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

FORM 10-Q

(Mark One)

[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2017
or
[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to
Commission File Number: 001-37716

STRATUS®

Stratus Properties Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Large accelerated filer ☐	Accelerated filer ☑
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐
Emerging growth company ☐	

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

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

On October 31, 2017, there were issued and outstanding 8,133,502 shares of the registrant’s common stock, par value $0.01 per share.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	September 30, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	$ 16,152	$ 13,597
Restricted cash	23,751	11,892
Real estate held for sale	18,212	21,236
Real estate under development	113,408	111,373
Land available for development	14,791	19,153
Real estate held for investment, net	189,365	239,719
Deferred tax assets	18,630	17,223
Other assets	16,155	17,982
Total assets	$ 410,464	$ 452,175
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable	$ 15,422	$ 6,734
Accrued liabilities, including taxes	10,898	13,240
Debt	227,856	291,102
Deferred gain	11,863	—
Other liabilities	10,377	10,073
Total liabilities	276,416	321,149
Commitments and contingencies		
Equity:		
Stockholders' equity:		
Common stock	93	92
Capital in excess of par value of common stock	185,184	192,762
Accumulated deficit	(30,255)	(41,143)
Common stock held in treasury	(21,057)	(20,760)
Total stockholders' equity	133,965	130,951
Noncontrolling interests in subsidiaries	83	75
Total equity	134,048	131,026
Total liabilities and equity	$ 410,464	$ 452,175

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues:				
Real estate operations	$ 2,923	$ 6,155	$ 9,108	$ 9,858
Leasing operations	1,923	2,567	6,015	6,761
Hotel	7,738	8,268	27,817	29,501
Entertainment	4,638	4,190	16,375	13,236
Total revenues	17,222	21,180	59,315	59,356
Cost of sales:				
Real estate operations	2,204	4,075	8,048	8,173
Leasing operations	1,091	1,390	3,749	3,295
Hotel	6,676	6,891	21,277	22,248
Entertainment	3,666	3,713	12,298	10,532
Depreciation	2,031	2,189	5,928	5,854
Total cost of sales	15,668	18,258	51,300	50,102
General and administrative expenses	2,220	2,497	8,462	9,718
Profit participation in sale of The Oaks at Lakeway	—	—	2,538	—
Gain on sales of assets	(24,306)	—	(25,421)	—
Total	(6,418)	20,755	36,879	59,820
Operating income (loss)	23,640	425	22,436	(464)
Interest expense, net	(1,577)	(2,579)	(5,060)	(6,894)
Gain (loss) on interest rate derivative instruments	54	174	136	(301)
Loss on early extinguishment of debt	—	—	(532)	(837)
Other income, net	6	6	24	14
Income (loss) before income taxes and equity in unconsolidated affiliates' (loss) income	22,123	(1,974)	17,004	(8,482)
Equity in unconsolidated affiliates' (loss) income	(5)	(3)	(24)	70
(Provision for) benefit from income taxes	(7,810)	318	(6,227)	2,587
Net income (loss) and total comprehensive income (loss)	14,308	(1,659)	10,753	(5,825)
Total comprehensive income attributable to noncontrolling interests in subsidiaries	—	—	(8)	—
Net income (loss) and total comprehensive income (loss) attributable to common stockholders	$ 14,308	$ (1,659)	$ 10,745	$ (5,825)
Basic net income (loss) per share attributable to common stockholders	$ 1.76	$ (0.20)	$ 1.32	$ (0.72)
Diluted net income (loss) per share attributable to common stockholders	$ 1.75	$ (0.20)	$ 1.32	$ (0.72)
Weighted average common shares outstanding:				
Basic	8,128	8,094	8,119	8,086
Diluted	8,172	8,094	8,169	8,086
Dividends declared per share of common stock	$ —	$ —	$ 1.00	$ —

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

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

	Nine Months Ended September 30,	
	2017	2016
Cash flow from operating activities:		
Net income (loss)	$ 10,753	$ (5,825)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation	5,923	5,854
Cost of real estate sold	5,086	4,546
Gain on sale of assets	(25,421)	—
(Gain) loss on interest rate derivative contracts	(136)	301
Loss on early extinguishment of debt	532	837
Debt issuance cost amortization and stock-based compensation	1,227	1,233
Equity in unconsolidated affiliates' loss (income)	24	(70)
Deposits	(145)	1,054
Deferred income taxes	(1,264)	(12,827)
Purchases and development of real estate properties	(11,196)	(10,919)
Municipal utility district reimbursement	2,172	12,302
Increase in other assets	(392)	(2,675)
(Decrease) increase in accounts payable, accrued liabilities and other	(320)	7,071
Net cash (used in) provided by operating activities	(13,157)	882
Cash flow from investing activities:		
Capital expenditures	(14,363)	(24,820)
Proceeds from sale of assets	117,261	—
Payments on master lease obligations	(1,653)	—
Site development escrow deposit and other, net	(11,676)	(19)
Net cash provided by (used in) investing activities	89,569	(24,839)
Cash flow from financing activities:		
Borrowings from credit facility	45,200	24,000
Payments on credit facility	(53,651)	(19,120)
Borrowings from project loans	8,725	174,342
Payments on project and term loans	(64,228)	(154,584)
Cash dividend paid	(8,133)	—
Stock-based awards net payments	(234)	(146)
Financing costs	(1,536)	(1,331)
Net cash (used in) provided by financing activities	(73,857)	23,161
Net increase (decrease) in cash and cash equivalents	2,555	(796)
Cash and cash equivalents at beginning of year	13,597	17,036
Cash and cash equivalents at end of period	$ 16,152	$ 16,240

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

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

	Stockholders' Equity								
	Common Stock				Common Stock Held in Treasury				
	Number of Shares	At Par Value	Capital in Excess of Par Value	Accum-ulated Deficit	Number of Shares	At Cost	Total Stockholders' Equity	Noncontrolling Interests in Subsidiaries	Total Equity
Balance at December 31, 2016	9,203	$ 92	$192,762	$(41,143)	1,105	$(20,760)	$ 130,951	$ 75	$131,026
Adjustment for cumulative effect of change in accounting for stock-based compensation	—	—	—	143	—	—	143	—	143
Cash dividend	—	—	(8,221)	—	—	—	(8,221)	—	(8,221)
Exercised and issued stock-based awards	47	1	62	—	—	—	63	—	63
Stock-based compensation	—	—	581	—	—	—	581	—	581
Tender of shares for stock-based awards	—	—	—	—	12	(297)	(297)	—	(297)
Total comprehensive income	—	—	—	10,745	—	—	10,745	8	10,753
Balance at September 30, 2017	9,250	$ 93	$185,184	$(30,255)	1,117	$(21,057)	$ 133,965	$ 83	$134,048
Balance at December 31, 2015	9,160	$ 91	$192,122	$(35,144)	1,093	$(20,470)	$ 136,599	$ 75	$136,674
Exercised and issued stock-based awards	43	1	(1)	—	—	—	—	—	—
Stock-based compensation	—	—	523	—	—	—	523	—	523
Tax benefit for stock-based awards	—	—	144	—	—	—	144	—	144
Tender of shares for stock-based awards	—	—	—	—	12	(290)	(290)	—	(290)
Total comprehensive loss	—	—	—	(5,825)	—	—	(5,825)	—	(5,825)
Balance at September 30, 2016	9,203	$ 92	$192,788	$(40,969)	1,105	$(20,760)	$ 131,151	$ 75	$131,226

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

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

1. GENERAL

The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2016, included in Stratus Properties Inc.'s (Stratus) Annual Report on Form 10-K (Stratus 2016 Form 10-K) filed with the United States (U.S.) Securities and Exchange Commission. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments considered necessary for a fair statement of the results for the interim periods reported. With the exception of the accounting for the deferred gain on the sale of The Oaks at Lakeway, all such adjustments are, in the opinion of management, of a normal recurring nature. Operating results for the three-month and nine-month periods ended September 30, 2017, are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

2. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income (loss)	$ 14,308	$ (1,659)	$ 10,753	$ (5,825)
Net income attributable to noncontrolling interests in subsidiaries	—	—	(8)	—
Net income (loss) attributable to Stratus common stockholders	$ 14,308	$ (1,659)	$ 10,745	$ (5,825)
Basic weighted-average shares of common stock outstanding	8,128	8,094	8,119	8,086
Add shares issuable upon exercise or vesting of dilutive stock options and restricted stock units (RSUs)[a]	44	—	50	—
Diluted weighted-average shares of common stock outstanding	8,172	8,094	8,169	8,086
Diluted net income (loss) per share attributable to common stockholders	$ 1.75	$ (0.20)	$ 1.32	$ (0.72)

a. Excludes approximately 30 thousand shares of common stock for third-quarter 2017, 23 thousand shares for the first nine months of 2017, and 124 thousand shares for both the third-quarter 2016 and first nine months of 2016 associated with outstanding stock options with exercise prices less than the average market price of Stratus' common stock and RSUs that were antidilutive.

3. DISPOSITIONS

The Oaks at Lakeway. On February 15, 2017, Stratus sold The Oaks at Lakeway to FHF I Oaks at Lakeway, LLC for $114.0 million in cash. Net cash proceeds were $50.8 million after repayment of the Lakeway construction loan (see Note 5). Stratus used a portion of these net cash proceeds to pay indebtedness outstanding under the Comerica Bank credit facility. The parties entered into three master lease agreements at closing: (1) one covering unleased in-line retail space, with a 5-year term, (2) one covering four unleased pad sites, three of which have 10-year terms, and one of which has a 15-year term, and (3) one covering the hotel pad with a 99-year term. As specified conditions are met, primarily consisting of the tenant executing a lease, commencing payment of rent and taking occupancy, leases will be assigned to the purchaser and the corresponding property will be removed from the master lease, reducing Stratus' master lease payment obligations. Stratus' master lease payment obligation, which currently approximates $180 thousand per month, is expected to decline over time until leasing is complete and all leases are assigned to the purchaser.

