

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, 2007
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: 0-19989



Stratus Properties Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

72-1211572

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

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

(Address of principal executive offices)

78701

(Zip Code)

(512) 478-5788

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

On June 30, 2007, there were issued and outstanding 7,568,416 shares of the registrant's Common Stock, par value \$0.01 per share.

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STRATUS PROPERTIES INC.
Part I. FINANCIAL INFORMATIONItem 1. Financial StatementsSTRATUS PROPERTIES INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(In Thousands)

	June 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents, including restricted cash of \$114 and \$116, respectively	\$ 4,673	\$ 1,916
Accounts receivable	880	749
Deposits, prepaid expenses and other	3,844	3,691
Deferred tax asset	1,233	1,144
Discontinued operations	196	233
Total current assets	10,826	7,733
Real estate, commercial leasing assets and facilities, net:		
Property held for sale – developed or under development	121,320	116,865
Property held for sale – undeveloped	16,335	16,345
Property held for use, net	32,892	28,257
Investment in Crestview	3,800	3,800
Deferred tax asset	7,174	7,105
Other assets	4,242	4,094
Discontinued operations	19,447	19,751
Total assets	\$ 216,036	\$ 203,950
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,607	\$ 5,421
Accrued interest, property taxes and other	4,972	5,789
Current portion of long-term debt	320	311
Discontinued operations	428	1,068
Total current liabilities	11,327	12,589
Long-term debt	62,202	50,364
Other liabilities	6,122	6,957
Discontinued operations	94	94
Total liabilities	79,745	70,004
Stockholders' equity:		
Preferred stock	-	-
Common stock	81	81
Capital in excess of par value of common stock	190,740	188,873
Accumulated deficit	(41,677)	(42,655)
Common stock held in treasury	(12,853)	(12,353)
Total stockholders' equity	136,291	133,946
Total liabilities and stockholders' equity	\$ 216,036	\$ 203,950

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues:				
Real estate	\$ 5,317	\$ 31,714	\$ 9,743	\$ 42,752
Rental income	885	522	1,812	569
Commissions, management fees and other	760	285	981	550
Total revenues	<u>6,962</u>	<u>32,521</u>	<u>12,536</u>	<u>43,871</u>
Cost of sales:				
Real estate, net	3,406	11,684	4,989	19,231
Rental	856	299	1,519	425
Depreciation	323	251	623	290
Total cost of sales	<u>4,585</u>	<u>12,234</u>	<u>7,131</u>	<u>19,946</u>
General and administrative expenses	1,846	1,883	3,847	3,622
Total costs and expenses	<u>6,431</u>	<u>14,117</u>	<u>10,978</u>	<u>23,568</u>
Operating income	531	18,404	1,558	20,303
Interest expense, net	(329)	(240)	(659)	(300)
Interest income	56	188	585	202
Income from continuing operations before income taxes	258	18,352	1,484	20,205
(Provision for) benefit from income taxes	(65)	33	(515)	8,293
Income from continuing operations	193	18,385	969	28,498
Income (loss) from discontinued operations (including a gain on 7000 West sale of \$7,348 in the 2006 six-month period, net of taxes of \$486 in the second quarter of 2006 and \$2,414 in the 2006 six-month period)	48	(610)	10	7,453
Net income	<u>\$ 241</u>	<u>\$ 17,775</u>	<u>\$ 979</u>	<u>\$ 35,951</u>
Basic net income (loss) per share of common stock:				
Continuing operations	\$ 0.03	\$ 2.51	\$ 0.13	\$ 3.92
Discontinued operations	-	(0.08)	-	1.02
Basic net income per share of common stock	<u>\$ 0.03</u>	<u>\$ 2.43</u>	<u>\$ 0.13</u>	<u>\$ 4.94</u>
Diluted net income (loss) per share of common stock:				
Continuing operations	\$ 0.03	\$ 2.40	\$ 0.13	\$ 3.71
Discontinued operations	-	(0.08)	-	0.97
Diluted net income per share of common stock	<u>\$ 0.03</u>	<u>\$ 2.32</u>	<u>\$ 0.13</u>	<u>\$ 4.68</u>
Average shares of common stock outstanding:				
Basic	7,568	7,306	7,559	7,274
Diluted	<u>7,690</u>	<u>7,660</u>	<u>7,680</u>	<u>7,679</u>

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

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

	Six Months Ended June 30,	
	2007	2006
Cash flow from operating activities:		
Net income	\$ 979	\$ 35,951
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations	(10)	(7,453)
Depreciation	623	290
Cost of real estate sold	5,358	20,700
Deferred income taxes	(158)	(8,293)
Stock-based compensation	759	679
Deposits	(358)	(2,753)
Other	(894)	(1,328)
(Increase) decrease in working capital:		
Accounts receivable and prepaid expenses	(332)	255
Accounts payable, accrued liabilities and other	(314)	(2,980)
Net cash provided by continuing operations	5,653	35,068
Net cash (used in) provided by discontinued operations	(304)	1,850
Net cash provided by operating activities	<u>5,349</u>	<u>36,918</u>
Cash flow from investing activities:		
Purchases and development of real estate properties	(17,143)	(12,375)
Development of commercial leasing properties and other expenditures	(334)	(6,134)
Municipal utility district reimbursements	2,557	1,328
Net cash used in continuing operations	(14,920)	(17,181)
Net cash provided by discontinued operations	-	3,988
Net cash used in investing activities	<u>(14,920)</u>	<u>(13,193)</u>
Cash flow from financing activities:		
Borrowings from revolving credit facility	15,450	15,000
Payments on revolving credit facility	(18,450)	(27,997)
(Payments on) borrowings from TIAA mortgage	(154)	22,800
Borrowings from unsecured term loans	15,000	-
Borrowings from project loans	-	2,236
Repayments on project loans	-	(20,402)
Net (payments for) proceeds from exercised stock options	(35)	752
Excess tax benefit from exercised stock options	655	-
Purchases of Stratus common shares	(153)	(505)
Bank credit facility fees	-	(421)
Net cash provided by (used in) continuing operations	12,313	(8,537)
Net cash used in discontinued operations	-	(6,461)
Net cash provided by (used in) financing activities	12,313	(14,998)
Net increase in cash and cash equivalents	2,742	8,727
Cash and cash equivalents at beginning of year	1,955	1,901
Cash and cash equivalents at end of period	4,697	10,628
Less cash at discontinued operations	(24)	(4)
Less cash restricted as to use	(114)	(2,797)
Unrestricted cash and cash equivalents at end of period	<u>\$ 4,559</u>	<u>\$ 7,827</u>

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

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

1. GENERAL

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2006, included in Stratus Properties Inc.'s (Stratus) Annual Report on Form 10-K (Stratus 2006 Form 10-K) filed with the Securities and Exchange Commission. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring items) considered necessary for a fair statement of the financial position of Stratus at June 30, 2007, and the results of operations for the three-month and six-month periods ended June 30, 2007 and 2006, and cash flows for the six-month periods ended June 30, 2007 and 2006. Operating results for the three-month and six-month periods ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. Certain prior year amounts have been reclassified to conform to the current year presentation.

2. EARNINGS PER SHARE

Stratus' basic net income per share of common stock was calculated by dividing the income from continuing operations, income (loss) from discontinued operations and net income by the weighted average number of common shares outstanding during the period. The following is a reconciliation of net income and weighted average common shares outstanding for purposes of calculating diluted net income per share (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Income from continuing operations	\$ 193	\$ 18,385	\$ 969	\$ 28,498
Income (loss) from discontinued operations	48	(610)	10	7,453
Net income	<u>\$ 241</u>	<u>\$ 17,775</u>	<u>\$ 979</u>	<u>\$ 35,951</u>
Weighted average common shares outstanding	7,568	7,306	7,559	7,274
Add: Dilutive stock options	97	314	100	360
Restricted stock	25	40	21	45
Weighted average common shares outstanding for purposes of calculating diluted net income per share	<u>7,690</u>	<u>7,660</u>	<u>7,680</u>	<u>7,679</u>
Diluted net income (loss) per share of common stock:				
Continuing operations	\$ 0.03	\$ 2.40	\$ 0.13	\$ 3.71
Discontinued operations	-	(0.08)	-	0.97
Diluted net income per share of common stock	<u>\$ 0.03</u>	<u>\$ 2.32</u>	<u>\$ 0.13</u>	<u>\$ 4.68</u>

3. DEBT OUTSTANDING

At June 30, 2007, Stratus had total debt of \$62.5 million, including \$0.3 million of current debt, compared to total debt of \$50.7 million, including \$0.3 million of current debt, at December 31, 2006. Stratus' debt outstanding at June 30, 2007 consisted of the following:

- \$40.0 million of borrowings outstanding under seven unsecured term loans, including two \$5.0 million loans, two \$8.0 million loans, a \$7.0 million loan and two \$3.5 million loans, all of which will mature in December 2011.
- \$22.5 million related to the mortgage from the Teachers Insurance and Annuity Association of America (TIAA) associated with the Escarpment Village shopping center, which matures in July 2016.

On June 1, 2007, Stratus entered into three separate loan agreements with First American Asset Management (FAAM). Pursuant to the loan agreements, additional borrowings totaled \$15.0 million, \$10.6 million of which was used to pay down the outstanding amounts under Stratus' revolving credit facility with Comerica Bank, and the remainder will be used for operations, capital expenditures and other development costs, including the Block 21 Project. The loan agreements will mature in December 2011. The loan agreements contain customary financial covenants and other restrictions. Except in certain

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events related to a change in control of Stratus, the loans may not be prepaid prior to December 31, 2007. Beginning on January 1, 2008, the loans may be prepaid subject to certain reinvestment charges as further described in the related promissory notes. The annual interest rate under the loan agreements is 6.915 percent. Repayments under the loan agreements can be accelerated upon the occurrence of certain customary events of default. Stratus' obligations under the loan agreements are unsecured.

For a further discussion of Stratus' debt see Note 4 of the Stratus 2006 Form 10-K.

4. RESTRICTED CASH, INTEREST COST AND STOCK-BASED COMPENSATION

Restricted Cash. Restricted cash totaled \$0.1 million at June 30, 2007 and December 31, 2006, primarily representing funds held for payment of fractional shares resulting from the May 2001 stock split (see Note 6 of the Stratus 2006 Form 10-K).

Interest Cost. Interest expense excludes capitalized interest of \$0.7 million in the second quarter of 2007, \$0.5 million in the second quarter of 2006, \$1.3 million in the first six months of 2007 and \$1.4 million in the first six months of 2006.

Stock-Based Compensation. Stock-based compensation costs are capitalized as appropriate. Compensation cost charged against earnings for stock-based awards is shown below (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Stock options awarded to employees (including directors)	\$ 118	\$ 137	\$ 235	\$ 282
Stock options awarded to nonemployees	-	1	-	2
Restricted stock units	157	149	665	570
Less capitalized amounts	(43)	(56)	(141)	(175)
Impact on net income	<u>\$ 232</u>	<u>\$ 231</u>	<u>\$ 759</u>	<u>\$ 679</u>

Stock options representing 40,625 shares at a weighted average option price of \$7.66 per share were exercised in the first six months of 2007. The tax benefit realized for the tax deductions from stock option exercises totaled \$0.7 million for the six months ended June 30, 2007 and \$0.6 million for the six months ended June 30, 2006. Upon exercise of stock options and vesting of restricted stock units, employees may tender Stratus shares to Stratus to pay the exercise price and/or the minimum required taxes. Shares tendered to Stratus for these purposes totaled approximately 32,500 shares for the six months ended June 30, 2007. Stratus paid \$0.1 million of employee taxes for stock options in the six months ended June 30, 2007. Stratus granted 38,000 restricted stock units in the six months ended June 30, 2007, at a grant date fair value of \$1.3 million. For more information regarding Stratus' stock-based awards see Notes 1 and 6 of the Stratus 2006 Form 10-K.

5. DISCONTINUED OPERATIONS

Income (loss) from discontinued operations reported in the condensed consolidated statements of income included the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Income (loss) from discontinued operations:				
7500 Rialto Boulevard	\$ 48	\$ (124)	\$ 10	\$ (248)
7000 West	-	(486)	-	7,701
Total	<u>\$ 48</u>	<u>\$ (610)</u>	<u>\$ 10</u>	<u>\$ 7,453</u>

7500 Rialto Boulevard. In the second quarter of 2007, Stratus committed to a plan to sell its two 75,000-square-foot office buildings at 7500 Rialto Boulevard. The results of operations, assets and liabilities of 7500 Rialto Boulevard, which have been reclassified to discontinued operations in the accompanying condensed consolidated financial statements, previously represented a component of Stratus' commercial leasing segment.

The table below provides a summary of 7500 Rialto Boulevard's results of operations for the three-month and six-month periods ended June 30, 2007 and 2006 (in thousands):

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Rental income	\$ 693	\$ 354	\$ 1,325	\$ 694
Rental property costs	(459)	(279)	(908)	(477)
Depreciation	(147)	(148)	(386)	(295)
Interest expense ^a	(10)	(51)	(13)	(170)
Provision for income taxes	(29)	-	(8)	-
Income (loss) from discontinued operations	<u>\$ 48</u>	<u>\$ (124)</u>	<u>\$ 10</u>	<u>\$ (248)</u>

a. Relates to interest expense from 7500 Rialto Boulevard project loan and does not include any additional allocations of interest.

The following summarizes 7500 Rialto Boulevard's net assets at June 30, 2007 and December 31, 2006 (in thousands):

	June 30, 2007	December 31, 2006
Assets:		
Cash and cash equivalents	\$ 24	\$ 39
Other current assets	172	194
Property held for sale, net of accumulated depreciation of \$2,542 and \$2,156, respectively	18,065	18,445
Other long-term assets	1,382	1,306
Liabilities:		
Other current liabilities	(428)	(1,068)
Other long-term liabilities	(94)	(94)
Net assets	<u>\$ 19,121</u>	<u>\$ 18,822</u>

7000 West. On March 27, 2006, Stratus' wholly owned subsidiary, Stratus 7000 West Joint Venture (7000 West JV), sold its two 70,000-square-foot office buildings at 7000 West William Cannon Drive (7000 West), known as the Lantana Corporate Center, to CarrAmerica Lantana, LP (CarrAmerica) for \$22.3 million, resulting in a gain of \$9.8 million (\$7.3 million net of taxes or \$1.01 per basic share and \$0.96 per diluted share) in the first six months of 2006. CarrAmerica paid \$10.6 million cash to Stratus at closing and assumed the \$11.7 million principal balance remaining under Stratus' 7000 West project loan.

Upon completion of the sale of 7000 West, Stratus ceased all involvement with the 7000 West office buildings. The results of operations, assets and liabilities of 7000 West previously were reflected as a component of Stratus' commercial leasing segment.

The table below provides a summary of 7000 West's results of operations for the three-month and six-month periods ended June 30, 2006 (in thousands):

	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Rental income	\$ -	\$ 1,057
Rental property costs	-	(403)
General and administrative expenses	-	(48)
Interest expense ^a	-	(168)
Interest income	-	2
Gain on sale	-	9,762
Provision for income taxes	(486) ^b	(2,501)
(Loss) income from discontinued operations	<u>\$ (486)</u>	<u>\$ 7,701</u>

a. Relates to interest expense from 7000 West project loan and does not include any additional allocations of interest.

b. Reflects the allocation of Stratus' second-quarter 2006 tax provision to discontinued operations in accordance with income tax accounting rules.

For a further discussion of Stratus' discontinued operations see Note 7 of the Stratus 2006 Form 10-K.

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6. BUSINESS SEGMENTS

Stratus has two operating segments, "Real Estate Operations" and "Commercial Leasing." The Real Estate Operations segment is comprised of all Stratus' developed properties, properties under development and undeveloped properties in Austin, Texas, which consist of its properties in the Barton Creek community, the Circle C community and Lantana. The Deerfield property in Plano, Texas is also included in the Real Estate Operations segment.

The Commercial Leasing segment includes the Escarpment Village project and the two office buildings at 7500 Rialto Boulevard. Rental income from Escarpment Village totaled \$0.9 million in the second quarter of 2007 and \$1.8 million in the first six months of 2007, and \$0.5 million in each of the 2006 periods. In the second quarter of 2007, Stratus committed to a plan to sell its office buildings at 7500 Rialto Boulevard and their operating results are reported as discontinued operations for the periods in the table shown below (see Note 5). Stratus sold the two 70,000-square-foot office buildings at 7000 West in March 2006 and their operating results are reported as discontinued operations for the 2006 periods (see Note 5).

Stratus' lease agreement with the anchor tenant of Escarpment Village and its contract with Trammell Crow Central Texas, Ltd. (Trammell Crow), the firm managing Escarpment Village, contain provisions requiring Stratus to share the net profits from a sale of the project. The anchor tenant and Trammell Crow are each entitled to 10 percent of any net profit from a sale of Escarpment Village after Stratus receives a 12 percent return on its investment. Stratus paid the anchor tenant its net profits interest in December 2006 based upon a hypothetical sale at fair market value. Stratus is required to pay Trammell Crow its net profits interest upon a sale of the project, but no later than May 2008. If the project is not sold prior to the deadline, then the net profits calculation will be made based upon a hypothetical sale at fair market value. As of June 30, 2007, Stratus estimates the net profit payment due Trammell Crow will total \$0.7 million. The amount of the payment to the anchor tenant (\$0.7 million) and the estimated payment to Trammell Crow are recorded in other assets and are being amortized over the anchor tenant's lease term (20 years) as a reduction of rental income. The actual payment may vary from this amount and will be based on the actual sale price of Escarpment Village or the estimated fair value of Escarpment Village, as applicable (see Note 9).

The segment data presented below were prepared on the same basis as Stratus' consolidated financial statements.

	Real Estate Operations ^a	Commercial Leasing	Other	Total
	(In Thousands)			
Three Months Ended June 30, 2007				
Revenues	\$ 6,077	\$ 885	\$ -	\$ 6,962
Cost of sales, excluding depreciation	(3,406)	(856)	-	(4,262)
Depreciation	(38)	(285)	-	(323)
General and administrative expenses	(1,587)	(259)	-	(1,846)
Operating income (loss)	<u>\$ 1,046</u>	<u>\$ (515)</u>	<u>\$ -</u>	<u>\$ 531</u>
Income from discontinued operations	<u>\$ -</u>	<u>\$ 48</u>	<u>\$ -</u>	<u>\$ 48</u>
Provision for income taxes	<u>\$ (65)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (65)</u>
Capital expenditures	<u>\$ 7,967</u>	<u>\$ 212</u>	<u>\$ -</u>	<u>\$ 8,179</u>
Total assets	<u>\$ 145,473</u>	<u>\$ 61,768^b</u>	<u>\$ 8,795^c</u>	<u>\$ 216,036</u>
Three Months Ended June 30, 2006				
Revenues	\$ 31,999	\$ 522	\$ -	\$ 32,521
Cost of sales, excluding depreciation	(11,684)	(299)	-	(11,983)
Depreciation	(34)	(217)	-	(251)
General and administrative expense	(1,694)	(189)	-	(1,883)
Operating income (loss)	<u>\$ 18,587</u>	<u>\$ (183)</u>	<u>\$ -</u>	<u>\$ 18,404</u>
Loss from discontinued operations	<u>\$ -</u>	<u>\$ (610)</u>	<u>\$ -</u>	<u>\$ (610)</u>
Benefit from income taxes	<u>\$ 33</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33</u>
Capital expenditures	<u>\$ 12,370</u>	<u>\$ 6,038</u>	<u>\$ -</u>	<u>\$ 18,408</u>
Total assets	<u>\$ 126,117</u>	<u>\$ 52,882^b</u>	<u>\$ 8,150^c</u>	<u>\$ 187,149</u>

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	Real Estate Operations ^a	Commercial Leasing	Other	Total
	(In Thousands)			
Six Months Ended June 30, 2007				
Revenues	\$ 10,724	\$ 1,812	\$ -	\$ 12,536
Cost of sales, excluding depreciation	(4,989)	(1,519)	-	(6,508)
Depreciation	(70)	(553)	-	(623)
General and administrative expenses	(3,308)	(539)	-	(3,847)
Operating income (loss)	<u>\$ 2,357</u>	<u>\$ (799)</u>	<u>\$ -</u>	<u>\$ 1,558</u>
Income from discontinued operations	<u>\$ -</u>	<u>\$ 10</u>	<u>\$ -</u>	<u>\$ 10</u>
Provision for income taxes	<u>\$ (515)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (515)</u>
Capital expenditures	<u>\$ 17,143</u>	<u>\$ 334</u>	<u>\$ -</u>	<u>\$ 17,477</u>
Six Months Ended June 30, 2006				
Revenues	\$ 43,302	\$ 569	\$ -	\$ 43,871
Cost of sales, excluding depreciation	(19,231)	(425)	-	(19,656)
Depreciation	(67)	(223)	-	(290)
General and administrative expense	(3,303)	(319)	-	(3,622)
Operating income (loss)	<u>\$ 20,701</u>	<u>\$ (398)</u>	<u>\$ -</u>	<u>\$ 20,303</u>
Income from discontinued operations	<u>\$ -</u>	<u>\$ 7,453^d</u>	<u>\$ -</u>	<u>\$ 7,453</u>
Benefit from income taxes	<u>\$ 8,293</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,293</u>
Capital expenditures	<u>\$ 18,409</u>	<u>\$ 6,134</u>	<u>\$ -</u>	<u>\$ 24,543</u>

- a. Includes sales commissions, management fees and other revenues together with related expenses.
- b. Includes assets from the discontinued operations of 7500 Rialto Boulevard, which Stratus currently has plans to sell, totaling \$19.6 million, net of accumulated depreciation of \$2.5 million, at June 30, 2007, and \$16.4 million, net of accumulated depreciation of \$1.7 million, at June 30, 2006 (see Note 5).
- c. Includes deferred tax assets resulting from the reversal of a portion of Stratus' deferred tax asset valuation allowance which was recorded as a benefit from income taxes (see Note 7).
- d. Includes a \$7.3 million gain, net of taxes of \$2.4 million, on the sale of 7000 West.

