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

# FORM 10-Q

**(Mark one)**

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

**For the quarterly period ended June 30, 2019**

**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 Street, Suite 300** | **Austin** | **TX** | **78701** |
| (Address of principal executive offices) | | | (Zip Code) |

**(512) 478-5788**

(Registrant's telephone number, including area code)

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

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

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☑ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☑ |
| | | Emerging growth company | ☐ |

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

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

On July 31, 2019, there were issued and outstanding 8,179,111 shares of the registrant's common stock, par value $0.01 per share.

STRATUS PROPERTIES INC.
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $ 18,073 | $ 19,004 |
| Restricted cash | 15,566 | 19,915 |
| Real estate held for sale | 17,897 | 16,396 |
| Real estate under development | 142,854 | 136,678 |
| Land available for development | 37,787 | 24,054 |
| Real estate held for investment, net | 272,274 | 253,074 |
| Lease right-of-use assets | 11,692 | — |
| Deferred tax assets | 11,873 | 11,834 |
| Other assets | 14,715 | 15,538 |
| Total assets | $ 542,731 | $ 496,493 |
| | | |
| LIABILITIES AND EQUITY | | |
| Liabilities: | | |
| Accounts payable | $ 16,461 | $ 20,602 |
| Accrued liabilities, including taxes | 9,239 | 11,914 |
| Debt | 340,622 | 295,531 |
| Lease liabilities | 12,381 | — |
| Deferred gain | 8,647 | 9,270 |
| Other liabilities | 14,869 | 12,525 |
| Total liabilities | 402,219 | 349,842 |
| | | |
| Commitments and contingencies | | |
| | | |
| Equity: | | |
| Stockholders' equity: | | |
| Common stock | 93 | 93 |
| Capital in excess of par value of common stock | 186,334 | 186,256 |
| Accumulated deficit | (42,630) | (41,103) |
| Common stock held in treasury | (21,360) | (21,260) |
| Total stockholders' equity | 122,437 | 123,986 |
| Noncontrolling interests in subsidiaries | 18,075 | 22,665 |
| Total equity | 140,512 | 146,651 |
| Total liabilities and equity | $ 542,731 | $ 496,493 |

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Revenues: | | | | |
| Real estate operations | $ 4,129 | $ 6,979 | $ 7,077 | $ 8,173 |
| Leasing operations | 4,413 | 2,331 | 8,042 | 4,335 |
| Hotel | 8,962 | 9,593 | 17,287 | 18,915 |
| Entertainment | 6,220 | 4,407 | 11,016 | 9,652 |
| Total revenues | 23,724 | 23,310 | 43,422 | 41,075 |
| Cost of sales: | | | | |
| Real estate operations | 3,795 | 5,560 | 3,841 | 7,126 |
| Leasing operations | 2,447 | 1,323 | 4,586 | 2,505 |
| Hotel | 6,831 | 7,149 | 13,506 | 14,178 |
| Entertainment | 4,441 | 3,436 | 7,920 | 7,404 |
| Depreciation | 2,703 | 2,053 | 5,333 | 3,995 |
| Total cost of sales | 20,217 | 19,521 | 35,186 | 35,208 |
| General and administrative expenses | 2,919 | 3,015 | 6,118 | 5,996 |
| Loss (gain) on sale of assets | 161 | — | (1,952) | — |
| Total | 23,297 | 22,536 | 39,352 | 41,204 |
| Operating income (loss) | 427 | 774 | 4,070 | (129) |
| Interest expense, net | (2,911) | (1,742) | (5,483) | (3,301) |
| (Loss) gain on interest rate derivative instruments | (123) | 80 | (182) | 258 |
| Loss on early extinguishment of debt | — | — | (16) | — |
| Other income, net | 12 | 11 | 311 | 22 |
| Loss before income taxes and equity in unconsolidated affiliates' loss | (2,595) | (877) | (1,300) | (3,150) |
| Equity in unconsolidated affiliates' loss | (13) | (3) | (13) | (6) |
| Benefit from (provision for) income taxes | 218 | 23 | (215) | 429 |
| Loss from continuing operations | (2,390) | (857) | (1,528) | (2,727) |
| Total comprehensive loss attributable to noncontrolling interests in subsidiaries | 1 | — | 1 | — |
| Net loss and total comprehensive loss attributable to common stockholders | $ (2,389) | $ (857) | $ (1,527) | $ (2,727) |
| | | | | |
| Basic and diluted net loss per share attributable to common stockholders | $ (0.29) | $ (0.11) | $ (0.19) | $ (0.33) |
| | | | | |
| Basic and diluted weighted-average common shares outstanding | 8,177 | 8,153 | 8,172 | 8,145 |

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)

| | Six Months Ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| Cash flow from operating activities: | | |
| Net loss | $ (1,528) | $ (2,727) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 5,333 | 3,995 |
| Cost of real estate sold | 4,324 | 5,053 |
| Gain on sale of assets | (1,952) | — |
| Loss (gain) on interest rate derivative contracts | 182 | (258) |
| Loss on early extinguishment of debt | 16 | — |
| Amortization of debt issuance costs and stock-based compensation | 546 | 791 |
| Equity in unconsolidated affiliates' loss | 13 | 6 |
| Increase in deposits | 185 | 588 |
| Deferred income taxes | (38) | (653) |
| Purchases and development of real estate properties | (5,756) | (7,699) |
| Municipal utility district reimbursements applied to real estate under development | 920 | — |
| Increase in other assets | (1,636) | (2,297) |
| Decrease in accounts payable, accrued liabilities and other | (2,187) | (5,505) |
| Net cash used in operating activities | (1,578) | (8,706) |
| | | |
| Cash flow from investing activities: | | |
| Capital expenditures | (44,990) | (42,982) |
| Proceeds from sale of assets | 3,170 | — |
| Payments on master lease obligations | (766) | (932) |
| Purchase of noncontrolling interest in consolidated subsidiary | (4,589) | — |
| Other, net | (4) | (87) |
| Net cash used in investing activities | (47,179) | (44,001) |
| | | |
| Cash flow from financing activities: | | |
| Borrowings from credit facility | 14,086 | 22,336 |
| Payments on credit facility | (15,648) | (4,225) |
| Borrowings from project loans | 51,006 | 29,948 |
| Payments on project and term loans | (5,619) | (3,266) |
| Cash dividend paid for stock-based awards | (17) | — |
| Stock-based awards net payments | (100) | (203) |
| Noncontrolling interests' contributions | — | 7,000 |
| Financing costs | (231) | (976) |
| Net cash provided by financing activities | 43,477 | 50,614 |
| Net decrease in cash, cash equivalents and restricted cash | (5,280) | (2,093) |
| Cash, cash equivalents and restricted cash at beginning of year | 38,919 | 39,390 |
| Cash, cash equivalents and restricted cash at end of period | $ 33,639 | $ 37,297 |

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)

THREE MONTHS ENDED JUNE 30

| | Stockholders' Equity | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Common Stock | | Capital in Excess of Par Value | Accum-ulated Deficit | Common Stock Held in Treasury | | Total Stockholders' Equity | Noncontrolling Interests in Subsidiaries | Total Equity |
| | Number of Shares | At Par Value | | | Number of Shares | At Cost | | | |
| **Balance at March 31, 2019** | 9,305 | $ 93 | $186,424 | $(40,241) | 1,128 | $(21,360) | $ 124,916 | $ 18,076 | $142,992 |
| Stock-based compensation | — | — | (90) | — | — | — | (90) | — | (90) |
| Total comprehensive loss | — | — | — | (2,389) | — | — | (2,389) | (1) | (2,390) |
| **Balance at June 30, 2019** | 9,305 | $ 93 | $186,334 | $(42,630) | 1,128 | $(21,360) | $ 122,437 | $ 18,075 | $140,512 |
| | | | | | | | | | |
| **Balance at March 31, 2018** | 9,277 | $ 93 | $185,592 | $(38,991) | 1,124 | $(21,260) | $ 125,434 | $ 80 | $125,514 |
| Stock-based compensation | — | — | 165 | — | — | — | 165 | — | 165 |
| Noncontrolling interests contributions | — | — | — | — | — | — | — | 7,000 | 7,000 |
| Total comprehensive loss | — | — | — | (857) | — | — | (857) | — | (857) |
| **Balance at June 30, 2018** | 9,277 | $ 93 | $185,757 | $(39,848) | 1,124 | $(21,260) | $ 124,742 | $ 7,080 | $131,822 |

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

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

SIX MONTHS ENDED JUNE 30

| | Stockholders' Equity | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Common Stock | | | | Common Stock Held in Treasury | | | | |
| | Number of Shares | At Par Value | Capital in Excess of Par Value | Accumulated Deficit | Number of Shares | At Cost | Total Stockholders' Equity | Noncontrolling Interests in Subsidiaries | Total Equity |
| **Balance at December 31, 2018** | 9,288 | $ 93 | $186,256 | $(41,103) | 1,124 | $(21,260) | $ 123,986 | $ 22,665 | $146,651 |
| Exercised and vested stock-based awards | 17 | — | — | — | — | — | — | — | — |
| Stock-based compensation | — | — | 78 | — | — | — | 78 | — | 78 |
| Tender of shares for stock-based awards | — | — | — | — | 4 | (100) | (100) | — | (100) |
| Purchase of noncontrolling interest in consolidated subsidiary | — | — | — | — | — | — | — | (4,589) | (4,589) |
| Total comprehensive loss | — | — | — | (1,527) | — | — | (1,527) | (1) | (1,528) |
| **Balance at June 30, 2019** | 9,305 | $ 93 | $186,334 | $(42,630) | 1,128 | $(21,360) | $ 122,437 | $ 18,075 | $140,512 |
| | | | | | | | | | |
| **Balance at December 31, 2017** | 9,250 | $ 93 | $185,395 | $(37,121) | 1,117 | $(21,057) | $ 127,310 | $ 80 | $127,390 |
| Vested stock-based awards | 27 | — | — | — | — | — | — | — | — |
| Stock-based compensation | — | — | 362 | — | — | — | 362 | — | 362 |
| Tender of shares for stock-based awards | — | — | — | — | 7 | (203) | (203) | — | (203) |
| Noncontrolling interests distributions | — | — | — | — | — | — | — | 7,000 | 7,000 |
| Total comprehensive loss | — | — | — | (2,727) | — | — | (2,727) | — | (2,727) |
| **Balance at June 30, 2018** | 9,277 | $ 93 | $185,757 | $(39,848) | 1,124 | $(21,260) | $ 124,742 | $ 7,080 | $131,822 |

