

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended September 30, 2001

Commission File Number: 0-19989

Stratus Properties Inc.

Incorporated in Delaware 72-1211572
(IRS Employer Identification No.)

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

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

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

On September 30, 2001, there were issued and outstanding 7,111,620 shares of the registrant's Common Stock, par value \$0.01 per share.

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

Item 1. Financial Statements

STRATUS PROPERTIES INC.
CONDENSED BALANCE SHEETS (Unaudited)

	September 30, 2001	December 31 2000
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents, including restricted cash of \$0.2 million and \$0.6 million, respectively	\$ 579	\$ 7,996
Accounts receivable	1,276	596
Prepaid expenses	126	218
	-----	-----
Total current assets	1,981	8,810
Real estate and facilities, net	106,707	93,005
Investments in and advances to unconsolidated affiliates	6,882	7,596
Other assets	9,216	2,482
	-----	-----
Total assets	\$ 124,786	\$ 111,893
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued liabilities	\$ 3,147	\$ 1,920
Accrued interest, property taxes and other	1,470	1,486
	-----	-----
Total current liabilities	4,617	3,406
Long-term debt	20,137	8,440
Other liabilities	5,179	8,967
Mandatorily redeemable preferred stock	10,000	10,000
Stockholders' equity	84,853	81,080
	-----	-----
Total liabilities and stockholders' equity	\$ 124,786	\$ 111,893
	=====	=====

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

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STRATUS PROPERTIES INC.
STATEMENTS OF INCOME (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
	-----	-----	-----	-----
(In Thousands, Except Per Share Amounts)				
Revenues	\$ 4,459	\$ 2,019	\$ 14,098	\$ 7,074
Costs and expenses:				
Cost of sales	752	1,573	7,513	4,996
General and administrative expenses	515	938	1,897	2,728
	-----	-----	-----	-----
Total costs and expenses	1,267	2,511	9,410	7,724
	-----	-----	-----	-----
Operating income (loss)	3,192	(492)	4,688	(650)
Interest expense, net	-	(195)	(456)	(582)
Other income, net	4	150	239	7,958
	-----	-----	-----	-----

Income before income taxes and equity in affiliates	3,196	(537)	4,471	6,726
Income tax provision	-	-	-	(40)
Equity in unconsolidated affiliates income (loss)	(140)	701	(305)	1,331
Net income	\$ 3,056	\$ 164	\$ 4,166	\$ 8,017
Net income per share:				
Basic	\$0.43	\$0.02	\$0.58	\$1.12
Diluted	\$0.37	\$0.02	\$0.51	\$0.99
Average shares outstanding:				
Basic	7,112	7,149	7,152	7,148
Diluted	8,152	8,146	8,115	8,135

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

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STRATUS PROPERTIES INC.
STATEMENTS OF CASH FLOWS (Unaudited)

Nine Months Ended
September 30,

2001 2000

(In Thousands)

Cash flow from operating activities:		
Net income	\$ 4,166	\$ 8,017
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	100	88
Cost of real estate sold	5,830	667
Recognition of deferred Circle C municipal utility reimbursements	-	(7,430)
Equity in unconsolidated affiliates' loss (income)	305	(1,331)
Long-term receivable and other	(8,356)	4,250
(Increase) decrease in working capital:		
Accounts receivable and other	(588)	778
Accounts payable and accrued liabilities	1,408	(276)
Net cash provided by operating activities	2,865	4,763
Cash flow from investing activities:		
Real estate and facilities	(19,540)	(3,731)
Investment in Lakeway Project	(2,000)	-
Net cash used in investing activities	(21,540)	(3,731)
Cash flow from financing activities:		
Payments on term loan	(5,588)	(4,697)
Proceeds from credit facility, net	15,328	3,309
Proceeds from term loan	5,000	-
Repayment of convertible debt	(3,240)	-
Repurchases of shares of Stratus' common stock	(242)	-
Exercise of stock options	-	18
Net cash provided by (used in) financing activities	11,258	(1,370)
Net decrease in cash and cash equivalents	(7,417)	(338)
Cash and cash equivalents at beginning of year	7,996	3,964
Cash and cash equivalents at end of period	\$ 579	\$ 3,626

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

STRATUS PROPERTIES INC.
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Share Purchase Program. In February 2001, Stratus' Board of Directors authorized an open market stock purchase program for up to 0.7 million stock-split adjusted shares of Stratus' common stock (see Note 6). The purchases may occur over time depending on many factors, including the market price of Stratus stock; Stratus' operating results, cash flow and financial position; and general economic and market conditions. No purchases have been made under this program through October 26, 2001.

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

In July 2001, the FASB issued SFAS 141, "Business Combinations," SFAS 142, "Goodwill and other Intangible Assets". SFAS 141 requires that all business combinations subsequent to June 30, 2001 be accounted for under the purchase method of accounting. The pooling-of-interests method is no longer allowed. SFAS 142 requires that upon adoption, amortization of goodwill will cease and instead, the carrying value of goodwill will be evaluated for impairment on at least an annual basis. SFAS 142 is effective for fiscal years beginning after December 15, 2001. Stratus does not anticipate the adoption of these standards to have any affect on its financial position and results of operations.

In August 2001, the FASB issued SFAS No. 143 "Accounting for Asset Retirement Obligations" and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 143, effective for fiscal years beginning after June 15, 2002, requires the fair value of liabilities for asset retirement obligations to be recorded in the period they are incurred. SFAS No. 144 establishes a single accounting model, based on the framework established in SFAS No. 121, for long-lived assets to be disposed of by sale. SFAS No. 144 also broadens the presentation of discontinued operations to include more disposal transactions, and provides additional implementation guidance for SFAS No. 121. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. Stratus does not expect the adoption of this statement to have a material impact on the Company's financial position or results of operations.

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

2. OLYMPUS RELATIONSHIP and INVESTMENT IN UNCONSOLIDATED AFFILIATES

In May 1998, Stratus and Olympus Real Estate Corporation (Olympus), formed a strategic alliance to develop certain of Stratus' existing properties and to pursue new real estate

acquisition and development opportunities. Under the terms of the agreement, Olympus made a \$10 million investment in Stratus' mandatorily redeemable preferred stock, provided a \$10 million convertible debt financing facility to Stratus and agreed to make available up to \$50 million of additional capital representing its share of direct investments in joint Stratus/Olympus projects. As of September 30, 2001 Olympus had invested approximately \$13.4 million in joint Stratus/Olympus projects, as further discussed below.

During the second quarter of 2001, Stratus repaid Olympus the entire \$3.2 million balance under the convertible debt financing facility used to finance Stratus' interest in the Walden Partnership in Houston, Texas, purchased in September 1998. Included in the \$3.2 million payment to Olympus was \$0.8 million of accrued interest that had been added to the principal at the end of each subsequent quarter, and which represented the stated 12 percent annual rate pursuant to the terms of the convertible debt financing agreement. Stratus paid an additional \$0.3 million of interest during the third quarter of 2001 to satisfy the minimum annual rate of return provision within the convertible debt facility agreement, which provided that if the combination of interest at 12 percent and the value of the conversion right did not provide Olympus with at least a 15 percent annual return on the convertible debt, Stratus would pay Olympus additional interest upon

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termination of the convertible debt facility in an amount necessary to yield a 15 percent return. The convertible debt facility was terminated on August 15, 2001.

Stratus has investments in three joint ventures in which it owns a 49.9 percent interest and Olympus owns the remaining 50.1 percent interest. Stratus accounts for its investments in the joint ventures using the equity method of accounting. Stratus develops and manages each project undertaken by these joint ventures and receives development fees, sales commissions, and other management fees for its services.

Stratus' three joint ventures are the Oly Stratus Barton Creek I Joint Venture (Barton Creek Joint Venture), the Oly Walden General Partnership (Walden Partnership) and the Stratus 7000 West Joint Venture (7000 West Joint Venture). The Barton Creek Joint Venture currently consists of two separate subdivisions, "Wimberly Lane" and "Escala Drive," located in southwest Austin, Texas. At September 30, 2001 there was one remaining single-family homesite at the Wimberly Lane subdivision and 21 remaining single-family homesites at the Escala Drive subdivision. The Walden Partnership had 420 single-family homesites available at the Walden on Lake Houston development in Houston, Texas at September 30, 2001. The 7000 West Joint Venture consists of two fully constructed and leased 70,000 square foot office buildings located in the Lantana development in southwest Austin.

For a detailed discussion of the Olympus alliance and the initial formation and subsequent transactions of the joint ventures and partnership, see Notes 2, 3 and 4 of the "Notes To Financial Statements" included in Stratus' 2000 Annual Report on Form 10-K. Also refer to "Transactions With Olympus Real Estate Corporation" and "Capital Resources and Liquidity" included in Items 7 and 7A., "Management's Discussion and Analysis of Financial Condition and Results of Operations and Disclosures of Market Risks" included in Stratus' 2000 Annual Report on Form 10-K.