Stratus agreed to guarantee the obligations of its selling subsidiary under the sales agreement, up to a liability cap of two percent of the purchase price. This cap does not apply to Stratus' obligation to satisfy the selling subsidiary's indemnity obligations for its broker commissions or similar compensation or Stratus' liability in guaranteeing the selling subsidiary's obligations under the master leases. To secure its obligations under the master leases, Stratus has provided a $1.5 million irrevocable letter of credit with a three-year term.

The gain on sale of $39.7 million was deferred as a result of Stratus’ continuing involvement under the master lease agreements with the purchaser. The hotel pad was leased to a hotel operator under a ground lease at the date of sale. However, the hotel tenant had not commenced rent payments under the ground lease or construction of its building. At the date of the sale, primarily because of the uncertainty related to the hotel tenant’s performance under its ground lease, Stratus' estimated maximum probable exposure to loss using a probability-weighted assessment of future lease payments based on the master lease agreements exceeded the gain on sale. The rent payments under the master lease agreements represent continuing support obligations and are recorded as a reduction of the deferred gain.

The rent payments related to the 99-year hotel pad master lease represent the greatest exposure to loss. In May, the hotel tenant began paying rent and, in August, obtained construction financing and commenced construction of its building. The achievement of these milestones significantly reduced Stratus' probability weighted estimated maximum exposure to loss and, in third-quarter 2017, $24.3 million of the deferred gain was recognized based on the performance of services method. The following table summarizes changes to the deferred gain during the first nine months of 2017 (in thousands):

Balance as of February 15, 2017	$	39,677
Master lease payments		(1,653)
Revisions to costs to complete		(1,855)
Gain recognized		(24,306)
Balance as of September 30, 2017	$	11,863

The remaining deferred gain, as reduced by future master lease payments, will be recognized in future periods under the performance of services method, when Stratus’ continuing involvement ends or substantially all of the risks and rewards of ownership have transferred to the buyer and Stratus' remaining probability weighted estimated maximum exposure to loss under the master lease agreements is less than the deferred gain.

Upon the sale of The Oaks at Lakeway, HEB Grocery Company, L.P. (HEB) earned a profit participation of $2.5 million (of which $2.2 million was paid at closing), which is presented separately in the Consolidated Statements of Comprehensive Income (Loss).

Other. On February 28, 2017, Stratus completed the sale of its 3,085-square-foot bank building and an adjacent 4.1 acre undeveloped tract of land in Barton Creek, for $3.1 million. Stratus recorded a gain on the sale of $1.1 million and paid $2.1 million on the Barton Creek Village term loan (see Note 5).

4. FAIR VALUE MEASUREMENTS

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

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

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

	September 30, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Liabilities:				
Debt	$ 227,856	$ 229,865	$ 291,102	$ 293,620
Interest rate swap agreement	291	291	427	427

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

Interest Rate Swap Agreement. The interest rate swap does not qualify for hedge accounting and changes in its fair value are recorded in the Consolidated Statements of Comprehensive Income (Loss). Stratus evaluated the counterparty credit risk associated with the interest rate swap agreement, which is considered a Level 3 input, but did not consider such risk to be significant. Therefore, the interest rate swap agreement is classified within Level 2 of the fair value hierarchy.

5. DEBT AND EQUITY

Debt. The components of Stratus' debt are as follows (in thousands):

	September 30, 2017	December 31, 2016
Goldman Sachs loan	$ 145,669	$ 147,025
Lakeway construction loan	—	57,912
Santal Phase I construction loan	32,095	30,286
Comerica Bank credit facility	38,095	46,547
Amarra Villas credit facility	5,012	3,777
Barton Creek Village term loan	3,397	5,555
West Killeen Market construction loan	3,588	—
Total debt[a]	$ 227,856	$ 291,102

a. Includes net reductions for unamortized debt issuance costs of $1.5 million at September 30, 2017, and $2.2 million at December 31, 2016.

In February 2017, Stratus repaid the Lakeway construction loan with proceeds from the sale of The Oaks at Lakeway and paid $2.1 million on the Barton Creek Village term loan (see Note 3). As of September 30, 2017, Stratus had $6.9 million available under its $45.0 million revolving loan under its Comerica Bank credit facility.

On April 28, 2017, Lantana Place, LLC., a wholly owned subsidiary of Stratus, entered into a $26.3 million construction loan with Southside Bank (the Lantana Place construction loan) to finance the initial phase of Lantana Place, a 320,000-square-foot, mixed-use development project in southwest Austin. Construction of the first phase of Lantana Place began in June 2017. No amounts were drawn on the Lantana Place construction loan as of September 30, 2017. Interest is variable at the one-month London Interbank Offered Rate (LIBOR) plus 2.75 percent, subject to a minimum interest rate of 3.0 percent. Payments of interest only will be due and payable monthly, through November 1, 2020. The principal balance outstanding after November 1, 2020, will be payable in equal monthly installments of principal and interest based on a 30-year amortization. Outstanding amounts must be repaid in full on or before April 28, 2023, and can be prepaid without penalty. Outstanding amounts will be secured by the Lantana Place project and all subsequent improvements, including all leases and rents associated with the development. The agreement contains affirmative and negative covenants usual and customary for loan agreements of this nature, including, but not limited to, a financial covenant to maintain a debt service coverage ratio of at least 1.35 to 1.00 at all times beginning on December 31, 2019. Stratus will guarantee outstanding amounts under the loan until the development is able to maintain a debt service ratio of 1.50 to 1.00 for a period of six consecutive months.

On August 3, 2017, Stratus extended the maturity of its credit facility with Comerica Bank by three months to November 30, 2017. On November 7, 2017, Stratus further extended the maturity of its credit facility by one year to November 30, 2018 (see Note 10).

On September 1, 2017, College Station 1892 Properties, L.L.C. (1892 Properties), a wholly owned subsidiary of Stratus, entered into a $36.8 million construction loan with Southside Bank (the Jones Crossing construction loan) to finance construction of Phases 1 and 2, the retail component, of Stratus' Jones Crossing project, a new HEB-anchored, mixed use development in College Station, Texas. Construction of the initial two phases of the Jones Crossing project began in September 2017, and the HEB grocery store is expected to open in mid-2018. No amounts were drawn on the Jones Crossing construction loan as of September 30, 2017. Interest is variable at the one-month LIBOR plus 3.75 percent, subject to a minimum interest rate of 4.0 percent. Beginning on October 1, 2017, payments of interest will be due and payable monthly, through March 1, 2021. The principal balance of the loan outstanding after March 1, 2021, will be payable in equal monthly installments of principal and interest based on a 30-year amortization. Outstanding amounts must be repaid in full on or before September 1, 2023. The loan is secured by the Jones Crossing project and all subsequent improvements, including all leases and rents associated with the development as well as related permits and other entitlements. The loan agreement and related documents contain affirmative and negative covenants usual and customary for loan agreements of this nature, including, but not limited to, a financial covenant to maintain a debt service coverage ratio of at least 1.35 to 1.00 at all times beginning on March 31, 2020. Stratus will guarantee outstanding amounts under the loan until Phases 1 and 2 of the Jones Crossing development are completed and the development is able to maintain a debt service ratio of 1.50 to 1.00 as of the end of any fiscal quarter.

On September 11, 2017, Santal I, L.L.C. (Santal), a wholly owned subsidiary of Stratus, entered into an amended and restated construction loan agreement with Comerica Bank. The amended agreement increases the original commitment amount of $34.1 million to $59.2 million, which includes $32.8 million for Santal Phase I and an additional $26.4 million for the construction of Santal Phase II. Santal Phase II is a 212-unit garden style, multi-family development located adjacent to Santal Phase I. Both the Santal Phase I and the Santal Phase II loans have a maturity date of September 11, 2020. As of September 30, 2017, a total of $32.1 million was drawn on the Santal Phase I loan and no amounts were drawn on the Santal Phase II loan. The interest rate applicable to the Santal Phase I loan is a LIBOR-based rate plus 2.5 percent per annum. The interest rate applicable to the Santal Phase II loan is a LIBOR-based rate plus 3.0 percent per annum. Payments of interest on each loan are due and payable monthly, through September 11, 2020. Outstanding amounts will be secured by Santal Phase I and Santal Phase II and all subsequent improvements, including all leases and rents associated with the developments as well as related permits and other entitlements related to Santal Phase I and Santal Phase II. The construction loan agreements and related documents contain affirmative and negative covenants usual and customary for loan agreements of this nature. Santal may extend the maturity of the loan for up to two additional 12-month periods subject to satisfaction of certain conditions, including a debt service coverage ratio of at least 1.10 to 1.00 on the date immediately preceding the commencement of the first extension period and 1.20 to 1.00 on the date immediately preceding the commencement of the second extension period.

For a description of Stratus' outstanding loans, refer to Note 7 in the Stratus 2016 Form 10-K.

Interest Expense and Capitalization. Interest costs (before capitalized interest) totaled $3.1 million in third-quarter 2017, $4.1 million in third-quarter 2016, $9.3 million for the first nine months of 2017 and $11.7 million for the first nine months of 2016. Stratus' capitalized interest costs totaled $1.5 million in third-quarter 2017, $1.5 million in third-quarter 2016, $4.3 million for the first nine months of 2017 and $4.8 million for the first nine months of 2016, primarily related to development activities at Barton Creek in 2017, and at Barton Creek and The Oaks at Lakeway in 2016.