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, 2018, included in Stratus Properties Inc.'s (Stratus) Annual Report on Form 10-K (Stratus 2018 Form 10-K) filed with the United States (U.S.) Securities and Exchange Commission. The information furnished herein reflects all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods reported. Operating results for the six-month period ended June 30, 2019, are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

## 2. EARNINGS PER SHARE

Stratus' net loss per share of common stock was calculated by dividing the net loss attributable to common stockholders by the weighted-average shares of common stock outstanding during the period. The weighted-average shares exclude approximately 94 thousand shares of common stock for second-quarter 2019, 85 thousand shares for second-quarter 2018, 95 thousand shares for the first six months of 2019 and 96 thousand shares for the first six months of 2018 associated with restricted stock units and outstanding stock options that were anti-dilutive because of net losses.

## 3. RELATED PARTY TRANSACTIONS

*The Saint Mary, L.P.*

On June 19, 2018, The Saint Mary, L.P., a Texas limited partnership and a subsidiary of Stratus, completed a series of financing transactions to develop The Saint Mary, a 240-unit luxury, garden-style apartment project in the Circle C community in Austin, Texas. The financing transactions included (1) a $26 million construction loan with Texas Capital Bank, National Association and (2) an $8.0 million private placement. As one of the participants in the private placement offering, LCHM Holdings, LLC (LCHM), a related party as a result of its greater than 5 percent beneficial ownership of Stratus' common stock, purchased limited partnership interests representing a 6.1 percent equity interest in The Saint Mary, L.P. Refer to Note 2 of the Stratus 2018 Form 10-K for further discussion.

*Stratus Kingwood Place, L.P.*

On August 3, 2018, Stratus Kingwood Place, L.P., a Texas limited partnership and a subsidiary of Stratus (the Kingwood, L.P.), completed a $10.7 million private placement, approximately $7 million of which, combined with a $6.75 million loan from Comerica Bank, was used to purchase a 54-acre tract of land located in Kingwood, Texas for $13.5 million, for the development of Kingwood Place, a new H-E-B, L.P. (HEB)-anchored mixed-use development project (Kingwood Place). As one of the participants in the private placement offering, LCHM purchased limited partnership interests initially representing an 8.8 percent equity interest in the Kingwood, L.P. Refer to Note 2 of the Stratus 2018 Form 10-K for further discussion.

Stratus performed evaluations and concluded that The Saint Mary, L.P. and the Kingwood, L.P. are variable interest entities and that Stratus is the primary beneficiary. Stratus will continue to evaluate which entity is the primary beneficiary of The Saint Mary, L.P. and the Kingwood, L.P. in accordance with applicable accounting guidance. Stratus' consolidated balance sheets include the following combined assets and liabilities of The Saint Mary, L.P. and the Kingwood, L.P. (in thousands):

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| Assets: | | |
| Cash and cash equivalents | $ 601 | $ 1,939 |
| Restricted cash | — | 2,284 |
| Real estate under development | 53,576 | 27,928 |
| Real estate held for investment | 7,060 | — |
| Other assets | 953 | 792 |
| Total assets | $ 62,190 | $ 32,943 |
| Liabilities: | | |
| Accounts payable and accrued liabilities | $ 6,246 | $ 3,484 |
| Debt | 29,608 | 6,125 |
| Total liabilities | $ 35,854 | $ 9,609 |
| Net assets | $ 26,336 | $ 23,334 |

*Other Transactions*
Stratus has an arrangement with Austin Retail Partners for services provided by a consultant of Austin Retail Partners who is the son of Stratus' President and Chief Executive Officer. Payments to Austin Retail Partners for his general consulting services related to the entitlement and development of properties and his expense reimbursements during second-quarter 2019 and the first six months of 2019 totaled approximately $29 thousand and $56 thousand, respectively. Refer to Note 2 of the Stratus 2018 Form 10-K for further discussion.

**4. DISPOSITIONS**
On January 17, 2019, Stratus sold a retail pad subject to a ground lease located in the Circle C community for $3.2 million. Stratus used proceeds from the sale to repay $2.5 million of its Comerica Bank credit facility borrowings and, after adjustments recorded in second-quarter 2019, recorded a gain on this sale totaling $2.0 million for the first six months of 2019.

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

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

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

| | June 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Assets: | | | | |
| Interest rate swap agreement | $ — | $ — | $ 53 | $ 53 |
| Liabilities: | | | | |
| Debt | 340,622 | 345,180 | 295,531 | 299,531 |
| Interest rate swap agreement | 129 | 129 | — | — |

*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 agreement does not qualify for hedge accounting and changes in its fair value are recorded in the consolidated statements of comprehensive 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. The interest rate swap agreement with Comerica Bank was entered into in 2013, is effective through December 31, 2020, and has a fixed interest rate of 2.3 percent compared to the variable rate based on the one-month London Interbank Offered Rate (LIBOR). As of June 30, 2019, the agreement had a notional amount of $15.5 million, which amortizes to $14.8 million by the end of the agreement, and as of December 31, 2018, the agreement had a notional amount of $15.8 million.

## 6. DEBT

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

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| Goldman Sachs loan | $ 142,222 | $ 143,250 |
| Comerica Bank credit facility | 48,658 | 50,221 |
| Santal Phase I construction loan | 32,672 | 32,622 |
| Santal Phase II construction loan | 24,975 | 19,867 |
| Lantana Place construction loan | 22,372 | 18,416 |
| Jones Crossing construction loan | 19,574 | 11,784 |
| The Saint Mary construction loan | 16,015 | — |
| Kingwood Place construction loan | 13,593 | 6,125 |
| West Killeen Market construction loan | 7,093 | 6,636 |
| Amarra Villas credit facility | 5,323 | 3,326 |
| New Caney land loan | 4,888 | — |
| Barton Creek Village term loan | 3,237 | 3,284 |
| Total debt[a] | $ 340,622 | $ 295,531 |

a. Includes net reductions for unamortized debt issuance costs of $3.1 million at June 30, 2019, and $2.8 million at December 31, 2018.

As of June 30, 2019, Stratus had $9.1 million available under its $60.0 million Comerica Bank revolving line of credit, with $2.2 million of letters of credit committed against the credit facility.

On March 19, 2019, two Stratus subsidiaries entered into a loan agreement with Comerica Bank to modify, increase and extend Stratus' Amarra Villas credit facility, which was scheduled to mature on July 12, 2019. The new loan agreement provides for an increase in the revolving credit facility commitment from $8.0 million to $15.0 million and an extension of the maturity date to March 19, 2022. Interest on the loan is variable at LIBOR plus 3.0 percent. The Amarra Villas credit facility contains financial covenants usual and customary for loan agreements of this nature, including a requirement that Stratus maintain a net asset value, as defined in the agreement, of $125 million and a debt-to-gross asset value of less than 50 percent. As of June 30, 2019, Stratus had $9.4 million available under its $15.0 million Amarra Villas revolving credit facility. As a result of entering into this new loan agreement, Stratus recognized a loss on early extinguishment of debt of $16 thousand for the first six months of 2019.

On March 8, 2019, a Stratus subsidiary entered into a $5.0 million land loan with Texas Capital Bank. Proceeds from the loan were used to fund the acquisition of HEB's portion of the New Caney partnership in which Stratus and HEB purchased a tract of land for the future development of an HEB-anchored mixed-use project in New Caney, Texas. The loan matures on March 8, 2021, and may be extended for 12 months, subject to certain conditions. The loan bears interest at LIBOR plus 3.0 percent. Borrowings are secured by the New Caney land. The loan agreement contains customary financial covenants including a requirement that Stratus maintain a net asset value of $125 million.

For a description of Stratus' other debt, refer to Note 5 in the Stratus 2018 Form 10-K.

*Interest Expense and Capitalization.* Interest costs (before capitalized interest) totaled $5.1 million in second-quarter 2019, $3.8 million in second-quarter 2018, $9.7 million for the first six months of 2019 and $7.2 million for the first six months of 2018. Stratus' capitalized interest costs totaled $2.1 million in second-quarter 2019, $2.0 million in second-quarter 2018, $4.2 million for the first six months of 2019 and $3.9 million for the first six months of 2018, primarily related to development activities at Barton Creek. The 2019 periods also included capitalized interest costs related to development activities at Kingwood Place.

## 7. PROFIT PARTICIPATION INCENTIVE PLAN

In July 2018, the Compensation Committee of the Board of Directors (the Committee) unanimously adopted the Stratus Profit Participation Incentive Plan (the Plan), which provides participants with economic incentives tied to the success of the development projects designated by the Committee as approved projects under the Plan. Refer to Note 7 of the Stratus 2018 Form 10-K for further discussion.