7. INCOME TAXES

Stratus' deferred tax assets at December 31, 2005 totaled \$19.5 million. At the time, Stratus had provided a 100 percent valuation allowance because realization of the deferred tax assets was not considered likely. Realization of Stratus' deferred tax assets is dependent on generating sufficient taxable income within the carryforward period available under tax law. In March 2006, Stratus sold 7000 West (see Note 5) and in April 2006, Stratus completed the sale of 58 acres at Lantana. These transactions generated pre-tax income of approximately \$26 million and, along with Stratus' current homebuilder contract arrangements and projected levels of future sales, provide sufficient evidence that Stratus will more likely than not be able to realize all of its deferred tax assets. As a result, income from continuing operations for the first six months of 2006 included an \$8.3 million, \$1.14 per basic share and \$1.08 per diluted share, tax benefit resulting from the reversal of a portion of our deferred tax asset valuation allowance. Stratus' provision for income taxes for the six months ended June 30, 2007 totaled \$0.5 million, \$0.07 per share.

Effective January 1, 2007, Stratus adopted Financial Accounting Standards Board (FASB) Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition issues. The adoption of FIN 48 had no material effect on Stratus' financial statements. Stratus will recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in non-operating expenses.

Stratus files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. With few exceptions, Stratus is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for the years prior to 2003. Recently, the Texas Comptroller of Public Accounts (the Comptroller) notified Stratus of their plan to conduct a routine audit of Stratus' Texas Franchise Tax account. Stratus anticipates that the Comptroller will complete this examination by the end of 2007. Stratus does not anticipate that adjustments resulting from this examination, if any, would result in a material change to its financial position or results of operations.

8. NEW ACCOUNTING STANDARDS

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements." SFAS No. 157 establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. In many of its pronouncements, the FASB has previously concluded that fair value information is relevant to the users of financial statements and has required (or permitted) fair value as a measurement objective. However, prior to the issuance of this statement, there was limited guidance for applying the fair value measurement objective in GAAP. This statement does not require any new fair value measurements in GAAP. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, with early adoption allowed. Stratus is still reviewing the provisions of SFAS No. 157 and has not determined the impact of adoption.

In February 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Liabilities – Including an amendment of FASB No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is effective for fiscal years beginning after November 15, 2007, with early adoption allowed. Stratus has not yet determined the impact, if any, that adopting this standard might have on its financial statements.

9. SUBSEQUENT EVENT

In July 2007, through an unsolicited offer, Christopher Investment Company, Inc. initiated discussions with Stratus regarding a potential sale of Escarpment Village. Escarpment Village is a component of Stratus' commercial leasing segment. Effective July 19, 2007, Stratus' wholly owned subsidiary, Escarpment Village, L.P., entered into a Purchase and Sale Agreement (the Agreement) with Christopher Investment Company, Inc. (the Purchaser), under which Stratus agreed to sell Escarpment Village for approximately \$46.6 million. The Purchaser has deposited \$500,000 in an escrow account, which will be credited to the purchase price payable at closing. Both parties have agreed to a review period during which the Purchaser has the right to inspect the property and conduct due diligence and may elect to terminate the Agreement. The Agreement contains customary covenants, representations and warranties. Subject to customary closing conditions, including the Purchaser's assumption of Stratus' \$22.8 million loan from TIAA, the sale is expected to close by the fourth quarter of 2007. The \$500,000 escrow deposit is refundable during the review period and in the event TIAA fails to approve the Purchaser's assumption of the TIAA loan. The sale of this property is subject to the Agreement; and except for the activities related to the Agreement, Stratus is not marketing the sale of Escarpment Village.

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REVIEW BY INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The financial information as of June 30, 2007, and for the three-month and six-month periods ended June 30, 2007 and 2006, included in Part I of this Form 10-Q pursuant to Rule 10-01 of Regulation S-X has been reviewed by PricewaterhouseCoopers LLP (PricewaterhouseCoopers), Stratus' independent registered public accounting firm, in accordance with the standards of the Public Company Accounting Oversight Board (United States). PricewaterhouseCoopers' report is included in this quarterly report.

PricewaterhouseCoopers does not carry out significant or additional procedures beyond those that would have been necessary if its report had not been included in this quarterly report. Accordingly, such report is not a "report" or "part of a registration statement" within the meaning of Sections 7 and 11 of the Securities Act of 1933 and the liability provisions of Section 11 of such Act do not apply.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated balance sheet of Stratus Properties Inc. and its subsidiaries as of June 30, 2007 and the related condensed consolidated statements of income for each of the three-month and six-month periods ended June 30, 2007 and 2006 and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2007 and 2006. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2006, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the year then ended (not presented herein), and in our report dated March 15, 2007, we expressed an unqualified opinion on those consolidated financial statements with an explanatory paragraph for the Company's change in accounting for stock-based compensation. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet information as of December 31, 2006, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

Austin, Texas
August 8, 2007

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

OVERVIEW

Management's discussion and analysis presented below should be read in conjunction with our discussion and analysis of financial results contained in our 2006 Annual Report on Form 10-K (2006 Form 10-K). The operating results summarized in this report are not necessarily indicative of our future operating results. All subsequent references to Notes refer to Notes to Condensed Consolidated Financial Statements, unless otherwise stated.

We are engaged in the acquisition, development, management and sale of commercial, multi-family and residential real estate properties located primarily in the Austin, Texas area. We conduct real estate operations on properties we own.

Our principal real estate holdings are currently in southwest Austin, Texas. As of June 30, 2007, our most significant holding is the 1,728 acres of residential, multi-family and commercial property and 27 developed residential estate lots located within the Barton Creek community. We also own approximately 350 acres of undeveloped commercial property and approximately 36 acres of commercial property under development within the Circle C Ranch (Circle C) community. Our other properties in the Circle C community currently include Meridian, which is an 800-lot residential development, and Escarpment Village, which is a 168,000-square-foot retail center anchored by a grocery store. At June 30, 2007, Meridian consisted of approximately 282 acres and 40 developed residential lots. Our remaining Austin holdings at June 30, 2007, consisted of 223 acres of commercial property and two 75,000-square-foot office buildings at 7500 Rialto Boulevard located in Lantana. In the second quarter of 2007, we committed to a plan to sell the office buildings at 7500 Rialto Boulevard and we have reported its assets, liabilities and results of operations as discontinued operations.

At June 30, 2007, our Deerfield property, which is located in Plano, Texas, consists of approximately eight acres of residential land, which is being developed, and 34 developed residential lots. We also own two acres of undeveloped commercial property in San Antonio, Texas.

In November 2005, we formed a joint venture with Trammell Crow Central Texas Development, Inc. (Trammell Crow) to acquire an approximate 74-acre tract at the intersection of Airport Boulevard and Lamar Boulevard in Austin, Texas for \$7.7 million. The property, known as Crestview Station, is a single-family, multi-family, retail and office development. With Trammell Crow, we have commenced brown field remediation and permitting of the property.

In December 2006, we acquired a city block in downtown Austin for \$15.1 million. The project, known as Block 21, is planned for a mixture of retail, hotel, residential, and entertainment uses on approximately two acres as more fully discussed in "Development and Other Activities."

BUSINESS STRATEGY

Our financial condition and results of operations are highly dependent upon market conditions in Austin. Our future operating cash flows and, ultimately, our ability to develop our properties and expand our business will be largely dependent on the level of our real estate sales. In turn, these sales will be significantly affected by future real estate market conditions in Austin, Texas, development costs, interest rate levels and regulatory issues including our land use and development entitlements. From 2001 through 2004, a downturn in the technology sector negatively affected the Austin real estate market, especially the high-end residential and commercial leasing markets; however, beginning in 2005, market conditions have improved.

Over the past several years, we have successfully worked cooperatively with the City of Austin (the City) to obtain approvals that allow the development of our properties to proceed in a timely manner while protecting the environment. We believe the desirable location and overall quality of our properties, in combination with the land use and development entitlements we have obtained, will command a premium over the value of other Austin-area properties.

Our long-term success will depend on our ability to maximize the value of our real estate through obtaining required approvals that permit us to develop and sell our properties in a timely manner at a reasonable cost. We must incur significant development expenditures and secure additional permits prior to the development and sale of certain properties. In addition, we continue to pursue additional development

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opportunities, and believe we can obtain bank financing for developing our properties at a reasonable cost. See “Risk Factors” located in Item 1A. of our 2006 Form 10-K.

As previously announced, we were exploring strategic alternatives for enhancing shareholder value, including a possible sale of the company. We retained JPMorgan as our financial advisor to assist in this process. We have terminated the process of exploring the possible sale of the company but expect to continue to review various alternatives to enhance shareholder value.

DEVELOPMENT AND OTHER ACTIVITIES

Block 21. In April 2005, the City selected our proposal to develop a mixed-use project in downtown Austin immediately north of the new City Hall complex. The project includes an entire city block and is planned for a mixture of retail, hotel, residential and entertainment uses. In December 2006, we acquired the property for \$15.1 million. We have executed agreements with Starwood Hotels & Resorts Worldwide, Inc. for the development of a W Hotel and Residences on the site. In addition, we have agreements for the new studio for KLRU’s “Austin City Limits” program and for the Austin Children’s Museum. On May 8, 2007, Stratus announced its partnership with Canyon-Johnson Urban Fund II, L.P., a joint venture between the Los Angeles-based Canyon Capital Realty Advisors and Earvin “Magic” Johnson, for the development of Block 21. We have begun the permitting process with the City and expect construction to begin by the fourth quarter of 2007.

Lantana. Lantana is a partially developed, mixed-use project with remaining entitlements for approximately 1.0 million square feet of office and retail use on 223 acres as of June 30, 2007. Regional utility and road infrastructure is in place with capacity to serve Lantana at full build-out permitted under our existing entitlements.

In September 2006, we completed a second 75,000-square-foot office building at 7500 Rialto Boulevard in response to increased demand for office space within Lantana. As of June 30, 2007, we had leased approximately 50 percent of the space at the second office building and approximately 96 percent of the original office building. In the second quarter of 2007, we committed to a plan to sell the office buildings at 7500 Rialto Boulevard and we have reported its assets, liabilities and results of operations as discontinued operations. We sold our two 7000 West office buildings in March 2006 (see Note 5).

Barton Creek Community. Since January 2002, we have secured subdivision plat approval for three new residential subdivisions within the Barton Creek Community, including: Versant Place – 54 lots, Wimberly Lane Phase II – 47 lots and Calera – 155 lots. At June 30, 2007, our remaining unsold developed lots within the Barton Creek Community included: Calera Drive – 8 lots, Wimberly Lane Phase II – 8 lots, Calera Court – 8 lots and Mirador – 3 lots. Development of the remaining Barton Creek property is expected to occur over several years.

In 2004, we entered into a contract with a national homebuilder to sell 41 lots within the Wimberly Lane Phase II subdivision in the Barton Creek community. The homebuilder paid us a non-refundable \$0.6 million deposit for the right to purchase the 41 lots. The deposit was used to pay ongoing development costs of the lots. The deposit will be applied against subsequent purchases of lots by the homebuilder after certain thresholds are achieved and will be recognized as income as lots are sold. The lots are being sold on a scheduled takedown basis, with the initial six lots sold in December 2004 following completion of subdivision utilities, and then an average of three lots per quarter beginning in June 2005. The average purchase price for each of the 41 lots is \$150,400, subject to a six percent annual escalator commencing in December 2004.

During 2004, we began construction of courtyard homes at Calera Court within the Barton Creek community. Calera Court, the initial phase of the “Calera” subdivision, will include 16 homesites on 16 acres. The second phase of Calera, Calera Drive, consisting of 53 single-family lots, many of which adjoin the Fazio Canyons Golf Course, received final plat and construction permit approval in 2005. In the third quarter of 2005, development of these lots was completed and the initial lots were sold. As of June 30, 2007, only 8 lots remained unsold at Calera Drive. Development of the final phase, known as Verano Drive, will include 71 single-family lots. Construction of the final phase of Calera began in the first quarter of 2007 and is scheduled for completion in December 2007.

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Circle C Community. We have commenced development activities at the Circle C community based on the entitlements secured in our Circle C settlement with the City. Our Circle C settlement, as amended in 2004, permits development of 1.16 million square feet of commercial space, 504 multi-family units and 830 single family residential lots. Meridian is an 800-lot residential development at the Circle C community. In January 2005, the first phase of construction commenced. During the first quarter of 2005, we contracted to sell a total of 494 lots in our Meridian project to three national homebuilders in four phases. Sales for each of the four phases commence upon substantial completion of development for that phase, and continue every quarter until all of the lots have been sold. The first and second phases each consisted of 134 lots. The first phase was substantially completed at the end of 2005. Development of the second phase commenced in the third quarter of 2005 and was substantially completed in March 2006. Development of the 108-lot third phase of Meridian has commenced and is expected to be completed by September 2007. The 118-lot fourth phase will commence by the end of 2007 and completion is expected in 2008.

In 2006, we signed another contract with a national homebuilder for 42 additional lots. Development of those lots commenced in April 2007 and substantial completion is expected in November 2007. Development of the final phase of Meridian, which consists of 57 one-acre lots, is expected to commence in 2008.

We estimate our sales from the first two phases of Meridian will total at least 26 lots for \$1.8 million during the third quarter of 2007.

The grand opening of Escarpment Village, a 168,000-square-foot retail project anchored by a grocery store at the Circle C community, was in May 2006. As of June 30, 2007, we had leases for approximately 151,600 square feet or 90 percent of the space at Escarpment Village. In July 2007, through an unsolicited offer, Christopher Investment Company, Inc. initiated discussions with us regarding a potential sale of Escarpment Village. Escarpment Village is a component of our commercial leasing segment. Effective July 19, 2007, our wholly owned subsidiary, Escarpment Village, L.P., entered into a Purchase and Sale Agreement (the Agreement) with Christopher Investment Company, Inc. (the Purchaser), under which we have agreed to sell Escarpment Village for approximately \$46.6 million. The Purchaser has deposited \$500,000 in an escrow account, which will be credited to the purchase price payable at closing. Both parties have agreed to a review period during which the Purchaser has the right to inspect the property and conduct due diligence and may elect to terminate the Agreement. The Agreement contains customary covenants, representations and warranties. Subject to customary closing conditions, including the Purchaser's assumption of our \$22.8 million loan from Teachers Insurance and Annuity Association of America (TIAA), the sale is scheduled to close by the fourth quarter of 2007. The \$500,000 escrow deposit is refundable during the review period and in the event TIAA fails to approve the Purchaser's assumption of the TIAA loan. The sale of this property is subject to the Agreement; and except for activities related to the Agreement, we are not marketing the sale of Escarpment Village.

Deerfield. In January 2004, we acquired the Deerfield property in Plano, Texas, for \$7.0 million. The property was zoned and subject to a preliminary subdivision plan for 234 residential lots. We executed agreements with a national homebuilder, whereby the homebuilder paid us \$1.4 million for an option to purchase all 234 lots over 36 monthly take-downs. The net purchase price for each of the 234 lots was \$61,500, subject to certain terms and conditions. The \$1.4 million option payment is non-refundable, but will be applied against subsequent purchases of lots by the homebuilder after certain thresholds are achieved and will be recognized by us as income as lots are sold. We agreed to pay up to \$5.2 million of the homebuilder's development costs. The homebuilder must pay all property taxes and maintenance costs. The initial lot sale occurred in November 2004 and subsequent lot sales are on schedule. In October 2005, we executed a revised agreement with the homebuilder, increasing the lot sizes and average purchase price to \$67,150 based on a new total of 224 lots. We expect 15 lot sales for \$1.0 million to be completed during the third quarter of 2007.

Crestview Station. In November 2005, we formed a joint venture with Trammell Crow to acquire an approximate 74-acre tract at the intersection of Airport Boulevard and Lamar Boulevard in Austin, Texas, for \$7.7 million. With Trammell Crow, we have commenced brown field remediation and permitting of the property, known as Crestview Station, which is located on the commuter rail line approved by City of Austin voters. Crestview Station is planned for single-family, multi-family and retail development, with closings on the single-family and multi-family components and portions of the retail component expected to occur in 2007, subject to completion of the remediation process. At June 30, 2007, our investment in

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the Crestview Station project totaled \$3.8 million and the joint venture partnership had \$7.6 million of outstanding debt, of which each joint venture partner guarantees \$1.9 million.

Our joint venture partnership has contracted with a nationally recognized remediation firm to demolish the existing buildings and remediate the property in preparation for permitting. Under the terms of the remediation contract, the joint venture partnership will pay the contractor approximately \$4.9 million upon completion of performance benchmarks and certification by the State of Texas that the remediation is complete. The contractor is required to pay all costs associated with the remediation and to maintain an environmental liability policy with \$10.0 million of coverage remaining in place for a 10-year term. Pursuant to the agreement with the contractor, all environmental and legal liability was assigned to and assumed by the contractor effective November 30, 2005.

RESULTS OF OPERATIONS

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

Summary operating results follow (in thousands):

	Second Quarter		Six Months	
	2007	2006	2007	2006
Revenues:				
Real estate operations	\$ 6,077	\$ 31,999	\$ 10,724	\$ 43,302
Commercial leasing	885	522	1,812	569
Total revenues	<u>\$ 6,962</u>	<u>\$ 32,521</u>	<u>\$ 12,536</u>	<u>\$ 43,871</u>
Operating income	<u>\$ 531</u>	<u>\$ 18,404</u>	<u>\$ 1,558</u>	<u>\$ 20,303</u>
(Provision for) benefit from income taxes	<u>\$ (65)</u>	<u>\$ 33</u>	<u>\$ (515)</u>	<u>\$ 8,293</u>
Income from continuing operations	\$ 193	\$ 18,385	\$ 969	\$ 28,498
Income (loss) from discontinued operations	48	(610)	10	7,453
Net income	<u>\$ 241</u>	<u>\$ 17,775</u>	<u>\$ 979</u>	<u>\$ 35,951</u>

Our deferred tax assets at December 31, 2005 totaled \$19.5 million and we had provided a 100 percent valuation allowance because realization of the deferred tax assets was not considered likely. Realization of our deferred tax assets is dependent on generating sufficient taxable income within the carryforward period available under tax law. In March 2006, we sold 7000 West (see Note 5) and in April 2006, we completed the sale of 58 acres at our Lantana property. These transactions generated pre-tax income of approximately \$26 million and, along with our current homebuilder contract arrangements and projected levels of future sales, provide sufficient evidence that we will more likely than not be able to realize all of our deferred tax assets. As a result, income from continuing operations for the first six months of 2006 included an \$8.3 million, \$1.14 per basic share and \$1.08 per diluted share, tax benefit resulting from the reversal of a portion of our deferred tax asset valuation allowance.

We have two operating segments, "Real Estate Operations" and "Commercial Leasing" (see Note 6). The following is a discussion of our operating results by segment.

Real Estate Operations

Summary real estate operating results follow (in thousands):

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	Second Quarter		Six Months	
	2007	2006	2007	2006
Revenues:				
Developed property sales	\$ 5,317	\$ 10,969	\$ 8,660	\$ 20,507
Undeveloped property sales	-	20,745	1,083	22,245
Commissions, management fees and other	760	285	981	550
Total revenues	6,077	31,999	10,724	43,302
Cost of sales, including depreciation				
General and administrative expenses	(3,444)	(11,718)	(5,059)	(19,298)
	(1,587)	(1,694)	(3,308)	(3,303)
Operating income	\$ 1,046	\$ 18,587	\$ 2,357	\$ 20,701

Developed Property Sales. Property sales for the second-quarter and six-month periods of 2007 and 2006 included the following (revenues in thousands):

	Second Quarter			
	2007		2006	
	Lots	Revenues	Lots	Revenues
<i>Residential Properties:</i>				
Barton Creek				
Calera Drive	2	\$809	12	\$4,952
Mirador Estate	2	1,559	3	1,688
Wimberly Lane Phase II				
Standard Homebuilder Estate	3	522	3	482
Circle C				
Meridian	20	1,423	43	2,504
Deerfield				
	15	1,004	20	1,343
Total Residential	42	\$5,317	81	\$10,969

	Six Months			
	2007		2006	
	Lots	Revenues	Lots	Revenues
<i>Residential Properties:</i>				
Barton Creek				
Calera Drive	2	\$809	18	\$7,854
Calera Court Courtyard Homes	-	-	4	2,312
Mirador Estate	2	1,559	5	2,753
Wimberly Lane Phase II				
Standard Homebuilder Estate	6	1,045	5	783
Circle C				
Meridian	48	3,239	82	4,791
Deerfield				
	30	2,008	30	2,014
Total Residential	88	\$8,660	144	\$20,507

Undeveloped Property Sales. We sold a five-acre tract at Circle C for \$1.1 million during the first quarter of 2007 and a 7.5-acre tract in the Barton Creek community for \$1.5 million during the first quarter of 2006. In April 2006, we sold a 58-acre tract at Lantana for \$21.2 million of which \$0.5 million represented a reimbursement of certain costs and we recorded this amount as a reduction of cost of sales.