Equity. Stratus' Comerica Bank credit facility requires the bank's prior written consent to pay a dividend on Stratus' common stock. On March 15, 2017, Stratus' Board of Directors (the Board), after receiving written consent from Comerica Bank, declared a special cash dividend of $1.00 per share ($8.1 million), which was paid on April 18, 2017, to stockholders of record on March 31, 2017. The special cash dividend was declared after the Board’s consideration of the results of the sale of The Oaks at Lakeway. Comerica Bank’s consent to the payment of this special dividend is not indicative of the bank’s willingness to consent to the payment of future dividends. The declaration of future dividends is at the discretion of the Board, subject to the restrictions under Stratus' Comerica Bank credit facility, and will depend on Stratus' financial results, cash requirements, projected compliance with covenants in its debt agreements, outlook and other factors deemed relevant by the Board.

6. INCOME TAXES

Stratus' accounting policy for and other information regarding its income taxes is further described in Notes 1 and 8 in the Stratus 2016 Form 10-K.

Stratus had deferred tax assets (net of deferred tax liabilities) totaling $18.6 million at September 30, 2017, and $17.2 million at December 31, 2016. Stratus' income tax expense for the first nine months of 2017 includes current income tax expense of $7.5 million partly offset by a deferred tax benefit of $1.3 million. Stratus' future results of operations may be negatively impacted by an inability to realize a tax benefit for future tax losses or for items that will generate additional deferred tax assets.

The difference between Stratus' consolidated effective income tax rate for the first nine months of 2017 and the first nine months of 2016, and the U.S. Federal statutory income tax rate of 35 percent, was primarily attributable to the Texas state margin tax.

7. BUSINESS SEGMENTS

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

The Real Estate Operations segment is comprised of Stratus' real estate assets (developed, under development and available for development), which consists of its properties in Austin, Texas (the Barton Creek community, including Santal Phase II, the Circle C community, Lantana Place and the condominium units at the W Austin Hotel & Residences); in Lakeway, Texas located in the greater Austin area (Lakeway); in College Station, Texas (Jones Crossing); and in Magnolia, Texas, located in the greater Houston area (Magnolia).

The Leasing Operations segment includes the office and retail space at the W Austin Hotel & Residences, a retail building in Barton Creek Village, Santal Phase I and the West Killeen Market in Killeen, Texas.

The Hotel segment includes the W Austin Hotel located at the W Austin Hotel & Residences in downtown Austin, Texas.

The Entertainment segment includes ACL Live, a live music and entertainment venue and production studio at the W Austin Hotel & Residences. In addition to hosting concerts and private events, this venue is the home of Austin City Limits, a television program showcasing popular music legends. The Entertainment segment also includes revenues and costs associated with events hosted at other venues, including 3TEN ACL Live, which opened in March 2016 on the site of the W Austin Hotel & Residences, and the results of the Stageside Productions joint venture with Pedernales Entertainment LLC (see Note 2 in the Stratus 2016 Form 10-K for further discussion).

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

	Real Estate Operations[a]	Leasing Operations	Hotel	Entertainment	Eliminations and Other[b]	Total
Three Months Ended September 30, 2017:						
Revenues:						
Unaffiliated customers	$ 2,923	$ 1,923	$ 7,738	$ 4,638	$ —	$ 17,222
Intersegment	115	222	57	17	(411)	—
Cost of sales, excluding depreciation	2,204	1,100	6,678	3,799	(144)	13,637
Depreciation	57	739	886	384	(35)	2,031
General and administrative expenses	—	—	—	—	2,220	2,220
Gain on sales of assets	—	(24,306) [c]	—	—	—	(24,306)
Operating income (loss)	$ 777	$ 24,612	$ 231	$ 472	$ (2,452)	$ 23,640
Capital expenditures[d]	$ 3,222	$ 9,066	$ 15	$ 182	$ —	$ 12,485
Total assets at September 30, 2017	183,643	71,041	103,560	36,888	15,332	410,464

	Real Estate Operations[a]	Leasing Operations	Hotel	Entertainment	Eliminations and Other[b]	Total
Three Months Ended September 30, 2016:						
Revenues:						
Unaffiliated customers	$ 6,155	$ 2,567	$ 8,268	$ 4,190	$ —	$ 21,180
Intersegment	8	203	60	6	(277)	—
Cost of sales, excluding depreciation	4,076	1,398	6,893	3,837	(135)	16,069
Depreciation	55	920	873	378	(37)	2,189
General and administrative expenses	—	—	—	—	2,497	2,497
Operating income (loss)	$ 2,032	$ 452	$ 562	$ (19)	$ (2,602)	$ 425
Capital expenditures[d]	$ 3,290	$ 2,385	$ 16	$ (16)	$ —	$ 5,675
Total assets at September 30, 2016	171,465	119,968	104,674	38,240	23,502	457,849
Nine Months Ended September 30, 2017:						
Revenues:						
Unaffiliated customers	$ 9,108	$ 6,015	$ 27,817	$ 16,375	$ —	$ 59,315
Intersegment	136	653	230	142	(1,161)	—
Cost of sales, excluding depreciation	8,048	3,773	21,323	12,756	(528)	45,372
Depreciation	171	2,070	2,654	1,137	(104)	5,928
General and administrative expenses	—	—	—	—	8,462	8,462
Profit participation	—	2,538	—	—	—	2,538
Gain on sales of assets	—	(25,421) [c]	—	—	—	(25,421)
Operating income (loss)	$ 1,025	$ 23,708	$ 4,070	$ 2,624	$ (8,991)	$ 22,436
Capital expenditures[d]	$ 11,196	$ 13,845	$ 273	$ 245	$ —	$ 25,559
Nine Months Ended September 30, 2016:						
Revenues:						
Unaffiliated customers	$ 9,858	$ 6,761	$ 29,501	$ 13,236	$ —	$ 59,356
Intersegment	24	564	220	90	(898)	—
Cost of sales, excluding depreciation	8,174	3,319	22,322	10,869	(436)	44,248
Depreciation	169	2,162	2,570	1,084	(131)	5,854
General and administrative expenses	—	—	—	—	9,718	9,718
Operating income (loss)	$ 1,539	$ 1,844	$ 4,829	$ 1,373	$ (10,049)	$ (464)
Capital expenditures[d]	$ 10,919	$ 24,280	$ 277	$ 263	$ —	$ 35,739

a. Includes sales commissions and other revenues together with related expenses.
b. Includes consolidated general and administrative expenses and eliminations of intersegment amounts.
c. Includes $24.3 million associated with recognition of a portion of the deferred gain on the sale of The Oaks at Lakeway (see Note 3 for further discussion).
d. Also includes purchases and development of residential real estate held for sale.

8. NEW ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board (FASB) issued an Accounting Standard Update (ASU) that provides a single comprehensive revenue recognition model, which will replace most existing revenue recognition guidance, and also requires expanded disclosures. The core principle of the model is that revenue is recognized when control of goods or services has been transferred to customers at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. For public entities, this ASU is effective for annual reporting periods beginning after December 15, 2017, and interim reporting periods within that reporting period. Early adoption is permitted for annual reporting periods beginning after December 15, 2016, and interim reporting periods within that reporting period. Stratus will adopt this ASU January 1, 2018. Stratus currently expects the largest impact of the adoption of this ASU to be related to the gain on the sale of The Oaks at Lakeway. Stratus continues to review the impact of the new guidance on its financial reporting and disclosures.

In March 2016, FASB issued an ASU that simplifies various aspects of the accounting for share-based payment transactions, including the income tax consequences, statutory tax withholding requirements, an accounting policy election for forfeitures and the classification on the statement of cash flows. Stratus adopted this ASU on January 1, 2017, on a modified retrospective basis and recorded a cumulative effect adjustment of $143 thousand to its 2017 opening accumulated deficit balance.

9. COMMITMENTS AND CONTINGENCIES

Operating Leases. In August 2017, a wholly owned subsidiary of Stratus finalized a 99-year ground lease agreement for the Jones Crossing project (see Note 5). The annual contractual payments under this noncancelable long-term operating lease total $39 thousand in 2017, $155 thousand for 2018, $233 thousand for 2019, $295 thousand for 2020, $419 thousand for the 2021 period and $111.5 million thereafter.

10. SUBSEQUENT EVENTS

On November 7, 2017, Stratus' credit facility with Comerica Bank was amended to extend the maturity date by one year to November 30, 2018, and to eliminate the minimum interest rate of 6 percent so that the interest rate applicable to amounts borrowed under each tranche is equal to an annual rate of LIBOR plus 4.0 percent. Stratus is continuing to negotiate a modification and a longer-term extension of the credit facility with Comerica Bank.

Stratus evaluated events after September 30, 2017, and through the date the financial statements were issued, and determined any events or transactions occurring during this period that would require recognition or disclosure are appropriately addressed in these financial statements.

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

OVERVIEW

In Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A), “we,” “us,” “our” and "Stratus" refer to Stratus Properties Inc. and all entities owned or controlled by Stratus Properties Inc. You should read the following discussion in conjunction with our financial statements, the related MD&A and the discussion of our business and properties included in our Annual Report on Form 10-K for the year ended December 31, 2016 (2016 Form 10-K) filed with the United States (U.S.) Securities and Exchange Commission (SEC). The results of operations reported and summarized below are not necessarily indicative of future operating results, and future results could differ materially from those anticipated in forward-looking statements (refer to "Cautionary Statement" for further discussion). All subsequent references to “Notes” refer to Notes to Consolidated Financial Statements (Unaudited) located in Part I, Item 1. “Financial Statements” of this Form 10-Q, unless otherwise stated.

We are a diversified real estate company engaged primarily in the acquisition, entitlement, development, management, operation and sale of commercial, hotel, entertainment, and multi- and single-family residential real estate properties, primarily located in the Austin, Texas area, but including projects in certain other select markets in Texas. We generate revenues and cash flows from the sale of developed properties, rental income from our leased properties and our hotel and entertainment operations. See Note 7 for further discussion of our operating segments.