As of June 30, 2019, there were no significant changes to the fair value of the awards or the assumptions used to determine the fair values of the awards at December 31, 2018. Estimates related to the awards may change over time due to differences between projected and actual development progress and costs, market conditions and the timing of capital transactions or valuation events.

During second-quarter 2019, Stratus accrued $0.2 million to project development costs and $0.2 million in general and administrative expense related to the Plan. During the six months ended June 30, 2019, Stratus accrued $0.4 million to project development costs and $0.5 million in general and administrative expense related to the Plan. The accrued liability for the Plan totaled $1.7 million at June 30, 2019, and $0.8 million at December 31, 2018 (included in other liabilities). As of June 30, 2019, no amounts had been paid to participants under the Plan.

## 8. INCOME TAXES

Stratus' accounting policy for and other information regarding its income taxes is further described in Notes 1 and 6 in the Stratus 2018 Form 10-K.

Stratus had deferred tax assets (net of deferred tax liabilities) totaling $11.9 million at June 30, 2019, and $11.8 million at December 31, 2018. 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 six months of 2019 and the U.S. Federal statutory income tax rate of 21 percent, was primarily attributable to the Texas state margin tax and the Tax Cuts and Jobs Act's executive compensation limitation. The difference between Stratus' consolidated effective income tax rate for the first six months of 2018 and the U.S. Federal statutory income tax rate of 21 percent, was primarily attributable to the Texas state margin tax.

## 9. 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 for sale, under development and available for development), which consists of its properties in Austin, Texas (the Barton Creek community; the Circle C community, including The Saint Mary; the Lantana community, including a portion of Lantana Place still under development and vacant pad sites; and one condominium unit at the W Austin Hotel & Residences); in Lakeway, Texas, located in the greater Austin area (Lakeway); in College Station, Texas (a portion of Jones Crossing and vacant pad sites); in Killeen, Texas (vacant pad sites at West Killeen Market); and in Magnolia, Texas (Magnolia), Kingwood, Texas (Kingwood Place) and New Caney, Texas (New Caney), located in the greater Houston area.

The Leasing Operations segment includes the office and retail space at the W Austin Hotel & Residences, Barton Creek Village, Santal Phase I and Phase II, West Killeen Market in Killeen, Texas, and completed portions of the Lantana Place and Jones Crossing projects.

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 3TEN ACL Live, both located at the W Austin Hotel & Residences. In addition to hosting concerts and private events, ACL Live is the home of Austin City Limits, the longest running music series in American television history.

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Real Estate Operations: | | | | |
| Developed property sales | $ 4,048 | $ 6,856 | $ 6,882 | $ 8,011 |
| Commissions and other | 81 | 123 | 195 | 162 |
| | 4,129 | 6,979 | 7,077 | 8,173 |
| Leasing Operations: | | | | |
| Rental revenue | 4,413 | 2,331 | 8,042 | 4,335 |
| | 4,413 | 2,331 | 8,042 | 4,335 |
| Hotel: | | | | |
| Rooms, food and beverage | 8,445 | 8,908 | 16,182 | 17,602 |
| Other | 517 | 685 | 1,105 | 1,313 |
| | 8,962 | 9,593 | 17,287 | 18,915 |
| Entertainment: | | | | |
| Event revenue | 5,598 | 3,729 | 9,822 | 8,378 |
| Other | 622 | 678 | 1,194 | 1,274 |
| | 6,220 | 4,407 | 11,016 | 9,652 |
| | | | | |
| Total Revenues from Contracts with Unaffiliated Customers | $ 23,724 | $ 23,310 | $ 43,422 | $ 41,075 |

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

| | Real Estate Operations[a] | Leasing Operations | Hotel | Entertainment | Corporate, Eliminations and Other[b] | Total |
|---|---|---|---|---|---|---|
| Three Months Ended June 30, 2019: | | | | | | |
| Revenues: | | | | | | |
| Unaffiliated customers | $ 4,129 | $ 4,413 | $ 8,962 | $ 6,220 | $ — | $ 23,724 |
| Intersegment | 4 | 229 | 80 | 45 | (358) | — |
| Cost of sales, excluding depreciation | 3,795 | 2,451 | 6,868 | 4,585 | (185) | 17,514 |
| Depreciation | 64 | 1,388 | 899 | 396 | (44) | 2,703 |
| General and administrative expenses | — | — | — | — | 2,919 | 2,919 |
| Loss on sale of assets | — | 161 [c] | — | — | — | 161 |
| Operating income (loss) | $ 274 | $ 642 | $ 1,275 | $ 1,284 | $ (3,048) | $ 427 |
| Capital expenditures and purchases and development of real estate properties | $ 2,458 | $ 15,391 | $ 156 | $ — | $ — | $ 18,005 |
| Total assets at June 30, 2019 | 225,084 | 167,008 | 98,063 | 45,491 | 7,085 | 542,731 |
| Three Months Ended June 30, 2018: | | | | | | |
| Revenues: | | | | | | |
| Unaffiliated customers | $ 6,979 | $ 2,331 | $ 9,593 | $ 4,407 | $ — | $ 23,310 |
| Intersegment | 8 | 225 | 50 | 44 | (327) | — |
| Cost of sales, excluding depreciation | 5,560 [d] | 1,331 | 7,184 | 3,560 | (167) | 17,468 |
| Depreciation | 64 | 738 | 894 | 392 | (35) | 2,053 |
| General and administrative expenses | — | — | — | — | 3,015 | 3,015 |
| Operating income (loss) | $ 1,363 | $ 487 | $ 1,565 | $ 499 | $ (3,140) | $ 774 |
| Capital expenditures and purchases and development of real estate properties | $ 4,087 | $ 18,486 | $ 97 | $ 23 | $ — | $ 22,693 |
| Total assets at June 30, 2018 | 207,437 | 95,954 | 101,487 | 36,263 | 7,547 | 448,688 |

| | Real Estate Operations[a] | Leasing Operations | Hotel | Entertainment | Corporate, Eliminations and Other[b] | Total |
|---|---|---|---|---|---|---|
| Six Months Ended June 30, 2019: | | | | | | |
| Revenues: | | | | | | |
| Unaffiliated customers | $ 7,077 | $ 8,042 | $ 17,287 | $ 11,016 | $ — | $ 43,422 |
| Intersegment | 9 | 459 | 127 | 74 | (669) | — |
| Cost of sales, excluding depreciation | 3,841 [e] | 4,595 | 13,566 | 8,192 | (341) | 29,853 |
| Depreciation | 125 | 2,795 | 1,799 | 790 | (176) | 5,333 |
| General and administrative expenses | — | — | — | — | 6,118 | 6,118 |
| Gain on sale of assets | — | (1,952) [c] | — | — | — | (1,952) |
| Operating income (loss) | $ 3,120 | $ 3,063 | $ 2,049 | $ 2,108 | $ (6,270) | $ 4,070 |
| Capital expenditures and purchases and development of real estate properties | $ 5,756 | $ 44,611 | $ 254 | $ 125 | $ — | $ 50,746 |
| Municipal utility district (MUD) reimbursements applied to real estate under development[e] | 920 | — | — | — | — | 920 |
| Six Months Ended June 30, 2018: | | | | | | |
| Revenues: | | | | | | |
| Unaffiliated customers | $ 8,173 | $ 4,335 | $ 18,915 | $ 9,652 | $ — | $ 41,075 |
| Intersegment | 16 | 476 | 122 | 58 | (672) | — |
| Cost of sales, excluding depreciation | 7,126 [d] | 2,521 | 14,222 | 7,696 | (352) | 31,213 |
| Depreciation | 125 | 1,371 | 1,789 | 780 | (70) | 3,995 |
| General and administrative expenses | — | — | — | — | 5,996 | 5,996 |
| Operating income (loss) | $ 938 | $ 919 | $ 3,026 | $ 1,234 | $ (6,246) | $ (129) |
| Capital expenditures and purchases and development of real estate properties | $ 7,699 | $ 42,285 | $ 336 | $ 361 | $ — | $ 50,681 |

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

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

c. Relates to the first-quarter 2019 sale of a retail pad subject to a ground lease located in the Circle C community, including adjustments recorded in second-quarter 2019.

d. Includes $0.4 million of reductions to cost of sales associated with collection of prior-years' assessments of properties in Barton Creek.

e. Stratus received $4.6 million of bond proceeds related to MUD reimbursements of infrastructure costs incurred for development of Barton Creek. Of the total amount, Stratus recorded $0.9 million as a reduction of real estate under development on the consolidated balance sheets, and $3.4 million as a reduction in real estate cost of sales and $0.3 million in other income, net in the consolidated statements of comprehensive loss. Refer to Note 1 of the Stratus 2018 Form 10-K for further discussion of Stratus' accounting policy for MUD reimbursements.

## 10. NEW ACCOUNTING STANDARDS

*Leases.* Effective January 1, 2019, Stratus adopted an Accounting Standards Update (ASU) that requires lessees to recognize most leases on the balance sheet. Stratus elected the practical expedients allowing it to (i) apply the provisions of the updated lease guidance at the effective date, without adjusting the comparative periods presented, and (ii) not reassess lease contracts, lease classification and initial direct costs of leases existing at adoption. Stratus also elected an accounting policy to not recognize a lease asset and liability for leases with a term of 12 months or less and a purchase option that is not expected to be exercised.