The Barton Creek Joint Venture distributed \$0.7 million to the partners during the first quarter of 2001; however, it made no distributions to the partners during either the second or third quarters of 2001. From inception through September 30, 2001 the Barton Creek Joint Venture has distributed \$17.1 million to the partners. Stratus' portion of the distributions,

approximately \$8.6 million, have been recorded as repayment of the Barton Creek notes receivable and related accrued interest (\$6.9 million) and a \$1.7 million reduction of its investment in the Barton Creek Joint Venture. Stratus recorded the entire amount of its portion of the first-quarter distribution, approximately \$0.4 million, as a reduction of its investment in the Barton Creek Joint Venture. Future distributions by the Barton Creek Joint Venture will reduce Stratus' investment in the joint venture as a return of partner's capital until Stratus' remaining investment of \$3.7 million is recovered. During the second quarter of 2001, the 7000 West Joint Venture distributed approximately \$0.1 million to the partners, which Stratus recorded as a reduction of its investment in the 7000 West Joint Venture. There have been no distributions by the Walden Partnership. The summarized unaudited earnings data of Stratus' unconsolidated affiliates is shown below (in thousands):

	Barton Creek Joint Venture	Walden Partnership	7000 West	Total
	-----	-----	-----	-----
Quarter ended September 30, 2001:				
Revenues	\$ 750	\$ 617	\$ 873	\$ 2,240
Operating loss	(77)	(203)	(77)	(357)
Net loss	(76)	(170)	(55)	(301)
Stratus' equity in net loss	(38)	(74)	(28)	(140)
Quarter ended September 30, 2000:				
Revenues	\$ 5,160	\$ 657	\$ 347	\$ 6,164
Operating income (loss)	1,761	(278)	(10)	1,473
Net income (loss)	1,761	(377)	(8)	1,376
Stratus' equity in net income (loss)	879	(174) a	(4)	701 a

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	Barton Creek Joint Venture	Walden Partnership	7000 West	Total
	-----	-----	-----	-----
Nine months ended September 30, 2001:				
Revenues	\$ 973	\$ 2,156	\$ 2,434	\$ 5,563
Operating loss	(183)	(473)	(234)	(890)
Net loss	(175)	(339)	(166)	(680)
Stratus' equity in net loss	(87)	(135) a	(83)	(305) a
Nine months ended September 30, 2000:				
Revenues	\$ 13,924	\$ 2,083	\$ 756	\$ 16,763
Operating income (loss)	3,567	(559)	(540)	2,468
Net income (loss)	3,630	(510)	(530)	2,590
Stratus' equity in net income (loss)	1,814	(218) a	(265)	1,331 a

a. Includes recognition of deferred income totaling \$11,000 during the third quarter of 2001 and \$14,000 in the third quarter of 2000. The nine month periods include recognition of deferred income totaling \$34,000 in 2001 and \$37,000 in 2000. The deferred income represents the difference in Stratus' investment in the Walden Partnership and its underlying equity at the date of acquisition. Stratus will recognize the remaining deferred income as the related real estate is sold. Through September 30,

2001, Stratus has recognized \$143,000 of a total of \$337,000 of deferred income associated with the Walden Partnership.

3. EARNINGS PER SHARE

The earnings per share calculations have been restated to reflect the effects of the stock split transactions (see Note 6) as if they had occurred at the beginning of each period presented. The following table is a reconciliation of net income and weighted average common shares outstanding for purposes of calculating basic and diluted net income per share (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Basic net income per share of common stock:				
Net income	\$ 3,056	\$ 164	\$ 4,166	\$ 8,017
Weighted average common shares outstanding	7,112	7,149	7,152	7,148
Basic net income per share of common stock	\$0.43	\$0.02	\$0.58	\$1.12
Diluted net income per share of common stock:				
Net income	\$ 3,056	\$ 164	\$ 4,166	\$ 8,017
Weighted average common shares outstanding	7,112	7,149	7,152	7,148
Dilutive stock options	189	146	112	136
Assumed redemption of preferred stock	851	851	851	851
Weighted average common shares outstanding for purposes of calculating diluted net income per share	8,152	8,146	8,115	8,135
Diluted net income per share	\$0.37	\$0.02	\$0.51	\$0.99

Interest accrued on the convertible debt outstanding totaled approximately \$83,000 for the third quarter of 2000 and \$248,000 for the nine months ended September 30, 2000. Although the debt was convertible into 404,000 shares for the three and nine months periods ending September 30, 2000, these shares were excluded from the diluted net income per share calculation because the effect of an assumed redemption of the convertible debt was anti-dilutive. Stratus repaid all borrowings under its convertible debt facility during the

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second quarter of 2001. There have been no dividends accrued on Stratus' mandatorily redeemable preferred stock through September 30, 2001.

Outstanding stock options excluded from the computation of diluted net income per share of common stock because their exercise prices were greater than the average market price of the common stock during the period are as follows:

Third Quarter		Nine Months	
2001	2000	2001	2000

Outstanding options	142,000	155,000	399,000	265,000
Average exercise price	\$12.38	\$12.14	\$10.26	\$10.70

4. LAKEWAY TRANSACTION

Since mid-1998 Stratus has provided development, management, operating and marketing services for the Lakeway project near Austin, Texas, which is owned by Commercial Lakeway Limited Partnership, an affiliate of Credit Suisse First Boston, for a fixed monthly fee. In January 2001, Stratus and Commercial Lakeway Limited Partnership entered into an expanded development management agreement covering a 552-acre portion of the Lakeway development known as Schramm Ranch and Stratus contributed \$2.0 million as an investment in this project. The agreement provides for Stratus to receive enhanced management and development fees and sales commissions, as well as a net profits interest in the project.

5. RESTRICTED CASH

At September 30, 2001, Stratus had restricted cash deposits totaling \$0.2 million to fund the purchase of fractional shares of its common stock resulting from its stock split transactions (see Note 6).

6. STOCK SPLIT TRANSACTIONS

On May 10, 2001, the shareholders of Stratus approved an amendment to Stratus' certificate of incorporation to permit a reverse 1-for-50 common stock split followed immediately by a forward 25-for-1 common stock split. This transaction resulted in Stratus' shareholders holding fewer than 50 shares of common stock having their shares converted into less than one share in the reverse 1-for-50 split, for which they received cash payments equal to the fair value of those fractional interests. Stratus shareholders holding more than 50 shares of Stratus' common stock had their number of shares common stock reduced by one-half immediately after this transaction. Shareholders holding an odd number of shares were entitled to a cash payment equal to the fair value of the resulting fractional share. The fair value of the fractional shares was calculated by valuing each outstanding share of Stratus common stock held at the close of business on the effective date, May 25, 2001, at the average daily closing price per share of Stratus' common stock for the ten trading days immediately preceding the effective date. Stratus funded \$0.5 million into a restricted cash account to purchase approximately 42,000 post-stock split shares of its common stock. As of September 30, 2001, fractional shares representing approximately 21,000 shares of Stratus' common stock had been purchased for \$0.25 million. The number of shares outstanding of Stratus' mandatorily redeemable preferred stock (see Note 3 of "Notes To Financial Statements" included in Stratus' 2000 Annual Report on Form 10-K) is not affected by this transaction; however, the conversion price in effect immediately prior to the transaction was approximately doubled to reflect the effects of these transactions.

Remarks

The information furnished herein should be read in conjunction with Stratus' financial statements contained in its 2000 Annual Report on Form 10-K. The information furnished herein reflects all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the periods. All such adjustments are, in the opinion of management, of a normal recurring nature.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have reviewed the accompanying condensed balance sheet of Stratus Properties Inc. (a Delaware corporation), as of September 30, 2001, and the related statements of income for the three and nine-month periods ended September 30, 2001 and 2000, and the statements of cash flows for the nine-month periods ended September 30, 2001 and 2000. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with auditing standards generally accepted in the United States, the balance sheet of Stratus Properties Inc. as of December 31, 2000, and the related statements of income, stockholders' equity and cash flows for the year then ended (not presented herein), and in our report dated January 25, 2001, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed balance sheet as of December 31, 2000, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

/s/ ARTHUR ANDERSEN LLP

Austin, Texas
October 26, 2001

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

OVERVIEW

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

We acquire, develop, manage and sell commercial and residential real estate. We conduct real estate operations on properties we own and through unconsolidated affiliates we jointly own with Olympus Real Estate Corporation (Olympus) pursuant to a strategic alliance formed in May 1998 (see Note 2).

DEVELOPMENT ACTIVITIES

Stratus Properties

We have reached agreement with the City of Austin (the City) concerning development of a 417-acre portion of the Lantana project. The agreement reflects a cooperative effort between the City and us to allow development based on grandfathered entitlements, while adhering to stringent water quality standards and other enhancements to protect the environment. With this most recent agreement, we have now completed the core entitlement process for the entire Lantana project allowing approximately 2.9 million square feet of office and retail development, approximately 400 multi-family units (previously sold to an unrelated third party, see below), and approximately 330

residential lots.

In the fourth quarter of 2000 we received final subdivision plat approval from the City to develop approximately 170 acres of commercial and multi-family real estate within our Lantana development. The required infrastructure development at the site, known as "Rialto Drive," is nearing completion and final completion is expected early in the fourth quarter of 2001. Construction of the first of two 75,000 square foot office buildings at Rialto Drive (7500 Rialto) is proceeding as planned and should be substantially complete by year-end 2001. Construction of the office buildings at Rialto is now utilizing borrowings available to us under a new project development loan (see "Capital Resources and Liquidity" below). Full development of the 170 acres is expected to consist of over 800,000 square feet of office and retail space and 400 multi-family units, which are now being constructed by an apartment developer pursuant to our sale of a 36.4-acre multi-family tract in December 2000 (see "Result of Operations" below).

We continue to work on residential development plans for portions of our Circle C project. During the third quarter of 2001, we met with City of Austin representatives and with neighborhood and environmental groups to discuss a plan to modify portions of the land plan and provide enhanced water quality protection for portions of the Circle C project.

We commenced construction of a new subdivision within the Barton Creek community during the fourth quarter of 2000. This subdivision, Mirador, is now complete and marketing efforts have commenced. Mirador adjoins the Escala Drive subdivision, which is owned by our Barton Creek Joint Venture (see below). The Mirador subdivision consists of 34 estate lots, averaging 3.5 acres in size.

We are also completing the permitting of two new residential sections at Barton Creek. The first is a 114-acre tract with 54 lots ranging in size from one-third acre to multi-acre estate lots, some of which overlook the Lost Creek Country Club golf course. This project is expected to receive final approval during the fourth quarter of 2001. The second section is a 212-acre tract that includes 125 single-family lots and nine acres for condominium development. Some of these lots will adjoin the Fazio Canyons golf course. This project is expected to receive final approval by early 2002. Development activities will be deferred until the Austin-area economy improves (see "Capital Resources and Liquidity" below.)

Unconsolidated Affiliates

We own a 49.9 percent interest in three joint ventures and Olympus, our partner, owns the remaining 50.1 percent interest in each of the joint ventures. Accordingly, we account for our investments in these joint ventures using the equity method of accounting. We develop and manage each project undertaken by these joint ventures and receive development fees, sales commissions, and other management fees for our services. See Note 2 included elsewhere in this Form 10-Q for the summarized unaudited results of operations of our unconsolidated affiliates for the three and nine-month periods ended September 30, 2001 and 2000.

Barton Creek Joint Venture

The Oly Stratus Barton Creek I Joint Venture (Barton Creek Joint Venture) currently consists of two separate subdivisions: "Wimberly Lane" and "Escala Drive." Construction of the Wimberly Lane subdivision, consisting of 75 developed residential lots, was completed during the first quarter of 1999. We had only one Wimberly Lane lot remaining to be sold at September 30, 2001. We sold two Wimberly Lane lots during the first quarter of 2001 for a total of \$0.2 million. We sold no Wimberly Lane lots during the second and third quarters of 2001. During the third quarter of 2000, we sold four Wimberly Lane lots for \$0.4 million and a

total of 25 lots during the nine months ended September 30, 2000 for \$3.0 million.