Developed property sales can include an individual tract of land that has been developed and permitted for residential use, a developed lot with a home already built on it or condominium units at the W Austin Residences. We may sell properties under development, undeveloped properties or commercial properties, if opportunities arise that we believe will maximize overall asset value as part of our business plan. See "Business Strategy" below.

Acreage under development and undeveloped as of September 30, 2017, that comprise our real estate development operations are presented in the following table.

	Under Development				Undeveloped				
	Single Family	Multi-family	Commercial	Total	Single family	Multi-family	Commercial	Total	Total Acreage
Austin:									
Barton Creek	4	47	—	51	512	289	394	1,195	1,246
Circle C	—	—	—	—	—	36	216	252	252
Lantana	—	—	11	11	—	—	44	44	55
W Austin Residences	—	—	—	—	—	—	—	—	—
Other		—	—	—	7	—	—	7	7
Lakeway[a]	—	—	—	—	35	—	—	35	35
Magnolia	—	—	—	—	—	—	124	124	124
Jones Crossing		—	72	72	—	—	—	—	72
San Antonio:									
Camino Real	—	—	—	—	—	—	2	2	2
Total	4	47	83	134	554	325	780	1,659	1,793

a. On February 15, 2017, we sold The Oaks at Lakeway, which included 52 acres of land under development at December 31, 2016, but we retained 34.7 acres of undeveloped land adjacent to the project.

In third-quarter 2017, our revenues totaled $17.2 million and our net income attributable to common stockholders totaled $14.3 million, compared with revenues of $21.2 million and a net loss attributable to common stockholders of $1.7 million for third-quarter 2016. For the first nine months of 2017, our revenues totaled $59.3 million and our net income attributable to common stockholders totaled $10.7 million, compared with revenues of $59.4 million and a net loss attributable to common stockholders of $5.8 million for the first nine months of 2016.

The decrease in revenues for the 2017 periods primarily reflects lower developed property sales and decreased revenues from the Hotel segment, partly offset by an increase in revenues from the Entertainment segment. The results for third-quarter 2017 and the first nine months of 2017 include a gain on the sale of assets totaling $24.3 million ($15.7 million to net income attributable to common stockholders) associated with recognition of a portion of the deferred gain on the sale of The Oaks at Lakeway (see Note 3). The results for the first nine months of 2017 also include a $1.1 million gain on sales of assets ($0.7 million to net income attributable to common stockholders) associated with a bank building and an adjacent undeveloped 4.1 acre tract of land in Barton Creek (see Note 3), a charge of $2.5 million ($1.6 million to net income attributable to common stockholders) for profit participation costs and a loss of $0.5 million ($0.3 million to net income attributable to common stockholders) on early extinguishment of debt, both related to our sale of The Oaks at Lakeway. The results for the first nine months of 2016 include a loss on early extinguishment of debt totaling $0.8 million ($0.5 million to net loss attributable to common stockholders) associated with the refinancing of the W Austin Hotel & Residences and a $0.3 million loss ($0.2 million to net loss attributable to common stockholders) related to interest rate derivative instruments.

We used the proceeds from the sale of The Oaks at Lakeway to repay the Lakeway construction loan and our outstanding balances under the Comerica Bank credit facility. A portion of the proceeds from the sale of the Barton Creek property was used to repay a portion of the Barton Creek term loan (see "Development Activities - Commercial" and Note 3 for further discussion).

At September 30, 2017, we had total debt of $227.9 million and total cash and cash equivalents of $16.2 million, compared with total debt of $291.1 million and cash and cash equivalents of $13.6 million at December 31, 2016. We have significant recurring costs, including property taxes, maintenance and marketing, and we believe we will have sufficient sources of debt financing and cash from operations to meet our cash requirements. See "Capital Resources and Liquidity" below regarding debt repayments and “Risk Factors” included in Part 1, Item 1A. of our 2016 Form 10-K for further discussion.

BUSINESS STRATEGY

Our strategy has been to manage our diverse asset base of residential, commercial, hotel and entertainment real estate located in the premier Austin, Texas market and in other select, fast-growing Texas markets. We enhance the value of our residential, multi-family and commercial properties by securing and maintaining development entitlements and developing and building real estate projects on these properties for sale or investment. Our hotel and ACL Live venue, which are central to Austin’s world renowned, vibrant music scene, are located in downtown Austin.

We are continuing our successful program of actively developing our properties and strategically marketing and selling developed assets at appropriate times in order to maximize stockholder value. Our active development plan includes completion of both residential and commercial development projects. Our development portfolio consists of approximately 1,700 acres of undeveloped land with development plans that include necessary regulatory approvals, entitlements and utility capacity. We believe that our portfolio, along with management’s extensive experience in Austin-area real estate development, support our ability to obtain project financing and/or seek joint venture partners including on the development projects described in "Development Activities - Commercial".

DEVELOPMENT ACTIVITIES

Residential. As of September 30, 2017, the number of our multi-and single-family residential developed lots/units, lots under development and lots for potential development by area are shown below:

	Residential Lots/Units			
	Developed	Under Development	Potential Development[a]	Total
Barton Creek:				
Amarra Drive:				
Phase II	12	—	20	32
Phase III	40	4	150	194
Amarra Villas	—	19	—	19
Section N:				
Santal multi-family Phase I	236	—	—	236
Santal multi-family Phase II	—	212	—	212
Other Section N multi-family	—	—	1,412	1,412
Other Barton Creek sections	—	—	156	156
Circle C:				
Meridian	2	—	—	2
The St. Mary multi-family	—	—	240	240
Tract 102 multi-family	—	—	56	56
Lakeway	—	—	100	100
Other	—	—	7	7
W Austin Residences	2	—	—	2
Total Residential Lots/Units	292	235	2,141	2,668

a. Our development of the properties identified under the heading “Potential Development” is dependent upon the approval of our development plans and permits by governmental agencies, including the City of Austin (the City). Those governmental agencies may not approve one or more development plans and permit applications related to such properties or may require us to modify our development plans. Accordingly, our development strategy with respect to those properties may change in the future. While we may be proceeding with approved infrastructure projects or planning activities for some of these properties, they are not considered to be “under development” for disclosure in this table until construction activities have begun.

Current Activities.
During third-quarter 2017, we sold one Phase II lot at Amarra Drive for $0.6 million, two Phase III lots at Amarra Drive for $1.5 million and three Meridian lots for $0.8 million. We also began construction of four homes on Phase III lots at Amarra Drive during third-quarter 2017, moving four lots from the developed category to under development. During the first nine months of 2017, we sold one Amarra Villa townhome for $2.2 million, one Phase II lot at Amarra Drive for $0.6 million, four Phase III lots at Amarra Drive for $2.8 million and ten Meridian lots for $2.8 million (see "Results of Operations - Real Estate Operations"). As of October 31, 2017, two Phase II lots at Amarra Drive, four Phase III lots at Amarra Drive and the last two lots at Meridian were under contract. Also, as of October 31, 2017, two Amarra Villas townhomes were under contract, both of which are under construction.

As of October 31, 2017, nearly 100 percent of the 236 units at our Santal Phase I multi-family project were leased. On September 11, 2017, we entered into an amended loan agreement that increased the original commitment of $34.1 million to $59.2 million, which includes a $32.8 million loan for Santal Phase I and an additional $26.4 million for construction of Santal Phase II, a 212-unit garden style, multi-family development located adjacent to Santal Phase I (see Note 5). We began construction of Santal Phase II in September 2017.

For further discussion of our multi- and single-family residential properties listed in the table above, see MD&A in our 2016 Form 10-K.

Commercial. As of September 30, 2017, the number of square feet of our commercial property developed, under development and our remaining entitlements for potential development (excluding property associated with our unconsolidated joint venture with Tramell Crow Central Texas Development, Inc. relating to Crestview Station in Austin, and the W Austin Hotel and ACL Live entertainment venue) are shown below:

	Commercial Property			
	Developed	Under Development	Potential Development[a]	Total
	(in square feet)			
Barton Creek:				
Barton Creek Village	22,366	—	—	22,366
Entry corner	—	—	5,000	5,000
Amarra retail/office	—	—	83,081	83,081
Section N	—	—	1,500,000	1,500,000
Circle C	—	—	674,942	674,942
Lantana:				
Lantana Place	—	99,663	220,337	320,000
Tract G07	—	—	160,000	160,000
W Austin Hotel & Residences:				
Office	38,316	—	—	38,316
Retail	18,327	—	—	18,327
Magnolia	—	—	351,000	351,000
West Killeen Market	44,000	—	—	44,000
Jones Crossing	—	153,250	104,750	258,000
Total Square Feet	123,009	252,913	3,099,110	3,475,032

a. Our development of the properties identified under the heading “Potential Development” is dependent upon the approval of our development plans and permits by governmental agencies, including the City. Those governmental agencies may not approve one or more development plans and permit applications related to such properties or may require us to modify our development plans. Accordingly, our development strategy with respect to those properties may change in the future. While we may be proceeding with approved infrastructure projects or planning activities for some of these properties, they are not considered to be “under development” for disclosure in this table until construction activities have begun.

Current Activities.
In September 2017, we entered into a $36.8 million construction loan to finance the construction of Phases 1 and 2, the retail component, of Stratus' Jones Crossing project, a new HEB Grocery Company, L.P. (HEB)-anchored, mixed use development in College Station, Texas. The Jones Crossing project is expected to total approximately 258,000 square feet of commercial space, including a 106,000 square-foot HEB grocery store. Construction of the retail component of the Jones Crossing project began in September 2017, and the HEB grocery store is expected to open in mid-2018.