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Commissions, Management Fees and Other. Commissions, management fees and other revenues increased in the 2007 periods compared to the 2006 periods primarily because of the increase in sales activity and related commissions received by our wholly owned subsidiary, Avalon Realty.

Cost of Sales. Cost of sales for the first six months of 2007 included reductions totaling \$1.7 million for Barton Creek Municipal Utility District (MUD) reimbursements. Cost of sales for the 2007 periods also decreased compared to the 2006 periods primarily because of a decrease in developed property sales in the 2007 periods.

Commercial Leasing

Our commercial leasing operating results primarily reflect the activities at Escarpment Village. In the second quarter of 2007, we committed to a plan to sell the office buildings at 7500 Rialto Boulevard. The results for 7500 Rialto Boulevard are classified as discontinued operations for the 2007 and 2006 periods and the results for 7000 West which was sold in March 2006 are classified as discontinued operations for the 2006 periods (see below). Summary commercial leasing operating results follow (in thousands):

	Second Quarter		Six Months	
	2007	2006	2007	2006
Rental income	\$ 885	\$ 522	\$ 1,812	\$ 569
Rental property costs	(856)	(299)	(1,519)	(425)
Depreciation	(285)	(217)	(553)	(223)
General and administrative expenses	(259)	(189)	(539)	(319)
Operating loss	<u>\$ (515)</u>	<u>\$ (183)</u>	<u>\$ (799)</u>	<u>\$ (398)</u>

In January 2006, we began earning rental income (less than \$0.1 million for the first quarter of 2006) from Escarpment Village. The grand opening of the Escarpment Village shopping center occurred on May 12, 2006. Rental income for Escarpment totaled \$0.9 million in the second quarter of 2007 and \$1.8 million in the first six months of 2007, and \$0.5 million in each of the 2006 periods.

Other Financial Results

General and administrative expenses increased to \$3.8 million in the first six months of 2007 from \$3.6 million in the first six months of 2006, primarily because of higher compensation costs.

Non-Operating Results

Interest income totaled \$0.6 million in the first six months of 2007, compared with \$0.2 million in the first six months of 2006, primarily reflecting interest on MUD reimbursements totaling approximately \$0.5 million in the first quarter of 2007.

DISCONTINUED OPERATIONS

In the second quarter of 2007, we committed to a plan to sell the office buildings at 7500 Rialto Boulevard and we have reported its assets, liabilities and operations as discontinued operations

In September 2006, we completed a second 75,000-square-foot office building at 7500 Rialto Boulevard in response to increased demand for office space within Lantana. As of June 30, 2007, we had leased approximately 50 percent of the space at the second office building and approximately 96 percent of the original office building. We earned rental income of \$0.7 million in the second quarter of 2007, \$0.4 million in the second quarter of 2006, \$1.3 million in the first six months of 2007 and \$0.7 million in the first six months of 2006.

On March 27, 2006, our wholly owned subsidiary, Stratus 7000 West Joint Venture (7000 West JV), sold its two 70,000-square-foot office buildings at 7000 West William Cannon Drive (7000 West), known as the Lantana Corporate Center, to CarrAmerica Lantana, LP (CarrAmerica) for \$22.3 million, resulting in a gain of \$9.8 million (\$7.3 million net of taxes or \$1.01 per basic share and \$0.96 per diluted share) in the first six months of 2006. CarrAmerica paid us \$10.6 million cash at closing and assumed the \$11.7 million principal balance remaining under our 7000 West project loan.

Upon completion of the sale of 7000 West, Stratus ceased all involvement with the 7000 West office buildings. The operations, assets and liabilities of 7000 West represented a component of our commercial leasing segment.

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We earned rental income of \$1.1 million in the first six months of 2006 from the two fully leased office buildings at 7000 West.

Our discontinued operations generated net income (losses) of less than \$0.1 million in the second quarter of 2007, \$(0.6) million in the second quarter of 2006, \$10,000 in the first six months of 2007 and \$7.5 million, including a \$7.3 million gain net of taxes on the 7000 West sale, in the first six months of 2006.

CAPITAL RESOURCES AND LIQUIDITY

Comparison of Six-Months 2007 and 2006 Cash Flows

Operating activities provided cash of \$5.3 million during the first six months of 2007 and \$36.9 million during the first six months of 2006, including cash used in discontinued operations totaling \$0.3 million during the 2007 period and cash provided by discontinued operations totaling \$1.9 million during the 2006 period. Compared to the 2006 period, operating cash flows in the first six months of 2007 were reduced primarily because of the decrease in sales activities.

Cash used in investing activities totaled \$14.9 million during the first six months of 2007 and cash used in investing activities totaled \$13.2 million during the first six months of 2006. We received Barton Creek municipal utility district reimbursements totaling \$2.6 million in the first six months of 2007 and \$1.3 million in the first six months of 2006. The 2006 six-month period included \$10.0 million received from the sale of 7000 West (see "Discontinued Operations") partly offset by \$6.0 million of capital expenditures on the second building that was under construction at 7500 Rialto Boulevard. Other real estate expenditures for the six-month periods of 2007 and 2006 included development costs for properties in the Barton Creek and Circle C communities (see "Development and Other Activities").

Financing activities provided cash of \$12.3 million during the first six months of 2007, compared to \$15.0 million of cash used in financing activities during the first six months of 2006. Our financing activities in the first six months of 2007 include \$15.0 million of borrowings under our three new unsecured term loans, \$3.0 million of net repayments on our revolving line of credit and \$0.2 million of mortgage payments on our TIAA loan. In the first quarter of 2007, we also used \$0.2 million to repurchase shares of our common stock on the open market (see below). During the first six months of 2006, our financing activities included \$13.0 million of net repayments on our revolving line of credit, \$22.8 million of borrowings under our TIAA loan and \$18.2 million of net repayments on our project construction loans. See "Credit Facility and Other Financing Arrangements" below for a discussion of our outstanding debt at June 30, 2007.

In 2001, our Board of Directors approved an open market share purchase program for up to 0.7 million shares of our common stock. During the first quarter of 2007, we purchased 4,400 shares for \$0.2 million, a \$34.85 per share average. A total of 465,410 shares remain available under this program. Our loan agreement with Comerica provides a limit of \$6.5 million for common stock purchases after September 30, 2005 of which \$5.7 million is available at June 30, 2007. The timing of future purchases of our common stock is dependent on many factors including the price of our common shares, our cash flows and financial position, and general economic and market conditions.

Credit Facility and Other Financing Arrangements

At June 30, 2007, we had total debt of \$62.5 million, including \$0.3 million of current debt, compared to total debt of \$50.7 million, including \$0.3 million of current debt, at December 31, 2006. Our debt outstanding at June 30, 2007 consisted of the following:

- \$40.0 million of borrowings outstanding under seven unsecured term loans, including two \$5.0 million loans, two \$8.0 million loans, a \$7.0 million loan and two \$3.5 million loans, all of which will mature in December 2011.
- \$22.5 million related to the mortgage from TIAA associated with the Escarpment Village shopping center, which matures in July 2016.

On June 1, 2007, we entered into three separate loan agreements with First American Asset Management (FAAM). Pursuant to the loan agreements, additional borrowings totaled \$15.0 million, \$10.6 million of which was used to pay down the outstanding amounts under our revolving credit facility with Comerica Bank, and the remainder will be used for operations, capital expenditures and other development costs, including the Block 21 Project. The loan agreements will mature in December 2011.

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The loan agreements contain customary financial covenants and other restrictions. Except in certain events related to a change in control, the loans may not be prepaid prior to December 31, 2007. Beginning on January 1, 2008, the loans may be prepaid subject to certain reinvestment charges as further described in the related promissory notes. The annual interest rate under the loan agreements is 6.915 percent. Repayments under the loan agreements can be accelerated upon the occurrence of certain customary events of default. Our obligations under the loan agreements are unsecured.

For a further discussion of our debt see Note 4 of our 2006 Form 10-K.

STOCK BASED COMPENSATION

Effective January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" or (SFAS No. 123R), using the modified prospective transition method. For more information regarding our accounting for stock-based awards see Note 1 of our 2006 Form 10-K.

Compensation cost charged against earnings for stock-based awards is shown below (in thousands). We capitalized less than \$0.1 million of stock-based compensation costs to fixed assets in the second quarter of 2007 and \$0.1 million in the second quarter of 2006, \$0.1 million in the 2007 six-month period and \$0.2 million in the 2006 six-month period.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Cost of sales	\$ 89	\$ 62	\$ 292	\$ 195
General and administrative expenses	143	169	467	484
Total stock-based compensation cost	\$ 232	\$ 231	\$ 759	\$ 679

CAUTIONARY STATEMENT

Management's Discussion and Analysis of Financial Condition and Results of Operation and Disclosures about Market Risks contains forward-looking statements regarding future reimbursements for infrastructure costs, future events related to financing and regulatory matters, the expected results of our business strategy, and other plans and objectives of management for future operations and activities. Important factors that could cause actual results to differ materially from our expectations include economic and business conditions, business opportunities that may be presented to and pursued by us, changes in laws or regulations and other factors, many of which are beyond our control, and other factors that are described in more detail under "Risk Factors" located in our 2006 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

There have been no significant changes in our market risks since the year ended December 31, 2006. For more information, please read the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2006.

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-14(c) and 15d-14(c) 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 their evaluation, they have concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to Stratus (including our consolidated subsidiaries) required to be disclosed in our periodic Securities and Exchange Commission filings.

(b) Changes in internal controls. There has been no change in our internal control over financial reporting that occurred during the second quarter that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

PART II. – OTHER INFORMATION

Item 1. Legal Proceedings.

We may from time to time be involved in various legal proceedings of a character normally incident to the ordinary course of our business. We believe that potential liability from any of these pending or threatened proceedings will not have a material adverse effect on our financial condition or results of operations. We maintain liability insurance to cover some, but not all, potential liabilities normally incident to the ordinary course of our business as well as other insurance coverage customary in our business, with such coverage limits as management deems prudent.

Item 1A. Risk Factors.

There have been no material changes to our risk factors since the year ended December 31, 2006. For more information, please read Item 1A included in our Form 10-K for the year ended December 31, 2006.

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

In February 2001, our Board of Directors approved an open market share purchase program for up to 0.7 million shares of our common stock. The program does not have an expiration date. Our loan agreement with Comerica provides a limit of \$6.5 million for common stock purchases after September 30, 2005. At June 30, 2007, \$5.7 million remains under the Comerica agreement for purchases of common stock.

Item 6. Exhibits.

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

Instruments with respect to other long-term debt of Stratus and its consolidated subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K since the total amount authorized under each such omitted instrument does not exceed 10 percent of the total assets of Stratus and its subsidiaries on a consolidated basis. Stratus hereby agrees to furnish a copy of any such instrument to the Securities and Exchange Commission upon request.

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/ John E. Baker
John E. Baker
Senior Vice President and
Chief Financial Officer
(authorized signatory and
Principal Financial Officer)

Date: August 8, 2007

**STRATUS PROPERTIES INC.
EXHIBIT INDEX**

**Exhibit
Number**

- 3.1 Amended and Restated Certificate of Incorporation of Stratus. Incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q of Stratus for the quarter ended March 31, 2004 (Stratus' 2004 First Quarter Form 10-Q).
- 3.2 Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Stratus, dated May 14, 1998. Incorporated by reference to Exhibit 3.2 to Stratus' 2004 First Quarter Form 10-Q.
- 3.3 Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Stratus, dated May 25, 2001. Incorporated by reference to Exhibit 3.2 to the Annual Report on Form 10-K of Stratus for the year ended December 31, 2001 (Stratus' 2001 Form 10-K).
- 3.4 By-laws of Stratus, as amended as of February 11, 1999. Incorporated by reference to Exhibit 3.4 to Stratus' 2004 First Quarter Form 10-Q.
- 4.1 Rights Agreement dated as of May 16, 2002, between Stratus and Mellon Investor Services LLP, as Rights Agent, which includes the Certificates of Designation of Series C Participating Preferred Stock; the Forms of Rights Certificate Assignment, and Election to Purchase; and the Summary of Rights to Purchase Preferred Shares. Incorporated by reference to Exhibit 4.1 to Stratus' Registration Statement on Form 8-A dated May 22, 2002.
- 4.2 Amendment No. 1 to Rights Agreement between Stratus Properties Inc. and Mellon Investor Services LLC, as Rights Agent, dated as of November 7, 2003. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of Stratus dated November 7, 2003.
- 10.1 Modification and Extension Agreement by and between Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P., Austin 290 Properties, Inc., Calera Court, L.P., and Comerica Bank effective July 19, 2006. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Stratus dated July 19, 2006.
- 10.2 Loan Agreement by and between Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P., Austin 290 Properties, Inc., Calera Court, L.P., and Comerica Bank dated as of September 30, 2005. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Stratus dated September 30, 2005.
- 10.3 Revolving Promissory Note by and between Stratus Properties Inc., Stratus Properties Operating Co., L.P., Circle C Land, L.P., Austin 290 Properties, Inc., Calera Court, L.P., and Comerica Bank dated as of September 30, 2005. Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Stratus dated September 30, 2005.
- 10.4 Loan Agreement dated December 28, 2000, by and between Stratus Properties Inc. and Holliday Fenoglio Fowler, L.P., subsequently assigned to an affiliate of First American Asset Management. Incorporated by reference to Exhibit 10.20 to the Annual Report on Form 10-K of Stratus for the year ended December 31, 2000.
- 10.5 Loan Agreement dated June 14, 2001, by and between Stratus Properties Inc. and Holliday Fenoglio Fowler, L.P., subsequently assigned to an affiliate of First American Asset Management. Incorporated by reference to Exhibit 10.20 to the Quarterly Report on Form 10-Q of Stratus for the quarter ended September 30, 2001.
- 10.6 Construction Loan Agreement dated June 11, 2001, between 7500 Rialto Boulevard, L.P. and Comerica Bank-Texas. Incorporated by Reference to Exhibit 10.26 to Stratus' 2001 Form 10-K.
- 10.7 Modification Agreement dated January 31, 2003, by and between Lantana Office Properties I, L.P., formerly 7500 Rialto Boulevard, L.P., and Comerica Bank-Texas. Incorporated by reference to Exhibit 10.19 to the Quarterly Report on Form 10-Q of Stratus for the quarter ended March 31, 2003.

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- 10.8 Second Modification Agreement dated as of December 29, 2003, to be effective as of January 31, 2004, by and between Lantana Office Properties I, L.P., a Texas limited partnership (formerly known as 7500 Rialto Boulevard, L.P.), as borrower, and Comerica Bank, as lender. Incorporated by reference to Exhibit 10.20 to the Annual Report on Form 10-K of Stratus for the year ended December 31, 2003 (Stratus' 2003 Form 10-K).
- 10.9 Guaranty Agreement dated June 11, 2001, by Stratus Properties Inc. in favor of Comerica Bank-Texas. Incorporated by Reference to Exhibit 10.27 to Stratus' 2001 Form 10-K.
- 10.10 Loan Agreement dated September 22, 2003, by and between Calera Court, L.P., as borrower, and Comerica Bank, as lender. Incorporated by reference to Exhibit 10.26 to the Quarterly Report on Form 10-Q of Stratus for the quarter ended September 30, 2003.
- 10.11 Development Agreement dated August 15, 2002, between Circle C Land Corp. and City of Austin. Incorporated by reference to Exhibit 10.18 to the Quarterly Report on Form 10-Q of Stratus for the quarter ended September 30, 2002.
- 10.12 First Modification Agreement dated March 27, 2006, by and between Stratus 7000 West Joint Venture, as Old Borrower, and CarrAmerica Lantana, LP, as New Borrower, and Teachers Insurance and Annuity Association of America, as Lender. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Stratus dated March 27, 2006.
- 10.13 Agreement of Sale and Purchase dated November 23, 2005, by and between Stratus Properties Operating Co., L.P., as Seller, and Advanced Micro Devices, Inc., as Purchaser. Incorporated by reference to Exhibit 10.12 to the Quarterly Report on Form 10-Q of Stratus for the quarter ended March 31, 2006 (Stratus' 2006 First Quarter Form 10-Q).
- 10.14 First Amendment to Agreement of Sale and Purchase dated April 26, 2006, by and between Stratus Properties Operating Co., L.P., as Seller, and Advanced Micro Devices, Inc., as Purchaser. Incorporated by reference to Exhibit 10.13 to Stratus' 2006 First Quarter Form 10-Q.
- 10.15 Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing dated as of June 30, 2006, by and among Escarpment Village, L.P. and Teachers Insurance and Annuity Association of America. Incorporated by reference to Exhibit 10.15 to the Quarterly Report on Form 10-Q of Stratus for the quarter ended June 30, 2006 (Stratus' 2006 Second Quarter Form 10-Q).
- 10.16 Promissory Note dated as of June 30, 2006, by and between Escarpment Village, L.P. and Teachers Insurance and Annuity Association of America. Incorporated by reference to Exhibit 10.16 to Stratus' 2006 Second Quarter Form 10-Q.
- 10.17 Amended and Restated Loan Agreement between Stratus Properties Inc. and American Strategic Income Portfolio Inc.-II dated as of December 12, 2006. Incorporated by reference to Exhibit 10.17 to the Annual Report on Form 10-K of Stratus for the year ended December 31, 2006 (Stratus' 2006 Form 10-K).
- 10.18 Amended and Restated Loan Agreement between Stratus Properties Inc. and American Select Portfolio Inc. dated as of December 12, 2006. Incorporated by reference to Exhibit 10.18 to Stratus' 2006 Form 10-K.
- 10.19 Loan Agreement between Stratus Properties Inc. and Holliday Fenoglio Fowler, L.P. dated as of December 12, 2006. Incorporated by reference to Exhibit 10.19 to Stratus' 2006 Form 10-K.
- 10.20 Loan Agreement between Stratus Properties Inc. and Holliday Fenoglio Fowler, L.P. dated as of December 12, 2006. Incorporated by reference to Exhibit 10.20 to Stratus' 2006 Form 10-K.

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- [10.21](#) Letter Agreement between Stratus Properties Inc. and Canyon-Johnson Urban Fund II, L.P., dated as of May 4, 2007.
- [10.22](#) Loan Agreement between Stratus Properties Inc. and Holliday Fenoglio Fowler, L.P. dated as of June 1, 2007, subsequently assigned to American Select Portfolio Inc., an affiliate of First American Asset Management.
- [10.23](#) Loan Agreement between Stratus Properties Inc. and Holliday Fenoglio Fowler, L.P. dated as of June 1, 2007, subsequently assigned to American Strategic Income Portfolio Inc., an affiliate of First American Asset Management.
- [10.24](#) Loan Agreement between Stratus Properties Inc. and Holliday Fenoglio Fowler, L.P. dated as of June 1, 2007, subsequently assigned to American Strategic Income Portfolio Inc.-III, an affiliate of First American Asset Management.
- Executive Compensation Plans and Arrangements (Exhibits 10.25 through 10.36)
- 10.25 Stratus' Performance Incentive Awards Program, as amended, effective February 11, 1999. Incorporated by reference to Exhibit 10.24 to Stratus' 2004 First Quarter Form 10-Q.
- 10.26 Stratus Properties Inc. Stock Option Plan, as amended and restated. Incorporated by reference to Exhibit 10.22 to the Quarterly Report on Form 10-Q of Stratus for the quarter ended March 31, 2007 (Stratus' 2007 First Quarter Form 10-Q).
- 10.27 Stratus Properties Inc. 1996 Stock Option Plan for Non-Employee Directors, as amended and restated. Incorporated by reference to Exhibit 10.23 to Stratus' 2007 First Quarter Form 10-Q.
- 10.28 Stratus Properties Inc. 1998 Stock Option Plan, as amended and restated. Incorporated by reference to Exhibit 10.24 to Stratus' 2007 First Quarter Form 10-Q.
- 10.29 Form of Notice of Grant of Nonqualified Stock Options under the 1998 Stock Option Plan. Incorporated by reference to Exhibit 10.24 to the Quarterly Report on Form 10-Q of Stratus for the quarter ended June 30, 2005 (Stratus' 2005 Second Quarter Form 10-Q).
- 10.30 Form of Restricted Stock Unit Agreement under the 1998 Stock Option Plan. Incorporated by reference to Exhibit 10.26 to Stratus' 2007 First Quarter Form 10-Q.
- 10.31 Stratus Properties Inc. 2002 Stock Incentive Plan, as amended and restated. Incorporated by reference to Exhibit 10.27 to Stratus' 2007 First Quarter Form 10-Q.
- 10.32 Form of Notice of Grant of Nonqualified Stock Options under the 2002 Stock Incentive Plan. Incorporated by reference to Exhibit 10.27 to Stratus' 2005 Second Quarter Form 10-Q.
- 10.33 Form of Restricted Stock Unit Agreement under the 2002 Stock Incentive Plan. Incorporated by reference to Exhibit 10.29 to Stratus' 2007 First Quarter Form 10-Q.
- 10.34 Stratus Director Compensation. Incorporated by reference to Exhibit 10.20 to the Annual Report on Form 10-K of Stratus for the year ended December 31, 2005.
- 10.35 Change of Control Agreement between Stratus Properties Inc. and William H. Armstrong III, effective as of January 26, 2007. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Stratus dated January 24, 2007.
- 10.36 Change of Control Agreement between Stratus Properties Inc. and John E. Baker, effective as of January 26, 2007. Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Stratus dated January 24, 2007.
- [15.1](#) Letter from PricewaterhouseCoopers LLP regarding the unaudited interim financial statements.