Construction of the Escala Drive subdivision was completed during the second quarter of 2000. As of September 30, 2001, 33 of the original 54 multi-acre residential lots have been sold. These residential lots, as well as the developed lots at our Mirador subdivision (see "Stratus Properties" above), are the largest developed to date within the Barton Creek community. One Escala Drive lot was sold during the third quarter of 2001 for \$0.8 million; however, there were no Escala Drive residential lot sales during the first half of 2001 (see "Capital Resources and Liquidity" below). During the third quarter of 2000, we sold ten of the Escala Drive residential lots for \$4.8 million and a total of 25 lots during the nine months ended September 30, 2000 for \$10.9 million.

The Barton Creek Joint Venture distributed approximately \$0.7 million to the partners in the first quarter of 2001. We recorded our share of these distributions, approximately \$0.4 million, as a return of our investment in the joint venture. There were no distributions to the partners during the second or third quarters of 2001. The Barton Creek Joint Venture distributed approximately \$4.6 million to the partners in the third quarter of 2000 and a total of \$12.1 million for the nine months ended September 30, 2000. Our share of the distribution proceeds totaled approximately \$2.3 million during the third quarter of 2000 and \$6.1 million for the nine months ended September 30, 2000.

Walden Partnership

At September 30, 2001, the Walden Partnership had 420 single-family homesites available for sale at the Walden on Lake Houston development in Houston, Texas. The Partnership sold 24 single-family homesites during the third quarter of 2001 and a total of 73 single-family homesites during the nine months ended September 30, 2001, compared with sales of 31 and 80 single-family homesites during the comparable periods last year. In September 1998, we deposited \$2.5 million of restricted cash as additional collateral for the related project development loan facility. The remaining restricted deposit totaled \$0.6 million at December 31, 2000. During the third quarter of 2001, the Walden Partnership repaid all remaining borrowings outstanding under its project development loan facility and our remaining \$0.4 million of restricted cash was released.

7000 West

We have two fully leased and occupied 70,000 square foot office buildings at the Lantana Corporate Center, known as 7000 West. In our role as manager of 7000 West, we arranged for a \$6.6 million project loan facility to finance construction of the first office building. The construction of the second building required additional financing, which was provided by an additional \$7.7 million financing under the 7000 West development loan facility negotiated in the first quarter of 2000. Borrowings outstanding under 7000 West's project loan facility totaled \$13.0 million at September 30, 2001 and \$12.0 million at December 31, 2000. The project loan facility was originally scheduled to mature on August 24, 2001. However, as manager of 7000 West, we successfully negotiated an extension of the term loan with Comerica Bank-Texas (Comerica) to August 24, 2002 with the option to extend the maturity to August 24, 2003, subject to certain conditions.

RESULTS OF OPERATIONS

Summary operating results follow (in thousands):

Third Quarter

Nine-Months

	2001 -----	2000 -----	2001 -----	2000 -----
Revenues:				
Undeveloped properties:				
Unrelated parties	\$ 3,250	\$ -	\$ 9,623	\$ 342
Recognition of deferred revenues	840	1,213	3,479	3,729
Developed properties	-	108	-	704
Commissions, management fees and other	369	698	996	2,299
	-----	-----	-----	-----
Total revenues	\$ 4,459	\$ 2,019	\$ 14,098	\$ 7,074
	=====	=====	=====	=====
Operating income (loss)	\$ 3,192	\$ (492)	\$ 4,688	\$ (650)
	=====	=====	=====	=====
Net income	\$ 3,056	\$ 164	\$ 4,166	\$ 8,017
	=====	=====	=====	=====

Operating Results

Our revenues during the third quarter and nine months ended September 30, 2001 primarily reflect the sale of undeveloped entitled properties to unrelated third parties. During the third quarter of 2001, we sold a 41-acre undeveloped tract in Austin, Texas for \$3.3 million. During the first half of 2001 our undeveloped property revenues included the sale of 112 acres of undeveloped entitled residential property in Houston, Texas for \$2.7 million, the sale of 10 acres of undeveloped entitled property in Dallas, Texas for \$1.7 million and one 17-acre undeveloped tract sale in Austin, Texas totaling \$2.0 million. Revenues from undeveloped properties during the nine months ended September 30, 2000 reflect the sale of one acre of multi-family property in San Antonio, Texas.

The majority of the deferred revenue recognized during the third quarter and nine months ended September 30, 2001 was associated with the sale of a 36.4-acre multi-family tract within the Rialto Drive project in December 2000. In this transaction we sold the property for \$5.3 million but deferred \$3.6 million of the sale. We are recognizing this deferred revenue pro rata as the required infrastructure construction is completed. As discussed in "Development Activities" above, construction at the Rialto Drive project is nearly complete, resulting in our recognizing deferred revenues of \$0.7 million during the third quarter of 2001 and \$3.3 million during the nine months ended September 30, 2001. The remaining \$0.3 million of deferred revenue will be recognized when the project is completed during the fourth quarter of 2001.

When we sell real estate to an entity we jointly own with Olympus, we defer recognizing revenues from the sale related to our ownership interest until sales are made to unrelated parties. The Barton Creek Joint Venture sold two Wimberly Lane single-family homesites during the first quarter of 2001 and one Escala Drive homesite during the third quarter of 2001, which resulted in our recognition of previously deferred revenues of \$0.2 million for the nine-month 2001 period. Sales by the Barton Creek Joint Venture during 2000 resulted in our recognition of previously deferred revenues of \$1.2 million and \$0.6 million of related operating income during the third quarter of 2000 and recognition of previously deferred revenues of \$3.2 million and \$1.6 million of related operating income during the nine months ended September 30, 2000. During the second quarter of 2000, we also recognized \$0.5 million of previously deferred revenues and \$0.4 million of related operating income associated with our sale of 5.5 acres of commercial real estate to the 7000 West Joint Venture. At September 30, 2001 we had a total of \$2.0 million of deferred revenues and \$1.1 million of related operating income remaining to be recognized from future sales of real estate by the Barton Creek Joint Venture.

We have sold no developed lots during 2001; however, our Mirador subdivision (see "Development Activities," above) is now

complete and we are currently marketing these lots. Our third-quarter 2000 developed property revenues included the sale of three single-family homesites and we sold 24 developed lots during the nine months ended September 30, 2000. Lots sales by our unconsolidated affiliates are not included in our developed property revenues (see "Unconsolidated Affiliates" above).

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Commissions, management fees and other income totaled \$0.4 million during the third quarter of 2001 and \$1.0 million during the nine months ended September 30, 2001 compared to \$0.7 million and \$2.3 million during the comparable periods last year. The decrease during 2001 from the same periods last year primarily reflects the decrease in sales by our unconsolidated affiliates, particularly the Barton Creek Joint Venture, which represent a significant portion of our sales commissions. See "Capital Resources and Liquidity" below for a discussion of our expanded management services agreement associated with the Lakeway project near Austin, Texas.

Cost of sales decreased to \$0.8 million in the third quarter of 2001 from \$1.6 million during the third quarter of 2000 primarily reflecting the decrease in sales from our unconsolidated affiliates partially offset by the \$0.1 million of costs associated with the sale of a 41-acre tract during the third quarter of 2001. Cost of sales increased to \$7.5 million during the nine months ended September 30, 2001 from \$5.0 million during the comparable nine-month period in 2000, primarily reflecting the significant sales of undeveloped entitled properties during the second quarter of 2001. The increase in cost of sales during the nine months ended September 30, 2001 was partially offset by a reimbursement of certain infrastructure costs previously charged to expense or relating to properties previously sold, which reduced our first quarter of 2001 cost of sales by \$0.8 million, and reduced sales activity of our unconsolidated affiliates throughout 2001.

Our general and administrative expenses decreased to \$0.5 million during the third quarter of 2001 and \$1.9 million for the nine months ended September 30, 2001 from \$0.9 million and \$2.7 million during the comparable periods in 2000. The decrease between the periods primarily reflects reduced administrative costs resulting from the implementation of a new information system and other initiatives to reduce costs.

Non-Operating Results

Interest expense, net of capitalized interest, totaled \$0.5 million for the nine months ended September 30, 2001 compared to \$0.6 million for the nine months ended September 30, 2000. Interest expense, net of capitalized interest, totaled \$0.2 million during the third quarter of 2000. All our interest costs were capitalized during the third quarter of 2001. Capitalized interest totaled \$0.4 million for the third quarter of 2001 and \$0.9 million for the nine months ended September 30, 2001 compared to \$0.3 million during the third quarter of 2000 and \$1.0 million during the nine months ended September 30, 2000.

In March 2000, the City approved a settlement agreement of all its disputes with other Austin-area real estate developers and landowners concerning the Circle C community. Under terms of this settlement, the lawsuits contesting the City's December 1997 annexation of all land within the four Circle C Municipal Utility Districts (MUDs) and the dissolution of the four MUDs were dismissed with prejudice. Accordingly, the City's partial payments of our reimbursement claim, totaling \$10.5 million as of March 31, 2000, were no longer subject to a repayment contingency. As a result, we recorded approximately \$7.4 million of these previously deferred proceeds in other income during the first quarter of 2000. This amount represents that portion of the reimbursed infrastructure expenditures in excess of our remaining basis in these assets, as well as related interest income on the reimbursements. The remaining \$3.1 million was recorded as a

reduction of our investment in Circle C. We settled our disputes with the City related to the remaining amounts of the Circle C MUDs in the fourth quarter of 2000, when we received \$6.9 million from the City as full and final settlement of our claim. See Note 6 to the "Notes To Financial Statements" included within our 2000 Annual Report on Form 10-K for discussion of the settlement of our Circle C MUD reimbursement claim.

CAPITAL RESOURCES AND LIQUIDITY

Net cash provided by operating activities totaled \$2.9 million during the nine months ended September 30, 2001 compared to \$4.8 million during the nine months ended September 30, 2000. The decrease primarily reflects reduced distributions received from the Barton Creek Joint Venture offset in part by our increased revenues from our undeveloped entitled properties sales. Cash used in investing activities totaled \$21.6 million for the nine months ended September 30, 2001 compared with \$3.7 million during the same period in 2000, reflecting an increase in our net real estate and facilities expenditures (see "Development Activities" above) and the \$2.0 million investment in the Lakeway project, near Austin, Texas (see below). Financing activities provided cash of \$11.3 million during the first nine months of 2001 reflecting borrowings under our Comerica credit facility and our successful negotiations to obtain a second \$5.0 million unsecured term loan, offset in part by the \$3.2 million repayment to Olympus under the convertible debt credit facility (see below).