As of September 30, 2017, leases for 60 percent of the space at West Killeen Market have been executed and leasing activities for the remaining space continues. Construction at Lantana Place is in progress.

In February 2017, we completed the sale of The Oaks at Lakeway for $114.0 million and we sold the 3,085-square-foot bank building and the adjacent undeveloped 4.1 acre tract of land in Barton Creek for $3.1 million (see Note 3 and "Results of Operations - Leasing Operations").

For further discussion of our commercial properties listed in the table above, see MD&A in our 2016 Form 10-K.

RESULTS OF OPERATIONS

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

The following table summarizes our results (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating income (loss):				
Real estate operations	$ 777	$ 2,032	$ 1,025	$ 1,539
Leasing operations	24,612	452	23,708	1,844
Hotel	231	562	4,070	4,829
Entertainment	472	(19)	2,624	1,373
Corporate, eliminations and other	(2,452)	(2,602)	(8,991)	(10,049)
Operating income (loss)	$ 23,640	$ 425	$ 22,436	$ (464)
Interest expense, net	$ (1,577)	$ (2,579)	$ (5,060)	$ (6,894)
Net income (loss) attributable to common stockholders	$ 14,308	$ (1,659)	$ 10,745	$ (5,825)

We have four operating segments: Real Estate Operations, Leasing Operations, Hotel and Entertainment (see Note 7 for further discussion). The following is a discussion of our operating results by segment.

Real Estate Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues:				
Developed property sales	$ 2,860	$ 6,063	$ 8,436	$ 9,428
Undeveloped property sales	—	—	544	73
Commissions and other	178	100	264	381
Total revenues	3,038	6,163	9,244	9,882
Cost of sales, including depreciation	2,261	4,131	8,219	8,343
Operating income	$ 777	$ 2,032	$ 1,025	$ 1,539

Operating income from the Real Estate Operations segment decreased in the 2017 periods, compared to the 2016 periods, primarily as a result of fewer developed property sales.

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

	Three Months Ended September 30,					
	2017			2016		
	Lots/Units	Revenues	Average Cost Per Lot/Unit	Lots	Revenues	Average Cost Per Lot
Barton Creek						
Amarra Drive:						
Phase II	1	$ 560	$ 193	—	$ —	$ —
Phase III	2	1,475	$ 316	5	3,913	363
Circle C						
Meridian	3	825	156	8	2,150	151
Total Residential	6	$ 2,860		13	$ 6,063	

	Nine Months Ended September 30,					
	2017			2016		
	Lots/Units	Revenues	Average Cost Per Lot/Unit	Lots	Revenues	Average Cost Per Lot
Barton Creek						
Amarra Drive:						
Phase II	1	$ 560	$ 193	1	$ 550	$ 190
Phase III	4	2,840	304	5	3,913	363
Amarra Villas	1	2,193	2,004	—	—	—
Circle C						
Meridian	10	2,843	160	18	4,965	155
Total Residential	16	$ 8,436		24	$ 9,428	

Cost of Sales. Cost of sales includes costs of property sold, project operating and marketing expenses and allocated overhead costs, partly offset by reductions for certain municipal utility district (MUD) reimbursements. Real estate cost of sales decreased in third-quarter 2017, compared to third-quarter 2016, primarily as a result of fewer developed property sales. Real estate cost of sales decreased for the first nine months of 2017, compared to the first nine months of 2016, primarily as a result of fewer developed property sales, mostly offset by higher costs associated with the sale of the Amarra Villas townhome.

Leasing Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Rental revenue	$ 2,145	$ 2,770	$ 6,668	$ 7,325
Rental cost of sales, excluding depreciation	1,100	1,398	3,773	3,319
Depreciation	739	920	2,070	2,162
Profit participation	—	—	2,538	—
Gain on sales of assets	(24,306)	—	(25,421)	—
Operating income	$ 24,612	$ 452	$ 23,708	$ 1,844

Operating income from the Leasing Operations segment for the 2017 periods included the recognition of a portion ($24.3 million) of the deferred gain associated with the sale of The Oaks at Lakeway (see Note 3). The first nine months of 2017 also included a $2.5 million profit participation charge associated with our sale of The Oaks at Lakeway, partly offset by a $1.1 million gain on the sale of a 3,085-square-foot bank building and an adjacent 4.1 acre undeveloped tract of land in Barton Creek.

Rental Revenue. Rental revenue for 2017 primarily includes revenue from office and retail space at the W Austin Hotel & Residences, retail space at Barton Creek Village, Santal Phase I and The Oaks at Lakeway prior to its sale in February 2017. Rental revenue for 2016 included revenue from The Oaks at Lakeway, office and retail space at the W Austin Hotel & Residences, retail space at Barton Creek Village and Santal Phase I. The decrease in rental revenue in the 2017 periods primarily reflects the sale of The Oaks at Lakeway, partially offset by an increase in revenue from Santal Phase I.

Rental Cost of Sales and Depreciation. Rental cost of sales and depreciation expense decreased in third-quarter 2017, compared with third-quarter 2016, as a result of the sale of The Oaks at Lakeway, partly offset by increased costs related to the Santal multi-family project (Phase I). Rental cost of sales increased in the first nine months of 2017, compared with the first nine months of 2016, as a result of increased costs related to the Santal multi-family and West Killeen Market projects.

Hotel

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Hotel revenue	$ 7,795	$ 8,328	$ 28,047	$ 29,721
Hotel cost of sales, excluding depreciation	6,678	6,893	21,323	22,322
Depreciation	886	873	2,654	2,570
Operating income	$ 231	$ 562	$ 4,070	$ 4,829

Operating income from the Hotel segment decreased in the 2017 periods, compared with the 2016 periods, primarily as a result of increased competition from several newly completed hotels in the downtown Austin area and the impact of weather-related costs and cancellations.

Hotel Revenue. Hotel revenue primarily includes revenue from W Austin Hotel room reservations and food and beverage sales. Hotel revenues decreased in third-quarter 2017, primarily because of one-time costs and cancellations associated with hurricanes Harvey and Irma on previously scheduled bookings and increased competition from several newly completed hotels in the downtown Austin area. Hotel revenues decreased during the first nine months of 2017 primarily as a result of increased competition from several newly completed hotels in the downtown Austin area and lower food and beverage revenue. Revenue per available room (RevPAR), which is calculated by dividing total room revenue by the average total rooms available, was $199 for third-quarter 2017 and $253 for the the first nine months of 2017, compared with $227 for third-quarter 2016 and $265 for the first nine months of 2016.

Hotel Cost of Sales. Lower costs for the first nine months of 2017 primarily reflect lower marketing and food and beverage costs.

Entertainment

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Entertainment revenue	$ 4,655	$ 4,196	$ 16,517	$ 13,326
Entertainment cost of sales, excluding depreciation	3,799	3,837	12,756	10,869
Depreciation	384	378	1,137	1,084
Operating income (loss)	$ 472	$ (19)	$ 2,624	$ 1,373

Operating income for the Entertainment segment increased in third-quarter 2017, compared with third-quarter 2016, primarily as a result of higher ticket sales at ACL Live. Operating income for the Entertainment segment increased for the first nine months of 2017, compared with the first nine months of 2016, primarily as a result of higher ticket sales and an increase in the number of events events hosted at ACL Live. Entertainment segment revenue and cost of sales will vary from period to period as a result of factors such as the price of tickets and the number of tickets sold, as well as the number and type of events hosted at ACL Live and 3TEN ACL Live.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
ACL Live				
Events:				
Events hosted	43	42	160	152
Estimated attendance	61,848	41,763	208,687	154,819
Ancillary net revenue per attendee	$ 35.95	$ 41.53	$ 40.39	$ 48.51
Ticketing:				
Number of tickets sold	56,316	32,464	152,270	108,436
Gross value of tickets sold (in thousands)	$ 2,995	$ 1,688	$ 9,142	$ 5,733
3TEN ACL Live				
Events:				
Events hosted	47	55	167	100
Estimated attendance	8,141	8,244	29,799	16,839
Ancillary net revenue per attendee	$ 21.25	$ 33.02	$ 38.23	$ 36.77
Ticketing:				
Number of tickets sold	3,386	3,681	13,956	7,853
Gross value of tickets sold (in thousands)	$ 89	$ 72	$ 302	$ 159

Entertainment Revenue. Entertainment revenue primarily reflects the results of operations for ACL Live, including ticket sales, revenue from private events, sponsorships, personal seat license sales and suite sales, and sales of concessions and merchandise. Entertainment revenue also reflects revenues associated with events hosted at venues other than ACL Live, including 3TEN ACL Live, as well as the results of the Stageside Productions joint venture with Pedernales Entertainment LLC. The increase in Entertainment revenue in the 2017 periods, compared with the 2016 periods, primarily reflects higher ticket sales at ACL Live, partially offset by a decrease in revenue associated with private events.

Entertainment Cost of Sales. The change in Entertainment costs in the 2017 periods, compared with the 2016 periods, primarily reflects an increase in the number of events hosted.

Corporate, Eliminations and Other

Corporate, eliminations and other includes consolidated general and administrative expenses, which primarily consist of employee salaries and other costs. Consolidated general and administrative expenses totaled $2.2 million for third-quarter 2017 and $8.5 million for the first nine months of 2017, compared with $2.5 million for third-quarter 2016 and $9.7 million for the first nine months of 2016. Costs were lower for the 2017 periods, compared with the 2016 periods, primarily because of non-recurring legal and consulting fees in 2016 associated with Stratus' successful proxy contest. Corporate, eliminations and other also includes eliminations of intersegment amounts incurred by the four operating segments.

Non-Operating Results

Interest Expense, Net. Interest costs (before capitalized interest) were $3.1 million for third-quarter 2017 and $9.3 million for the first nine months of 2017, compared with $4.1 million for third-quarter 2016 and $11.7 million for the first nine months of 2016, primarily reflecting lower average debt in the 2017 periods.