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- [31.1](#) Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).
- [31.2](#) Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).
- [32.1](#) Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.
- [32.2](#) Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.

CANYON-JOHNSON URBAN FUND II, L.P.

9665 Wilshire Boulevard, Suite 200
Beverly Hills, California 90212

May 4, 2007

**Via Facsimile and
Overnight Courier**

Stratus Properties, Inc., a Delaware corporation
Mr. William H. Armstrong, III
98 San Jacinto Boulevard, Suite 220
Austin, Texas 78701

Re: Block 21 – Austin, Texas – Agreement to Form Company

Dear Beau:

Reference is made to that certain Term Sheet (the "**Term Sheet**") executed as of February 22, 2007 by Canyon-Johnson Urban Fund II, L.P., a Delaware limited partnership ("**Urban**") and your affiliate, Stratus Properties Operating Co., L.P., a Delaware limited partnership. Capitalized terms not otherwise defined herein shall have the meanings assigned to them in the Operating Agreement described below.

We are pleased to inform you that subject to the terms and conditions of this Agreement to Form Company ("**Agreement**"), Urban hereby agrees (i) to enter into an Operating Agreement with your affiliate STRATUS BLOCK 21 INVESTMENTS, L.P. ("**Stratus Member**" or "**Stratus**") substantially in the form attached hereto as Exhibit A ("**Operating Agreement**") (subject to such changes made necessary by changes to the Initial Budget attached to the Operating Agreement as may arise in the interim period prior to Closing and as approved by Urban, and the completion of exhibits and schedules, which the parties agree to act in good faith to complete as expeditiously as possible) in order that Urban and Stratus Member may become members of CJUF II Stratus Block 21 LLC, a Delaware limited liability company ("**Company**"), (ii) contribute the Urban Contribution at such time as described in the Operating Agreement, and (iii) immediately thereafter cause the Company to execute a development agreement with a qualified developer ("**Developer**") wholly owned by Stratus Properties, Inc. ("**SPI**") substantially in the form of Exhibit B hereto (subject, however to the completion of exhibits and schedules reasonably satisfactory in substance to Urban) ("**Development Agreement**"). All terms not defined herein shall have the meanings assigned thereto in the Operating Agreement or Development Agreement, as applicable. The date on

which Urban shall execute the Operating Agreement, and fund its initial contribution at such times contemplated therein, Stratus shall contribute the Stratus Contribution, and the Company executes the Development Agreement, shall be referred to herein as the Closing Date (the "**Closing Date**"). Urban's obligation to close on the Closing Date shall be subject to and conditioned upon the satisfaction of the following conditions (the "**Closing Conditions**"): (i) Stratus shall contemporaneously execute the Operating Agreement and contribute the Stratus Contribution as contemplated in the Operating Agreement; (ii) from and after the date of this Agreement, Urban shall not discover or otherwise become aware of any information not heretofore disclosed to Urban in writing that is inconsistent in a material and adverse manner with the information provided to Urban prior to the date hereof, of the business, assets, operations, condition (financial or otherwise), projections or prospects of the Project and/or Stratus or Developer or any of their respective affiliates (collectively, the "**Stratus Parties**" and each individually, a "**Stratus Party**"); (iii) since the date of this Agreement, no event, change or condition shall have occurred that has had, or could reasonably be expected to have, a material adverse effect on the business, assets, operations, condition (financial or otherwise), projections or prospects of any of the Stratus Parties; (iv) there shall be no moratorium or restriction or prohibition on development or construction limiting, precluding or delaying the Developer's ability to develop and construct the Project in any material respect; (v) as of their execution, the representations and warranties of Stratus and Developer contained in the Operating Agreement and Development Agreement shall be true, accurate and complete; (vi) all of the conditions set forth on Exhibit C attached hereto and incorporated herein by this reference shall be satisfied; and (vii) all of the conditions identified in clauses (i) through (vi) shall be satisfied on or prior to the "**Outside Date**" (Urban may waive or extend the time for performance of any of the above conditions in its sole discretion).

During the interim period following the parties' execution of this Agreement and the Closing Date, Urban and Stratus, together with the Developer, shall use all reasonable commercial efforts to work together in good faith to satisfy each of the conditions identified above. Stratus and Developer shall provide Urban with any updates with respect to the Project and/or to the due diligence materials and other information heretofore provided to Urban. Urban will provide Stratus and Developer any updates known to Urban and information received by Urban with respect to the Project and/or to the due diligence materials.

Stratus acknowledges that notwithstanding anything herein or in any other document to the contrary, the general partner of Urban must provide not less than ten (10) business days' advance written notice to each limited partner of any capital call. Accordingly, Stratus shall advise Urban in writing of the anticipated day of Closing Date not less than eleven (11) business days prior to such anticipated Closing Date and at that time shall also request that Urban call capital in order to fund the initial Urban Contribution. Upon timely receipt of such request, Urban will call for capital from its limited partners and in such capital call will require that such contributions be made on or prior to the business day prior to the anticipated Closing Date. The capital contributions of Urban's partners shall commence to earn a Preferred Return as contemplated in the Operating Agreement.

The Stratus Parties acknowledge and represent that they are working solely with, and will continue to work solely with, Urban until the Outside Date in an effort to consummate the transactions contemplated herein and in so doing, the Stratus Parties acknowledge that Urban

has spent significant time and money investigating the proposed transactions in order to be able to issue this Agreement and will continue to spend a significant amount of time and money in preparation of a Closing (as such term is defined in the Operating Agreement). If the Closing Date has not occurred by the Outside Date, then this Agreement will terminate and neither Urban nor any Stratus Party will have any further liabilities or obligations to each other. The Outside Date is March 15, 2008 unless Stratus has not used its reasonable commercial efforts to cause the Closing Conditions to be met on or before March 15, 2008, in which case Urban shall have the right to request that the Outside Date shall be extended for such period as Stratus shall have failed to use its reasonable commercial efforts to cause the Outside Date to occur on or prior to March 15, 2008.

If there is a **Stratus Change in Control** (defined below) prior to the time Stratus contributes the Property to the Company and the Company begins operations, or if either of Kenneth Jones or William H. Armstrong are no longer general counsel and president, respectively, of the Stratus Parties and actively supervising the Property and the Project, and replacements satisfactory to Urban in its sole discretion have not been appointed within 30 days of such occurrence (a "**Key Person Event**"), then, at Urban's election exercised within 45 days of a Stratus Change of Control, or within 15 days of the Key Person Event, Urban may elect either of the following:

(i) The Stratus Parties and SPI, jointly and severally, shall immediately pay to Urban 100% of the third party costs and expenses incurred by it plus 11% per annum on such expenses from and as made (the "**Walk Reimbursement**"), and neither Urban nor the Stratus Parties shall have any further obligation to each other (if any shall exist at that time) to consummate the transactions contemplated herein, or

(ii) Urban shall purchase all of the right, title and interest of the Stratus Parties and SPI and their affiliates in the Property and Project, and all related development rights, contract rights and other associated assets, free and clear of all monetary encumbrances (other than liens for ad valorem real estate taxes not yet due and payable) an "**Urban Purchase Event**") and pay to the Stratus Parties \$1.5 million plus the amount of Stratus' Costs and Expenses paid by the Stratus Parties prior to the date of the closing of the Urban Purchase Event (the "**Urban Purchase Event Closing**") plus all ad valorem real estate taxes allocated through the date of the Urban Purchase Event Closing, plus all costs and expenses accrued by the Stratus Parties through the Urban Purchase Event Closing that have not been paid as of such date but would properly be included in Stratus Costs and Expenses when paid. (In the event that an Urban Purchase Event occurs, the Stratus Parties and their affiliates shall cooperate in securing to Urban the benefit of the assets purchased thereunder, including the transfer of City permits and rights, loan agreements and commitments to Urban.)

Provided, however, that the Stratus Parties shall not be required to pay a Walk Reimbursement or sell pursuant to an Urban Purchase Event if such Stratus Change in Control or Key Person Event occurs at a time after (i) Urban shall have defaulted under the terms of this Agreement or (ii) if Urban shall not be obligated to proceed with the transactions contemplated hereby due to a failure of condition that Urban has not agreed to waive or extend or (iii) if the appropriate consents from Starwood Hotels & Resorts

Worldwide, Inc. have not been received on or before the Outside Date (and Stratus covenants to use commercially reasonable efforts to secure the same within 30 day of this Agreement). (For the avoidance of doubt, Urban need not make either election, and if no election is made the parties shall continue to proceed as set forth herein.)

A “**Stratus Change of Control**” means the occurrence of any of the following:

- (i) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of more than 50% of the properties or assets of SPI to any “person” (as that term is used in Section 13(d) of the Securities Exchange Act of 1934);
- (ii) the adoption of a plan relating to the liquidation or dissolution of SPI;
- (iii) the consummation of any transaction (including, without limitation, sale of stock, or any merger or consolidation), the result of which is that any “person” (as defined above) becomes the beneficial owner, directly or indirectly, of more than fifty percent (50%) of the voting stock of SPI, measured by voting power rather than number of shares; or
- (iv) the consummation of any transaction (including, without limitation, any sale, merger or consolidation), the result of which is that Stratus, in whole or in part, is no longer wholly-owned by SPI.

Each party and its affiliates and representatives agree to treat (i) all information provided by the other party or its affiliates or representatives regarding the Property or themselves or their affiliates, and (ii) the information contained in this Agreement (collectively, all “**Transaction Information**”), as confidential information provided to them by the other party or its affiliates or representatives (as the case may be). Urban may disclose this Agreement to its limited partners as long as such limited partners are informed of Urban’s confidentiality obligations herein. Further, the parties and their respective affiliates and representatives shall not disclose such Transaction Information other than for the purpose of underwriting or negotiating this transaction, or as otherwise may be required by law. Except as otherwise expressly provided in this Agreement to the contrary, this Agreement contains the entire understanding among the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements and understandings, inducements, or conditions, express or implied, oral or written, including, without limitation, that certain Block 21 Term Sheet dated February 22, 2007. All exhibits hereto are by this reference incorporated herein and are intended to be terms of this Agreement.

This Agreement and the terms hereof constitute the binding obligations of Urban, Stratus, and SPI.

Very truly yours,

CANYON-JOHNSON URBAN FUND II, L.P.,

a Delaware limited partnership

By: Canyon-Johnson Realty Advisors II, LLC,
a Delaware limited liability company,
General Partner

By: /s/ K. Robert Turner
K. Robert Turner
Authorized Signatory

By: /s/ Neville Rhone
Neville Rhone
Director

By signing in the spaces provided below, Stratus and Stratus Properties Inc., hereby acknowledge for themselves and their affiliates receipt of this Agreement as contemplated under the Term Sheet and agrees for themselves and their affiliates to be bound by the terms hereof.

STRATUS PROPERTIES OPERATING CO., L.P.,
a Delaware Limited Partnership

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

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

By: _____/s/ William H. Armstrong III _____
Name: William H. Armstrong III _____
Title: President _____

STRATUS PROPERTIES INC., a Delaware corporation

By: _____/s/ William H. Armstrong III _____
Name: William H. Armstrong III _____
Title: President _____

STRATUS BLOCK 21 INVESTMENTS, L.P.
a Texas Limited Partnership
By: STRATUS BLOCK 21 INVESTMENTS GP, L.L.C.,
a Texas limited liability company, General Partner

By: _____/s/ William H. Armstrong III _____
Name: _____ William H. Armstrong III _____
Title: _____ President _____

EXHIBIT A

Form of Operating Agreement

[See Attached]

Exhibit A

EXHIBIT B

Form of Development Agreement

[See Attached]

Exhibit B

EXHIBIT C

Additional Conditions to be approved by Urban before the Closing Date (the approval of Urban shall be given reasonably unless otherwise stated)

1. Urban shall have received litigation, judgment and lien reports for Stratus, SPI, and Stratus Properties Operating Co., L.P., and such reports shall be satisfactory to Urban.
 2. Stratus shall have caused B211 to transfer title to the Property to the Company, free and clear of any monetary liens or encumbrances except for those (i) liens and encumbrances set forth on that certain title insurance policy #175-1020212 dated February 5, 2007 issued by Commonwealth Land Title Insurance Company; (ii) in favor of a Construction Lender; (iii) required to effect the Business Plan and to be recorded after February 5, 2007; and (iv) liens for ad valorem real estate taxes not yet due and payable.
 3. The Property Agreements shall have been assigned to the Company free and clear of liens, charges and encumbrances.
 4. The Company shall have entered into the Core/Shell GMP, in form and substance reasonably acceptable Urban, with Austin Commercial, Inc., providing a guaranteed maximum price for those components of the Project as set forth on Exhibit C to the Operating Agreement.
 5. Stratus or its Affiliates shall have received thirty-five percent (35%) pre-sales on the residential condominiums, which presales shall include 5% deposits at contract signing and 5% deposits upon 50% completion of construction and such pre-sales shall equate to at least \$61 million of gross Company revenue for the 35% presold (i.e., \$174 million of total revenue projected).
 6. The City of Austin shall have issued a site development permit and a building permit for the initial phase of the Project, as described in **Exhibit C-1**.
 7. Construction loan financing on terms equal or better than the terms set forth on **Exhibit C-2** with a Construction Lender acceptable to Urban shall have been obtained.
 8. The Initial Budget and related business plans (which will include development budgets including finishing costs not covered by the guaranteed maximum price construction contract) attached to the Operating Agreement attached hereto shall at the Closing shall continue to represent and be the Stratus Parties' good faith estimate of the costs and expenses required to implement the Company's Business as contemplated in the Operating Agreement. The Initial Budget shall include all project costs (inclusive of land, hard costs, soft costs (including insurance) and other project related costs).
 9. The Members shall have unanimously approved a contractor bonding strategy for the Project.
 10. Urban shall have received an estimate of the costs, if any, of remediating, abating or otherwise responding to, any environmental conditions affecting the Property and the cost of
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environmental insurance and approved such costs and the general environmental remediation program.

11. Urban shall have received and approved an unconditional irrevocable commitment to issue an extended coverage owner's title policy on the standard Texas State Board of Insurance promulgated form and endorsements subject only to title exceptions, approved by Urban, with such endorsements as Urban shall reasonably request.

12. Evidence that the Property is properly zoned to permit development of the Project shall have been provided to Urban for its approval.

13. Architectural services agreements shall have been executed and delivered for the architect of record and for the design architect, in each case on terms, and with an architect, acceptable to Urban, and an architect's certification acceptable to Urban shall have been delivered.

14. Consents and estoppels shall have been executed, in form and substance reasonably satisfactory to Urban for each of the following: (i) R.S. Ellis, Inc. with respect to the Agreement Regarding Construction Staging, (ii) Austin Children's Museum, (iii) the City of Austin, and (iv) Starwood Hotels & Resorts Worldwide, Inc.

15. Urban shall have approved the general liability, builder's risk, continuing operations and other applicable insurance policies for the Project, all of which shall have been obtained and in force effective at the Closing Date.

16. Organizational documents for the Stratus Parties and any relevant affiliate and certificates for such parties evidencing such parties valid existence and authority to transact business shall have been delivered to Urban for its approval promptly after the date hereof and such approval shall have been obtained.

Exhibit C

EXHIBIT C-1 TO ADDITIONAL CONDITIONS

Site Development Permit and Initial Phase Building Permit

Site Development Permit

The Site Development Permit shall comprise:

1. An Unconsolidated Site Development Permit issued by the City of Austin for the garage and foundation excavation component of the Project based on the unconsolidated site plan application prepared and sealed by Bury + Partners, Engineers, dated April 17, 2007, and submitted to and approved by the City of Austin pursuant to its Land Development Code; and
2. A Consolidated Site Development Permit issued by the City of Austin for the Project based on the consolidated site plan application prepared and sealed by Bury + Partners, Engineers, and submitted to and approved by the City of Austin pursuant to its Land Development Code.

Initial Phase Building Permit

A building permit issued by the City of Austin for construction of the foundation and parking garage components of the Project based on plans and specifications prepared and sealed by BOKA Powell and Associates.

EXHIBIT C-2 TO ADDITIONAL CONDITIONS

Construction Loan Financing Terms with a Construction Lender Acceptable to Urban

LTV: A minimum loan-to-value of seventy percent (70%).

Interest Rate: A maximum annual interest rate of seven and one-half percent (7.5%).

Loan Term: A minimum loan term of thirty-six (36) months.

LOAN AGREEMENT

THIS LOAN AGREEMENT (this "**Agreement**") is made as of June 1, 2007 between STRATUS PROPERTIES INC., a Delaware corporation ("**Borrower**"), and HOLLIDAY FENOGLIO FOWLER, L.P., a Texas limited partnership ("**Lender**").

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

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

Section 1. Certain Definitions and Index to Definitions.

- A. Accounting Terms. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP and practices consistently applied.
- B. Definitions. Capitalized terms used herein shall have the respective meanings set forth in Schedule 1 attached hereto when used in this Agreement (including the Exhibits hereto) except as the context shall otherwise require. Schedule 1 is hereby made a part of this Agreement.

Section 2. Loan.

- A. Loan Amount. Lender agrees to provide a loan to Borrower in the amount of **THREE MILLION FIVE HUNDRED THOUSAND AND 00/100 DOLLARS (\$3,500,000.00)** ("**Loan**"), provided that all conditions precedent described in this Agreement have been met or waived by Lender and that Borrower is not otherwise in default as of the date of disbursement.
 - B. Note. Borrower's obligation to repay the Loan shall be further evidenced by the Note. Reference is made to the Note for certain terms relating to interest rate, payments, prepayment, Maturity Date and additional terms governing the Loan.
 - C. Referral Fee/Application Fee. In connection with the Loan, Borrower agrees to pay a referral fee of \$35,000.00 to Lender and an application fee of \$2,000 to FAF Advisors, Inc.
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Section 3. Payments by Borrower.

- A. General. All payments hereunder shall be made by Borrower to Lender at the Lending Office, or at such other place as Lender may designate in writing. Payments shall be made by wire transfer.
- B. Other Outstanding Obligations. Unless required to be paid sooner hereunder, any and all Obligations in addition to the amounts due under the Note shall be due and payable in full upon the Maturity Date.

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

- A. Borrower shall deliver, or cause to be delivered, to Lender:
- (1) A duly executed copy of this Agreement, the Note, and any and all other Loan Documents.
 - (2) A favorable written opinion of counsel for Borrower, addressed to Lender and in form and substance acceptable to Lender and its counsel.
 - (3) Current financial statements of Borrower in form and substance acceptable to Lender.
 - (4) The following organizational documents of Borrower:
 - (a) Borrower's Certificate of Incorporation as certified by the Secretary of State of the state of Borrower's organization and by the corporate secretary of Borrower, a Certificate of Good Standing dated no less recently than thirty (30) calendar days prior to the date of this Agreement, issued by the Secretary of State of the state of Borrower's organization, stating that Borrower is in good standing in such state, and evidence of good standing to transact business in the State of Texas, dated no less recently than thirty (30) calendar days prior to the date of this Agreement, issued by the Secretary of State of the State of Texas.
 - (b) A resolution of the board of directors of Borrower, certified as of the date of this Agreement by its corporate secretary, authorizing the execution, delivery and performance of this Agreement and the other Loan Documents, and all other instruments or documents to be delivered by Borrower pursuant to this Agreement.
 - (c) A certificate of Borrower's corporate secretary as to the incumbency and authenticity of the signatures of the officers of Borrower

executing any Loan Documents (Lender being entitled to rely thereon until a new such certificate has been furnished to Lender).

(5) The written consent of Comerica Bank-Texas to the Loan as required under the Comerica Loan Agreement (and/or the written consent of any other lender whose consent is required to the financing evidenced by this Agreement pursuant to agreements between Borrower and such lender(s)).

(6) Borrower will pay (prior to or contemporaneously with the funding of the Loan) the outstanding balance of the Comerica Bank-Texas Loan (as described in the Comerica Loan Agreement) in full.

- B. All acts, conditions, and things (including, without limitation, the obtaining of any necessary regulatory approvals and the making of any required filings, recordings or registrations) required to be done and performed and to have happened prior to the execution, delivery and performance of the Loan Documents to constitute the same legal, valid and binding obligations of Borrower, enforceable in accordance with their respective terms, subject to limitations as to enforceability which might result from bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights generally and subject to limitations on the availability of equitable remedies, shall have been done and performed and shall have happened in compliance with all applicable laws or shall have been waived by Lender in writing.
- C. All documentation shall be satisfactory in form and substance to Lender, and Lender shall have received any and all further information, documents and opinions which Lender may reasonably have requested in connection therewith, such documents, where appropriate, to be certified by proper authorities and officials of Borrower.
- D. All representations and warranties of Borrower to Lender set forth herein or in any of the Loan Documents shall be accurate and complete in all material respects.
- E. There shall not exist an Event of Default or an event which with the giving of notice or passage of time, or both, would be an Event of Default.