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At September 30, 2001, we had debt outstanding of \$20.1 million compared to \$8.4 million at December 31, 2000 and \$15.4 million at September 30, 2000. Our debt outstanding at September 30, 2001 included \$10.0 million of borrowings under our unsecured term loans (see below), with the first \$5.0 million term loan maturing in December 2005 and the newly obtained \$5.0 million term loan maturing in July 2006. We had \$9.9 million of borrowings at September 30, 2001 under our \$20 million revolver, which matures in December 2002. The availability under the \$20 million revolving line of credit was reduced to \$18.0 million to satisfy the \$2.0 million interest reserve account requirement at September 30, 2001. For a discussion of our bank credit facilities see Note 5 included in the "Notes To Financial Statements" included in our 2000 Annual Report on Form 10-K.

During the second quarter of 2001, we repaid Olympus the entire \$3.2 million balance under our convertible debt facility used to acquire our interest in the Walden Partnership in Houston, Texas in September 1998. We repaid the convertible debt with a portion of the proceeds from our recently negotiated additional \$5.0 million five-year unsecured term loan with First American Asset Management. By exchanging the convertible debt for the term loan debt, we have avoided the potential dilutive effect of Olympus converting the debt into shares of our common stock and reduced our related financing cost from 12 percent to 9.25 percent. We will use the remainder of the proceeds from the \$5.0 million unsecured term loan to fund our ongoing operations and for other general corporate purposes.

In the second quarter of 2001, we secured an \$18.4 million project loan facility with Comerica for the construction of the two office buildings at the 7500 Rialto project (see "Development Activities" above). This variable-rate project loan facility matures in June 2003, with an option to extend the maturity by one year. Currently our availability under the project loan is \$9.2 million and is intended for the construction of the first 75,000 square foot office building and a related parking garage. At September 30, 2001 we had borrowings totaling \$0.3 million under this project loan facility.

Since mid-1998 we have provided development, management, operating and marketing services for the Lakeway project near Austin, Texas, which is owned by Commercial Lakeway Limited Partnership, an affiliate of Credit Suisse First Boston, for a

fixed monthly fee. In January 2001, we entered into an expanded development management agreement with Commercial Lakeway Limited Partnership covering a 552-acre portion of the Lakeway development known as Schramm Ranch, and we contributed \$2.0 million as an investment in this project. Under the agreement we receive enhanced management and development fees and sales commissions, as well as a net profits interest in the project.

During the second quarter of 2001, we negotiated an agreement to sell the entire Schramm Ranch property to a single purchaser for approximately \$11.0 million, conditioned on obtaining certain entitlements. As manager of the project, we obtained subdivision, annexation, zoning and other entitlements for the first phase of the Schramm Ranch project. Obtaining these entitlements allowed for the sale of the first phase of the Schramm Ranch project for \$1.5 million. The proceeds from this initial sales transaction are being used to obtain entitlements for the remaining 500-plus acres of the property. We expect to obtain those entitlements during the fourth quarter of 2001, allowing at least one additional phase to be sold in 2001. We believe that we will receive a portion of the sales proceeds in connection with our net profits interest in the project when the sale of the second phase occurs.

In February 2001, our Board of Directors authorized an open market stock purchase program for up to 0.7 million shares of our common stock representing approximately 10 percent of our outstanding common stock, after considering the effects of the stock split transactions described in the following paragraph. The purchases may occur over time depending on many factors, including the market price of our common stock; our operating results, cash flows and financial position; possible redemption of our mandatorily redeemable preferred stock held by Olympus; and general economic and market conditions. We have yet to make any open market share purchases under this program as of October 26, 2001.

On May 10, 2001, our shareholders approved an amendment to our certificate of incorporation to permit a reverse 1-for-50 common stock split followed immediately by a forward 25-for-1 common stock split. The effective date of this transaction was May 25, 2001. This transaction resulted in our shareholders holding fewer than 50 shares of common stock having their shares converted into less than one share of our common stock in the reverse 1-for-50 split. Those shareholders received cash payments equal to the fair value of those fractional interests. Our shareholders holding more than 50 shares of our common stock had their number of shares of common stock reduced by one-half immediately after this transaction. Shareholders holding an odd

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number of shares were entitled to a cash payment equal to the fair value of the resulting fractional share. The fair value of the fractional shares was calculated by valuing each outstanding share of Stratus common stock held at the close of business on the effective date at the average daily closing price per share of Stratus' common stock for the ten trading days immediately preceding the effective date. Accordingly, we funded \$0.5 million into a restricted cash account to purchase approximately 42,000 shares of our common stock. As of September 30, 2001, fractional shares representing approximately 21,000 shares of our common stock had been purchased for \$0.25 million. We expect this transaction, including the funding of the remaining share purchases, to lower our future reporting and related costs.

Our future operating cash flows and, ultimately, our ability to develop our properties and expand our business will be largely dependent on the level of our future real estate sales. In turn, these sales will be significantly affected by future real estate values, regulatory issues, development costs, interest rate levels and our ability to continue to protect our land use and development entitlements. Significant development expenditures remain to be incurred for our Austin-area properties prior to

their eventual sale. As a result of our settlement of certain entitlement and reimbursement issues with the City during 2000 and 2001, we have proceeded to develop a significant portion of our Austin-area properties with capital expenditures in 2001 that have significantly exceeded the development expenditures incurred during each of the past three years. However, because of the decrease in our sales activities resulting from the recent downturn in the information technology business sector, which has negatively affected Austin's business climate, we are planning to defer some of our remaining near-term development plans until the real estate market improves.

We are continuing to actively pursue additional development and management fee opportunities, both individually and through our existing relationships with institutional capital sources. We also believe we can obtain bank financing at a reasonable cost for developing our properties (see above). However, obtaining land acquisition financing is generally expensive and uncertain.

CAUTIONARY STATEMENT

Management's discussion and analysis of financial condition and results of operations contains forward-looking statements regarding anticipated sales, debt repayments, future reimbursement for infrastructure costs, future events related to financing and regulatory matters, the expected results of our business strategy and other plans and objectives of management for future operations and activities. Important factors that could cause actual results to differ materially from our expectations include economic and business conditions, business opportunities that may be presented to and pursued by us, changes in laws or regulations and other factors, many of which are beyond our control, and other factors that are described in more detail under the heading "Cautionary Statements" in our Annual Report on Form 10-K for the year ended December 31, 2000.

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PART II. - OTHER INFORMATION

Item 1. Legal Proceedings.

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

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

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

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

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SIGNATURE

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

STRATUS PROPERTIES INC.

By: /s/ C. Donald Whitmire, Jr.

C. Donald Whitmire, Jr.

Vice President - Controller
(authorized signatory and
Principal Accounting Officer)

Date: November 13, 2001

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STRATUS PROPERTIES INC.
EXHIBIT INDEX

Exhibit
Number

- 3.1 Amended and Restated Certificate of Incorporation of Stratus. Incorporated by reference to Exhibit 3.1 to Stratus' 1998 Form 10-K.
- 3.2 By-laws of Stratus, as amended as of February 11, 1999. Incorporated by Reference to Exhibit 3.2 to Stratus' 1998 Form 10-K.
- 4.1 Stratus' Certificate of Designations of Series A Participating Cumulative Preferred Stock. Incorporated by reference to Exhibit 4.1 to Stratus' 1992 Form 10-K.
- 4.2 Rights Agreement dated as of May 28, 1992 between Stratus and Mellon Securities Trust Company, as Rights Agent. Incorporated by reference to Exhibit 4.2 to Stratus' 1992 Form 10-K.
- 4.3 Amendment No. 1 to Rights Agreement dated as of April 21, 1997 between Stratus and the Rights Agent. Incorporated by reference to Exhibit 4 to Stratus' Current Report on Form 8-K dated April 21, 1997.
- 4.4 The loan agreement by and between Comerica Bank-Texas and Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land Corp. and Austin 290 Properties Inc. dated December 21, 1999. Incorporated by reference to Exhibit 4.4 to Stratus 1999 Form 10-K.
- 4.5 Certificate of Designations of the Series B Participating Preferred Stock of Stratus Properties Inc. Incorporated by reference to Exhibit 4.1 to Stratus' Current Report on Form 8-K dated June 3, 1998.
- 4.6 Investor Rights Agreement, dated as of May 22, 1998, by and between Stratus Properties Inc. and Oly/Stratus Equities, L.P. Incorporated by reference to Exhibit 4.2 to Stratus' Current Report on Form 8-K dated June 3, 1998.
- 10.1 Joint Venture Agreement between Freeport-McMoRan Resource Partners, Limited Partnership and the Partnership, dated June 11, 1992. Incorporated by reference to Exhibit 10.3 to Stratus' 1992 Form 10-K.
- 10.2 Development and Management Agreement dated and effective as of June 1, 1991 by and between Longhorn Development Company and Precept Properties, Inc. (the "Precept Properties Agreement"). Incorporated by reference to Exhibit 10.8 to Stratus' 1992 Form 10-K.
- 10.3 Assignment dated June 11, 1992 of the Precept Properties Agreement by and among FTX (successor by merger to FMI Credit Corporation, as successor by merger to Longhorn Development Company), the Partnership and Precept Properties, Inc. Incorporated by reference to Exhibit 10.9 to Stratus' 1992 Form 10-K.
- 10.4 Master Agreement, dated as of May 22, 1998, by and among Oly Fund II GP Investments, L.P., Oly Lender Stratus, L.P., Oly/Stratus Equities, L.P., Stratus Properties Inc. and Stratus Ventures I Borrower L.L.C. Incorporated by reference to Exhibit

99.1 to Stratus' Current Report on Form 8-K dated June 3, 1998.

10.5 Securities Purchase Agreement, dated as of May 22, 1998, by and between Oly/Stratus Equities, L.P. and Stratus Properties Inc. Incorporated by reference to Exhibit 99.2 to Stratus' Current Report on Form 8-K dated June 3, 1998.

10.6 Oly Stratus Barton Creek I Amended and Restated Joint Venture Agreement between Oly ABC West I, L.P. and Stratus ABC West I, L.P. dated December 28, 1999. Incorporated by reference to Exhibit 10.7 to the Stratus 1999 Form 10-K.