Stratus' most significant lease is a 99-year ground lease for approximately 72 acres of land in College Station, Texas on which it is developing the Jones Crossing project. Stratus also leases various types of assets, including office space, vehicles and office equipment under non-cancelable leases. All of Stratus' leases are considered operating leases under the ASU. Adoption of this ASU resulted in the recognition of lease right-of-use assets of $11.9 million and lease liabilities of $12.0 million as of January 1, 2019.

Operating lease costs were $0.4 million in second-quarter 2019 and $0.7 million for the first six months of 2019. Total lease costs were $0.4 million in second-quarter 2018 and $0.8 million for the first six months of 2018.

During the first six months of 2019, Stratus paid $108 thousand for lease liabilities recorded in the consolidated balance sheet (included in operating cash flows in the consolidated statements of cash flows). As of June 30, 2019, the weighted-average discount rate used to determine the lease liabilities was 6.0 percent and the weighted-average remaining lease term was 94.1 years.

The future minimum payments for leases recorded on the consolidated balance sheet at June 30, 2019, follow (in thousands):

| | | |
|---|---|---|
| Remaining six months of 2019 | $ | 115 |
| 2020 | | 199 |
| 2021 | | 145 |
| 2022 | | 434 |
| 2023 | | 497 |
| Thereafter | | 110,548 |
| Total payments | | 111,938 |
| Present value adjustment | | (99,557) |
| Present value of net minimum lease payments | $ | 12,381 |

The adoption of this ASU did not materially impact Stratus' accounting for contracts in which it is the lessor. Refer to Note 8 of the Stratus 2018 Form 10-K for further disclosure of minimum rental income under non-cancelable long-term leases as of December 31, 2018.

**11. SUBSEQUENT EVENTS**

Stratus evaluated events after June 30, 2019, and through the date the financial statements were issued, and determined any events or transactions occurring during this period that would require recognition or disclosure are appropriately addressed in these financial statements.

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

*In Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A), “we,” “us,” “our” and "Stratus" refer to Stratus Properties Inc. and all entities owned or controlled by Stratus Properties Inc. You should read the following discussion in conjunction with our consolidated financial statements, related MD&A and discussion of our business and properties included in our Annual Report on Form 10-K for the year ended December 31, 2018 (2018 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 with headquarters in Austin, Texas. We are engaged primarily in the acquisition, entitlement, development, management, operation and sale of commercial, and multi-family and single-family residential real estate properties, real estate leasing, and the operation of hotel and entertainment businesses located in the Austin, Texas area, and other select, fast-growing markets in Texas. We generate revenues and cash flows from the sale of our developed properties, rental income from our leased properties and from our hotel and entertainment operations. See Note 9 for further discussion of our operating segments.

## BUSINESS STRATEGY

Our development portfolio consists of approximately 1,800 acres of commercial, multi-family and single-family residential projects under development or undeveloped and held for future use. Our W Austin Hotel and our ACL Live and 3TEN ACL Live entertainment venues are located in downtown Austin and are central to the city's world renowned, vibrant music scene.

Our primary business objective is to create value for stockholders by methodically developing and enhancing the value of our properties and then selling them profitably. Our development program of acquiring properties, securing and maintaining development entitlements, constructing and stabilizing the properties, and then preparing them for sale or refinancing is a key element of our strategy. We currently have projects in each of these stages as described below in “Development Activities - Current Residential Activities” and “Development Activities - Current Commercial Activities.”

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

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

## OVERVIEW

Our developed property sales can include an individual tract of land that has been developed and permitted for residential use, a developed lot with a residence already built on it or condominium units at the W Austin Residences. We may also sell properties under development, undeveloped properties or leased properties, if opportunities arise that we believe will maximize overall asset values as part of our business strategy.

In second-quarter 2019, our revenues totaled $23.7 million and our net loss attributable to common stockholders totaled $2.4 million, compared with revenues of $23.3 million and a net loss attributable to common stockholders of $0.9 million in second-quarter 2018. During the first six months of 2019, our revenues totaled $43.4 million and our net loss attributable to common stockholders totaled $1.5 million, compared with revenues of $41.1 million and a net loss attributable to common stockholders of $2.7 million for the first six months of 2018.

The increase in revenues in the second quarter and the first six months of 2019, compared to the 2018 periods, primarily reflects increased revenues associated with the commencement of leases at our recently completed properties and an increase in the number of events hosted and higher event attendance at ACL Live, partly offset by lower revenues from single-family residential property sales and the Hotel segment.

We received $4.6 million of bond proceeds in the first six months of 2019 related to Travis County municipal utility district (MUD) reimbursements of infrastructure costs incurred for development of Barton Creek. Of the total amount, we recorded $0.9 million as a reduction of real estate under development on the consolidated balance sheet, and $3.4 million as a reduction in real estate cost of sales and $0.3 million in other income, net in the consolidated statement of comprehensive loss for the first six months of 2019. The first six months of 2019 also included a gain on the sale of assets totaling $2.0 million, primarily related to the sale of a retail pad subject to a ground lease located in the Circle C community.

At June 30, 2019, we had total debt of $340.6 million and consolidated cash of $18.1 million. 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 and “Risk Factors” included in Part 1, Item 1A. of our 2018 Form 10-K for further discussion.

## DEVELOPMENT ACTIVITIES

*Current Residential Activities.*
In second-quarter 2019, we sold four Amarra Drive Phase III lots, two of which were included in the contract discussed below, for a total of $2.3 million, and during the first six months of 2019, we sold six Amarra Drive Phase III lots, four of which were included in the contract discussed below, for a total of $3.4 million. As of June 30, 2019, 25 developed Amarra Drive Phase III lots and 9 developed Amarra Drive Phase II lots remained unsold.

In March 2019, we amended a contract previously entered into in March 2018, pursuant to which we agreed to sell 2 Amarra Drive Phase II lots and 12 Amarra Drive Phase III lots to a homebuilder for a total of $9.5 million (the homebuilder contract). In accordance with the homebuilder contract, the parties are required to close on the sale of these lots ratably by March 31, 2020. If the purchaser fails to close on the sale of the minimum number of lots by any of the specified closing dates, we may elect to terminate the homebuilder contract but would retain the related $45 thousand earnest money.

Subsequent to June 30, 2019, and through August 5, 2019, we sold two Amarra Drive Phase III lots, which were subject to the homebuilder contract, for a total of $1.3 million. As of August 5, 2019, two Amarra Drive Phase III lots were under contract, in addition to the remaining four Amarra Drive Phase III lots subject to the homebuilder contract.

The Villas at Amarra Drive (Amarra Villas) townhome project is a 20-unit development for which we completed construction of the first seven townhomes during 2017 and 2018. In second-quarter 2019, we sold the last completed townhome for $1.8 million and during the first six months of 2019 we sold two townhomes for $3.5 million. We expect to begin construction of the next four Amarra Villas townhomes during third-quarter 2019.

As of June 30, 2019, Santal, a garden-style, multi-family project located in the upscale Barton Creek Community, was fully leased and stabilized. The first Santal Phase II units, located directly adjacent to the Phase I units, became available for occupancy in August 2018 and we completed construction of the remaining units during first-quarter 2019. We continue to explore options to sell or refinance the combined 448-unit Santal property, subject to market conditions.

In June 2018, we obtained project financing for, and commenced construction of The Saint Mary, a 240-unit luxury garden-style apartment project in the Circle C Community. The project is progressing ahead of schedule and on budget. The clubhouse and first two apartment buildings were completed in June 2019 and leasing activity has commenced. The first tenants took occupancy in July 2019. We expect to complete construction in fourth-quarter 2019.

For further discussion of our multi-family and single-family residential properties, see MD&A in our 2018 Form 10-K.

*Current Commercial Activities.*
Construction of Kingwood Place, an H-E-B, L.P. (HEB)-anchored, mixed-use development in Kingwood, Texas, is progressing on schedule and on budget. As of June 30, 2019, we had signed leases for approximately 80 percent of the retail space, including the HEB grocery store. The HEB grocery store is currently anticipated to open in November 2019, and the first retail buildings are expected to be turned over to tenants to begin construction of their interior spaces in August 2019. See Note 3 for further discussion of project financing.

In March 2019, we finalized the lease for the HEB store at New Caney, an HEB-anchored, mixed-use development in New Caney, Texas, and acquired HEB's interests in the partnership for approximately $5 million. We currently do not anticipate commencing construction on the New Caney project prior to 2021. See Note 6 for further discussion of the land loan.

Construction of the first phase of Lantana Place, a mixed-use development project located in southwest Austin was completed in 2018. As of June 30, 2019, we had signed leases for approximately 80 percent of the retail space, including the anchor tenant, Moviehouse & Eatery, and a ground lease for an AC Hotel by Marriott. Construction of the hotel began in May 2019.

As of June 30, 2019, we had signed leases for approximately 90 percent of the retail space at the first phase of Jones Crossing, an HEB-anchored, mixed-use development located in College Station, Texas, and approximately 70 percent of the retail space at West Killeen Market, our retail project located in Killeen, Texas, shadow-anchored by an HEB grocery store.

For further discussion of our commercial properties, see MD&A in our 2018 Form 10-K.