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

- A. Capacity. Borrower is duly organized, validly existing, and in good standing under the laws of the state of its organization (as described herein) and is authorized to do business in the State of Texas and in any and all other jurisdictions in which its ownership of Property or conduct of business legally requires such authorization and the failure to do so would have a Material Adverse Effect, and has full power, authority, and legal right to own its properties and assets and to conduct its business as presently conducted or proposed to be conducted, and the consummation of the

transactions contemplated herein do not, and will not, require the consent or approval of, or filing with, any Person which has not been obtained.

- B. Authority. Borrower has full power, authority and legal right to execute and deliver, and to perform and observe the provisions of the Loan Documents to be executed by Borrower. The execution, delivery and performance of the Loan Documents have been duly authorized by all necessary action, and when duly executed and delivered, will be legal, valid, and binding obligations of Borrower enforceable in accordance with their respective terms, subject to limitations as to enforceability which might result from bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights generally and subject to limitations on the availability of equitable remedies.
- C. Compliance. The execution and delivery of the Loan Documents and compliance with their terms will not violate any provision of applicable law and will not result in a breach of any of the terms or conditions of, or result in the imposition of any lien, charge, or encumbrance upon any properties of Borrower pursuant to, or constitute a default (with due notice or lapse of time or both) or result in an occurrence of an event pursuant to which any holder or holders of Indebtedness may declare the same due and payable.
- D. Financial Statements. The financial statements provided by Borrower to Lender pursuant to subsection 4.A(3) are correct and complete as of the dates indicated in such statements and fairly present the financial condition and results of operations of Borrower for the fiscal periods indicated therein.
- E. Material Adverse Events. Since the Statement Dates, neither any event nor the passage of time has resulted in a Material Adverse Effect.
- F. Litigation. Except as heretofore disclosed by Borrower to Lender in writing, there are no actions or proceedings pending, or to the knowledge of Borrower threatened, against or affecting Borrower which, if adversely determined, could reasonably be expected to have a Material Adverse Effect. Borrower is not in default with respect to any applicable laws or regulations which materially affect the operations or financial condition of Borrower, nor is it in default with respect to any other writ, injunction, demand, or decree or in default under any indenture, agreement, or other instrument to which Borrower is a party or by which Borrower may be bound where any such default would have a Materially Adverse Effect.
- G. Taxes. Borrower has filed or caused to be filed all tax returns which are required to be filed by it. Borrower has paid, or made provision for the payment of, all taxes which have or may have become due pursuant to said returns or otherwise or pursuant to an assessment received by Borrower, except such taxes, if any, as are being contested in good faith and as to which adequate reserves have been provided. The charges, accruals, and reserves in respect of income taxes on the books of Borrower are adequate. Borrower knows of no proposed material tax assessment against it and no

extension of time for the assessment of federal, state, or local taxes of Borrower is in effect or has been requested, except as disclosed in the financial statements furnished to Lender.

- H. Accurate Information. All written information supplied to Lender by or on behalf of Borrower is and shall be true and correct in all material respects, and all financial projections or forecasts of future results or events supplied to Lender by or on behalf of Borrower have been prepared in good faith and based on good faith estimates and assumptions of the management of Borrower, and Borrower has no reason to believe that such projections or forecasts are not reasonable.
- I. Use of Loan Proceeds. Borrower is not engaged principally in, nor does it have as one of its important activities, the business of extending credit for the purpose of purchasing or carrying any margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System), and no part of any advance made hereunder will be used to purchase or carry margin stock, extend credit to others for the purpose of purchasing or carrying any margin stock, or used for any purpose which violates Regulation U or Regulation X of the Board of Governors of the Federal Reserve System or any other provision of law.
- J. ERISA. No plan (as that term is defined in the Employee Retirement Income Security Act of 1974 (“**ERISA**”)) of the Borrower (a “**Plan**”) which is subject to Part 3 of Subtitle B of Title 1 of ERISA had an accumulated funding deficiency (as such term is defined in ERISA) as of the last day of the most recent fiscal year of such Plan ended prior to the date hereof, or would have had such an accumulated funding deficiency on such date if such year were the first year of such Plan, and no material liability to the Pension Benefit Guaranty Corporation has been, or is expected by the Borrower to be, incurred with respect to any such Plan. No Reportable Event (as defined in ERISA) has occurred and is continuing in respect to any such Plan.

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

- A. Financial Statements, Reports and Certifications. Borrower will furnish to Lender, in form and substance satisfactory to Lender:
 - (1) As soon as possible after the end of each fiscal year of Borrower, and in any event within ninety (90) Business Days thereafter, (i) a complete copy of its annual audit which shall include the balance sheet of Borrower as of the close of the fiscal year and an income statement for such year, certified by the Auditors without material qualification, (ii) a statement of changes in partners’ equity and cash flows for the period ended on such date, certified by the Auditors, and (iii) a statement certified by the chief financial officer of Borrower that no act or omission has occurred which has resulted in an Event or Default or, if not

cured, remedied, waived or otherwise eliminated to the satisfaction of Lender, would result in an Event of Default;

- (2) No later than thirty (30) Business Days after the close of each Accounting Period, (i) Borrower's balance sheet as of the close of such Accounting Period and its income statement for that portion of the then current fiscal year through the end of such Accounting Period prepared in accordance with GAAP and certified as being complete, correct, and fairly representing its financial condition and results of operations by the chief financial officer of Borrower, subject to the absence of footnotes and year-end adjustments, (ii) a statement of changes in equity and cash flows for the period ended on such date, certified by the chief financial officer of Borrower, (iii) the calculation of the Debt Service Coverage Ratio demonstrating compliance with Subsection 8.G. of this Agreement, together with any supporting calculations used to arrive at such calculation, certified by the chief financial officer of Borrower, and (iv) a completed Borrower's Officer's Compliance Certificate;
- (3) Promptly upon the filing or receiving thereof, copies of all reports which the Borrower files under ERISA or which the Borrower receives from the Pension Benefit Guaranty Corporation if such report shows any material violation or potential violation by the Borrower of its obligations under ERISA; and
- (4) Such other information concerning Borrower as Lender may reasonably request.

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

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

with respect to any stamp or other taxes (other than transfer or income taxes) which may be determined to be payable in connection with the making of the Loan Documents.

- D. Taxes and Expenses Regarding Borrower's Property. Borrower shall make due and timely payment or deposit of all taxes, assessments or contributions required of it, except such deposits, assessments or contributions which are being contested in good faith and as to which, in the reasonable determination of Lender, adequate reserves have been provided.
- E. Notice of Events. Promptly after the later of (i) the occurrence thereof or (ii) such time as Borrower has knowledge of the occurrence thereof, Borrower will give Lender written notice of any Event of Default or any event which with the giving of notice or passage of time, or both, would become an Event of Default; provided, however, in the event that the respective Event of Default is subsequently cured as permitted herein, such failure to give notice shall also be deemed to be cured.
- F. Notice of Litigation. In addition to any regularly scheduled reporting required to be delivered with the Borrower's Officer's Certificate, Borrower will promptly give notice to Lender in writing of (i) any litigation or other proceedings against Borrower involving claims for amounts in excess of \$250,000 that Borrower does not reasonably expect are covered by insurance, (ii) any labor controversy resulting in or threatening to result in a strike against Borrower, or (iii) any proposal by any public authority to acquire a material portion of the assets or business of Borrower.
- G. Other Debt. Borrower will promptly pay and discharge any and all Indebtedness when due (where the failure to do so either individually or in the aggregate with any such other unpaid Indebtedness would have a Material Adverse Effect), and lawful claims which, if unpaid, might become a lien or charge upon the Property of Borrower, except such as may in good faith be contested or disputed or for which arrangements for deferred payment have been made, provided appropriate reserves are maintained to the satisfaction of Lender for the eventual payment thereof in the event it is found that such Indebtedness is an Indebtedness payable by Borrower, and when such dispute or contest is settled and determined, will promptly pay the full amount then due.
- H. Cooperation. Borrower will execute and deliver to Lender any and all documents, and do or cause to be done any and all other acts reasonably deemed necessary by Lender, in its reasonable discretion, to effect the provisions and purposes of this Agreement.
- I. Maintenance of Insurance; Notice of Loss. Borrower shall maintain such insurance with reputable insurance carriers as is normally carried by companies engaged in similar businesses and owning similar Property. Upon request from Lender, Borrower will provide Lender with certificates indicating that such insurance is in effect and all premiums due have been paid.

- J. Location of Business. Borrower will give Lender written notice immediately upon forming an intention to change the location of its chief place of business.
- K. Maintenance of Existence. Borrower will preserve and maintain its legal existence and all rights, privileges and franchises necessary or desirable in the normal conduct of its business, will conduct its business in an orderly, efficient and regular manner, and will comply with all applicable laws and regulations and the terms of any indenture, contract or other instrument to which it may be a party or under which it or its properties may be bound, in each instance where the failure to do so would have a Material Adverse Effect.
- L. Compliance with ERISA. Cause each Plan to comply and be administered in accordance with those provisions of ERISA which are applicable to such Plan.

Section 7. Negative Covenants of Borrower. Except as expressly provided for in Section 7 H. below, and subject to the terms and conditions set forth therein, until payment in full of the Obligations, without the prior written consent of Lender (which consent may be withheld in the sole discretion and determination of Lender), Borrower will not do any of the following items A through G:

- A. Sale of Assets. Borrower will not sell, abandon, or otherwise dispose of any of its assets except in the ordinary course of business.
- B. Consolidation, Merger, etc. Borrower will not consolidate with, merge into, or sell (whether in a single transaction or in a series of transactions) all or substantially all of its assets to any Person.
- C. Change in Business. Borrower will not make any change in the nature of the business of Borrower or a Subsidiary which would result in a material change in the character of the business of Borrower, taken as a whole.
- D. Transactions with Affiliates. Borrower will not enter into any transaction with any Person affiliated with Borrower on terms materially less favorable to Borrower, than at the time could be available to Borrower, from any Person not affiliated with Borrower.
- E. Plans. Borrower will not sponsor or contribute to any other Plan or other defined benefit pension plan or contributes to any multi-employer pension plan.

F. Dividends, Redemptions.

- (1) Borrower will not, except as allowed below, declare or pay any dividend on, or declare or make any other distribution on account of, any stock interest or other ownership interest.
- (2) Borrower will not, except as allowed below, directly or indirectly redeem, retire, purchase, or otherwise acquire beneficially any shares of any class of its own stock now or hereafter outstanding or set apart any sum for any such purpose. The foregoing notwithstanding, Borrower may redeem, retire, purchase or otherwise acquire beneficially shares of common stock of Borrower in an aggregate amount that does not exceed \$5,000,000.

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

H. Change of Control. Notwithstanding anything to the contrary, in the event of a contemplated Change in Control (as defined below) Borrower shall give thirty (30) days' prior written notice to Lender indicating whether it (i) intends to prepay the Loan, which it shall have the right to do in its sole and absolute discretion, subject to a prepayment premium of one percent (1%) of the then outstanding balance of the Loan (the "Change in Control Prepayment Premium") or in the event of a voluntary Change in Control under H.(a)(iii) below, the Reinvestment Charge, or (ii) requests Lender's written consent to such Change in Control (with the intent to keep the Loan in place, subject to the terms hereof) which may be withheld, conditioned or delayed, for any or no reason, in its sole and absolute discretion.

Provided, notwithstanding anything to the contrary (including any prepayment provisions or limitations in the Note, and without limiting its ability to prepay the Loan pursuant to the provisions of the Note), if such consent is not granted, Borrower may subsequently choose to prepay the Loan, together with (i) the Change in Control Prepayment Premium or (ii) in the case of a voluntary Change in Control under H.(a)(iii) below (i.e., one not necessitated by the death, incapacity or other occurrence preventing a member of the senior management from fulfilling his role in the management of Borrower), the Reinvestment Charge. Any Change in Control in contravention of the provisions set forth herein, shall be an immediate Event of Default (as defined in Section 8 below) and Borrower shall be liable for the Change in Control Prepayment Premium and Lender may also pursue any other remedies available to it at law, in equity or under Section 8 of this Agreement.

(a) As used herein "Change of Control" means (capitalized terms not otherwise defined will have the meanings ascribed to them in paragraph (b) below):

(i) the acquisition by any Person together with all Affiliates of such Person, of Beneficial Ownership of the Threshold Percentage or more; provided, however, that for purposes of this Section 7 H.(a)(i), the following will not constitute a Change of Control:

(A) any acquisition of Company Voting Stock by the Company or its subsidiaries,

(B) any acquisition of Company Voting Stock by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation or other entity controlled by the Company; or

(ii) individuals who, as of the effective date of this Agreement, constitute the Board (the “**Incumbent Board**”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the effective date of this Agreement whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board will be considered a member of the Incumbent Board, unless such individual’s initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or any other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Incumbent Board; or

(iii) a majority of those three individuals currently comprising senior management, William H. Armstrong, President, John E. Baker, Senior Vice President, and Kenneth N. Jones, General Counsel, cease to serve in their current positions; or

(iv) the consummation of a reorganization, merger or consolidation (including a merger or consolidation of the Company or any direct or indirect subsidiary of the Company), or sale or other disposition of all or substantially all of the assets of the Company (a “**Business Combination**”), in each case, unless, immediately following such Business Combination:

(A) the individuals and entities who were the Beneficial Owners of the Company Voting Stock immediately prior to such Business Combination have direct or indirect Beneficial Ownership of more than 50% of the then outstanding shares of common stock, and more than 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, of the Post-Transaction Corporation, and

(B) no Person together with all Affiliates of such Person (excluding the Post-Transaction Corporation and any employee benefit plan or related trust of either the Company, the Post-Transaction Corporation or any subsidiary of either corporation) Beneficially Owns 30% or more of the then outstanding shares of common stock of the Post-Transaction Corporation or 30% or more of the combined voting power of the then outstanding voting securities of the Post-Transaction Corporation, and

(C) at least a majority of the members of the board of directors of the Post-Transaction Corporation were members of the Incumbent Board at the time of the execution of the initial agreement, and of the action of the Board, providing for such Business Combination; or

(v) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

(b) As used in this Section 7 H. and elsewhere in this Agreement, the following terms have the meanings indicated:

(i) Affiliate: “**Affiliate**” means a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, another specified Person.

(ii) Beneficial Owner: “**Beneficial Owner**” (and variants thereof), with respect to a security, means a Person who, directly or indirectly (through any contract, understanding, relationship or otherwise), has or shares (A) the power to vote, or direct the voting of, the security, and/or (B) the power to dispose of, or to direct the disposition of, the security.

(iii) Company Voting Stock: “**Company Voting Stock**” means any capital stock of the Company that is then entitled to vote for the election of directors.

(iv) Majority Shares: “**Majority Shares**” means the number of shares of Company Voting Stock that could elect a majority of the directors of the Company if all directors were to be elected at a single meeting.

(v) Person: “**Person**” means a natural person or entity, and will also mean the group or syndicate created when two or more Persons act as a syndicate or other group (including without limitation a partnership, limited partnership, joint venture or other joint undertaking) for the purpose of acquiring, holding, or disposing of a security, except that “Person” will not include an underwriter temporarily holding a security pursuant to an offering of the security.

(vi) Post-Transaction Corporation: Unless a Change of Control includes a Business Combination, “**Post-Transaction Corporation**” means the Company after the Change of Control. If a Change of Control includes a Business Combination, “**Post-Transaction Corporation**” will mean the corporation or other entity resulting from the Business Combination unless, as a result of such Business Combination, an ultimate parent entity controls the Company or all or substantially all of the Company’s assets either directly or indirectly, in which case, “Post-Transaction Corporation” will mean such ultimate parent entity.

(vii) Threshold Percentage: “**Threshold Percentage**” means 30% of all then outstanding Company Voting Stock.

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

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

- B. Borrower shall default in the payment of any of the other Obligations when due, and such default shall continue for ten (10) Business Days after written notice to Borrower from Lender; or
- C. An order for relief shall be entered against Borrower or any Subsidiary by any United States Bankruptcy Court; or Borrower or any Subsidiary shall generally not pay its debts as they become due (within the meaning of 11 U.S.C. 303(h) as at any time amended or any successor statute thereto) or make an assignment for the benefit of creditors; or Borrower or any Subsidiary shall apply for or consent to the appointment of a custodian, receiver, trustee, or similar officer for it or for all or any substantial part of its Property; or such custodian, receiver, trustee, or similar officer shall be appointed without the application or consent of Borrower or such Subsidiary and such appointment shall continue undischarged for a period of sixty (60) calendar days; or Borrower or such Subsidiary shall institute (by petition, application, answer, consent, or otherwise) any bankruptcy, insolvency, reorganization, moratorium, arrangement, readjustment of debt, dissolution, liquidation or similar proceeding relating to it under the laws of any jurisdiction; or any such proceeding shall be instituted (by petition, application, or otherwise) against Borrower or such Subsidiary and shall remain undismissed for a period of sixty (60) calendar days; or any judgment, writ, warrant of attachment, execution, or similar process shall be issued or levied against a substantial part of the Property of Borrower or such Subsidiary and such judgment, writ, or similar process shall not be released, vacated, or fully bonded within sixty (60) calendar days after its issue or levy; or
- D. Borrower shall be in breach of any other agreement, covenant, obligation, representation or warranty hereunder or with respect to any of the Loan Documents, and such breach shall continue for twenty (20) Business Days after whichever of the following dates is the earliest: (i) the date on which Borrower gives notice of such breach to Lender, and (ii) the date on which Lender gives notice of such breach to Borrower; provided, however, such twenty (20) Business Day period may be extended for up to an additional thirty (30) calendar days if and only if Lender extends such time period in writing following Lender's good faith determination that (X) Borrower is continuously and diligently taking action to cure such breach, and (Y) such breach cannot be cured within the initial twenty (20)-day cure period; or
- E. The aggregate book value of the Borrower's assets shall at any time be less than (1) \$80,000,000 minus (2) the product of \$80,000,000 multiplied by the Cash Collateral Factor.
- F. The aggregate market value of the Borrower's assets shall at any time be less than (1) \$160,000,000 minus (2) the product of \$160,000,000 multiplied by the Cash Collateral Factor.
- G. The Debt Service Coverage Ratio measured on a quarterly basis for the previous twelve (12) months shall be less than (1) (a) 5.0 minus (b) the product of 5.0 multiplied by the Cash Collateral Factor, to (2) 1.0.

- H. The ratio of (1) the Borrower's Indebtedness to (2) the aggregate market value of the Borrower's assets shall at any time exceed (a) sixty percent (60.0%) minus (b) the product of sixty percent (60.0%) multiplied by the Cash Collateral Factor.
- I. The ratio of (1) the Borrower's Secured Indebtedness to (2) the aggregate market value of the Borrower's assets shall at any time exceed (1) forty percent (40.0%) minus (2) forty percent (40.0%) multiplied by the Cash Collateral Factor.
- J. An "Event of Default" as defined in the Comerica Loan Agreement shall occur.
- K. Any Reportable Event (as defined in ERISA) shall have occurred and continue for 30 days; or any Plan shall have been terminated by the Borrower not in compliance with ERISA, or a trustee shall have been appointed by a court to administer any Plan, or the Pension Benefit Guaranty Corporation shall have instituted proceedings to terminate any Plan or to appoint a trustee to administer any Plan.

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

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

Section 10. Limitation of Consequential Damage. Lender shall not be responsible for any lost profits of Borrower arising from any breach of contract, tort (excluding Lender's gross negligence or willful misconduct), or any other wrong arising from the establishment, administration or collection of the obligations evidenced hereby.

Section 11. Indemnification and Expenses. **Borrower agrees to hold Lender harmless from and indemnify Lender against all liabilities, losses, damages, judgments, costs and expenses of any kind which may be imposed on, incurred by or asserted against Lender (collectively, the "Costs") relating to or arising out of this Agreement, any other Loan Document, or any transaction contemplated hereby or thereby, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, this Agreement, any other Loan Document, or any transaction contemplated hereby or thereby, that, in each case, results from anything other than Lender's gross negligence or willful**

misconduct. Borrower also agrees to reimburse Lender as and when billed by Lender for all Lender's reasonable costs and expenses incurred in connection with the enforcement or the preservation of Lender's rights under this Agreement, any other Loan Document, or any transaction contemplated hereby or thereby, including without limitation the reasonable fees and disbursements of its counsel. Borrower's obligations under this Section 11 shall survive repayment of the Loan.

Section 12. Miscellaneous.