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10.7 Amendment No. 1 to the Oly Stratus ABC West I Joint Venture Agreement dated November 9, 1998. Incorporated by reference to Exhibit 10.11 to the Stratus 1998 Third Quarter 10-Q.

10.8 Management Agreement between Oly Stratus ABC West I Joint Venture and Stratus Management L.L.C. dated September 30, 1998. Incorporated by reference to Exhibit 10.12 to the Stratus 1998 Third Quarter 10-Q.

10.9 General Partnership Agreement dated April 8, 1998 by and between Oly/Houston Walden, L.P. and Oly/FM Walden, L.P. Incorporated by reference to Exhibit 10.14 to the Stratus 1998 Third Quarter 10-Q.

10.10 Amendment No. 1 to the General Partnership Agreement dated September 30, 1998 by and among Oly/Houston Walden, L.P., Oly/FM Walden, L.P. and Stratus Ventures I Walden, L.P. Incorporated by reference to Exhibit 10.15 to the Stratus 1998 Third Quarter 10-Q.

10.11 Development Loan Agreement dated September 30, 1998 by and between Oly Walden General Partnership and Bank One, Texas, N.A. Incorporated by reference to Exhibit 10.16 to the Stratus 1998 Third Quarter 10-Q.

10.12 Guaranty Agreement dated September 30, 1998 by and between Oly Walden General Partnership and Bank One, Texas, N.A. Incorporated by reference to Exhibit 10.17 to the Stratus 1998 Third Quarter 10-Q.

10.13 Management Agreement dated April 9, 1998 by and between Oly/FM Walden, L.P. and Stratus Management, L.L.C. Incorporated by reference to Exhibit 10.18 to the Stratus 1998 Third Quarter 10-Q.

10.14 Amended and Restated Joint Venture Agreement dated August 16, 1999 by and between Oly Lantana, L.P., and Stratus 7000 West, Ltd. Incorporated by reference to Exhibit 10.18 to the Quarterly Report on Form 10-Q of Stratus for the Quarter ended September 30, 1999.

10.15 Guaranty Agreement dated December 31, 1999 by and between Stratus Properties Inc. and Comerica Bank-Texas. Incorporated by reference to Stratus' Quarterly Report on Form 10-Q for the Quarter ended March 31, 2000.

10.16 Guaranty Agreement dated February 24, 2000 by and between Stratus Properties Inc. and Comerica Bank-Texas. Incorporated by reference to Stratus' Quarterly Report on Form 10-Q for the Quarter ended March 31, 2000.

10.17 Development Management Agreement by and between Commercial Lakeway Limited Partnership, as owner, and Stratus Properties Inc., as development manager, dated

January 26, 2001.

- 10.18 Amended Loan Agreement dated December 27, 2000 by and between Stratus Properties Inc. and Comerica-Bank Texas. Incorporated by reference to Exhibit 10.19 to the Stratus 2000 Form 10-K.
- 10.19 Loan Agreement dated December 28, 2000 by and between Stratus Properties Inc. and Holliday Fenoliglio Fowler, L.P., subsequently assigned to an affiliate of First American Asset Management. Incorporated by reference to Exhibit 10.20 to the Stratus 2000 Form 10-K.
- 10.20 Loan Agreement dated June 14, 2001 by and between Stratus Properties Inc. and Holliday Fenoliglio Fowler, L.P., subsequently assigned to an affiliate of First American Asset Management.
- 10.21 Stratus' Performance Incentive Awards Program, as amended effective February 11, 1999. Incorporated by reference to Exhibit 10.18 to Stratus' 1998 Form 10-K.
- 10.22 Stratus Stock Option Plan, as amended. Incorporated by reference to Exhibit 10.9 to Stratus' 1997 Form 10-K.
- 10.23 Stratus 1996 Stock Option Plan for Non-Employee Directors, as amended. Incorporated by reference to Exhibit 10.10 to Stratus' 1997 Form 10-K.
- 10.24 Stratus Properties Inc. 1998 Stock Option Plan as amended effective February 11, 1999. Incorporated by reference to Exhibit 10.21 to Stratus' 1998 Form 10-K.
- 15.1 Letter dated October 26, 2001 from Arthur Andersen LLP regarding the unaudited financial statements.

LOAN AGREEMENT

THIS LOAN AGREEMENT is made as of June 14, 2001 among STRATUS PROPERTIES INC., a Delaware corporation ("Borrower"), and HOLLIDAY FENOGLIO FOWLER, L.P., a Texas limited partnership ("Lender").

WHEREAS, Borrower and Lender desire to set forth herein the terms and conditions upon which Lender shall provide financing to Borrower;

NOW, THEREFORE, the parties hereto hereby agree as follows:

Section 1. Certain Definitions and Index to Definitions.

A. Accounting Terms. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP and practices consistently applied.

B. Definitions. Capitalized terms used herein shall have the respective meanings set forth in Schedule 1 attached hereto when used in this Agreement (including the Exhibits hereto) except as the context shall otherwise require. Schedule 1 is hereby made a part of this Agreement.

Section 2. Loan.

A. Loan Amount. Lender agrees to provide a loan to Borrower in the amount of FIVE MILLION AND 00/100 DOLLARS (\$5,000,000.00) ("Loan"), provided that all conditions precedent described in this Agreement have been met or waived by Lender and that Borrower is not otherwise in default as of the date of disbursement.

B. Note. Borrower's obligation to repay the Loan shall be further evidenced by the Note. Reference is made to the Note for certain terms relating to interest rate, payments, prepayment, Maturity Date and additional terms governing the Loan.

C. Origination Fee. Borrower agrees to pay Lender, upon Lender advancing the Loan, an origination fee of \$50,000.00.

Section 3. Payments by Borrower.

A. General. All payments hereunder shall be made by Borrower to Lender at the Lending Office, or at such other place as Lender may designate in writing. Payments shall be made by wire transfer.

B. Other Outstanding Obligations. Unless required to be paid sooner hereunder, any and all Obligations in addition to the amounts due under the Note shall be due and payable in full upon the Maturity Date.

Section 4. Conditions Precedent. As conditions precedent to Lender's obligation to advance the Loan to Borrower:

A. Borrower shall deliver, or cause to be delivered, to Lender:

(1) A duly executed copy of this Agreement, the Note, and any and all other Loan Documents.

(2) A favorable written opinion of counsel for Borrower, addressed to Lender and in form and substance acceptable to Lender and its counsel.

(3) Current financial statements of Borrower in form and substance acceptable to Lender.

(4) The following organizational documents of Borrower:

(a) Borrower's Certificate of Incorporation as certified by the Secretary of State of the state of Borrower's organization and by the corporate secretary of Borrower, a Certificate of Good Standing dated no less recently than thirty (30) calendar days prior to the date of this Agreement, issued by the Secretary of State of the state of Borrower's organization, stating that Borrower is in good standing in such state, and evidence of good standing to transact business in the State of Texas, dated no less recently than thirty (30) calendar days prior to the date of this Agreement, issued by the Secretary of State of the State of Texas.

(b) A resolution of the board of directors of Borrower, certified as of the date of this Agreement by its corporate secretary, authorizing the execution, delivery and performance of this Agreement and the other Loan Documents, and all other instruments or documents to be delivered by Borrower pursuant to this Agreement.

(c) A certificate of Borrower's corporate secretary as to the incumbency and authenticity of the signatures of the officers of Borrower executing any Loan Documents (Lender being entitled to rely thereon until a new such certificate has been furnished to Lender).

(5) The written consent of Comerica Bank-Texas to the Loan as required under the Comerica Loan Agreement.

B. All acts, conditions, and things (including, without limitation, the obtaining of any necessary regulatory approvals and the making of any required filings, recordings or registrations) required to be done and performed and to have happened prior to the execution, delivery and performance of the Loan Documents to constitute the same legal, valid and binding obligations of Borrower, enforceable in accordance with their respective terms, subject to limitations as to enforceability which might result from bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights generally and subject to limitations on the availability of equitable remedies, shall have been done and performed and shall have happened in compliance with all applicable laws or shall have been waived by Lender in writing.

C. All documentation shall be satisfactory in form and substance to Lender, and Lender shall have received any and all further information, documents and opinions which Lender may reasonably have requested in connection therewith, such documents, where appropriate, to be certified by proper authorities and officials of Borrower.

D. All representations and warranties of Borrower to Lender set forth herein or in any of the Loan Documents shall be accurate and complete in all material respects.

E. There shall not exist an Event of Default or an event which with the giving of notice or passage of time, or both, would be an Event of Default.

Section 5. Representations and Warranties of Borrower. Borrower represents and warrants to Lender as follows:

A. Capacity. Borrower is duly organized, validly

existing, and in good standing under the laws of the state of its organization (as described herein) and is authorized to do business in the State of Texas and in any and all other jurisdictions in which its ownership of Property or conduct of business legally requires such authorization and the failure to do so would have a Material Adverse Effect, and has full power, authority, and legal right to own its properties and assets and to conduct its business as presently conducted or proposed to be conducted, and the consummation of the transactions contemplated herein do not, and will not, require the consent or approval of, or filing with, any Person which has not been obtained.

B. Authority. Borrower has full power, authority and legal right to execute and deliver, and to perform and observe the provisions of the Loan Documents to be executed by Borrower. The execution, delivery and performance of the Loan Documents have been duly authorized by all necessary action, and when duly executed and delivered, will be legal, valid, and binding obligations of Borrower enforceable in accordance with their respective terms, subject to limitations as to enforceability which might result from bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights generally and subject to limitations on the availability of equitable remedies.

C. Compliance. The execution and delivery of the Loan Documents and compliance with their terms will not violate any provision of applicable law and will not result in a breach of any of the terms or conditions of, or result in the imposition of any lien, charge, or encumbrance upon any properties of Borrower pursuant to, or constitute a default (with due notice or lapse of time or both) or result in an occurrence of an event pursuant to which any holder or holders of Indebtedness may declare the same due and payable.

D. Financial Statements. The financial statements provided by Borrower to Lender pursuant to subsection 4.A(3) are correct and complete as of the dates indicated in such statements and fairly present the financial condition and results of operations of Borrower for the fiscal periods indicated therein.

E. Material Adverse Events. Since the Statement Dates, neither any event nor the passage of time has resulted in a Material Adverse Effect.