*Projects in Planning.*
We are planning to proceed, subject to financing, with the first phase of development of Magnolia Place, a new mixed-use project in Magnolia, Texas, currently planned for 81,000 square feet of retail space; six pad sites; two hotel sites; and 50 acres of residential land allowing up to 1,200 units. Magnolia Place will be shadow-anchored by a 95,000-square-foot HEB grocery store to be constructed by HEB on an adjoining 18-acre site owned by HEB. The first phase of development is expected to consist of approximately 41,000 square feet of retail space, three pads for lease and three pads to be held for sale. We are currently in the process of securing a construction loan to finance the first phase of development and expect to begin site work and joint use road and utility infrastructure that will support the entire project, including future phases, in the third quarter of 2019. We expect substantially all of the infrastructure costs to be eligible for future reimbursement by the Magnolia East MUD. Refer to Note 1 in our 2018 Form 10-K for further discussion of this MUD and our accounting policy for MUD reimbursements. The HEB grocery store is currently expected to open by third-quarter 2020.

We are advancing the planning and permitting process for development of future phases of Barton Creek, including residential Section KLO and commercial and multi-family Section N. We have submitted initial permit applications to the City of Austin and Travis County for Section KLO and are awaiting approval, which is currently expected in late 2019 or early 2020. We have also submitted permit applications to the City of Austin and Travis County for initial road infrastructure in Section N and currently expect approval by early 2020. These potential development projects require extensive permitting and will be capital intensive and dependent on market conditions. Because of the nature and cost of the approval and development process and uncertainty regarding market demand for a particular use, there is no assurance that we will be able to develop these properties in accordance with our current development plans. In addition, our development plans for Section KLO and Section N will require significant capital, which we may pursue through joint venture, commercial, partner or other arrangements.

## 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 and in our 2018 Form 10-K, our past operating results are not necessarily indicative of our future results. We use operating income or loss to measure the performance of each operating segment. Corporate, eliminations and other includes consolidated general and administrative expenses, which primarily consist of employee salaries and other costs.

The following table summarizes our results (in thousands):

| | Three Months Ended June 30, 2019 | Three Months Ended June 30, 2018 | Six Months Ended June 30, 2019 | Six Months Ended June 30, 2018 |
|---|---|---|---|---|
| Operating income (loss): | | | | |
| Real Estate Operations | $ 274 | $ 1,363 | $ 3,120 | $ 938 |
| Leasing Operations | 642 | 487 | 3,063 | 919 |
| Hotel | 1,275 | 1,565 | 2,049 | 3,026 |
| Entertainment | 1,284 | 499 | 2,108 | 1,234 |
| Corporate, eliminations and other | (3,048) | (3,140) | (6,270) | (6,246) |
| Operating income (loss) | $ 427 | $ 774 | $ 4,070 | $ (129) |
| Interest expense, net | $ (2,911) | $ (1,742) | $ (5,483) | $ (3,301) |
| Net loss attributable to common stockholders | $ (2,389) | $ (857) | $ (1,527) | $ (2,727) |

We have four operating segments: Real Estate Operations, Leasing Operations, Hotel and Entertainment (see Note 9). The following is a discussion of our operating results by segment.

**Real Estate Operations**

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

| | Three Months Ended June 30, 2019 | Three Months Ended June 30, 2018 | Six Months Ended June 30, 2019 | Six Months Ended June 30, 2018 |
|---|---|---|---|---|
| Revenues: | | | | |
| Developed property sales | $ 4,048 | $ 6,856 | $ 6,882 | $ 8,011 |
| Commissions and other | 85 | 131 | 204 | 178 |
| Total revenues | 4,133 | 6,987 | 7,086 | 8,189 |
| Cost of sales, including depreciation | 3,859 | 5,624 | 3,966 | 7,251 |
| Operating income | $ 274 | $ 1,363 | $ 3,120 | $ 938 |

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

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | Lots/Units | Revenues | Average Cost Per Lot/Unit | Lots/Units | Revenues | Average Cost Per Lot/Unit |
| Barton Creek | | | | | | |
| Amarra Drive: | | | | | | |
| Phase III | 4 | $ 2,283 | $ 230 | 3 | $ 1,895 | $ 272 |
| Amarra Villas | 1 | 1,765 | 1,627 | 2 | 3,821 | 1,670 |
| W Austin Hotel & Residences Project | | | | | | |
| Condominium Units | — | — | — | 1 | 1,140 | 726 |
| Total Residential | 5 | $ 4,048 | | 6 | $ 6,856 | |

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | Lots/Units | Revenues | Average Cost Per Lot/Unit | Lots/Units | Revenues | Average Cost Per Lot/Unit |
| Barton Creek | | | | | | |
| Amarra Drive: | | | | | | |
| Phase II | — | $ — | $ — | 1 | $ 605 | $ 209 |
| Phase III | 6 | 3,432 | 229 | 4 | 2,445 | 263 |
| Amarra Villas | 2 | 3,450 | 1,607 | 2 | 3,821 | 1,670 |
| W Austin Hotel & Residences Project | | | | | | |
| Condominium Units | — | — | — | 1 | 1,140 | 726 |
| Total Residential | 8 | $ 6,882 | | 8 | $ 8,011 | |

*Cost of Sales.* Cost of sales includes cost of property sold, project operating and marketing expenses and allocated overhead costs, partly offset by reductions for certain MUD reimbursements. Cost of sales totaled $3.9 million in second-quarter 2019 and $4.0 million for the first six months of 2019, compared with $5.6 million in second-quarter 2018 and $7.3 million for the first six months of 2018. The decrease in cost of sales in second-quarter 2019, compared with second-quarter 2018, primarily reflects fewer real estate sales in the 2019 quarter. The decrease in cost of sales for the first six months of 2019, compared with the first six months of 2018, primarily reflects $3.4 million in MUD reimbursements in the first six months of 2019 recorded as a reduction in real estate cost of sales as the reimbursed property had previously been sold. Costs of sales for the 2018 periods include $0.4 million of reductions to cost of sales associated with collection of prior-years' assessments of properties in Barton Creek.

**Leasing Operations**

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Rental revenue | $ 4,642 | $ 2,556 | $ 8,501 | $ 4,811 |
| Rental cost of sales, excluding depreciation | 2,451 | 1,331 | 4,595 | 2,521 |
| Depreciation | 1,388 | 738 | 2,795 | 1,371 |
| Loss (gain) on sale of assets | 161 | — | (1,952) | — |
| Operating income | $ 642 | $ 487 | $ 3,063 | $ 919 |

*Rental Revenue.* Rental revenue primarily includes revenue from Santal Phase I and Phase II, the office and retail space at the W Austin Hotel & Residences, West Killeen Market, Lantana Place, Jones Crossing and Barton Creek Village. The increase in rental revenue in the 2019 periods, compared with the 2018 periods, primarily reflects the commencement of new leases at Santal Phase II, Lantana Place and Jones Crossing.

*Rental Cost of Sales and Depreciation.* Rental cost of sales and depreciation expense increased in the 2019 periods, compared with the 2018 periods, primarily as a result of the activity at Santal Phase I and Phase II, Lantana Place and Jones Crossing.

*Loss (Gain) on Sale of Assets.* On January 17, 2019, Stratus sold a retail pad subject to a ground lease located in the Circle C community for $3.2 million. Stratus used proceeds from the sale to repay $2.5 million of its Comerica Bank credit facility borrowings and, after adjustments recorded in second-quarter 2019, recorded a gain on this sale totaling $2.0 million for the first six months of 2019.

**Hotel**

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Hotel revenue | $ 9,042 | $ 9,643 | $ 17,414 | $ 19,037 |
| Hotel cost of sales, excluding depreciation | 6,868 | 7,184 | 13,566 | 14,222 |
| Depreciation | 899 | 894 | 1,799 | 1,789 |
| Operating income | $ 1,275 | $ 1,565 | $ 2,049 | $ 3,026 |

*Hotel Revenue.* Hotel revenue primarily includes revenue from W Austin Hotel room reservations and food and beverage sales. The decrease in Hotel revenues in second-quarter 2019, compared to second-quarter 2018, is primarily a result of reduced transient weekend business and lower food and beverage sales. The decrease in Hotel revenues during the first six months of 2019, compared to the first six months of 2018, is primarily a result of reduced transient weekend business and overall group business and lower food and beverage sales. Revenue per available room (RevPAR), which is calculated by dividing total room revenue by the average total rooms available, was $242 in second-quarter 2019 and $240 for the first six months of 2019, compared with $254 in second-quarter 2018 and $258 for the first six months of 2018.

While we remain optimistic about the long-term outlook of the W Austin Hotel based on office growth downtown, continued population growth and increased tourism in the Austin market, a continued increase in competition resulting from the anticipated opening of additional hotel rooms in downtown Austin during the second half of 2019 and throughout 2020 are expected to have an ongoing impact on our hotel revenues.

We continue to explore various opportunities with respect to Block 21, our mixed-use development in downtown Austin, Texas, that contains the W Austin Hotel & Residences and office, retail and entertainment space, which may include, but are not limited to, a possible sale, recapitalization or other venture. Any transaction is subject to market conditions and there can be no assurance that any transaction will be pursued or consummated.