- A. Entire Agreement. The Loan Documents embody the entire agreement and understanding between the parties hereto and supersede all prior agreements and understandings relating to the subject matter hereof. No course of prior dealings between the parties, no usage of the trade, and no parole or extrinsic evidence of any nature, shall be used or be relevant to supplement, explain or modify any term used herein.
- B. No Waiver. No failure to exercise and no delay in exercising any right, power, or remedy hereunder or under the Loan Documents shall impair any right, power, or remedy which Lender may have, nor shall any such delay be construed to be a waiver of any of such rights, powers, or remedies, or any acquiescence in any breach or default under the Loan Documents; nor shall any waiver of any breach or default of Borrower hereunder be deemed a waiver of any default or breach subsequently occurring. The rights and remedies specified in the Loan Documents are cumulative and not exclusive of each other or of any rights or remedies which Lender would otherwise have.
- C. Survival. All representations, warranties and agreements herein contained on the part of Borrower shall survive the making of advances hereunder and all such representations, warranties and agreements shall be effective so long as the Obligations arising pursuant to the terms of this Agreement remain unpaid or for such longer periods as may be expressly stated therein.
- D. Notices. All notices of any type hereunder shall be effective as against Borrower or Lender, as the case may be, upon the first to occur of (a) three (3) Business Days after deposit in a receptacle under the control of the United States Postal Service, (b) one (1) Business Day after being transmitted by electronic means to a receiver under the control of the receiving party, provided there is an electronic confirmation of receipt, or (c) actual receipt by an employee or agent of the receiving party. For the purposes hereof, the addresses are as follows:

DEBTOR:
Stratus Properties Inc.
98 San Jacinto Boulevard, Suite 220
Austin, TX 78791
Attention: Mr. William H. Armstrong III
Phone: (512) 478-5788
Fax: (512) 478-6340

with a copy to:
Armbrust & Brown, L.L.P.
100 Congress Avenue, Suite 1300
Austin, TX 78701
Attention: Kenneth Jones, Esq.
Phone: (512) 435-2312
Fax: (512) 435-2360

LENDER:
Holliday Fenoglio Fowler, L.P.
8401 North Central Expressway,
Suite 700
Dallas, TX 75225
Attn: Whitaker Johnson
Phone: (214) 265-0880
Fax: (469) 232-1955

with a copy to:
Leonard, Street and Deinard
Suite 2300, 150 S. Fifth Street
Minneapolis, Minnesota 55402
Attention: Andrew P. Lee
Phone: (612) 335-1881
Fax: (612) 335-1657

- E. Separability of Provisions. In the event that any one or more of the provisions contained in this Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality, and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.
- F. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of Borrower, Lender, and their respective successors and assigns, provided, however, that Borrower may not transfer its rights or obligations under any of the Loan Documents without the prior written consent of Lender which may be withheld in its sole and absolute discretion. Lender may assign its interest in the Loan Documents, in whole, or in part, without any consent from, or notice to, Borrower.
- G. Counterparts. This Agreement may be executed in any number of counterparts all of which taken together shall constitute one agreement and any party hereto may execute this Agreement by signing any such Counterpart.
- H. Choice of Law; Location of Loan. This Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota. Lender and Borrower agree that the Loan will be negotiated, funded and closed in the State of Minnesota.
- I. Amendment and Waiver. Neither this Agreement nor any provisions hereof may be changed, waived, discharged or terminated orally, but only by an

instrument in writing signed by the party against whom enforcement of the change, waiver, discharge or termination is sought.

- J. Plural. When permitted by the context, the singular includes the plural and vice versa.
- K. Retention of Records. Lender shall retain any documents, schedules, invoices or other papers delivered by Borrower only for such period as Lender, at its sole discretion, may determine necessary.
- L. Headings. Section and paragraph headings and numbers have been set forth for convenience only.
- M. Information to Participants. Borrower agrees that Lender may furnish any financial or other information concerning Borrower or any of its Subsidiaries heretofore or hereafter provided by Borrower to Lender, pursuant to this Agreement or otherwise, to any prospective or actual purchaser of any participation or other interest in any of the loans made by Lender to Borrower (whether under this Agreement or otherwise), or to any prospective purchaser of any securities issued or to be issued by Lender; provided, however, any such delivery shall be delivered on the condition that such information is delivered on a confidential basis.
- N. Acknowledgments. Borrower hereby acknowledges that: (i) it has been advised by counsel in the negotiation, execution and delivery of this Agreement and the other Loan Documents; (ii) Lender has no fiduciary relationship to Borrower, and the relationship between Borrower and Lender is solely that of debtor and creditor; and (iii) no joint venture exists between Lender and Borrower.

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

Section 14. Waiver Of Trial By Jury. In recognition of the higher costs and delay which may result from a jury trial, the parties hereto waive any right to trial by jury of any claim, demand, action or cause of action (1) arising hereunder or any other instrument, document or agreement executed or delivered in connection herewith, or (2) in any way connected with or related or incidental to the dealings of the parties hereto or any of them with respect hereto or any other instrument, document or agreement executed or delivered in connection herewith, or the transactions related hereto or thereto, in each case whether now existing or hereafter arising, and whether sounding in contract or tort or otherwise; and each party hereby agrees and consents that

any such claim, demand, action or cause of action shall be decided by court trial without a jury, and that any party hereto may file an original counterpart or a copy of this section with any court as written evidence of the consent of the parties hereto to the waiver of their right to trial by jury.

Section 15. Liability of Officers, Directors, Shareholders. Notwithstanding anything contained herein or in the other Loan Documents, or any conduct or course of conduct by the parties hereto, before or after signing the Loan Documents, this Agreement shall not be construed as creating any rights, claims or causes of action against any partner of Borrower or any officers, directors, or shareholders of Borrower.

[Signature page follows.]

LOAN AGREEMENT

[SIGNATURE PAGE]

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

BORROWER:

STRATUS PROPERTIES INC.,

a Delaware corporation

By: /s/ John E. Baker

Name: John E. Baker

Title: Senior Vice President

LENDER:

HOLLIDAY FENOGLIO FOWLER, L.P., a Texas limited partnership, by Holliday GP Corp., a Delaware corporation, its General Partner

By: /s/ Nancy Goodson

Name: Nancy Goodson

Its: Vice President

SIGNATURE PAGE TO \$3,500,000 LOAN AGREEMENT

SCHEDULE 1 TO LOAN AGREEMENT

CERTAIN DEFINITIONS

“Accounting Period” means each calendar quarter during the term of the Loan, commencing on July 1, 2007.

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

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

“Borrower” has the meaning provided in the introductory paragraph of the Agreement.

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

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

“Capital Improvements Expenditures” means investments of Borrower and certain affiliates of Borrower in real estate and facilities investments, plus any municipal utility reimbursements which have been credited to such real estate and/or facilities investments, determined on a consolidated basis.

“Cash and Cash Equivalents” means cash and cash equivalents of Borrower and certain affiliates of Borrower, determined on a consolidated basis.

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

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

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

“Comerica Loan Agreement” means that certain Loan Agreement dated as of September 30, 2005, among Borrower and certain Affiliates of Borrower and Comerica Bank-Texas.

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

“Costs” has the meaning contained in Section 11.

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

“Debt Service Coverage Ratio” means for any period of time the ratio of (1) the sum of the Borrower’s increase (or decrease) in Cash and Cash Equivalents during that period, plus Capital Improvements Expenditures during that period, plus Debt Service on all of Borrower’s Indebtedness during that period, to (2) Debt Service on all of Borrower’s Indebtedness.

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

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

“Indebtedness” of any Person means all items of indebtedness which, in accordance with GAAP, would be deemed a liability of such Person as of the date as of which indebtedness is to be determined and shall also include, without duplication, all indebtedness and liabilities of others assumed or guaranteed by such Person or in respect of which such Person is secondarily or contingently liable (other than by endorsement of instruments in the course of collection) that would otherwise be deemed to be liabilities under GAAP, whether by reason of any agreement to acquire such indebtedness, to supply or advance sums, or otherwise.

“Lender” has the meaning provided in the introductory paragraph of the Agreement.

“Lending Office” shall refer to Lender’s office described in Section 12.D of the Agreement.

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

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

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

- (i) the ability of Borrower to perform its obligations under the Agreement, the Note, or any other Loan Document; or
- (ii) the validity, enforceability or collectibility of the Note, the Agreement or any other Loan Document.

“Maturity Date” means December 31, 2011.

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

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

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

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

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

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

“Related Lenders” shall mean American Strategic Income Portfolio Inc., a Minnesota corporation, American Select Portfolio Inc., a Minnesota corporation, American Strategic Income Portfolio Inc.—II, a Minnesota corporation, and American Strategic Income Portfolio Inc.—III, a Minnesota corporation.

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

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

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

EXHIBIT A TO LOAN AGREEMENT

FORM OF NOTE

EXHIBIT B TO LOAN AGREEMENT

FORM OF BORROWER'S OFFICER'S COMPLIANCE CERTIFICATE

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

[DATE]

Holliday Fenoglio Fowler, L.P.
c/o FAF Advisors, Inc.
800 Nicollet Mall, Suite 500
BC-MN-H05W
Minneapolis, MN 55402
Attention: John G. Wenker

Re Loan Agreement dated as of June 1, 2007 between Stratus Properties Inc. ("**Borrower**") and Holliday Fenoglio Fowler, L.P. ("**Lender**") (the "**Loan Agreement**") (capitalized terms not defined herein have the respective meanings contained in the Loan Agreement)

Ladies and Gentlemen:

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

1. As of the date of this Certificate, no act or omission has occurred which has resulted in an Event or Default or, if not cured, remedied, waived or otherwise eliminated to the satisfaction of Lender, would result in an Event of Default.
2. The undersigned officer is authorized to make this Certificate on behalf of Borrower and has reviewed the terms of the Loan Agreement and has made, or caused to be made under such officer's supervision, a review in reasonable detail of the facts necessary to make the certifications contained herein.

STRATUS PROPERTIES INC.,

a Delaware corporation

By: _____

Name: John E. Baker

Title: Senior Vice President

LOAN AGREEMENT

THIS LOAN AGREEMENT (this "Agreement") is made as of June 1, 2007 between STRATUS PROPERTIES INC., a Delaware corporation ("Borrower"), and HOLLIDAY FENOGLIO FOWLER, L.P., a Texas limited partnership ("Lender").

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

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

Section 1. Certain Definitions and Index to Definitions.

- A. Accounting Terms. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP and practices consistently applied.
- B. Definitions. Capitalized terms used herein shall have the respective meanings set forth in Schedule 1 attached hereto when used in this Agreement (including the Exhibits hereto) except as the context shall otherwise require. Schedule 1 is hereby made a part of this Agreement.

Section 2. Loan.

- A. Loan Amount. Lender agrees to provide a loan to Borrower in the amount of **THREEMILLION FIVE HUNDRED THOUSAND AND 00/100 DOLLARS (\$3,500,000.00)** ("Loan"), provided that all conditions precedent described in this Agreement have been met or waived by Lender and that Borrower is not otherwise in default as of the date of disbursement.
- B. Note. Borrower's obligation to repay the Loan shall be further evidenced by the Note. Reference is made to the Note for certain terms relating to interest rate, payments, prepayment, Maturity Date and additional terms governing the Loan.
- C. Referral Fee/Application Fee. In connection with the Loan, Borrower agrees to pay a referral fee of \$35,000.00 to Lender and an application fee of \$2,000 to FAF Advisors, Inc.
-

Section 3. Payments by Borrower.

- A. General. All payments hereunder shall be made by Borrower to Lender at the Lending Office, or at such other place as Lender may designate in writing. Payments shall be made by wire transfer.
- B. Other Outstanding Obligations. Unless required to be paid sooner hereunder, any and all Obligations in addition to the amounts due under the Note shall be due and payable in full upon the Maturity Date.

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

- A. Borrower shall deliver, or cause to be delivered, to Lender:
 - (1) A duly executed copy of this Agreement, the Note, and any and all other Loan Documents.
 - (2) A favorable written opinion of counsel for Borrower, addressed to Lender and in form and substance acceptable to Lender and its counsel.
 - (3) Current financial statements of Borrower in form and substance acceptable to Lender.
 - (4) The following organizational documents of Borrower:
 - (a) Borrower's Certificate of Incorporation as certified by the Secretary of State of the state of Borrower's organization and by the corporate secretary of Borrower, a Certificate of Good Standing dated no less recently than thirty (30) calendar days prior to the date of this Agreement, issued by the Secretary of State of the state of Borrower's organization, stating that Borrower is in good standing in such state, and evidence of good standing to transact business in the State of Texas, dated no less recently than thirty (30) calendar days prior to the date of this Agreement, issued by the Secretary of State of the State of Texas.
 - (b) A resolution of the board of directors of Borrower, certified as of the date of this Agreement by its corporate secretary, authorizing the execution, delivery and performance of this Agreement and the other Loan Documents, and all other instruments or documents to be delivered by Borrower pursuant to this Agreement.
 - (c) A certificate of Borrower's corporate secretary as to the incumbency and authenticity of the signatures of the officers of Borrower

executing any Loan Documents (Lender being entitled to rely thereon until a new such certificate has been furnished to Lender).

(5) The written consent of Comerica Bank-Texas to the Loan as required under the Comerica Loan Agreement (and/or the written consent of any other lender whose consent is required to the financing evidenced by this Agreement pursuant to agreements between Borrower and such lender(s)).

(6) Borrower will pay (prior to or contemporaneously with the funding of the Loan) the outstanding balance of the Comerica Bank-Texas Loan (as described in the Comerica Loan Agreement) in full.

- B. All acts, conditions, and things (including, without limitation, the obtaining of any necessary regulatory approvals and the making of any required filings, recordings or registrations) required to be done and performed and to have happened prior to the execution, delivery and performance of the Loan Documents to constitute the same legal, valid and binding obligations of Borrower, enforceable in accordance with their respective terms, subject to limitations as to enforceability which might result from bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights generally and subject to limitations on the availability of equitable remedies, shall have been done and performed and shall have happened in compliance with all applicable laws or shall have been waived by Lender in writing.
- C. All documentation shall be satisfactory in form and substance to Lender, and Lender shall have received any and all further information, documents and opinions which Lender may reasonably have requested in connection therewith, such documents, where appropriate, to be certified by proper authorities and officials of Borrower.
- D. All representations and warranties of Borrower to Lender set forth herein or in any of the Loan Documents shall be accurate and complete in all material respects.
- E. There shall not exist an Event of Default or an event which with the giving of notice or passage of time, or both, would be an Event of Default.

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

- A. Capacity. Borrower is duly organized, validly existing, and in good standing under the laws of the state of its organization (as described herein) and is authorized to do business in the State of Texas and in any and all other jurisdictions in which its ownership of Property or conduct of business legally requires such authorization and the failure to do so would have a Material Adverse Effect, and has full power, authority, and legal right to own its properties and assets and to conduct its business as presently conducted or proposed to be conducted, and the consummation of the

transactions contemplated herein do not, and will not, require the consent or approval of, or filing with, any Person which has not been obtained.

- B. Authority. Borrower has full power, authority and legal right to execute and deliver, and to perform and observe the provisions of the Loan Documents to be executed by Borrower. The execution, delivery and performance of the Loan Documents have been duly authorized by all necessary action, and when duly executed and delivered, will be legal, valid, and binding obligations of Borrower enforceable in accordance with their respective terms, subject to limitations as to enforceability which might result from bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights generally and subject to limitations on the availability of equitable remedies.
- C. Compliance. The execution and delivery of the Loan Documents and compliance with their terms will not violate any provision of applicable law and will not result in a breach of any of the terms or conditions of, or result in the imposition of any lien, charge, or encumbrance upon any properties of Borrower pursuant to, or constitute a default (with due notice or lapse of time or both) or result in an occurrence of an event pursuant to which any holder or holders of Indebtedness may declare the same due and payable.
- D. Financial Statements. The financial statements provided by Borrower to Lender pursuant to subsection 4.A(3) are correct and complete as of the dates indicated in such statements and fairly present the financial condition and results of operations of Borrower for the fiscal periods indicated therein.
- E. Material Adverse Events. Since the Statement Dates, neither any event nor the passage of time has resulted in a Material Adverse Effect.
- F. Litigation. Except as heretofore disclosed by Borrower to Lender in writing, there are no actions or proceedings pending, or to the knowledge of Borrower threatened, against or affecting Borrower which, if adversely determined, could reasonably be expected to have a Material Adverse Effect. Borrower is not in default with respect to any applicable laws or regulations which materially affect the operations or financial condition of Borrower, nor is it in default with respect to any other writ, injunction, demand, or decree or in default under any indenture, agreement, or other instrument to which Borrower is a party or by which Borrower may be bound where any such default would have a Materially Adverse Effect.
- G. Taxes. Borrower has filed or caused to be filed all tax returns which are required to be filed by it. Borrower has paid, or made provision for the payment of, all taxes which have or may have become due pursuant to said returns or otherwise or pursuant to an assessment received by Borrower, except such taxes, if any, as are being contested in good faith and as to which adequate reserves have been provided. The charges, accruals, and reserves in respect of income taxes on the books of Borrower are adequate. Borrower knows of no proposed material tax assessment against it and no

extension of time for the assessment of federal, state, or local taxes of Borrower is in effect or has been requested, except as disclosed in the financial statements furnished to Lender.

- H. Accurate Information. All written information supplied to Lender by or on behalf of Borrower is and shall be true and correct in all material respects, and all financial projections or forecasts of future results or events supplied to Lender by or on behalf of Borrower have been prepared in good faith and based on good faith estimates and assumptions of the management of Borrower, and Borrower has no reason to believe that such projections or forecasts are not reasonable.
- I. Use of Loan Proceeds. Borrower is not engaged principally in, nor does it have as one of its important activities, the business of extending credit for the purpose of purchasing or carrying any margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System), and no part of any advance made hereunder will be used to purchase or carry margin stock, extend credit to others for the purpose of purchasing or carrying any margin stock, or used for any purpose which violates Regulation U or Regulation X of the Board of Governors of the Federal Reserve System or any other provision of law.
- J. ERISA. No plan (as that term is defined in the Employee Retirement Income Security Act of 1974 (“**ERISA**”)) of the Borrower (a “**Plan**”) which is subject to Part 3 of Subtitle B of Title 1 of ERISA had an accumulated funding deficiency (as such term is defined in ERISA) as of the last day of the most recent fiscal year of such Plan ended prior to the date hereof, or would have had such an accumulated funding deficiency on such date if such year were the first year of such Plan, and no material liability to the Pension Benefit Guaranty Corporation has been, or is expected by the Borrower to be, incurred with respect to any such Plan. No Reportable Event (as defined in ERISA) has occurred and is continuing in respect to any such Plan.

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

- A. Financial Statements, Reports and Certifications. Borrower will furnish to Lender, in form and substance satisfactory to Lender:
 - (1) As soon as possible after the end of each fiscal year of Borrower, and in any event within ninety (90) Business Days thereafter, (i) a complete copy of its annual audit which shall include the balance sheet of Borrower as of the close of the fiscal year and an income statement for such year, certified by the Auditors without material qualification, (ii) a statement of changes in partners’ equity and cash flows for the period ended on such date, certified by the Auditors, and (iii) a statement certified by the chief financial officer of Borrower that no act or omission has occurred which has resulted in an Event or Default or, if not

cured, remedied, waived or otherwise eliminated to the satisfaction of Lender, would result in an Event of Default;

- (2) No later than thirty (30) Business Days after the close of each Accounting Period, (i) Borrower's balance sheet as of the close of such Accounting Period and its income statement for that portion of the then current fiscal year through the end of such Accounting Period prepared in accordance with GAAP and certified as being complete, correct, and fairly representing its financial condition and results of operations by the chief financial officer of Borrower, subject to the absence of footnotes and year-end adjustments, (ii) a statement of changes in equity and cash flows for the period ended on such date, certified by the chief financial officer of Borrower, (iii) the calculation of the Debt Service Coverage Ratio demonstrating compliance with Subsection 8.G. of this Agreement, together with any supporting calculations used to arrive at such calculation, certified by the chief financial officer of Borrower, and (iv) a completed Borrower's Officer's Compliance Certificate;
- (3) Promptly upon the filing or receiving thereof, copies of all reports which the Borrower files under ERISA or which the Borrower receives from the Pension Benefit Guaranty Corporation if such report shows any material violation or potential violation by the Borrower of its obligations under ERISA; and
- (4) Such other information concerning Borrower as Lender may reasonably request.

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

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

with respect to any stamp or other taxes (other than transfer or income taxes) which may be determined to be payable in connection with the making of the Loan Documents.

- D. Taxes and Expenses Regarding Borrower's Property. Borrower shall make due and timely payment or deposit of all taxes, assessments or contributions required of it, except such deposits, assessments or contributions which are being contested in good faith and as to which, in the reasonable determination of Lender, adequate reserves have been provided.
- E. Notice of Events. Promptly after the later of (i) the occurrence thereof or (ii) such time as Borrower has knowledge of the occurrence thereof, Borrower will give Lender written notice of any Event of Default or any event which with the giving of notice or passage of time, or both, would become an Event of Default; provided, however, in the event that the respective Event of Default is subsequently cured as permitted herein, such failure to give notice shall also be deemed to be cured.
- F. Notice of Litigation. In addition to any regularly scheduled reporting required to be delivered with the Borrower's Officer's Certificate, Borrower will promptly give notice to Lender in writing of (i) any litigation or other proceedings against Borrower involving claims for amounts in excess of \$250,000 that Borrower does not reasonably expect are covered by insurance, (ii) any labor controversy resulting in or threatening to result in a strike against Borrower, or (iii) any proposal by any public authority to acquire a material portion of the assets or business of Borrower.
- G. Other Debt. Borrower will promptly pay and discharge any and all Indebtedness when due (where the failure to do so either individually or in the aggregate with any such other unpaid Indebtedness would have a Material Adverse Effect), and lawful claims which, if unpaid, might become a lien or charge upon the Property of Borrower, except such as may in good faith be contested or disputed or for which arrangements for deferred payment have been made, provided appropriate reserves are maintained to the satisfaction of Lender for the eventual payment thereof in the event it is found that such Indebtedness is an Indebtedness payable by Borrower, and when such dispute or contest is settled and determined, will promptly pay the full amount then due.
- H. Cooperation. Borrower will execute and deliver to Lender any and all documents, and do or cause to be done any and all other acts reasonably deemed necessary by Lender, in its reasonable discretion, to effect the provisions and purposes of this Agreement.
- I. Maintenance of Insurance; Notice of Loss. Borrower shall maintain such insurance with reputable insurance carriers as is normally carried by companies engaged in similar businesses and owning similar Property. Upon request from Lender, Borrower will provide Lender with certificates indicating that such insurance is in effect and all premiums due have been paid.