F. Litigation. Except as heretofore disclosed by Borrower to Lender in writing, there are no actions or proceedings pending, or to the knowledge of Borrower threatened, against or affecting Borrower which, if adversely determined, could reasonably be expected to have a Material Adverse Effect. Borrower is not in default with respect to any applicable laws or regulations which materially affect the operations or financial condition of Borrower, nor is it in default with respect to any other writ, injunction, demand, or decree or in default under any indenture, agreement, or other instrument to which Borrower is a party or by which Borrower may be bound where any such default would have a Materially Adverse Effect.

G. Taxes. Borrower has filed or caused to be filed all tax returns which are required to be filed by it. Borrower has paid, or made provision for the payment of, all taxes which have or may have become due pursuant to said returns or otherwise or pursuant to an assessment received by Borrower, except such taxes, if any, as are being contested in good faith and as to which adequate reserves have been provided. The charges, accruals, and reserves in respect of income taxes on the books of Borrower are adequate. Borrower knows of no proposed material tax assessment against it and no extension of time for the assessment of federal, state, or local taxes of Borrower is in effect or has been requested, except as disclosed in the

financial statements furnished to Lender.

H. Accurate Information. All written information supplied to Lender by or on behalf of Borrower is and shall be true and correct in all material respects, and all financial projections or forecasts of future results or events supplied to Lender by or on behalf of Borrower have been prepared in good faith and based on good faith estimates and assumptions of the management of Borrower, and Borrower has no reason to believe that such projections or forecasts are not reasonable.

I. Use of Loan Proceeds. Borrower is not engaged principally in, nor does it have as one of its important activities, the business of extending credit for the purpose of purchasing or carrying any margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System), and no part of any advance made hereunder will be used to purchase or carry margin stock, extend credit to others for the purpose of purchasing or carrying any margin stock, or used for any purpose which violates Regulation U or Regulation X of the Board of Governors of the Federal Reserve System or any other provision of law.

J. ERISA. No plan (as that term is defined in the Employee Retirement Income Security Act of 1974 ("ERISA")) of the Borrower (a "Plan") which is subject to Part 3 of Subtitle B of Title 1 of ERISA had an accumulated funding deficiency (as such term is defined in ERISA) as of the last day of the most recent fiscal year of such Plan ended prior to the date hereof, or would have had such an accumulated funding deficiency on such date if such year were the first year of such Plan, and no material liability to the Pension Benefit Guaranty Corporation has been, or is expected by the Borrower to be, incurred with respect to any such Plan. No Reportable Event (as defined in ERISA) has occurred and is continuing in respect to any such Plan.

Section 6. Affirmative Covenants of Borrower. Until payment in full of the Obligations, Borrower agrees that:

A. Financial Statements, Reports and Certifications. Borrower will furnish to Lender, in form and substance satisfactory to Lender:

(1) As soon as possible after the end of each fiscal year of Borrower, and in any event within ninety (90) Business Days thereafter, (i) a complete copy of its annual audit which shall include the balance sheet of Borrower as of the close of the fiscal year and an income statement for such year, certified by the Auditors without material qualification, (ii) a statement of changes in partners' equity and cash flows for the period ended on such date, certified by the Auditors, and (iii) a statement certified by the chief financial officer of Borrower that no act or omission has occurred which has resulted in an Event or Default or, if not cured, remedied, waived or otherwise eliminated to the satisfaction of Lender, would result in an Event of Default;

(2) No later than thirty (30) Business Days after the close of each Accounting Period, (i) Borrower's balance sheet as of the close of such Accounting Period and its income statement for that portion of the then current fiscal year through the end of such Accounting Period prepared in accordance with GAAP and certified as being complete, correct, and fairly representing its financial condition and results of operations by the chief financial officer of Borrower, subject to the absence of footnotes and year-end adjustments, (ii) a statement of changes in equity and cash flows for the period ended on such date, certified by the chief financial officer of Borrower, and (iii) a completed

Borrower's Officer's Compliance Certificate;

(3) Promptly upon the filing or receiving thereof, copies of all reports which the Borrower files under ERISA or which the Borrower receives from the Pension Benefit Guaranty Corporation if such report shows any material violation or potential violation by the Borrower of its obligations under ERISA; and

(4) Such other information concerning Borrower as Lender may reasonably request.

B. Other Information. Borrower will (1) maintain accurate books and records concerning its business in a manner consistent with Borrower's current bookkeeping and record-keeping practices (provided such practices result in accurate books and records), (2) upon request, furnish to Lender such information, statements, lists of Property and accounts, budgets, forecasts, or reports as Lender may reasonably request with respect to the business, affairs, and financial condition of Borrower, and (3) permit Lender or representatives thereof, upon at least forty eight (48) hours prior written notice to Borrower, to inspect during Borrower's usual business hours, the properties of Borrower and to inspect, audit, make copies of, and make extracts from the books or accounts of Borrower.

C. Expenses. Borrower shall pay all reasonable out-of-pocket expenses of Lender (including, but not limited to, fees and disbursements of Lender's counsel) incident to (1) preparation and negotiation of the Loan Documents and any amendments, extensions and renewals thereof, (2) following an Event of Default, the protection and exercise of the rights of Lender under the Loan Documents, or (3) defense by Lender against all claims against Lender relating to any acts of commission or omission directly or indirectly relating to the Loan Documents, all whether by judicial proceedings or otherwise, but excluding claims related to Lender's gross negligence or intentional misconduct. Borrower will also pay and save Lender harmless from any and all liability with respect to any stamp or other taxes (other than transfer or income taxes) which may be determined to be payable in connection with the making of the Loan Documents.

D. Taxes and Expenses Regarding Borrower's Property. Borrower shall make due and timely payment or deposit of all taxes, assessments or contributions required of it, except such deposits, assessments or contributions which are being contested in good faith and as to which, in the reasonable determination of Lender, adequate reserves have been provided.

E. Notice of Events. Promptly after the later of (i) the occurrence thereof or (ii) such time as Borrower has knowledge of the occurrence thereof, Borrower will give Lender written notice of any Event of Default or any event which with the giving of notice or passage of time, or both, would become an Event of Default; provided, however, in the event that the respective Event of Default is subsequently cured as permitted herein, such failure to give notice shall also be deemed to be cured.

F. Notice of Litigation. In addition to any regularly scheduled reporting required to be delivered with the Borrower's Officer's Certificate, Borrower will promptly give notice to Lender in writing of (i) any litigation or other proceedings against Borrower involving claims for amounts in excess of \$250,000 that Borrower does not reasonably expect are covered by insurance, (ii) any labor controversy resulting in or threatening to result in a strike against Borrower, or (iii) any proposal by any public authority to acquire a material portion of the assets or business of Borrower.

G. Other Debt. Borrower will promptly pay and discharge any and all Indebtedness when due (where the failure to do so either individually or in the aggregate with any such other unpaid Indebtedness would have a Material Adverse Effect), and lawful claims which, if unpaid, might become a lien or charge upon the Property of Borrower, except such as may in good faith be contested or disputed or for which arrangements for deferred payment have been made, provided appropriate reserves are maintained to the satisfaction of Lender for the eventual payment thereof in the event it is found that such Indebtedness is an Indebtedness payable by Borrower, and when such dispute or contest is settled and determined, will promptly pay the full amount then due.

H. Cooperation. Borrower will execute and deliver to Lender any and all documents, and do or cause to be done any and all other acts reasonably deemed necessary by Lender, in its reasonable discretion, to effect the provisions and purposes of this Agreement.

I. Maintenance of Insurance; Notice of Loss. Borrower shall maintain such insurance with reputable insurance carriers as is normally carried by companies engaged in similar businesses and owning similar Property. Upon request from Lender, Borrower will provide Lender with certificates indicating that such insurance is in effect and all premiums due have been paid.

J. Location of Business. Borrower will give Lender written notice immediately upon forming an intention to change the location of its chief place of business.

K. Maintenance of Existence. Borrower will preserve and maintain its legal existence and all rights, privileges and franchises necessary or desirable in the normal conduct of its business, will conduct its business in an orderly, efficient and regular manner, and will comply with all applicable laws and regulations and the terms of any indenture, contract or other instrument to which it may be a party or under which it or its properties may be bound, in each instance where the failure to do so would have a Material Adverse Effect.

L. Compliance with ERISA. Cause each Plan to comply and be administered in accordance with those provisions of ERISA which are applicable to such Plan.

Section 7. Negative Covenants of Borrower. Until payment in full of the Obligations, without the prior written consent of Lender (which consent may be withheld in the sole discretion and determination of Lender), Borrower will not do any of the following:

A. Sale of Assets. Borrower will not sell, abandon, or otherwise dispose of any of its assets except in the ordinary course of business.

B. Consolidation, Merger, etc. Borrower will not consolidate with, merge into, or sell (whether in a single transaction or in a series of transactions) all or substantially all of its assets to any Person.

C. Change in Business. Borrower will not make any change in the nature of the business of Borrower or a Subsidiary which would result in a material change in the character of the business of Borrower, taken as a whole.

D. Transactions with Affiliates. Borrower will not enter into any transaction with any Person affiliated with Borrower on terms materially less favorable to Borrower, than at the time could be available to Borrower, from any Person not affiliated with Borrower.

E. Plans. Borrower will not sponsor or contribute

to any other Plan or other defined benefit pension plan or contributes to any multi-employer pension plan.

F. Dividends, Redemptions.

(1) Borrower will not, except as allowed below, declare or pay any dividend on, or declare or make any other distribution on account of, any stock interest or other ownership interest.

(2) Borrower will not, except as allowed below, directly or indirectly redeem, retire, purchase, or otherwise acquire beneficially any shares of any class of its own stock now or hereafter outstanding or set apart any sum for any such purpose. The foregoing notwithstanding, Borrower may redeem, retire, purchase or otherwise acquire beneficially (i) shares of common stock of Borrower in an aggregate amount that does not exceed \$5,000,000.00, and (ii) shares of that certain mandatorily redeemable preferred stock (defined as the "Series B Participating Preferred") issued by Borrower to Oly/Stratus Equities, L.P., a Texas limited partnership, on May 22, 1998, pursuant to that certain Securities Purchase Agreement between Oly/Stratus Equities, L.P., as "Purchaser," and Borrower, as "Seller," dated May 22, 1998.