**Entertainment**

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Entertainment revenue | $ 6,265 | $ 4,451 | $ 11,090 | $ 9,710 |
| Entertainment cost of sales, excluding depreciation | 4,585 | 3,560 | 8,192 | 7,696 |
| Depreciation | 396 | 392 | 790 | 780 |
| Operating income | $ 1,284 | $ 499 | $ 2,108 | $ 1,234 |

*Entertainment Revenue.* Entertainment revenue primarily reflects the results of operations for ACL Live, including ticket sales, revenue from private events, sponsorships, personal seat license and suite sales, and sales of concessions and merchandise. Entertainment revenue also reflects revenues associated with events hosted at 3TEN ACL Live. Revenues from the Entertainment segment vary from period to period as a result of factors such as the price of tickets and number of tickets sold, as well as the number and type of events hosted at ACL Live and 3TEN ACL Live. Entertainment revenues increased in the 2019 periods, compared to the 2018 periods, primarily as a result of an increase in the number of events hosted and higher event attendance at 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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| ACL Live | | | | |
| Events: | | | | |
| Events hosted | 69 | 45 | 133 | 102 |
| Estimated attendance | 79,813 | 47,580 | 144,212 | 118,619 |
| Ancillary net revenue per attendee | $ 45.41 | $ 56.58 | $ 45.73 | $ 44.18 |
| Ticketing: | | | | |
| Number of tickets sold | 68,153 | 29,471 | 116,901 | 84,132 |
| Gross value of tickets sold (in thousands) | $ 3,736 | $ 2,102 | $ 6,259 | $ 5,100 |
| | | | | |
| 3TEN ACL Live | | | | |
| Events: | | | | |
| Events hosted | 52 | 57 | 102 | 106 |
| Estimated attendance | 9,528 | 10,926 | 18,490 | 19,942 |
| Ancillary net revenue per attendee | $ 35.75 | $ 30.03 | $ 36.49 | $ 36.68 |
| Ticketing: | | | | |
| Number of tickets sold | 7,271 | 7,784 | 12,325 | 12,709 |
| Gross value of tickets sold (in thousands) | $ 175 | $ 168 | $ 296 | $ 272 |

*Entertainment Cost of Sales.* Entertainment cost of sales, excluding depreciation, totaled $4.6 million in second-quarter 2019 and $8.2 million for the first six months of 2019, compared to $3.6 million in second-quarter 2018 and $7.7 million for the first six months of 2018, primarily reflecting substantial increases in the number of events at ACL Live (53 percent increase for the quarterly period and 30 percent increase for the six-month period).

**Corporate, Eliminations and Other**
Corporate, eliminations and other (see Note 9) includes consolidated general and administrative expenses, which primarily consist of employee salaries and other costs. Consolidated general and administrative expenses totaled $2.9 million in second-quarter 2019 and $6.1 million for the first six months of 2019, compared with $3.0 million in second-quarter 2018 and $6.0 million for the first six months of 2018. 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) of $5.1 million in second-quarter 2019 and $9.7 million for the first six months of 2019 were higher, compared with $3.8 million in second-quarter 2018 and $7.2 million for the first six months of 2018, primarily reflecting higher average debt to finance development activities.

Capitalized interest totaled $2.1 million in second-quarter 2019 and $4.2 million for the first six months of 2019, compared with $2.0 million in second-quarter 2018 and $3.9 million for the first six months of 2018, and is primarily related to development activities at Barton Creek. The 2019 periods also included capitalized interest costs associated with development activities at Kingwood Place.

*Benefit from (Provision for) Income Taxes.* We recorded a benefit from (provision for) income taxes of $0.2 million for second-quarter 2019 and $(0.2) million for the first six months of 2019, compared with a benefit of less than $0.1 million in second-quarter 2018 and $0.4 million for the first six months of 2018. The difference between Stratus' consolidated effective income tax rate for the first six months of 2019 and the U.S. Federal statutory income tax rate of 21 percent, was primarily attributable to the Texas state margin tax and the Tax Cuts and Jobs Act's executive compensation limitation. The difference between Stratus' consolidated effective income tax rate for the first six months of 2018 and the U.S. Federal statutory income tax rate of 21 percent, was primarily attributable to the Texas state margin tax.

## 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 Six Months Ended June 30, 2019 and 2018**
*Operating Activities.* Cash used in operating activities totaled $1.6 million for the first six months of 2019, compared with $8.7 million for the first six months of 2018. Expenditures for purchases and development of real estate properties totaled $5.8 million for the first six months of 2019 and $7.7 million for the first six months of 2018, primarily related to development of our Barton Creek properties. During the first six months of 2019, our operating cash flows included MUD reimbursements totaling $4.6 million related to infrastructure costs incurred in Barton Creek (of which $3.7 million reduced the net loss for the period and $0.9 million was applied to real estate under development).

*Investing Activities.* Cash used in investing activities totaled $47.2 million for the first six months of 2019 and $44.0 million for the first six months of 2018. Capital expenditures totaled $45.0 million for the first six months of 2019, primarily related to development of the Kingwood Place and The Saint Mary projects, and $43.0 million for the first six months of 2018, primarily related to development of the Santal Phase II, Lantana Place and Jones Crossing projects.

We also made payments totaling $0.8 million for the first six months of 2019 and $0.9 million for the first six months of 2018 under our master lease obligations associated with the 2017 sale of The Oaks at Lakeway.

We recorded a purchase of noncontrolling interest totaling $4.6 million for the first six months of 2019 as a result of our acquisition of HEB's interests in the New Caney partnership in which we and HEB collectively purchased a tract of land for the future development of an HEB-anchored mixed-use project in New Caney, Texas.

*Financing Activities.* Cash provided by financing activities totaled $43.5 million for the first six months of 2019 and $50.6 million for the first six months of 2018. During the first six months of 2019, net repayments on the Comerica Bank credit facility totaled $1.6 million, compared with net borrowings of $18.1 million for the first six months of 2018, primarily to fund development projects and capital expenditures. Net borrowings on other project and term loans totaled $45.4 million for the first six months of 2019, primarily for The Saint Mary, Kingwood Place, Jones Crossing and New Caney, compared with net borrowings of $26.7 million for the first six months of 2018, primarily for Lantana Place, Jones Crossing and Santal Phase II. The first six months of 2018 also include $7.0 million of capital contributions from the Class B limited partners in The Saint Mary limited partnership (see Note 3). See “Credit Facility and Other Financing Arrangements” below for a discussion of our outstanding debt at June 30, 2019.

## Credit Facility and Other Financing Arrangements

At June 30, 2019, the total principal amount of our outstanding debt was $343.8 million, compared with $298.4 million at December 31, 2018. We had borrowings of $48.7 million under the $60.0 million Comerica Bank credit facility, which is comprised of a $60.0 million revolving line of credit, $9.1 million of which was available at June 30, 2019, net of $2.2 million of letters of credit committed against the credit facility.

See Note 5 in our 2018 Form 10-K for further discussion of our outstanding debt.

Several of our financing instruments contain customary financial covenants. The West Killeen Market construction loan includes a requirement that we maintain a minimum total stockholders’ equity balance of $110.0 million. As of June 30, 2019, Stratus' total stockholders' equity was $122.4 million. The Comerica credit facility, the Goldman Sachs loan, the Lantana Place construction loan, the Jones Crossing construction loan, The Saint Mary construction loan, the Santal Phase I and Phase II construction loans, the Amarra Villas credit facility, the Kingwood Place loan and the New Caney land loan include a requirement that we maintain a net asset value, as defined in the agreements, of $125 million. The Comerica credit facility, the Santal Phase I and Phase II construction loans, the Amarra Villas credit facility and the Kingwood Place construction loan also include a requirement that we maintain a promissory note debt-to-gross asset value, as defined in the agreement, of less than 50 percent. In addition, our Comerica Bank credit facility and the Amarra Villas credit facility require Comerica's prior written consent for any common stock repurchases in excess of $1.0 million in aggregate or dividend payments. Our Barton Creek Village term loan includes a requirement that Stratus' subsidiary maintain a minimum debt service coverage ratio, as defined in the agreement, of 1.35 to 1.00. As of December 31, 2018, and June 30, 2019, the subsidiary's minimum debt service coverage ratio calculated in accordance with the Barton Creek Village term loan agreement was not in compliance with this requirement. PlainsCapital Bank waived the subsidiary's obligation to comply with the minimum debt service coverage ratio from December 31, 2018, through September 30, 2019. As of June 30, 2019, Stratus was in compliance with all other financial covenants.

The following table summarizes our debt maturities based on the principal amounts outstanding as of June 30, 2019 (in thousands):

| | 2019 | 2020 | 2021 | 2022 | 2023 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Goldman Sachs loan | $ 1,108 | $ 2,313 | $ 2,470 | $ 2,613 | $ 2,765 | $ 131,871 | $ 143,140 |
| Comerica Bank credit facility[a] | — | 48,658 | — | — | — | — | 48,658 |
| Santal Phase I loan[b] | — | 32,790 | — | — | — | — | 32,790 |
| Santal Phase II loan[b] | — | 25,152 | — | — | — | — | 25,152 |
| Lantana Place construction loan | — | 26 | 308 | 324 | 21,932 | — | 22,590 |
| Jones Crossing construction loan | — | — | 177 | 254 | 19,456 | — | 19,887 |
| The Saint Mary construction loan | — | — | 16,319 | — | — | — | 16,319 |
| Kingwood Place construction loan[b] | — | — | — | 14,142 | — | — | 14,142 |
| West Killeen Market construction loan | — | 81 | 102 | 7,022 | — | — | 7,205 |
| Amarra Villas credit facility | — | — | — | 5,597 | — | — | 5,597 |
| New Caney land loan[c] | — | — | 5,000 | — | — | — | 5,000 |
| Barton Creek Village term loan | 44 | 91 | 97 | 103 | 110 | 2,829 | 3,274 |
| Total | $ 1,152 | $ 109,111 | $ 24,473 | $ 30,055 | $ 44,263 | $ 134,700 | $ 343,754 |

a. See Note 6 for further information regarding our Comerica Bank credit facility.

b. We have the option to extend the maturity date for two additional twelve-month periods, subject to certain debt service coverage conditions.

c. We have the option to extend the maturity date for one additional twelve-month period, subject to certain conditions.