Capitalized interest totaled $1.5 million for third-quarter 2017 and $4.3 million for the first nine months of 2017, compared with $1.5 million for third-quarter 2016 and $4.8 million for the first nine months of 2016, and is primarily related to development activities at Barton Creek in 2017, and development activities at Barton Creek and The Oaks at Lakeway in 2016.

Gain (Loss) on Interest Rate Derivative Instruments. We recorded a gain of $54 thousand for third-quarter 2017 and $136 thousand for the first nine months of 2017, compared with a gain of $174 thousand for third-quarter 2016 and a loss of $(301) thousand for the first nine months of 2016, associated with changes in the fair values of our interest rate derivative instruments.

Loss on Early Extinguishment of Debt. We recorded losses on early extinguishment of debt of $0.5 million for the first nine months of 2017 associated with the repayment of The Oaks at Lakeway loan and $0.8 million for the first nine months of 2016 associated with the repayment of the Bank of America loan with the proceeds from the Goldman Sachs loan.

(Provision for) Benefit from Income Taxes. We recorded a provision for income taxes of $(7.8) million for third-quarter 2017 and $(6.2) million for the first nine months of 2017, compared with a benefit from income taxes of $0.3 million for third-quarter 2016 and $2.6 million for the first nine months of 2016. Both the 2017 and 2016 periods also include the Texas state margin tax. The difference between Stratus' consolidated effective income tax rate and the U.S. Federal statutory income tax rate of 35 percent is primarily attributable to the Texas state margin tax. We had deferred tax assets (net of deferred tax liabilities) totaling $18.6 million at September 30, 2017, and $17.2 million at December 31, 2016. Our income tax expense for the first nine months of 2017 includes current income tax expense of $7.5 million offset by a deferred tax benefit of $1.3 million.

CAPITAL RESOURCES AND LIQUIDITY

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

Comparison of Cash Flows for the Nine Months Ended September 30, 2017 and 2016

Operating Activities. Cash (used in) provided by operating activities totaled $(13.2) million during the first nine months of 2017, compared with $0.9 million during the first nine months of 2016. Expenditures for purchases and development of real estate properties totaled $11.2 million during the first nine months of 2017 and $10.9 million during the first nine months of 2016, primarily related to development of our Barton Creek properties. The first nine months of 2017 included MUD reimbursements of $2.2 million, compared with reimbursements of $12.3 million for the first nine months of 2016. The decrease in deferred income taxes for the first nine months of 2017, compared to the first nine months of 2016, primarily relates to the recognition of a portion of the deferred gain associated with the sale of The Oaks at Lakeway in February 2017, and is partly offset by a decrease in current tax liabilities (included in accounts payable, accrued liabilities and other). During the first nine months of 2017, we also paid $2.2 million of the $2.5 million in profit participation due to HEB as a result of the sale of The Oaks at Lakeway.

Approximately $30.3 million has been reimbursed or is eligible for reimbursement by MUDs for infrastructure costs incurred in our development of Section N in Barton Creek. As of September 30, 2017, we have received $17.8 million from MUDs for reimbursement of some of these costs, including $1.6 million of the $2.2 million total MUD reimbursements received in first-quarter 2017. We expect to receive the remaining $12.5 million in MUD reimbursements for Section N infrastructure costs in fourth-quarter 2017.

Our Magnolia, Texas, mixed-use development project continues to move forward. We are working with the City of Magnolia and the State of Texas to create a MUD, which will provide an opportunity to recoup a portion of our road and utility infrastructure costs for this project. We anticipate construction to begin in 2018.

Investing Activities. Cash provided by (used in) investing activities totaled $89.6 million during the first nine months of 2017, compared with $(24.8) million during the first nine months of 2016. The first nine months of 2017 included $117.3 million in proceeds from the sales of The Oaks at Lakeway and a bank building and an adjacent undeveloped 4.1 acre tract of land in Barton Creek. Capital expenditures totaled $14.4 million during the first nine months of 2017, primarily related to development of the Lantana Place, West Killeen Market and Jones Crossing projects, and $24.8 million during the first nine months of 2016, primarily related to development of Santal Phase I and The Oaks at Lakeway projects.

In the first nine months of 2017, Stratus also made payments totaling $1.7 million under its master lease obligations associated with the sale of The Oaks at Lakeway. The use of cash for site development escrow deposit and other, net during the first nine months of 2017, primarily relates to restricted cash associated with the Jones Crossing project.

Financing Activities. Cash (used in) provided by financing activities totaled $(73.9) million during the first nine months of 2017, compared with $23.2 million during the first nine months of 2016. During the first nine months of

2017, net repayments on the Comerica Bank credit facility totaled $8.5 million, compared with net borrowings of $4.9 million for the first nine months of 2016. Net repayments on other project and term loans totaled $55.5 million for the first nine months of 2017, primarily for The Oaks at Lakeway term loan, compared with net borrowings of $19.8 million for the first nine months of 2016, primarily associated with Santal Phase I and The Oaks at Lakeway projects. See also “Credit Facility and Other Financing Arrangements” for a discussion of our outstanding debt at September 30, 2017.

On March 15, 2017, we announced that our Board, after receiving written consent from Comerica Bank, declared a special cash dividend of $1.00 per share, which was paid on April 18, 2017, to stockholders of record on March 31, 2017. The special cash dividend was declared after the board’s consideration of the results of the sale of The Oaks at Lakeway.

Credit Facility and Other Financing Arrangements
At September 30, 2017, we had total debt based on the principal amounts outstanding of $229.4 million, compared with $293.3 million at December 31, 2016. The principal amounts of our debt outstanding at September 30, 2017, consisted of the following:

- $146.8 million under the Goldman Sachs loan.
- $38.1 million under the $52.5 million Comerica Bank credit facility, which is comprised of a $45.0 million revolving line of credit, $6.9 million of which was available at September 30, 2017, and a $7.5 million letters of credit tranche, against which $5.7 million was committed and $1.8 million was available at September 30, 2017.
- $32.1 million under the construction loan to fund the development of Phase I of the multi-family development in Section N of Barton Creek (the Santal Phase I loan).
- $5.1 million under the stand-alone revolving credit facility with Comerica Bank to fund the construction and development of the Amarra Villas (the Amarra Villas credit facility).
- $3.8 million under the construction loan with Southside Bank to fund the development and construction of the West Killeen Market retail project (the West Killeen Market construction loan).
- $3.4 million under the term loan with PlainsCapital Bank secured by assets at Barton Creek Village (the Barton Creek Village term loan).

No amounts have been drawn under the construction loans with Southside Bank to finance the development and construction of the initial phase of Lantana Place and Phases 1 and 2, the retail component, of Jones Crossing, nor under the agreement with Comerica Bank to finance the development and construction of Santal Phase II.

Several of our financing instruments contain customary financial covenants. The Comerica credit facility, the Santal Phase I and Phase II loans and the Amarra Villas credit facility include a requirement that we maintain a minimum total stockholders’ equity balance of $110.0 million. The Comerica credit facility also includes a requirement that we obtain Comerica's prior written consent for any common stock repurchases or dividend payments.

See Note 7 in our 2016 Form 10-K and Note 5 for further discussion of our outstanding debt.

The following table summarizes our debt maturities based on the principal amounts outstanding as of September 30, 2017 (in thousands):

	2017	2018	2019	2020	2021	Thereafter	Total
Goldman Sachs loan	$ 509	$ 2,086	$ 2,207	$ 2,313	$ 2,470	$ 137,249	$ 146,834
Santal Phase I loan	—	—	—	32,130 [a]	—	—	32,130
Comerica Bank credit facility	—	38,095 [b]	—	—	—	—	38,095
Amarra Villas credit facility	—	—	5,123	—	—	—	5,123
West Killeen Market construction loan	—	—	—	—	—	3,764	3,764
Barton Creek Village term loan	24	100	105	109	114	2,996	3,448
Total	$ 533	$ 40,281	$ 7,435	$ 34,552	$ 2,584	$ 144,009	$ 229,394

a. Stratus has the option to extend the maturity date for two additional twelve-month periods, subject to certain debt service coverage conditions.

b. On November 7, 2017, Stratus extended the maturity by one year to November 30, 2018 (see Note 10).

We expect to repay, extend or refinance our near-term debt maturities in the normal course of business and believe we have the ability to do so.

CONTRACTUAL OBLIGATIONS

There have been no material changes in our contractual obligations since December 31, 2016, other than (i) changes to our debt obligations described above, (ii) the master lease obligations entered into in conjunction with the sale of The Oaks at Lakeway, which currently approximate $180 thousand per month and are expected to decline over time until leasing is complete and all leases are assigned to the purchaser (see Note 3) and (iii) a 99-year ground lease commitment for our Jones Crossing project (see Note 9). Refer to Part II, Items 7. and 7A. in our 2016 Form 10-K, for further information regarding our contractual obligations.

NEW ACCOUNTING STANDARDS

Refer to Note 8 for discussion of a recently adopted accounting standards update and its impact on our financial statements and a discussion of the new revenue recognition accounting standards.

OFF-BALANCE SHEET ARRANGEMENTS

There have been no material changes in our off-balance sheet arrangements since December 31, 2016. See Note 10 in our 2016 Form 10-K for further information.

CAUTIONARY STATEMENT

Management’s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements in which we discuss factors we believe may affect our future performance. Forward-looking statements are all statements other than statements of historical fact, such as statements regarding the implementation and potential results of our active development plan, and projections or expectations related to operational and financial performance or liquidity, reimbursements for infrastructure costs, financing and regulatory matters, development plans and sales of properties, commercial leasing activities, timeframes for development, construction and completion of our projects, capital expenditures, possible joint venture or other arrangements, our projections with respect to our obligations under the master lease agreements entered into in connection with the sale of The Oaks at Lakeway, and other plans and objectives of management for future operations and activities, and future dividend payments. The words “anticipate,” “may,” “can,” “plan,” “believe,” “potential,” “estimate,” “expect,” “project,” “intend,” “likely,” “will,” “should,” “to be” and any similar expressions and/or statements that are not historical facts are intended to identify those assertions as forward-looking statements.