G. Indebtedness. Borrower will not incur any Indebtedness other than Permitted Debt.

Section 8. Events of Default; Remedies. If any of the following events occurs, it is hereby defined as and declared to be and to constitute an "Event of Default":

A. Borrower shall fail to make any payment of principal, interest or other amount under the Note, when due whether at maturity, upon acceleration, or otherwise, and such default shall continue for three (3) Business Days after written notice to Borrower from Lender (except that Borrower shall not be entitled to said three (3) Business Day notice period more than twice in any twelve (12) calendar month period); or

B. Borrower shall default in the payment of any of the other Obligations when due, and such default shall continue for ten (10) Business Days after written notice to Borrower from Lender; or

C. An order for relief shall be entered against Borrower or any Subsidiary by any United States Bankruptcy Court; or Borrower or any Subsidiary shall generally not pay its debts as they become due (within the meaning of 11 U.S.C. 303(h) as at any time amended or any successor statute thereto) or make an assignment for the benefit of creditors; or Borrower or any Subsidiary shall apply for or consent to the appointment of a custodian, receiver, trustee, or similar officer for it or for all or any substantial part of its Property; or such custodian, receiver, trustee, or similar officer shall be appointed without the application or consent of Borrower or such Subsidiary and such appointment shall continue undischarged for a period of sixty (60) calendar days; or Borrower or such Subsidiary shall institute (by petition, application, answer, consent, or otherwise) any bankruptcy, insolvency, reorganization, moratorium, arrangement, readjustment of debt, dissolution, liquidation or similar proceeding relating to it under the laws of any jurisdiction; or any such proceeding shall be instituted (by petition, application, or otherwise) against Borrower or such Subsidiary and shall remain undischarged for a period of sixty (60) calendar days; or any judgment, writ, warrant of attachment, execution, or similar process shall be issued or levied against a substantial part of the Property of Borrower or such Subsidiary and such judgment, writ, or similar process shall not be released, vacated, or fully bonded within sixty (60) calendar days after its issue or

levy; or

D. Borrower shall be in breach of any other agreement, covenant, obligation, representation or warranty hereunder or with respect to any of the Loan Documents, and such breach shall continue for twenty (20) Business Days after whichever of the following dates is the earliest: (i) the date on which Borrower gives notice of such breach to Lender, and (ii) the date on which Lender gives notice of such breach to Borrower; provided, however, such twenty (20) Business Day period may be extended for up to an additional thirty (30) calendar days if and only if Lender extends such time period in writing following Lender's good faith determination that (X) Borrower is continuously and diligently taking action to cure such breach, and (Y) such breach cannot be cured within the initial twenty (20)-day cure period; or

E. The aggregate book value of the Borrower's assets shall at any time be less than (1) \$50,000,000 minus (2) the product of \$50,000,000 multiplied by the Cash Collateral Factor.

F. The aggregate market value of the Borrower's assets shall at any time be less than (1) \$75,000,000 minus (2) the product of \$75,000,000 multiplied by the Cash Collateral Factor.

G. The Debt Service Coverage Ratio measured on a quarterly basis for the previous twelve (12) months shall be less than (1) (a) 5.0 minus (b) the product of 5.0 multiplied by the Cash Collateral Factor, to (2) 1.0.

H. The ratio of (1) the Borrower's Indebtedness to (2) the aggregate market value of the Borrower's assets shall at any time exceed (a) sixty percent (60.0%) minus (b) the product of sixty percent (60.0%) multiplied by the Cash Collateral Factor.

I. The ratio of (1) the Borrower's Secured Indebtedness to (2) the aggregate market value of the Borrower's assets shall at any time exceed (1) forty percent (40.0%) minus (2) forty percent (40.0%) multiplied by the Cash Collateral Factor.

J. An "Event of Default" as defined in the Comerica Loan Agreement shall occur.

K. Any Reportable Event (as defined in ERISA) shall have occurred and continue for 30 days; or any Plan shall have been terminated by the Borrower not in compliance with ERISA, or a trustee shall have been appointed by a court to administer any Plan, or the Pension Benefit Guaranty Corporation shall have instituted proceedings to terminate any Plan or to appoint a trustee to administer any Plan.

THEN, at Lender's option unless and until cured or waived in writing by Lender and regardless of any prior forbearance by Lender, all Obligations shall, without presentment, demand, protest, or notice of any kind, all of which are hereby expressly waived, be forthwith automatically due and payable in full, and Lender may, immediately and without expiration of any period of grace, enforce payment of all Obligations and exercise any and all other remedies granted to it at law, in equity, or otherwise.

Section 9. Disclaimer for Negligence. Lender shall not be liable for any claims, demands, losses or damages made, claimed or suffered by Borrower, excepting such as may arise through or could be caused by Lender's gross negligence or willful misconduct, and specifically disclaiming any liability of Lender to Borrower arising or claimed to have arisen out of Lender's ordinary negligence.

Section 10. Limitation of Consequential Damage. Lender shall not be responsible for any lost profits of Borrower arising

from any breach of contract, tort (excluding Lender's gross negligence or willful misconduct), or any other wrong arising from the establishment, administration or collection of the obligations evidenced hereby.

Section 11. Indemnification and Expenses. Borrower agrees to hold Lender harmless from and indemnify Lender against all liabilities, losses, damages, judgments, costs and expenses of any kind which may be imposed on, incurred by or asserted against Lender (collectively, the "Costs") relating to or arising out of this Agreement, any other Loan Document, or any transaction contemplated hereby or thereby, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, this Agreement, any other Loan Document, or any transaction contemplated hereby or thereby, that, in each case, results from anything other than Lender's gross negligence or willful misconduct. Borrower also agrees to reimburse Lender as and when billed by Lender for all Lender's reasonable costs and expenses incurred in connection with the enforcement or the preservation of Lender's rights under this Agreement, any other Loan Document, or any transaction contemplated hereby or thereby, including without limitation the reasonable fees and disbursements of its counsel. Borrower's obligations under this Section 11 shall survive repayment of the Loan.

Section 12. Miscellaneous.

A. Entire Agreement. The Loan Documents embody the entire agreement and understanding between the parties hereto and supersede all prior agreements and understandings relating to the subject matter hereof. No course of prior dealings between the parties, no usage of the trade, and no parole or extrinsic evidence of any nature, shall be used or be relevant to supplement, explain or modify any term used herein.

B. No Waiver. No failure to exercise and no delay in exercising any right, power, or remedy hereunder or under the Loan Documents shall impair any right, power, or remedy which Lender may have, nor shall any such delay be construed to be a waiver of any of such rights, powers, or remedies, or any acquiescence in any breach or default under the Loan Documents; nor shall any waiver of any breach or default of Borrower hereunder be deemed a waiver of any default or breach subsequently occurring. The rights and remedies specified in the Loan Documents are cumulative and not exclusive of each other or of any rights or remedies which Lender would otherwise have.

C. Survival. All representations, warranties and agreements herein contained on the part of Borrower shall survive the making of advances hereunder and all such representations, warranties and agreements shall be effective so long as the Obligations arising pursuant to the terms of this Agreement remain unpaid or for such longer periods as may be expressly stated therein.

D. Notices. All notices of any type hereunder shall be effective as against Borrower or Lender, as the case may be, upon the first to occur of (a) three (3) Business Days after deposit in a receptacle under the control of the United States Postal Service, (b) one (1) Business Day after being transmitted by electronic means to a receiver under the control of the receiving party, provided there is an electronic confirmation of receipt, or (c) actual receipt by an employee or agent of the receiving party. For the purposes hereof, the addresses are as follows:

DEBTOR:

with copy to:

Stratus Properties Inc.
98 San Jacinto Boulevard, Suite 220
Austin, TX 78791
Attention: Mr. William H. Armstrong III

Arbrust Brown & Davis, L.L.P.
100 Congress Avenue, Suite 1300
Austin, TX 78701
Attention: Kenneth Jones, Esq.

Phone: (512) 478-5788
Fax: (512) 478-6340

Phone: (512) 435-2312
Fax: (512) 435-2360

LENDER:

One Post Oak Central
2000 Post Oak Boulevard, Suite 2000
Houston, TX 77056
Attention: Nancy Goodson
Phone (713) 527-9646
Fax: (713) 521-7334

with a copy to:
Leonard, Street and Deinard
Suite 2300, 150 S. Fifth Street
Minneapolis, MN 55402
Attention: David W. Kelley
Phone: (612) 335-1670
Fax: (612) 335-1657

E. Separability of Provisions. In the event that any one or more of the provisions contained in this Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality, and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

F. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of Borrower, Lender, and their respective successors and assigns, provided, however, that Borrower may not transfer its rights or obligations under any of the Loan Documents without the prior written consent of Lender which may be withheld in its sole and absolute discretion. Lender may assign its interest in the Loan Documents, in whole, or in part, without any consent from, or notice to, Borrower.

G. Counterparts. This Agreement may be executed in any number of counterparts all of which taken together shall constitute one agreement and any party hereto may execute this Agreement by signing any such Counterpart.

H. Choice of Law; Location of Loan. This Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota. Lender and Borrower agree that the Loan will be negotiated, funded and closed in the State of Minnesota.

I. Amendment and Waiver. Neither this Agreement nor any provisions hereof may be changed, waived, discharged or terminated orally, but only by an instrument in writing signed by the party against whom enforcement of the change, waiver, discharge or termination is sought.

J. Plural. When permitted by the context, the singular includes the plural and vice versa.

K. Retention of Records. Lender shall retain any documents, schedules, invoices or other papers delivered by Borrower only for such period as Lender, at its sole discretion, may determine necessary.

L. Headings. Section and paragraph headings and numbers have been set forth for convenience only.

M. Information to Participants. Borrower agrees that Lender may furnish any financial or other information concerning Borrower or any of its Subsidiaries heretofore or hereafter provided by Borrower to Lender, pursuant to this Agreement or otherwise, to any prospective or actual purchaser of any participation or other interest in any of the loans made by Lender to Borrower (whether under this Agreement or otherwise), or to any prospective purchaser of any securities issued or to be issued by Lender; provided, however, any such delivery shall be delivered on the condition that such information is delivered on a confidential basis.

N. Acknowledgments. Borrower hereby acknowledges that: (i) it has been advised by counsel in the negotiation, execution and delivery of this Agreement and the other Loan Documents; (ii) Lender has no fiduciary relationship to Borrower, and the relationship between Borrower and Lender

is solely that of debtor and creditor; and (iii) no joint venture exists between Lender and Borrower.