## CONTRACTUAL OBLIGATIONS

There have been no material changes in our contractual obligations since December 31, 2018. Refer to Part II, Items 7. and 7A. in our 2018 Form 10-K, for further information regarding our contractual obligations.

## NEW ACCOUNTING STANDARDS

Refer to Note 10 for discussion of a recently adopted accounting standards update.

## OFF-BALANCE SHEET ARRANGEMENTS

There have been no material changes in our off-balance sheet arrangements since December 31, 2018. See Note 8 in our 2018 Form 10-K for further information.

## CAUTIONARY STATEMENT

MD&A 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 projections or expectations related to the planning, financing, development, construction, completion and stabilization of our development projects, plans to sell or refinance properties (including, but not limited to, Amarra Drive lots, Amarra Villas townhomes, West Killeen Market, the retail building at Barton Creek Village, The Saint Mary, Santal and Block 21), operational and financial performance, expectations regarding future cash flows, MUD reimbursements for infrastructure costs, regulatory matters, leasing activities, estimated costs and timeframes for expenditures, financing plans, possible joint venture, partnership, strategic relationships or other relationships 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 in 2017, other plans and objectives of management for future operations and development projects, future dividend payments and share repurchases. The words “anticipate,” “may,” “can,” “plan,” “believe,” “potential,” “estimate,” “expect,” “project,” "target," “intend,” “likely,” “will,” “should,” “to be” and any similar expressions and/or statements that are not historical facts are intended to identify those assertions as forward-looking statements.

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

We caution readers that forward-looking statements are not guarantees of future performance and actual results may differ materially from those anticipated, expected, projected or assumed in the forward-looking statements. Important factors that can cause our actual results to differ materially from those anticipated in the forward-looking statements include, but are not limited to, our ability to refinance and service our debt, the availability and terms of financing for development projects and other corporate purposes, our ability to enter into and maintain joint venture, partnership, strategic relationships or other arrangements, our ability to effect our business strategy, including our ability to sell properties at prices our Board considers acceptable, market conditions or corporate developments that could preclude, impair or delay any opportunities with respect to plans to sell or refinance properties (including, but not limited to, Amarra Drive lots, Amarra Villas townhomes, West Killeen Market, the retail building at Barton Creek Village, the Saint Mary, Santal and Block 21), our ability to obtain various entitlements and permits, a decrease in the demand for real estate in the Austin, Texas area and other select markets in Texas where we operate, changes in economic, market 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, challenges associated with booking events and selling tickets and event cancellations at our entertainment venues, the termination of sales contracts or letters of intent because of, among other factors, the failure of one or more closing conditions or market changes, 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 in 2017 and to assign such leases to the purchaser and remove the corresponding property from the master leases, the failure to attract customers or tenants for our developments or such customers' or tenants' failure to satisfy their purchase commitments or leasing obligations, increases in interest rates and the phase out of the London Interbank Offered Rate, declines in the market value of our assets, increases in operating costs, including real estate taxes and the cost of building materials and labor, changes in external perception of the W Austin Hotel, unanticipated issues experienced by the third-party operator of the W Austin Hotel, changes in consumer preferences, industry risks, changes in laws, regulations or the regulatory environment affecting the development of real estate, opposition from special interest groups or local governments with respect to development projects, weather-related risks, loss of key personnel, cybersecurity incidents and other factors described in more detail under the heading “Risk Factors” in Part I, Item 1A. of our 2018 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.

Not applicable.

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer, with the participation of management, have evaluated the effectiveness of our "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this quarterly report on Form 10-Q. Based on this evaluation, they have concluded that our disclosure controls and procedures were effective as of June 30, 2019.

(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 June 30, 2019, 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 three months ended June 30, 2019.

In November 2013, our Board of Directors 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 second quarter 2019. As of June 30, 2019, 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 and Amarra Villas credit facility require lender approval of common stock repurchases in excess of $1.0 million in the aggregate.

For a discussion of restrictions on our ability to pay dividends, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources and Liquidity" in Part I, Item 2. of this quarterly report on Form 10-Q.

Item 6. Exhibits.

| | | | Incorporated by Reference | | |
|---|---|---|---|---|---|
| Exhibit Number | Exhibit Title | Filed with this Form 10-Q | 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 | 001-37716 | 8/9/2017 |

| Exhibit Number | Exhibit Title | Filed with this Form 10-Q | Incorporated by Reference | | |
|---|---|---|---|---|---|
| | | | Form | File No. | Date Filed |
| 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 |
| 10.1* | Form of Notice of Grant of Restricted Stock Units under the Stratus Properties Inc. 2017 Stock Incentive Plan (adopted May 2019). | | 10-Q | 000-19989 | 5/10/2019 |
| 10.2 | Third Modification Agreement by and between Santal I, L.L.C., as borrower, and Comerica Bank, as lender, dated April 23, 2019 | X | | | |
| 31.1 | Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a). | X | | | |
| 31.2 | Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a). | X | | | |
| 32.1 | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350. | X | | | |
| 32.2 | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350. | X | | | |
| 101.INS | XBRL Instance Document - the XBRL Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. | X | | | |
| 101.SCH | Inline XBRL Taxonomy Extension Schema. | X | | | |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase. | X | | | |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase. | X | | | |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase. | X | | | |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase. | X | | | |

* 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: August 9, 2019

When recorded, return to: RECORD IN DEED OF TRUST RECORDS
TRAVIS COUNTY, TEXAS
Matthew H. Swerdlow
Thompson & Knight LLP
1722 Routh Street, Suite 1500
Dallas, Texas 75201-2533

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

## THIRD MODIFICATION AGREEMENT

This Third Modification Agreement (this "Agreement") is dated effective as of April 23, 2019, between COMERICA BANK ("Lender"), SANTAL I, L.L.C., a Texas limited liability company, formerly known as Barton Creek Tecoma I, L.L.C., a Texas limited liability company ("Borrower"), and STRATUS PROPERTIES INC., a Delaware corporation ("Guarantor").

R E C I T A L S:

A. The following documents were previously executed and delivered by Borrower and/or Guarantor to Lender, relating to a loan (the "Original Loan") in the original principal sum of $34,148,000.00, each dated January 8, 2015:

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

ii. that certain Installment Note, payable to the order of Lender in the original principal sum of $34,148,000.00 (the "Original Note");

iii. that certain Deed of Trust, Security Agreement and Fixture Filing, recorded under Clerk's File No. 2015003943 of the Real Property Records of Travis County, Texas (the "Deed of Trust");

iv. that certain Assignment of Rents and Leases, recorded under Clerk's File No. 2015003944 of the Real Property Records of Travis County, Texas (the "Assignment of Rents and Leases");

v. that certain Environmental Indemnity Agreement (the "Environmental Indemnity Agreement");

vi. that certain Guaranty (the "Original Guaranty");

vii. that certain Collateral Assignment of Contracts and Plans and Other Agreements Affecting Real Estate (the "Phase I Collateral Assignment of Contracts and Plans"); and

viii. that certain Assignment and Subordination of Development Agreement executed by Borrower, Lender and Tecoma Development, L.L.C., a Texas limited liability company (the "Phase I Assignment and Subordination of Development Agreement").

The instruments described above, together with the Modification Agreement (defined below), and all other documents evidencing, securing or otherwise executed in connection with the Original Loan, including, but not limited to, the Modification Agreement (defined below), being herein collectively called the "Original Loan Documents".

B. The Original Loan Documents were previously modified by that certain Modification Agreement dated April 18, 2017, and executed by Borrower, Guarantor and Lender (the "Modification Agreement").

C. The Original Loan Documents were further previously modified and/or amended and restated by the following documents, each dated as of September 11, 2017 and each executed by Borrower and/or Guarantor (as applicable):

i. that certain Amended and Restated Construction Loan Agreement, as a complete amendment and restatement of, and in substitution of, the Original Loan Agreement (the "Loan Agreement");

ii. that certain Amended and Restated Installment Note, payable to the order of Lender in the original principal sum of $32,790,000.00, as a complete amendment and restatement of, and in substitution of, the Original Note (the "Phase I Note");

iii. that certain Installment Note, payable to the order of Lender in the original principal sum of $26,400,000.00 (the "Phase II Note", together with the Phase I Note, collectively, the "Note");

iv. that certain Collateral Assignment of Contracts and Plans and Other Agreements Affecting Real Estate (the "Phase II Collateral Assignment of Contracts and Plans");

v. that certain Assignment and Subordination of Development Agreement executed by Borrower, Lender and Tecoma Development, L.L.C., a Texas limited liability company (the "Phase II Assignment and Subordination of Development Agreement");

vi. that certain Amended and Restated Guaranty, as a complete amendment and restatement of, and in substitution of, the Original Guaranty (the "Guaranty"); and

vii. that certain Second Modification Agreement (the "Second Modification Agreement".

The Loan Agreement, Note, the Guaranty, Phase II Collateral Assignment of Contracts and Plans, the Phase II Assignment and Subordination of Development Agreement, the Deed of Trust, the Environmental Indemnity Agreement, the Assignment of Rents and Leases, the Phase I Collateral Assignment of Contracts and Plans, the Phase I Assignment and Subordination of Development Agreement, the Second Modification Agreement, and all other documentation evidencing, securing or otherwise in connection with the Loan evidenced by the Note being herein collectively called the "Loan Documents".

C. Borrower and Guarantor have requested that Lender amend the Guaranty (as defined below), and Lender is willing to do so on the terms and conditions set forth herein.

