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

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

In connection with the Quarterly Report on Form 10-Q of Stratus Properties Inc. (the “Company”) for the quarter ended March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Erin D. Pickens, as Senior Vice President and Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of her knowledge:

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

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

Dated: May 16, 2022

By: /s/ Erin D. Pickens

Erin D. Pickens
Senior Vice President and
Chief Financial Officer

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

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