Section 13. Submission to Jurisdiction; Venue. To induce Lender to enter into this Agreement, Borrower irrevocably agrees that, subject to Lender's sole discretion, all actions and proceedings in any way, manner or respect, arising out of, from or related to this Agreement or the other Loan Documents shall be litigated in courts having situs within the City of Minneapolis, State of Minnesota. Borrower hereby consents and submits to the jurisdiction of any local, state or federal court located within said City and State. Borrower hereby waives any right it may have to transfer or change the venue of any litigation brought against Borrower by Lender in accordance with this paragraph.

Section 14. Waiver Of Trial By Jury. In recognition of the higher costs and delay which may result from a jury trial, the parties hereto waive any right to trial by jury of any claim, demand, action or cause of action (1) arising hereunder or any other instrument, document or agreement executed or delivered in connection herewith, or (2) in any way connected with or related or incidental to the dealings of the parties hereto or any of them with respect hereto or any other instrument, document or agreement executed or delivered in connection herewith, or the transactions related hereto or thereto, in each case whether now existing or hereafter arising, and whether sounding in contract or tort or otherwise; and each party hereby agrees and consents that any such claim, demand, action or cause of action shall be decided by court trial without a jury, and that any party hereto may file an original counterpart or a copy of this section with any court as written evidence of the consent of the parties hereto to the waiver of their right to trial by jury.

Section 14. Liability of Officers, Directors, Shareholders. Notwithstanding anything contained herein or in the other Loan Documents, or any conduct or course of conduct by the parties hereto, before or after signing the Loan Documents, this Agreement shall not be construed as creating any rights, claims or causes of action against any partner of Borrower or any officers, directors, or shareholders of Borrower.

[This space was intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

BORROWER:
STRATUS PROPERTIES INC., a Delaware corporation

By: _____
Name: _____
Its: _____

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

LENDER:
HOLLIDAY FENOGLIO FOWLER L.P., a Texas limited partnership, by
HFF-GP, Inc., a Delaware corporation, its general partner

By: _____
Name: _____
Its: _____

SCHEDULE 1 TO LOAN AGREEMENT

CERTAIN DEFINITIONS

"Accounting Period" means each calendar quarter during the term of the Loan, commencing on April 1, 2001.

"Agreement" means the Loan Agreement to which this Schedule 1 is attached to and made a part of.

"Auditors" means Borrower's independent certified public accountants, which shall be of nationally recognized standing and otherwise reasonably acceptable to Lender.

"Borrower" has the meaning provided in the introductory paragraph of the Agreement.

"Borrower's Officer's Compliance Certificate" means a certificate made by a duly authorized officer of Borrower and addressed to Lender, in the form attached hereto as Exhibit B.

"Business Day" means any day excluding Saturday or Sunday and excluding any day on which national banking associations are closed for business.

"Cash Collateral Account" means a blocked deposit account held by Lender in which funds are deposited by Borrower, which funds are pledged as collateral for the Loan pursuant to an agreement satisfactory to Lender in form and substance and in which Lender has a first security interest.

"Cash Collateral Factor" means at any time the ratio of (1) the balance in the Cash Collateral Account to (2) the principal balance of the Loan.

"Comerica Debt" means the Indebtedness incurred by Borrower from time to time pursuant to the Comerica Loan Agreement.

"Comerica Loan Agreement" means that certain Loan Agreement dated as of December 16, 1999, among Borrower and certain Affiliates of Borrower and Comerica Bank-Texas, as amended by Amendment to Loan Agreement dated December 27, 2000.

"Controlled Group" means a "controlled group of corporations" as defined in Section 1563(a) (4) of the Internal Revenue Code of 1954, as amended, determined without regard to Section 1563(a) and (e) (3) (c) of such Code, of which Borrower is a part.

"Costs" has the meaning contained in Section 11.

"Debt Service" means, with respect to a specified period, scheduled payments of principal and interest with respect to the respective Indebtedness.

"Debt Service Coverage Ratio" means for any period of time the ratio of (1) the sum of the Borrower's net income during that period plus interest, depreciation, amortization and income tax expense during that period to (2) Debt Service on all of Borrower's Indebtedness.

"Events of Default" has the meaning contained in Section 8 of the Agreement.

"GAAP" shall mean generally accepted accounting principles as in effect from time to time in the United States.

"Indebtedness" of any Person means all items of indebtedness which, in accordance with GAAP, would be deemed a liability of such Person as of the date as of which indebtedness is to be determined and shall also include, without duplication,

all indebtedness and liabilities of others assumed or guaranteed by such Person or in respect of which such Person is secondarily or contingently liable (other than by endorsement of instruments in the course of collection) that would otherwise be deemed to be liabilities under GAAP, whether by reason of any agreement to acquire such indebtedness, to supply or advance sums, or otherwise.

"Lender" has the meaning provided in the introductory paragraph of the Agreement.

"Lending Office" shall refer to Lender's office described in Section 12.D of the Agreement.

"Loan" has the meaning contained in Subsection 2.A. of the Agreement.

"Loan Documents" means the Agreement, the Note, and any riders, supplements and amendments thereto, mortgages, security agreements, assignments, pledges, subordination agreements or guaranties delivered in connection with the Agreement and all other documents or instruments heretofore, now or hereafter executed, pursuant to the Agreement, or any of the aforesaid.

"Material Adverse Effect" means with respect to any event or circumstance, a material adverse effect on:

(i) the ability of Borrower to perform its obligations under the Agreement, the Note, or any other Loan Document; or

(ii) the validity, enforceability or collectibility of the Note, the Agreement or any other Loan Document.

"Maturity Date" means July 1, 2006.

"Note" means the Promissory Note dated as of the date of the Agreement made by Borrower to Lender pursuant to Subsection 2.B. of the Agreement in the form attached hereto as Exhibit A, together with any replacements, modifications, amendments, renewals and extensions thereof.

"Obligations" means and includes all amounts owing by Borrower to Lender under the Note and the other Loan Documents, together with any and all loans, advances, debts, liabilities, obligations, letters of credit, or acceptance transactions, trust receipt transactions, or any other financial accommodations, owing by Borrower to Lender of every kind and description (whether or not evidenced by any note or other instrument and whether or not for the payment of money), direct or indirect, absolute or contingent, due or to become due, now existing or arising hereafter with respect to the Note and the other Loan Documents, including, without limitation, all interest, fees, charges, expenses, attorneys' fees, and accountants' fees chargeable to Borrower and incurred by Lender in connection the Loan.

"Permitted Debt" means (i) the Loan, (ii) the Comerica Debt, (iii) any other Indebtedness of Borrower for fair value received that is secured by assets owned by Borrower having an appraised value equal to or greater than the indebtedness secured thereby (and which assets do not secure other indebtedness), (iv) debt outstanding as of the date of the Loan Agreement, (v) unsecured trade, utility or non-extraordinary accounts payable in the ordinary course of business and other unsecured debt of Borrower at any one time not to exceed \$500,000.00, and (vi) guaranties of Borrower guaranteeing project development and/or construction costs and related costs, provided that Borrower has a direct or indirect interest in such projects and that the aggregate amount, at any one time, of such guaranties does not exceed the sum of \$15,000,000.00.

"Person" means any individual, entity, government, governmental agency or any other entity and whether acting in an individual, fiduciary or other capacity.

"Plan" means any employee pension benefit plan subject to Title IV of ERISA and maintained by Borrower or any member of a Controlled Group or any such plan to which Borrower or any member of a Controlled Group is required to contribute on behalf of any of its employees.

"Property" shall mean any and all right, title and interest of a specified Person in and to any and all property, whether real or personal, tangible or intangible, and wherever situated.

"Secured Indebtedness" means any Indebtedness that is subject to any security interest or lien securing the payment of money.

"Statement Dates" means the dates of the financial statements delivered to Lender pursuant to Section 4.A(3) of the Agreement.

"Subsidiary" means (i) any entity of which more than fifty percent (50%) of the outstanding having ordinary voting power (irrespective of whether or not at the time class or classes of shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned by Borrower and/or any Subsidiary, (ii) any limited liability company or similar entity of which more than fifty percent (50%) of the member interests of such limited liability company are directly or indirectly owned by Borrower and/or any Subsidiary, and (iii) any partnership of which more than fifty percent (50%) of the limited partner interests of such limited partnership or any of the general partner interests of such limited partnership are directly or indirectly owned by Borrower and/or any Subsidiary.

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EXHIBIT A TO LOAN AGREEMENT

FORM OF NOTE

EXHIBIT B TO LOAN AGREEMENT

FORM OF BORROWER'S OFFICER'S COMPLIANCE CERTIFICATE

Stratus Properties Inc.
98 San Jacinto Boulevard, Suite 220
Austin, TX 78791

[DATE]

Holliday Fenoglio Fowler, L.P.
One Post Oak Central
2000 Post Oak Boulevard
Suite 2000
Houston, TX 77056
Attention: Nancy Goodson

Re Loan Agreement dated as of June 14, 2001 between Stratus Properties Inc. ("Borrower") and Holliday Fenoglio Fowler, L.P. ("Lender") (the "Loan Agreement") (capitalized terms not defined herein have the respective meanings contained in the Loan Agreement)

Ladies and Gentlemen:

Pursuant to subsection 6.A(2) of the Loan Agreement, Borrower certifies to Lender as follows:

1. As of the date of this Certificate, no act or omission has occurred which has resulted in an Event or Default or, if not cured, remedied, waived or otherwise eliminated to the satisfaction of Lender, would result in an Event of Default.

2. The undersigned officer is authorized to make this Certificate on behalf of Borrower and has reviewed the terms of the Loan Agreement and has made, or caused to be made under such officer's supervision, a review in reasonable detail of the facts necessary to make the certifications contained herein.

STRATUS PROPERTIES INC., a Delaware corporation

By: _____
Name: _____
Its: _____

October 26, 2001

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

Gentlemen:

We are aware that Stratus Properties Inc. has incorporated by reference in its Registration Statements (File Nos. 33-78798, 333-31059 and 333-52995) its Form 10-Q for the quarter ended September 30, 2001, which includes our report dated October 26, 2001 covering the unaudited interim financial information contained therein. Pursuant to Regulation C of the Securities Act of 1933 (the Act), this report is not considered a part of the registration statements prepared or certified by our firm or a report prepared or certified by our firm within the meaning of Sections 7 and 11 of the Act.

Very truly yours,

/s/ Arthur Andersen LLP