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 herein shall have the meaning assigned to such terms in the Loan Agreement.

2. Modification of Guaranty. Section 6.1 of the Guaranty is hereby amended and restated in its entirety and replaced with the following:

6.1 Financial Covenants. Maintain compliance with the following financial covenants on a consolidated basis:

(a) Maintain a Net Asset Value at all times of not less than $125,000,000.00.

(b) Maintain a Debt-to-Gross Asset Value at all times of not more than 50%.

(c) As used herein, the following capitalized terms shall have the meanings ascribed thereto:

(1) "**Net Asset Value**" means with respect to a Person, the (i) Gross Asset Value of such Person minus (ii) the book value of such Person's tangible liabilities determined according to GAAP, except (y) proforma adjustments shall be made to reflect any assets with estimated market values representing more than 10% of the latest Net Asset Value disposed of prior to the date of the certification, and (z) tangible liabilities shall exclude any tangible liabilities representing more than 10% of the latest Net Asset Value paid or otherwise extinguished prior to the date of the certification.

(2) "**Person**" shall mean any individual, corporation, partnership, joint venture, limited liability company, association, trust, unincorporated association, joint stock company, government, municipality, political subdivision or agency, or other entity.

(3) "**<u>Debt</u>**" shall mean, as of any applicable date of determination thereof, all items of indebtedness, obligation or liability of a Person, whether matured or unmatured, liquidated or unliquidated, direct or indirect, absolute or contingent, joint or several, that should be classified as liabilities in accordance with GAAP. In the case of Borrowers, the term "Debt" shall include, without limitation, the Indebtedness.

(4) "**<u>Gross Asset Value</u>**" shall mean the estimated market value of assets of a Person and shall be calculated in accordance with standards set forth in the "Cautionary Statement and Regulation G Disclosure" section of Stratus's Investor Presentation dated April 16, 2018 (which is attached as **Exhibit G** to that certain Loan Agreement dated June 29, 2018, by and between Bank and the Stratus Borrowers) except that asset values shall reflect current annual appraised (such appraisals to be conducted in accordance with Uniform Standards of Professional Appraisal Practice) or estimated market value (as verified by Lender in Lender's reasonable discretion) as of year-end.

(5) "**<u>Debt-to-Gross Asset Value</u>**" shall mean, with respect to any Person, and as of any applicable date of determination thereof, (a) the total outstanding principal amount of notes payable of such Person (calculated as shown in the most recent version of Stratus's Investor Presentation (the most recent version of which is dated April 16, 2018 and was previously provided to Lender), or if such calculation is not available, a calculation acceptable to Lender, divided by (b) the Gross Asset Value of such Person.

The covenants in this ***Section 6.1*** shall be (i) computed on a consolidated basis, (ii) tested at the end of each calendar year, (iii) and certified to in the Compliance Certificate required to be delivered to Lender pursuant to ***Section 6.2(h)*** below.

3. <u>Ratification</u>. 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 the Loan Documents shall in no way adversely affect the security of the Loan Documents for the payment of the Note. The Loan Documents as modified and amended hereby are ratified and confirmed in all respects. All liens, security interests, mortgages and assignments granted or created by or existing under the Loan Documents remain are valid, subsisting, unchanged and continue, unabated, in full force and effect, to secure Borrower's obligation to repay the Loan. Borrower acknowledges that there are no offsets, claims or defenses to its obligations under the Loan Documents.

4. <u>Representations and Warranties</u>. Borrower hereby represents and warrants that (a) Borrower is the sole legal and beneficial owner of the Mortgaged Property; (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.

5. Past Acceptance. Lender acknowledges that Lender and its agents in the past may have accepted, without exercising the remedies to which Lender was entitled, payments and performance by Borrower that constituted Events of Default under the Loan Documents. Borrower acknowledges that no such acceptance or grace granted by Lender or its agents in the past, or Lender's agreement to the modifications evidenced hereby, has in any manner diminished Lender's right in the future to insist that Borrower strictly comply with the terms of the Loan Documents, as modified by the terms hereof.

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 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. Waiver. Borrower acknowledges that the execution of this Agreement by Lender is not intended nor shall it be construed as (i) an actual or implied waiver of any Event of Default under the Loan Documents or (ii) an actual or implied waiver of any condition or obligation imposed upon Borrower pursuant to the Loan Documents.

9. 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.

10. 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. Recordation; Endorsement of Title Insurance. As an accommodation to Borrower, Lender has agreed to waive the requirement for recordation of this Agreement and issuance of an endorsement to Lender’s Title Insurance. At Lender’s request, Borrower shall, at its sole cost and expense, or Lender may, at Borrower’s sole cost and expense, arrange for recordation of this Agreement and obtain and deliver to Lender an endorsement to Lender’s Title Insurance insuring the lien of the Deed of Trust as modified hereby, and otherwise in form and content acceptable to Lender.

13. Release. Borrower and Guarantor release, remise, acquit and forever discharge 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 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 date hereof, and in any way directly or indirectly arising out of or in any way connected to this Agreement or the Loan Documents, or any of the transactions associated therewith, or the Property, including specifically but not limited to claims of usury. **THE FOREGOING RELEASE INCLUDES ACTIONS AND CAUSES OF ACTION, JUDGMENTS, EXECUTIONS, SUITS, DEBTS, CLAIMS, DEMANDS, LIABILITIES, OBLIGATIONS, DAMAGES AND EXPENSES ARISING AS A RESULT OF THE NEGLIGENCE AND/OR THE STRICT LIABILITY OF ONE OR MORE OF THE RELEASED PARTIES.**

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

15. 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.

16. **SECTION 9.12 OF THE LOAN AGREEMENT IS HEREBY INCORPORATED BY REFERENCE AS IF SUCH PROVISION WERE INCLUDED HEREIN**.

17. Miscellaneous. If any term or provision hereof is declared by a court of competent jurisdiction to be illegal or invalid, such illegal or invalid term or provision shall not affect the balance of the terms and provisions hereof. In the event any action or suit is brought by reason of any breach of this Agreement or any other dispute between the parties concerning this Agreement, then the prevailing party shall be entitled to have and recover from the other party all costs and expenses of suit, including reasonable attorneys' fees. This Agreement shall be governed by and construed and enforced in

accordance with the laws of the State of Texas. This Agreement is to be deemed to have been prepared jointly by the parties hereto, and if any inconsistencies or ambiguities exist herein, they shall not be interpreted or construed against either party as the drafter. The parties shall take such actions and execute such documents as each may reasonably request, to carry out the purposes of this Agreement. All paragraph headings are inserted for convenience only and shall not be used in any way to modify, limit, construe or otherwise affect this Agreement. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which, together, shall constitute one and the same instrument. Each party represents and warrants to the other party that it is duly authorized to execute this Agreement. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, successors, legal representatives and assigns.

18. Notice and Agreement. Borrower, Guarantor and Lender 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.**

[END OF TEXT - SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the undersigned have executed this Agreement to be effective as of the date first set forth above.

**BORROWER**:

**SANTAL I, L.L.C.**,
a Texas limited liability company,
formerly known as Barton Creek Tecoma I, L.L.C., a Texas limited liability company

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

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

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

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on April 23, 2019 by Erin D. Pickens, Senior Vice President of Stratus Properties Inc, a Delaware corporation, on behalf of said corporation in its capacity as the sole member of STRS L.L.C., a Delaware limited liability company, on behalf of said limited liability company in its capacity as the manager of Santal I, L.L.C., a Texas limited liability company, formerly known as Barton Creek Tecoma I, L.L.C., a Texas limited liability company, on behalf of said limited liability company.

[S E A L] /s/ Brooke E. Browning
---------------------------------------
Notary Public - State of Texas

My Commission Expires: Brooke E. Browning
7-1-22 ---------------------------------------
--------------------------------------- Printed Name of Notary Public

[SIGNATURE PAGE TO THIRD MODIFICATION AGREEMENT]

**<u>GUARANTOR</u>**:

**STRATUS PROPERTIES INC.,**
a Delaware corporation

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

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on April 23, 2019, by Erin D. Pickens, Senior Vice President of **STRATUS PROPERTIES INC.**, a Delaware corporation, on behalf of said corporation.

[S E A L] /s/ Brooke E. Browning
----------------------------------------
Notary Public - State of Texas

My Commission Expires: Brooke E. Browning
7-1-22 ----------------------------------------
---------------------------------------- Printed Name of Notary Public

[SIGNATURE PAGE TO THIRD MODIFICATION AGREEMENT]

**<u>LENDER</u>**:

**COMERICA BANK**

By:/s/ Elaine Houston

----------------------------------------

Elaine Houston, Assistant Vice President

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

This instrument was acknowledged before me on April 23, 2019, by Elaine Houston, Assistant Vice President of **COMERICA BANK**, on behalf of said bank.

[S E A L] /s/ Sarah Hanes

----------------------------------------

Notary Public - State of Texas

My Commission Expires: Sarah Hanes
7-24-19 ----------------------------------------
---------------------------------------- Printed Name of Notary Public

[SIGNATURE PAGE TO THIRD MODIFICATION AGREEMENT]

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: August 9, 2019

/s/ William H. Armstrong III
William H. Armstrong III
Chairman of the Board,
President and 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: August 9, 2019

/s/ Erin D. Pickens
Erin D. Pickens
Senior Vice President and
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 ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), William H. Armstrong III, as Chairman of the Board, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

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

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

Dated: August 9, 2019

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

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

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

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 ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Erin D. Pickens, as Senior Vice President and Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of her knowledge:

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

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

Dated: August 9, 2019

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

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

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