- J. Location of Business. Borrower will give Lender written notice immediately upon forming an intention to change the location of its chief place of business.
- K. Maintenance of Existence. Borrower will preserve and maintain its legal existence and all rights, privileges and franchises necessary or desirable in the normal conduct of its business, will conduct its business in an orderly, efficient and regular manner, and will comply with all applicable laws and regulations and the terms of any indenture, contract or other instrument to which it may be a party or under which it or its properties may be bound, in each instance where the failure to do so would have a Material Adverse Effect.
- L. Compliance with ERISA. Cause each Plan to comply and be administered in accordance with those provisions of ERISA which are applicable to such Plan.

Section 7 . Negative Covenants of Borrower. Except as expressly provided for in Section 7 H. below, and subject to the terms and conditions set forth therein, until payment in full of the Obligations, without the prior written consent of Lender (which consent may be withheld in the sole discretion and determination of Lender), Borrower will not do any of the following items A through G:

- A. Sale of Assets. Borrower will not sell, abandon, or otherwise dispose of any of its assets except in the ordinary course of business.
- B. Consolidation, Merger, etc. Borrower will not consolidate with, merge into, or sell (whether in a single transaction or in a series of transactions) all or substantially all of its assets to any Person.
- C. Change in Business. Borrower will not make any change in the nature of the business of Borrower or a Subsidiary which would result in a material change in the character of the business of Borrower, taken as a whole.
- D. Transactions with Affiliates. Borrower will not enter into any transaction with any Person affiliated with Borrower on terms materially less favorable to Borrower, than at the time could be available to Borrower, from any Person not affiliated with Borrower.
- E. Plans. Borrower will not sponsor or contribute to any other Plan or other defined benefit pension plan or contributes to any multi-employer pension plan.

F. Dividends, Redemptions.

- (1) Borrower will not, except as allowed below, declare or pay any dividend on, or declare or make any other distribution on account of, any stock interest or other ownership interest.
- (2) Borrower will not, except as allowed below, directly or indirectly redeem, retire, purchase, or otherwise acquire beneficially any shares of any class of its own stock now or hereafter outstanding or set apart any sum for any such purpose. The foregoing notwithstanding, Borrower may redeem, retire, purchase or otherwise acquire beneficially shares of common stock of Borrower in an aggregate amount that does not exceed \$5,000,000.

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

H. Change of Control. Notwithstanding anything to the contrary, in the event of a contemplated Change in Control (as defined below) Borrower shall give thirty (30) days' prior written notice to Lender indicating whether it (i) intends to prepay the Loan, which it shall have the right to do in its sole and absolute discretion, subject to a prepayment premium of one percent (1%) of the then outstanding balance of the Loan (the "**Change in Control Prepayment Premium**") or in the event of a voluntary Change in Control under H.(a)(iii) below, the Reinvestment Charge, or (ii) requests Lender's written consent to such Change in Control (with the intent to keep the Loan in place, subject to the terms hereof) which may be withheld, conditioned or delayed, for any or no reason, in its sole and absolute discretion.

Provided, notwithstanding anything to the contrary (including any prepayment provisions or limitations in the Note, and without limiting its ability to prepay the Loan pursuant to the provisions of the Note), if such consent is not granted, Borrower may subsequently choose to prepay the Loan, together with (i) the Change in Control Prepayment Premium or (ii) in the case of a voluntary Change in Control under H.(a)(iii) below (i.e., one not necessitated by the death, incapacity or other occurrence preventing a member of the senior management from fulfilling his role in the management of Borrower), the Reinvestment Charge. Any Change in Control in contravention of the provisions set forth herein, shall be an immediate Event of Default (as defined in Section 8 below) and Borrower shall be liable for the Change in Control Prepayment Premium and Lender may also pursue any other remedies available to it at law, in equity or under Section 8 of this Agreement.

(a) As used herein "**Change of Control**" means (capitalized terms not otherwise defined will have the meanings ascribed to them in paragraph (b) below):

(i) the acquisition by any Person together with all Affiliates of such Person, of Beneficial Ownership of the Threshold Percentage or more; provided, however, that for purposes of this Section 7 H.(a)(i), the following will not constitute a Change of Control:

(A) any acquisition of Company Voting Stock by the Company or its subsidiaries,

(B) any acquisition of Company Voting Stock by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation or other entity controlled by the Company; or

(ii) individuals who, as of the effective date of this Agreement, constitute the Board (the “**Incumbent Board**”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the effective date of this Agreement whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board will be considered a member of the Incumbent Board, unless such individual’s initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or any other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Incumbent Board; or

(iii) a majority of those three individuals currently comprising senior management, William H. Armstrong, President, John E. Baker, Senior Vice President, and Kenneth N. Jones, General Counsel, cease to serve in their current positions; or

(iv) the consummation of a reorganization, merger or consolidation (including a merger or consolidation of the Company or any direct or indirect subsidiary of the Company), or sale or other disposition of all or substantially all of the assets of the Company (a “**Business Combination**”), in each case, unless, immediately following such Business Combination:

(A) the individuals and entities who were the Beneficial Owners of the Company Voting Stock immediately prior to such Business Combination have direct or indirect Beneficial Ownership of more than 50% of the then outstanding shares of common stock, and more than 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, of the Post-Transaction Corporation, and

(B) no Person together with all Affiliates of such Person (excluding the Post-Transaction Corporation and any employee benefit plan or related trust of either the Company, the Post-Transaction Corporation or any subsidiary of either corporation) Beneficially Owns 30% or more of the then outstanding shares of common stock of the Post-Transaction Corporation or 30% or more of the combined voting power of the then outstanding voting securities of the Post-Transaction Corporation, and

(C) at least a majority of the members of the board of directors of the Post-Transaction Corporation were members of the Incumbent Board at the time of the execution of the initial agreement, and of the action of the Board, providing for such Business Combination; or

(v) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

(b) As used in this Section 7 H. and elsewhere in this Agreement, the following terms have the meanings indicated:

(i) Affiliate: “**Affiliate**” means a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, another specified Person.

(ii) Beneficial Owner: “**Beneficial Owner**” (and variants thereof), with respect to a security, means a Person who, directly or indirectly (through any contract, understanding, relationship or otherwise), has or shares (A) the power to vote, or direct the voting of, the security, and/or (B) the power to dispose of, or to direct the disposition of, the security.

(iii) Company Voting Stock: “**Company Voting Stock**” means any capital stock of the Company that is then entitled to vote for the election of directors.

(iv) Majority Shares: “**Majority Shares**” means the number of shares of Company Voting Stock that could elect a majority of the directors of the Company if all directors were to be elected at a single meeting.

(v) Person: “**Person**” means a natural person or entity, and will also mean the group or syndicate created when two or more Persons act as a syndicate or other group (including without limitation a partnership, limited partnership, joint venture or other joint undertaking) for the purpose of acquiring, holding, or disposing of a security, except that “Person” will not include an underwriter temporarily holding a security pursuant to an offering of the security.

(vi) Post-Transaction Corporation: Unless a Change of Control includes a Business Combination, “**Post-Transaction Corporation**” means the Company after the Change of Control. If a Change of Control includes a Business Combination, “**Post-Transaction Corporation**” will mean the corporation or other entity resulting from the Business Combination unless, as a result of such Business Combination, an ultimate parent entity controls the Company or all or substantially all of the Company’s assets either directly or indirectly, in which case, “Post-Transaction Corporation” will mean such ultimate parent entity.

(vii) Threshold Percentage: “**Threshold Percentage**” means 30% of all then outstanding Company Voting Stock.

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

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

- B. Borrower shall default in the payment of any of the other Obligations when due, and such default shall continue for ten (10) Business Days after written notice to Borrower from Lender; or
- C. An order for relief shall be entered against Borrower or any Subsidiary by any United States Bankruptcy Court; or Borrower or any Subsidiary shall generally not pay its debts as they become due (within the meaning of 11 U.S.C. 303(h) as at any time amended or any successor statute thereto) or make an assignment for the benefit of creditors; or Borrower or any Subsidiary shall apply for or consent to the appointment of a custodian, receiver, trustee, or similar officer for it or for all or any substantial part of its Property; or such custodian, receiver, trustee, or similar officer shall be appointed without the application or consent of Borrower or such Subsidiary and such appointment shall continue undischarged for a period of sixty (60) calendar days; or Borrower or such Subsidiary shall institute (by petition, application, answer, consent, or otherwise) any bankruptcy, insolvency, reorganization, moratorium, arrangement, readjustment of debt, dissolution, liquidation or similar proceeding relating to it under the laws of any jurisdiction; or any such proceeding shall be instituted (by petition, application, or otherwise) against Borrower or such Subsidiary and shall remain undismissed for a period of sixty (60) calendar days; or any judgment, writ, warrant of attachment, execution, or similar process shall be issued or levied against a substantial part of the Property of Borrower or such Subsidiary and such judgment, writ, or similar process shall not be released, vacated, or fully bonded within sixty (60) calendar days after its issue or levy; or
- D. Borrower shall be in breach of any other agreement, covenant, obligation, representation or warranty hereunder or with respect to any of the Loan Documents, and such breach shall continue for twenty (20) Business Days after whichever of the following dates is the earliest: (i) the date on which Borrower gives notice of such breach to Lender, and (ii) the date on which Lender gives notice of such breach to Borrower; provided, however, such twenty (20) Business Day period may be extended for up to an additional thirty (30) calendar days if and only if Lender extends such time period in writing following Lender's good faith determination that (X) Borrower is continuously and diligently taking action to cure such breach, and (Y) such breach cannot be cured within the initial twenty (20)-day cure period; or
- E. The aggregate book value of the Borrower's assets shall at any time be less than (1) \$80,000,000 minus (2) the product of \$80,000,000 multiplied by the Cash Collateral Factor.
- F. The aggregate market value of the Borrower's assets shall at any time be less than (1) \$160,000,000 minus (2) the product of \$160,000,000 multiplied by the Cash Collateral Factor.
- G. The Debt Service Coverage Ratio measured on a quarterly basis for the previous twelve (12) months shall be less than (1) (a) 5.0 minus (b) the product of 5.0 multiplied by the Cash Collateral Factor, to (2) 1.0.

- H. The ratio of (1) the Borrower's Indebtedness to (2) the aggregate market value of the Borrower's assets shall at any time exceed (a) sixty percent (60.0%) minus (b) the product of sixty percent (60.0%) multiplied by the Cash Collateral Factor.
- I. The ratio of (1) the Borrower's Secured Indebtedness to (2) the aggregate market value of the Borrower's assets shall at any time exceed (1) forty percent (40.0%) minus (2) forty percent (40.0%) multiplied by the Cash Collateral Factor.
- J. An "Event of Default" as defined in the Comerica Loan Agreement shall occur.
- K. Any Reportable Event (as defined in ERISA) shall have occurred and continue for 30 days; or any Plan shall have been terminated by the Borrower not in compliance with ERISA, or a trustee shall have been appointed by a court to administer any Plan, or the Pension Benefit Guaranty Corporation shall have instituted proceedings to terminate any Plan or to appoint a trustee to administer any Plan.

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

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

Section 10. Limitation of Consequential Damage. Lender shall not be responsible for any lost profits of Borrower arising from any breach of contract, tort (excluding Lender's gross negligence or willful misconduct), or any other wrong arising from the establishment, administration or collection of the obligations evidenced hereby.

Section 11. Indemnification and Expenses. **Borrower agrees to hold Lender harmless from and indemnify Lender against all liabilities, losses, damages, judgments, costs and expenses of any kind which may be imposed on, incurred by or asserted against Lender (collectively, the "Costs") relating to or arising out of this Agreement, any other Loan Document, or any transaction contemplated hereby or thereby, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, this Agreement, any other Loan Document, or any transaction contemplated hereby or thereby, that, in each case, results from anything other than Lender's gross negligence or willful**

misconduct. Borrower also agrees to reimburse Lender as and when billed by Lender for all Lender's reasonable costs and expenses incurred in connection with the enforcement or the preservation of Lender's rights under this Agreement, any other Loan Document, or any transaction contemplated hereby or thereby, including without limitation the reasonable fees and disbursements of its counsel. Borrower's obligations under this Section 11 shall survive repayment of the Loan.

Section 12. Miscellaneous.

- A. Entire Agreement. The Loan Documents embody the entire agreement and understanding between the parties hereto and supersede all prior agreements and understandings relating to the subject matter hereof. No course of prior dealings between the parties, no usage of the trade, and no parole or extrinsic evidence of any nature, shall be used or be relevant to supplement, explain or modify any term used herein.
- B. No Waiver. No failure to exercise and no delay in exercising any right, power, or remedy hereunder or under the Loan Documents shall impair any right, power, or remedy which Lender may have, nor shall any such delay be construed to be a waiver of any of such rights, powers, or remedies, or any acquiescence in any breach or default under the Loan Documents; nor shall any waiver of any breach or default of Borrower hereunder be deemed a waiver of any default or breach subsequently occurring. The rights and remedies specified in the Loan Documents are cumulative and not exclusive of each other or of any rights or remedies which Lender would otherwise have.
- C. Survival. All representations, warranties and agreements herein contained on the part of Borrower shall survive the making of advances hereunder and all such representations, warranties and agreements shall be effective so long as the Obligations arising pursuant to the terms of this Agreement remain unpaid or for such longer periods as may be expressly stated therein.
- D. Notices. All notices of any type hereunder shall be effective as against Borrower or Lender, as the case may be, upon the first to occur of (a) three (3) Business Days after deposit in a receptacle under the control of the United States Postal Service, (b) one (1) Business Day after being transmitted by electronic means to a receiver under the control of the receiving party, provided there is an electronic confirmation of receipt, or (c) actual receipt by an employee or agent of the receiving party. For the purposes hereof, the addresses are as follows:

DEBTOR:
Stratus Properties Inc.
98 San Jacinto Boulevard, Suite 220
Austin, TX 78791
Attention: Mr. William H. Armstrong III
Phone: (512) 478-5788
Fax: (512) 478-6340

with a copy to:
Armbrust & Brown, L.L.P.
100 Congress Avenue, Suite 1300
Austin, TX 78701
Attention: Kenneth Jones, Esq.
Phone: (512) 435-2312
Fax: (512) 435-2360

LENDER:
Holliday Fenoglio Fowler, L.P.
8401 North Central Expressway,
Suite 700
Dallas, TX 75225
Attn: Whitaker Johnson
Phone: (214) 265-0880
Fax: (469) 232-1955

with a copy to:
Leonard, Street and Deinard
Suite 2300, 150 S. Fifth Street
Minneapolis, Minnesota 55402
Attention: Andrew P. Lee

Phone: (612) 335-1881
Fax: (612) 335-1657

- E. Separability of Provisions. In the event that any one or more of the provisions contained in this Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality, and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.
- F. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of Borrower, Lender, and their respective successors and assigns, provided, however, that Borrower may not transfer its rights or obligations under any of the Loan Documents without the prior written consent of Lender which may be withheld in its sole and absolute discretion. Lender may assign its interest in the Loan Documents, in whole, or in part, without any consent from, or notice to, Borrower.
- G. Counterparts. This Agreement may be executed in any number of counterparts all of which taken together shall constitute one agreement and any party hereto may execute this Agreement by signing any such Counterpart.
- H. Choice of Law; Location of Loan. This Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota. Lender and Borrower agree that the Loan will be negotiated, funded and closed in the State of Minnesota.
- I. Amendment and Waiver. Neither this Agreement nor any provisions hereof may be changed, waived, discharged or terminated orally, but only by an

instrument in writing signed by the party against whom enforcement of the change, waiver, discharge or termination is sought.

- J. Plural. When permitted by the context, the singular includes the plural and vice versa.
- K. Retention of Records. Lender shall retain any documents, schedules, invoices or other papers delivered by Borrower only for such period as Lender, at its sole discretion, may determine necessary.
- L. Headings. Section and paragraph headings and numbers have been set forth for convenience only.
- M. Information to Participants. Borrower agrees that Lender may furnish any financial or other information concerning Borrower or any of its Subsidiaries heretofore or hereafter provided by Borrower to Lender, pursuant to this Agreement or otherwise, to any prospective or actual purchaser of any participation or other interest in any of the loans made by Lender to Borrower (whether under this Agreement or otherwise), or to any prospective purchaser of any securities issued or to be issued by Lender; provided, however, any such delivery shall be delivered on the condition that such information is delivered on a confidential basis.
- N. Acknowledgments. Borrower hereby acknowledges that: (i) it has been advised by counsel in the negotiation, execution and delivery of this Agreement and the other Loan Documents; (ii) Lender has no fiduciary relationship to Borrower, and the relationship between Borrower and Lender is solely that of debtor and creditor; and (iii) no joint venture exists between Lender and Borrower.

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

Section 14. Waiver Of Trial By Jury. In recognition of the higher costs and delay which may result from a jury trial, the parties hereto waive any right to trial by jury of any claim, demand, action or cause of action (1) arising hereunder or any other instrument, document or agreement executed or delivered in connection herewith, or (2) in any way connected with or related or incidental to the dealings of the parties hereto or any of them with respect hereto or any other instrument, document or agreement executed or delivered in connection herewith, or the transactions related hereto or thereto, in each case whether now existing or hereafter arising, and whether sounding in contract or tort or otherwise; and each party hereby agrees and consents that

any such claim, demand, action or cause of action shall be decided by court trial without a jury, and that any party hereto may file an original counterpart or a copy of this section with any court as written evidence of the consent of the parties hereto to the waiver of their right to trial by jury.

Section 1 5 . Liability of Officers, Directors, Shareholders. Notwithstanding anything contained herein or in the other Loan Documents, or any conduct or course of conduct by the parties hereto, before or after signing the Loan Documents, this Agreement shall not be construed as creating any rights, claims or causes of action against any partner of Borrower or any officers, directors, or shareholders of Borrower.

[Signature page follows.]

LOAN AGREEMENT

[SIGNATURE PAGE]

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

BORROWER:

STRATUS PROPERTIES INC.,

a Delaware corporation

By: /s/ John E. Baker

Name: John E. Baker

Title: Senior Vice President

LENDER:

HOLLIDAY FENOGLIO FOWLER, L.P., a Texas limited partnership, by Holliday GP Corp., a Delaware corporation, its General Partner

By: /s/ Nancy Goodson

Name: Nancy Goodson

Its: Vice President

SIGNATURE PAGE TO \$3,500,000 LOAN AGREEMENT

SCHEDULE 1 TO LOAN AGREEMENT

CERTAIN DEFINITIONS

“Accounting Period” means each calendar quarter during the term of the Loan, commencing on July 1, 2007.

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

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

“Borrower” has the meaning provided in the introductory paragraph of the Agreement.

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

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

“Capital Improvements Expenditures” means investments of Borrower and certain affiliates of Borrower in real estate and facilities investments, plus any municipal utility reimbursements which have been credited to such real estate and/or facilities investments, determined on a consolidated basis.

“Cash and Cash Equivalents” means cash and cash equivalents of Borrower and certain affiliates of Borrower, determined on a consolidated basis.

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

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

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

“Comerica Loan Agreement” means that certain Loan Agreement dated as of September 30, 2005, among Borrower and certain Affiliates of Borrower and Comerica Bank-Texas.

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

“Costs” has the meaning contained in Section 11.

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

“Debt Service Coverage Ratio” means for any period of time the ratio of (1) the sum of the Borrower’s increase (or decrease) in Cash and Cash Equivalents during that period, plus Capital Improvements Expenditures during that period, plus Debt Service on all of Borrower’s Indebtedness during that period, to (2) Debt Service on all of Borrower’s Indebtedness.

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

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

“Indebtedness” of any Person means all items of indebtedness which, in accordance with GAAP, would be deemed a liability of such Person as of the date as of which indebtedness is to be determined and shall also include, without duplication, all indebtedness and liabilities of others assumed or guaranteed by such Person or in respect of which such Person is secondarily or contingently liable (other than by endorsement of instruments in the course of collection) that would otherwise be deemed to be liabilities under GAAP, whether by reason of any agreement to acquire such indebtedness, to supply or advance sums, or otherwise.

“Lender” has the meaning provided in the introductory paragraph of the Agreement.

“Lending Office” shall refer to Lender’s office described in Section 12.D of the Agreement.

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

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

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

- (i) the ability of Borrower to perform its obligations under the Agreement, the Note, or any other Loan Document; or
- (ii) the validity, enforceability or collectibility of the Note, the Agreement or any other Loan Document.

“Maturity Date” means December 31, 2011.