We caution readers that forward-looking statements are not guarantees of future performance and actual results may differ materially from those anticipated, projected or assumed in the forward-looking statements. Important factors that can cause our actual results to differ materially from those anticipated in the forward-looking statements include, but are not limited to our ability to refinance and service our debt and the availability of financing for development projects and other corporate purposes, our ability to sell properties at prices our Board considers acceptable, a decrease in the demand for real estate in the Austin, Texas market, changes in economic and business conditions, reductions in discretionary spending by consumers and corporations, competition from other real estate developers, hotel operators and/or entertainment venue operators and promoters, the termination of sales contracts or letters of intent due to, among other factors, the failure of one or more closing conditions or market changes, the failure to attract customers for our developments or such customers' failure to satisfy their purchase commitments, our ability to secure qualifying tenants for the space subject to the master lease agreements entered into in connection with the sale of The Oaks at Lakeway and to assign such leases to the purchaser and remove the corresponding property from the master leases, increases in interest rates, declines in the market value of our assets, increases in operating costs, including real estate taxes and the cost of construction materials, changes in external perception of the W Austin Hotel, changes in consumer preferences, changes in laws, regulations or the regulatory environment affecting the development of real estate, opposition from special interest groups with respect to development projects, and other factors described in more detail under the heading “Risk Factors” in Part I, Item 1A. of our 2016 Form 10-K.

Investors are cautioned that many of the assumptions upon which our forward-looking statements are based are likely to change after the forward-looking statements are made. Further, we may make changes to our business plans that could affect our results. We caution investors that we do not intend to update our forward-looking statements more frequently than quarterly notwithstanding any changes in our assumptions, business plans, actual experience, or other changes, and we undertake no obligation to update any forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We derive our revenue from the acquisition, entitlement, development, management, operation and sale of our commercial, hotel, entertainment and multi- and single-family residential real estate properties. Our results of operations can vary significantly with fluctuations in the market prices of real estate, which are influenced by numerous factors, including interest rate levels. Changes in interest rates also affect interest expense on our debt.

At September 30, 2017, $79.1 million of the $229.4 million principal amount of debt outstanding bears interest at variable rates. An increase of 100 basis points in annual interest rates for this variable-rate debt would increase our annual interest costs by $0.8 million.

There have been no material changes in our market risks since December 31, 2016. For additional information on our market risks, refer to “Disclosures About Market Risks” included in Part II, Items 7. and 7A. of our 2016 Form 10-K.

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer, with the participation of management, have evaluated the effectiveness of our “disclosure controls and procedures” (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this quarterly report on Form 10-Q. Based on this evaluation, they have concluded that our disclosure controls and procedures are effective as of September 30, 2017.

(b) Changes in internal control over financial reporting. There was no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

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

There were no unregistered sales of equity securities during the nine months ended September 30, 2017.

In November 2013, our Board approved an increase in our open-market share purchase program from 0.7 million shares to 1.7 million shares of our common stock. There were no purchases under this program in the third quarter and first nine months of 2017. As of September 30, 2017, a total of 991,695 shares of our common stock remain available for repurchase under this program. The program does not have an expiration date.

Our Comerica Bank credit facility requires lender approval of any common stock repurchases.

For a discussion of limitations on our ability to pay dividends, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources and Liquidity."

Item 6. Exhibits.

Exhibit Number	Exhibit Title	Filed with this Form 10-Q	Incorporated by Reference		
			Form	File No.	Date Filed
2.1	Agreement of Sale and Purchase, dated February 15, 2017, between Stratus Lakeway Center, LLC and FHF I Oaks at Lakeway, LLC.		8-K	001-37716	2/21/2017
3.1	Composite Certificate of Incorporation of Stratus Properties Inc.		8-A/A	000-19989	8/26/2010
3.2	Second Amended and Restated By-Laws of Stratus Properties Inc., as amended effective August 3, 2017.		10-Q	000-19989	8/9/2017
4.1	Investor Rights Agreement by and between Stratus Properties Inc. and Moffett Holdings, LLC dated as of March 15, 2012.		8-K	000-19989	3/20/2012
4.2	Assignment and Assumption Agreement by and among Moffett Holdings, LLC, LCHM Holdings, LLC and Stratus Properties Inc., dated as of March 3, 2014.		13D	000-19989	3/5/2014
4.3	Board Representation of Standstill Agreement dated as of January 1, 2017, by and among Stratus Properties Inc., Oasis Management Company Ltd., Oasis Investments II Master Fund Ltd., and Oasis Capital Partners (Texas) Inc.		8-K	001-37716	1/11/2017
10.1	Seventh Modification Agreement between Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P., Austin 290 Properties, Inc., The Villas at Amarra Drive, L.L.C., and Comerica Bank, dated as of August 3, 2017.		10-Q	000-19989	8/9/2017
10.2	Eighth Modification Agreement between Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P., Austin 290 Properties, Inc., and The Villas at Amarra Drive, L.L.C., as borrowers, and Comerica Bank, as lender, dated as of November 7, 2017.	X			
10.3	Construction Loan Agreement by and between College Station 1892 Properties, L.L.C., as borrower, and Southside Bank, as lender, dated September 1, 2017.		8-K	001-37716	9/7/2017
10.4	Promissory Note by and between College Station 1892 Properties, L.L.C., and Southside Bank, dated September 1, 2017.		8-K	001-37716	9/7/2017
10.5	Amended and Restated Construction Loan Agreement by and between Santal I, L.L.C., as borrower, and Comerica Bank, as lender, dated September 11, 2017.		8-K	001-37716	9/14/2017
10.6	Amended and Restated Installment Note by and between Santal I, L.L.C., and Comerica Bank, dated September 11, 2017.		8-K	001-37716	9/14/2017
10.7	Installment Note by and between Santal I, L.L.C., and Comerica Bank, dated September 11, 2017.		8-K	001-37716	9/14/2017
10.8*	Stratus Properties Inc. 2017 Stock Incentive Plan.		8-K	001-37716	5/18/2017

Exhibit Number	Exhibit Title	Filed with this Form 10-Q	Incorporated by Reference		
			Form	File No.	Date Filed
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).	X			
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).	X			
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.	X			
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.	X			
101.INS	XBRL Instance Document.	X			
101.SCH	XBRL Taxonomy Extension Schema.	X			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.	X			

* Indicates management contract or compensatory plan or arrangement.

SIGNATURE

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

STRATUS PROPERTIES INC.

By: /s/ Erin D. Pickens

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

Date: November 9, 2017

After Recording Return to:
Thompson & Knight LLP
1722 Routh Street, Suite 1500
Dallas, Texas 75201
Attention: Matthew H. Swerdlow

EIGHTH MODIFICATION AGREEMENT

This EIGHTH MODIFICATION AGREEMENT (this "**Agreement**") dated effective as of November 7, 2017 (the "**Effective Date**") by and between **STRATUS PROPERTIES INC.**, a Delaware corporation ("**Stratus**"), **STRATUS PROPERTIES OPERATING CO., L.P.**, a Delaware limited partnership ("**SPOC**"), **CIRCLE C LAND, L.P.**, a Texas limited partnership ("**Circle C**"), **AUSTIN 290 PROPERTIES, INC.**, a Texas corporation ("**Austin**"), and **THE VILLAS AT AMARRA DRIVE, L.L.C.**, a Texas limited liability company ("**Amarra**") (Stratus, SPOC, Circle C, Austin and Amarra are sometimes referred to in this Agreement severally as "**Borrower**"), and **COMERICA BANK** ("**Lender**");

W I T N E S S E T H:

A. The following documents were previously executed and delivered by Stratus, SPOC, Circle C and Austin ("**Original Borrower**") to Lender, inter alia, relating to a loan (the "**Original Loan**") in the original principal sum of $48,000,000.00, each dated December 31, 2012:

i. that certain Loan Agreement (the "**Original Loan Agreement**");

ii. that certain Revolving Promissory Note, payable to the order of Lender in the original principal sum of $35,000,000.00 (the "**Original Revolving Note**");

iii. that certain Promissory Note, payable to the order of Lender in the original principal sum of $3,000,000.00 (the "**Original Letter of Credit Note**");

iv. that certain Promissory Note payable to the order of Lender in the original principal sum of $10,000,000.00 (the "**Construction Note**");

v. that certain Deed of Trust, Security Agreement and Assignment of Rents from Stratus to Brian P. Foley, Trustee, securing the payment of the Note, covering certain real and personal property described therein, recorded under Clerk's File No. 2012220644 of the Real Property Records of Travis County, Texas (the "**Stratus Deed of Trust**");

vi. that certain Deed of Trust, Security Agreement and Assignment of Rents from Circle C to Brian P. Foley, Trustee, securing the payment of the Note, covering certain real and personal property described therein, recorded under Clerk's File No. 2012220642 of the Real Property Records of Travis County, Texas (the "**Circle C Deed of Trust**");

vii. that certain Deed of Trust, Security Agreement and Assignment of Rents from SPOC to Brian P. Foley, Trustee, securing the payment of the Note, covering certain real and personal property described therein, recorded under Clerk's File No. 2012220643 of the Real Property Records of Travis County, Texas (the "**SPOC Deed of Trust**");

viii. that certain Deed of Trust, Security Agreement and Assignment of Rents from Austin to Brian P. Foley, Trustee, securing the payment of the Note, covering certain real and personal property described therein, recorded under Clerk's File No. 2012220641 of the Real Property Records of Travis County, Texas, (the "**Austin Deed of Trust**"; and together with the Stratus Deed of Trust, Circle C Deed of Trust and the SPOC Deed of Trust, collectively referred to as the "**Deed of Trust**");

ix. that certain Subordination Agreement, recorded under Clerk's File No. 2012220640 of the Real Property Records of Travis County, Texas, executed by Stratus in favor of Lender (the "**Subordination Agreement**");

x. that certain Security Agreement, executed by Stratus in favor of Lender (the "**Security Agreement**"); and

xi. that certain Assignment of Reimburseables, Credits and Other Fees in favor of Lender (the "**Assignment of Reimburseables**").

The instruments described above, and all other documents evidencing, securing or otherwise executed in connection with the Original Loan, being herein collectively called the "**Original Loan Documents**";

B. The Original Loan Documents were previously modified and/or amended and restated, as applicable, by the following documents:

i. that certain Modification and Extension Agreement dated November 12, 2014, between Borrower and Lender, recorded under Clerk's File No. 2014176011 of the Real Property Records of Travis County, Texas, between Original Borrower and Lender (the "**Modification Agreement**");

ii. that certain Second Modification and Extension Agreement dated February 11, 2015, recorded under Clerk's File No. 2015020882 of the Real Property Records of Travis County, Texas, between Original Borrower and Lender (the "**Second Modification Agreement**");

iii. that certain Third Modification and Extension Agreement dated May 19, 2015, recorded under Clerk's File No. 2015079898 and 2015090591 of the Real Property Records of Travis County, Texas, between Original Borrower and Lender (the "**Third Modification Agreement**");

iv. that certain Fourth Modification and Extension Agreement dated August 21, 2015, recorded under Clerk's File No. 2015134610 of the Real Property Records of Travis County, Texas, between Borrower and Lender (the "**Fourth Modification Agreement**");

v. that certain Amended and Restated Loan Agreement dated August 21, 2015 between Borrower and Lender (the "**Loan Agreement**"), in substitution of the Original Loan Agreement, evidencing the increase of the total loan amount to $72,500,000 (the "**Loan**");

vi. that certain Amended and Restated Revolving Promissory Note dated August 21, 2015, executed by Borrower and payable to the order of Lender in the original principal sum of $45,000,000.00 (the "**Revolving Note**"), in substitution of the Original Revolving Note;

vii. that certain Installment Note dated August 21, 2015, executed by Borrower and payable to the order of Lender in the original principal sum of $20,000,000.00 (the "**Term Note**");

viii. that certain Amended and Restated Promissory Note dated August 21, 2015, executed by Borrower and payable to the order of Lender in the original principal sum of

$7,500,000.00 (the "**Letter of Credit Note**"; and together with the Revolving Note, collectively referred to as the "**Note**"); and

ix. that certain Fifth Modification Agreement dated December 30, 2015, recorded under Clerk's File No. 2015205908 and rerecorded under Clerk's File No. 2016001825, each of the Real Property Records of Travis County, Texas, between Borrower and Lender (collectively, the "**Fifth Modification Agreement**").

x. that certain Sixth Modification Agreement dated August 12, 2016, recorded under Clerk's File No. 2016133010 of the Real Property Records of Travis County, Texas, between Borrower and Lender (collectively, the "**Sixth Modification Agreement**").

xi. that certain Seventh Modification Agreement dated August 3, 2017, recorded under Clerk's File No. 2017125054 of the Real Property Records of Travis County, Texas, between Borrower and Lender (collectively, the "**Seventh Modification Agreement**").

xii. The Note, the Loan Agreement, the Deed of Trust, the Subordination Agreement, the Security Agreement, the Assignment of Reimbursables; the Modification Agreement, the Second Modification Agreement, the Third Modification Agreement, the Fourth Modification Agreement, the Fifth Modification Agreement, the Sixth Modification Agreement, the Seventh Modification Agreement, this Agreement and all other documents evidencing, securing or otherwise in connection with the Loan evidenced by the Note being herein collectively called the "**Loan Documents**").

C. The Term Loan Tranche and the Term Note have been repaid in full and are of no further force and effect.

D. The Note is due and payable on November 30, 2017.

E. Borrower has requested that Lender extend the term of the Note to November 30, 2018, and make certain modifications to the Loan Documents, and Lender is willing to do so on the terms and conditions set forth below.

F. Lender is the owner and holder of the Note and Borrower is the owner of the legal and equitable title to the Mortgaged Property.

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

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

2. **Extension of Maturity Date**. The maturity date of the Note is hereby extended to November 30, 2018 (the "**Maturity Date**"), and the liens, security interests, assignments and other rights evidenced by the Loan Documents are hereby renewed and extended to secure payment of the Note as extended hereby. Without limiting the foregoing, the term "Maturity Date" and other references to the maturity of the Loan or the Note used in the Note, the Loan Agreement and other Loan Documents are likewise amended to mean and refer to "November 30, 2018".

3. **Letter of Credit Note**. The defined term "Applicable Interest Rate" in the Letter of Credit Note is hereby deleted and replaced with the following:

"**Applicable Interest Rate**" means, in respect of all or any part of the Indebtedness hereunder, either the LIBOR-based Rate plus the Applicable Margin or (subject to the terms of this Note) the Prime Referenced Rate plus the Applicable Margin, as determined in accordance with the terms and conditions of this Note.

4. **Revolving Note**. The defined term "Applicable Interest Rate" in the Revolving Note is hereby deleted and replaced with the following:

"**Applicable Interest Rate**" means, in respect of all or any part of the Indebtedness hereunder, either the LIBOR-based Rate plus the Applicable Margin or (subject to the terms of this Note) the Prime Referenced Rate plus the Applicable Margin, as determined in accordance with the terms and conditions of this Note.

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

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

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

8. **Endorsement to Mortgagee Title Policy**. Contemporaneously with the execution and delivery hereof, Borrower shall, at its sole cost and expense, obtain and deliver to Lender an Endorsement of the Mortgagee Title Policy insuring the lien of the Deed of Trust, under Procedural Rule P-9b(3) of the applicable title insurance rules and regulations, in form and content acceptable to Lender, stating that the company issuing said Mortgagee Title Policy will not claim that policy coverage has terminated or that policy coverage has been reduced, solely by reason of the execution of this Agreement.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

C. **THE LOAN DOCUMENTS AND THIS AGREEMENT REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES THERETO AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES THERETO. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.**

[SIGNATURE PAGE FOLLOWS]

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

BORROWER:
STRATUS PROPERTIES INC.,
a Delaware corporation

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

AUSTIN 290 PROPERTIES, INC.,
a Texas corporation

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

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

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

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

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

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

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

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

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

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

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

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

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

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 7 day of November, 2017, by Erin D. Pickens, Sr. Vice President of Stratus Properties Inc., a Delaware corporation, on behalf of said corporation.

/s/ Brooke E. Browning
Notary Public, State of Texas
My Commission Expires: 7-1-18
Printed Name of Notary: Brooke E. Browning

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 7 day of November, 2017, by Erin D. Pickens, Sr. Vice President of Stratus Properties Inc., a Delaware corporation, Sole Member of STRS L.L.C., a Delaware limited liability company, General Partner of Stratus Properties Operating Co., L.P., a Delaware limited partnership, on behalf of said corporation, limited liability company and limited partnership.

/s/ Brooke E. Browning
Notary Public, State of Texas
My Commission Expires: 7-1-18
Printed Name of Notary: Brooke E. Browning

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 7 day of November, 2017, by Erin D. Pickens, Sr. Vice President of Stratus Properties Inc., a Delaware corporation, Sole Member of Circle C GP, L.L.C., a Delaware limited liability company, General Partner of Circle C Land, L.P., a Delaware limited partnership, on behalf of said corporation, limited liability company limited partnership.

/s/ Brooke E. Browning
Notary Public, State of Texas
My Commission Expires: 7-1-18
Printed Name of Notary: Brooke E. Browning

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 7 day of November, 2017, by Erin D. Pickens, Sr. Vice President of Austin 290 Properties Inc., a Delaware corporation, on behalf of said corporation.

/s/ Brooke E. Browning
Notary Public, State of Texas
My Commission Expires: 7-1-18
Printed Name of Notary: Brooke E. Browning

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 7 day of November, 2017, by Erin D. Pickens, Sr. Vice President of Stratus Properties Inc., a Delaware corporation, Sole Member of STRS L.L.C., a Delaware limited liability company, Manager of The Villas at Amarra Drive, L.L.C., a Texas limited liability company, on behalf of said corporation and limited liability companies.

/s/ Brooke E. Browning
Notary Public, State of Texas
My Commission Expires: 7-1-18
Printed Name of Notary: Brooke E. Browning

LENDER:

COMERICA BANK

By: /s/ Sterling J. Silver
Sterling J. Silver, Senior Vice President

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on the 7 day of November, 2017, by Sterling J. Silver, Senior Vice President of Comerica Bank, on behalf of said bank.

/s/ Deborah M. Hudgens
Notary Public, State of Texas
My Commission Expires: 6/20/21
Printed Name of Notary: Deborah M. Hudgens

Exhibit 31.1

Certification

I, William H. Armstrong III, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: November 9, 2017

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

Exhibit 31.2

Certification

I, Erin D. Pickens, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: November 9, 2017

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

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Stratus Properties Inc. (the “Company”) for the quarter ending September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), William H. Armstrong III, as Chairman of the Board, President & Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

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

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

Dated: November 9, 2017

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

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

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

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of Stratus Properties Inc. (the “Company”) for the quarter ending September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Erin D. Pickens, as Senior Vice President & Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of her knowledge:

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

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

Dated: November 9, 2017

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

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

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