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

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

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

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

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

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

“Related Lenders” shall mean American Strategic Income Portfolio Inc., a Minnesota corporation, American Select Portfolio Inc., a Minnesota corporation, American Strategic Income Portfolio Inc.—II, a Minnesota corporation, and American Strategic Income Portfolio Inc.—III, a Minnesota corporation.

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

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

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

EXHIBIT A TO LOAN AGREEMENT

FORM OF NOTE

EXHIBIT B TO LOAN AGREEMENT

FORM OF BORROWER'S OFFICER'S COMPLIANCE CERTIFICATE

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

[DATE]

Holliday Fenoglio Fowler, L.P.
c/o FAF Advisors, Inc.
800 Nicollet Mall, Suite 500
BC-MN-H05W
Minneapolis, MN 55402
Attention: John G. Wenker

Re Loan Agreement dated as of June 1, 2007 between Stratus Properties Inc. ("**Borrower**") and Holliday Fenoglio Fowler, L.P. ("**Lender**") (the "**Loan Agreement**") (capitalized terms not defined herein have the respective meanings contained in the Loan Agreement)

Ladies and Gentlemen:

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

1. As of the date of this Certificate, no act or omission has occurred which has resulted in an Event or Default or, if not cured, remedied, waived or otherwise eliminated to the satisfaction of Lender, would result in an Event of Default.
2. The undersigned officer is authorized to make this Certificate on behalf of Borrower and has reviewed the terms of the Loan Agreement and has made, or caused to be made under such officer's supervision, a review in reasonable detail of the facts necessary to make the certifications contained herein.

STRATUS PROPERTIES INC.,

a Delaware corporation

By: _____

Name: John E. Baker

Title: Senior Vice President

LOAN AGREEMENT

THIS LOAN AGREEMENT (this "**Agreement**") is made as of June 1, 2007 between STRATUS PROPERTIES INC., a Delaware corporation ("**Borrower**"), and HOLLIDAY FENOGLIO FOWLER, L.P., a Texas limited partnership ("**Lender**").

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

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

Section 1. Certain Definitions and Index to Definitions.

- A. Accounting Terms. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP and practices consistently applied.
- B. Definitions. Capitalized terms used herein shall have the respective meanings set forth in Schedule 1 attached hereto when used in this Agreement (including the Exhibits hereto) except as the context shall otherwise require. Schedule 1 is hereby made a part of this Agreement.

Section 2. Loan.

- A. Loan Amount. Lender agrees to provide a loan to Borrower in the amount of **EIGHT MILLION AND 00/100 DOLLARS (\$8,000,000.00)** ("**Loan**"), provided that all conditions precedent described in this Agreement have been met or waived by Lender and that Borrower is not otherwise in default as of the date of disbursement.
 - B. Note. Borrower's obligation to repay the Loan shall be further evidenced by the Note. Reference is made to the Note for certain terms relating to interest rate, payments, prepayment, Maturity Date and additional terms governing the Loan.
 - C. Referral Fee/Application Fee. In connection with the Loan, Borrower agrees to pay a referral fee of \$80,000.00 to Lender and an application fee of \$2,000 to FAF Advisors, Inc.
-

Section 3. Payments by Borrower.

- A. General. All payments hereunder shall be made by Borrower to Lender at the Lending Office, or at such other place as Lender may designate in writing. Payments shall be made by wire transfer.
- B. Other Outstanding Obligations. Unless required to be paid sooner hereunder, any and all Obligations in addition to the amounts due under the Note shall be due and payable in full upon the Maturity Date.

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

- A. Borrower shall deliver, or cause to be delivered, to Lender:
- (1) A duly executed copy of this Agreement, the Note, and any and all other Loan Documents.
 - (2) A favorable written opinion of counsel for Borrower, addressed to Lender and in form and substance acceptable to Lender and its counsel.
 - (3) Current financial statements of Borrower in form and substance acceptable to Lender.
 - (4) The following organizational documents of Borrower:
 - (a) Borrower's Certificate of Incorporation as certified by the Secretary of State of the state of Borrower's organization and by the corporate secretary of Borrower, a Certificate of Good Standing dated no less recently than thirty (30) calendar days prior to the date of this Agreement, issued by the Secretary of State of the state of Borrower's organization, stating that Borrower is in good standing in such state, and evidence of good standing to transact business in the State of Texas, dated no less recently than thirty (30) calendar days prior to the date of this Agreement, issued by the Secretary of State of the State of Texas.
 - (b) A resolution of the board of directors of Borrower, certified as of the date of this Agreement by its corporate secretary, authorizing the execution, delivery and performance of this Agreement and the other Loan Documents, and all other instruments or documents to be delivered by Borrower pursuant to this Agreement.
 - (c) A certificate of Borrower's corporate secretary as to the incumbency and authenticity of the signatures of the officers of Borrower

executing any Loan Documents (Lender being entitled to rely thereon until a new such certificate has been furnished to Lender).

(5) The written consent of Comerica Bank-Texas to the Loan as required under the Comerica Loan Agreement (and/or the written consent of any other lender whose consent is required to the financing evidenced by this Agreement pursuant to agreements between Borrower and such lender(s)).

(6) Borrower will pay (prior to or contemporaneously with the funding of the Loan) the outstanding balance of the Comerica Bank-Texas Loan (as described in the Comerica Loan Agreement) in full.

- B. All acts, conditions, and things (including, without limitation, the obtaining of any necessary regulatory approvals and the making of any required filings, recordings or registrations) required to be done and performed and to have happened prior to the execution, delivery and performance of the Loan Documents to constitute the same legal, valid and binding obligations of Borrower, enforceable in accordance with their respective terms, subject to limitations as to enforceability which might result from bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights generally and subject to limitations on the availability of equitable remedies, shall have been done and performed and shall have happened in compliance with all applicable laws or shall have been waived by Lender in writing.
- C. All documentation shall be satisfactory in form and substance to Lender, and Lender shall have received any and all further information, documents and opinions which Lender may reasonably have requested in connection therewith, such documents, where appropriate, to be certified by proper authorities and officials of Borrower.
- D. All representations and warranties of Borrower to Lender set forth herein or in any of the Loan Documents shall be accurate and complete in all material respects.
- E. There shall not exist an Event of Default or an event which with the giving of notice or passage of time, or both, would be an Event of Default.

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

- A. Capacity. Borrower is duly organized, validly existing, and in good standing under the laws of the state of its organization (as described herein) and is authorized to do business in the State of Texas and in any and all other jurisdictions in which its ownership of Property or conduct of business legally requires such authorization and the failure to do so would have a Material Adverse Effect, and has full power, authority, and legal right to own its properties and assets and to conduct its business as presently conducted or proposed to be conducted, and the consummation of the

transactions contemplated herein do not, and will not, require the consent or approval of, or filing with, any Person which has not been obtained.

- B. Authority. Borrower has full power, authority and legal right to execute and deliver, and to perform and observe the provisions of the Loan Documents to be executed by Borrower. The execution, delivery and performance of the Loan Documents have been duly authorized by all necessary action, and when duly executed and delivered, will be legal, valid, and binding obligations of Borrower enforceable in accordance with their respective terms, subject to limitations as to enforceability which might result from bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights generally and subject to limitations on the availability of equitable remedies.
- C. Compliance. The execution and delivery of the Loan Documents and compliance with their terms will not violate any provision of applicable law and will not result in a breach of any of the terms or conditions of, or result in the imposition of any lien, charge, or encumbrance upon any properties of Borrower pursuant to, or constitute a default (with due notice or lapse of time or both) or result in an occurrence of an event pursuant to which any holder or holders of Indebtedness may declare the same due and payable.
- D. Financial Statements. The financial statements provided by Borrower to Lender pursuant to subsection 4.A(3) are correct and complete as of the dates indicated in such statements and fairly present the financial condition and results of operations of Borrower for the fiscal periods indicated therein.
- E. Material Adverse Events. Since the Statement Dates, neither any event nor the passage of time has resulted in a Material Adverse Effect.
- F. Litigation. Except as heretofore disclosed by Borrower to Lender in writing, there are no actions or proceedings pending, or to the knowledge of Borrower threatened, against or affecting Borrower which, if adversely determined, could reasonably be expected to have a Material Adverse Effect. Borrower is not in default with respect to any applicable laws or regulations which materially affect the operations or financial condition of Borrower, nor is it in default with respect to any other writ, injunction, demand, or decree or in default under any indenture, agreement, or other instrument to which Borrower is a party or by which Borrower may be bound where any such default would have a Materially Adverse Effect.
- G. Taxes. Borrower has filed or caused to be filed all tax returns which are required to be filed by it. Borrower has paid, or made provision for the payment of, all taxes which have or may have become due pursuant to said returns or otherwise or pursuant to an assessment received by Borrower, except such taxes, if any, as are being contested in good faith and as to which adequate reserves have been provided. The charges, accruals, and reserves in respect of income taxes on the books of Borrower are adequate. Borrower knows of no proposed material tax assessment against it and no

extension of time for the assessment of federal, state, or local taxes of Borrower is in effect or has been requested, except as disclosed in the financial statements furnished to Lender.

- H. Accurate Information. All written information supplied to Lender by or on behalf of Borrower is and shall be true and correct in all material respects, and all financial projections or forecasts of future results or events supplied to Lender by or on behalf of Borrower have been prepared in good faith and based on good faith estimates and assumptions of the management of Borrower, and Borrower has no reason to believe that such projections or forecasts are not reasonable.
- I. Use of Loan Proceeds. Borrower is not engaged principally in, nor does it have as one of its important activities, the business of extending credit for the purpose of purchasing or carrying any margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System), and no part of any advance made hereunder will be used to purchase or carry margin stock, extend credit to others for the purpose of purchasing or carrying any margin stock, or used for any purpose which violates Regulation U or Regulation X of the Board of Governors of the Federal Reserve System or any other provision of law.
- J. ERISA. No plan (as that term is defined in the Employee Retirement Income Security Act of 1974 (“**ERISA**”)) of the Borrower (a “**Plan**”) which is subject to Part 3 of Subtitle B of Title 1 of ERISA had an accumulated funding deficiency (as such term is defined in ERISA) as of the last day of the most recent fiscal year of such Plan ended prior to the date hereof, or would have had such an accumulated funding deficiency on such date if such year were the first year of such Plan, and no material liability to the Pension Benefit Guaranty Corporation has been, or is expected by the Borrower to be, incurred with respect to any such Plan. No Reportable Event (as defined in ERISA) has occurred and is continuing in respect to any such Plan.

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

- A. Financial Statements, Reports and Certifications. Borrower will furnish to Lender, in form and substance satisfactory to Lender:
 - (1) As soon as possible after the end of each fiscal year of Borrower, and in any event within ninety (90) Business Days thereafter, (i) a complete copy of its annual audit which shall include the balance sheet of Borrower as of the close of the fiscal year and an income statement for such year, certified by the Auditors without material qualification, (ii) a statement of changes in partners’ equity and cash flows for the period ended on such date, certified by the Auditors, and (iii) a statement certified by the chief financial officer of Borrower that no act or omission has occurred which has resulted in an Event or Default or, if not

cured, remedied, waived or otherwise eliminated to the satisfaction of Lender, would result in an Event of Default;

- (2) No later than thirty (30) Business Days after the close of each Accounting Period, (i) Borrower's balance sheet as of the close of such Accounting Period and its income statement for that portion of the then current fiscal year through the end of such Accounting Period prepared in accordance with GAAP and certified as being complete, correct, and fairly representing its financial condition and results of operations by the chief financial officer of Borrower, subject to the absence of footnotes and year-end adjustments, (ii) a statement of changes in equity and cash flows for the period ended on such date, certified by the chief financial officer of Borrower, (iii) the calculation of the Debt Service Coverage Ratio demonstrating compliance with Subsection 8.G. of this Agreement, together with any supporting calculations used to arrive at such calculation, certified by the chief financial officer of Borrower, and (iv) a completed Borrower's Officer's Compliance Certificate;
- (3) Promptly upon the filing or receiving thereof, copies of all reports which the Borrower files under ERISA or which the Borrower receives from the Pension Benefit Guaranty Corporation if such report shows any material violation or potential violation by the Borrower of its obligations under ERISA; and
- (4) Such other information concerning Borrower as Lender may reasonably request.

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

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

with respect to any stamp or other taxes (other than transfer or income taxes) which may be determined to be payable in connection with the making of the Loan Documents.

- D. Taxes and Expenses Regarding Borrower's Property. Borrower shall make due and timely payment or deposit of all taxes, assessments or contributions required of it, except such deposits, assessments or contributions which are being contested in good faith and as to which, in the reasonable determination of Lender, adequate reserves have been provided.
- E. Notice of Events. Promptly after the later of (i) the occurrence thereof or (ii) such time as Borrower has knowledge of the occurrence thereof, Borrower will give Lender written notice of any Event of Default or any event which with the giving of notice or passage of time, or both, would become an Event of Default; provided, however, in the event that the respective Event of Default is subsequently cured as permitted herein, such failure to give notice shall also be deemed to be cured.
- F. Notice of Litigation. In addition to any regularly scheduled reporting required to be delivered with the Borrower's Officer's Certificate, Borrower will promptly give notice to Lender in writing of (i) any litigation or other proceedings against Borrower involving claims for amounts in excess of \$250,000 that Borrower does not reasonably expect are covered by insurance, (ii) any labor controversy resulting in or threatening to result in a strike against Borrower, or (iii) any proposal by any public authority to acquire a material portion of the assets or business of Borrower.
- G. Other Debt. Borrower will promptly pay and discharge any and all Indebtedness when due (where the failure to do so either individually or in the aggregate with any such other unpaid Indebtedness would have a Material Adverse Effect), and lawful claims which, if unpaid, might become a lien or charge upon the Property of Borrower, except such as may in good faith be contested or disputed or for which arrangements for deferred payment have been made, provided appropriate reserves are maintained to the satisfaction of Lender for the eventual payment thereof in the event it is found that such Indebtedness is an Indebtedness payable by Borrower, and when such dispute or contest is settled and determined, will promptly pay the full amount then due.
- H. Cooperation. Borrower will execute and deliver to Lender any and all documents, and do or cause to be done any and all other acts reasonably deemed necessary by Lender, in its reasonable discretion, to effect the provisions and purposes of this Agreement.
- I. Maintenance of Insurance; Notice of Loss. Borrower shall maintain such insurance with reputable insurance carriers as is normally carried by companies engaged in similar businesses and owning similar Property. Upon request from Lender, Borrower will provide Lender with certificates indicating that such insurance is in effect and all premiums due have been paid.

- J. Location of Business. Borrower will give Lender written notice immediately upon forming an intention to change the location of its chief place of business.
- K. Maintenance of Existence. Borrower will preserve and maintain its legal existence and all rights, privileges and franchises necessary or desirable in the normal conduct of its business, will conduct its business in an orderly, efficient and regular manner, and will comply with all applicable laws and regulations and the terms of any indenture, contract or other instrument to which it may be a party or under which it or its properties may be bound, in each instance where the failure to do so would have a Material Adverse Effect.
- L. Compliance with ERISA. Cause each Plan to comply and be administered in accordance with those provisions of ERISA which are applicable to such Plan.

Section 7 . Negative Covenants of Borrower. Except as expressly provided for in Section 7 H. below, and subject to the terms and conditions set forth therein, until payment in full of the Obligations, without the prior written consent of Lender (which consent may be withheld in the sole discretion and determination of Lender), Borrower will not do any of the following items A through G:

- A. Sale of Assets. Borrower will not sell, abandon, or otherwise dispose of any of its assets except in the ordinary course of business.
- B. Consolidation, Merger, etc. Borrower will not consolidate with, merge into, or sell (whether in a single transaction or in a series of transactions) all or substantially all of its assets to any Person.
- C. Change in Business. Borrower will not make any change in the nature of the business of Borrower or a Subsidiary which would result in a material change in the character of the business of Borrower, taken as a whole.
- D. Transactions with Affiliates. Borrower will not enter into any transaction with any Person affiliated with Borrower on terms materially less favorable to Borrower, than at the time could be available to Borrower, from any Person not affiliated with Borrower.
- E. Plans. Borrower will not sponsor or contribute to any other Plan or other defined benefit pension plan or contributes to any multi-employer pension plan.

F. Dividends, Redemptions.

- (1) Borrower will not, except as allowed below, declare or pay any dividend on, or declare or make any other distribution on account of, any stock interest or other ownership interest.
- (2) Borrower will not, except as allowed below, directly or indirectly redeem, retire, purchase, or otherwise acquire beneficially any shares of any class of its own stock now or hereafter outstanding or set apart any sum for any such purpose. The foregoing notwithstanding, Borrower may redeem, retire, purchase or otherwise acquire beneficially shares of common stock of Borrower in an aggregate amount that does not exceed \$5,000,000.

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

H. Change of Control. Notwithstanding anything to the contrary, in the event of a contemplated Change in Control (as defined below) Borrower shall give thirty (30) days' prior written notice to Lender indicating whether it (i) intends to prepay the Loan, which it shall have the right to do in its sole and absolute discretion, subject to a prepayment premium of one percent (1%) of the then outstanding balance of the Loan (the "**Change in Control Prepayment Premium**") or in the event of a voluntary Change in Control under H.(a)(iii) below, the Reinvestment Charge, or (ii) requests Lender's written consent to such Change in Control (with the intent to keep the Loan in place, subject to the terms hereof) which may be withheld, conditioned or delayed, for any or no reason, in its sole and absolute discretion.

Provided, notwithstanding anything to the contrary (including any prepayment provisions or limitations in the Note, and without limiting its ability to prepay the Loan pursuant to the provisions of the Note), if such consent is not granted, Borrower may subsequently choose to prepay the Loan, together with (i) the Change in Control Prepayment Premium or (ii) in the case of a voluntary Change in Control under H.(a)(iii) below (i.e., one not necessitated by the death, incapacity or other occurrence preventing a member of the senior management from fulfilling his role in the management of Borrower), the Reinvestment Charge. Any Change in Control in contravention of the provisions set forth herein, shall be an immediate Event of Default (as defined in Section 8 below) and Borrower shall be liable for the Change in Control Prepayment Premium and Lender may also pursue any other remedies available to it at law, in equity or under Section 8 of this Agreement.

(a) As used herein "**Change of Control**" means (capitalized terms not otherwise defined will have the meanings ascribed to them in paragraph (b) below):

(i) the acquisition by any Person together with all Affiliates of such Person, of Beneficial Ownership of the Threshold Percentage or more; provided, however, that for purposes of this Section 7 H.(a)(i), the following will not constitute a Change of Control:

(A) any acquisition of Company Voting Stock by the Company or its subsidiaries,

(B) any acquisition of Company Voting Stock by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation or other entity controlled by the Company; or

(ii) individuals who, as of the effective date of this Agreement, constitute the Board (the “**Incumbent Board**”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the effective date of this Agreement whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board will be considered a member of the Incumbent Board, unless such individual’s initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or any other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Incumbent Board; or

(iii) a majority of those three individuals currently comprising senior management, William H. Armstrong, President, John E. Baker, Senior Vice President, and Kenneth N. Jones, General Counsel, cease to serve in their current positions; or

(iv) the consummation of a reorganization, merger or consolidation (including a merger or consolidation of the Company or any direct or indirect subsidiary of the Company), or sale or other disposition of all or substantially all of the assets of the Company (a “**Business Combination**”), in each case, unless, immediately following such Business Combination:

(A) the individuals and entities who were the Beneficial Owners of the Company Voting Stock immediately prior to such Business Combination have direct or indirect Beneficial Ownership of more than 50% of the then outstanding shares of common stock, and more than 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, of the Post-Transaction Corporation, and

(B) no Person together with all Affiliates of such Person (excluding the Post-Transaction Corporation and any employee benefit plan or related trust of either the Company, the Post-Transaction Corporation or any subsidiary of either corporation) Beneficially Owns 30% or more of the then outstanding shares of common stock of the Post-Transaction Corporation or 30% or more of the combined voting power of the then outstanding voting securities of the Post-Transaction Corporation, and

(C) at least a majority of the members of the board of directors of the Post-Transaction Corporation were members of the Incumbent Board at the time of the execution of the initial agreement, and of the action of the Board, providing for such Business Combination; or

(v) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

(b) As used in this Section 7 H. and elsewhere in this Agreement, the following terms have the meanings indicated:

(i) Affiliate: “**Affiliate**” means a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, another specified Person.

(ii) Beneficial Owner: “**Beneficial Owner**” (and variants thereof), with respect to a security, means a Person who, directly or indirectly (through any contract, understanding, relationship or otherwise), has or shares (A) the power to vote, or direct the voting of, the security, and/or (B) the power to dispose of, or to direct the disposition of, the security.

(iii) Company Voting Stock: “**Company Voting Stock**” means any capital stock of the Company that is then entitled to vote for the election of directors.

(iv) Majority Shares: “**Majority Shares**” means the number of shares of Company Voting Stock that could elect a majority of the directors of the Company if all directors were to be elected at a single meeting.

(v) Person: “**Person**” means a natural person or entity, and will also mean the group or syndicate created when two or more Persons act as a syndicate or other group (including without limitation a partnership, limited partnership, joint venture or other joint undertaking) for the purpose of acquiring, holding, or disposing of a security, except that “Person” will not include an underwriter temporarily holding a security pursuant to an offering of the security.

(vi) Post-Transaction Corporation: Unless a Change of Control includes a Business Combination, “**Post-Transaction Corporation**” means the Company after the Change of Control. If a Change of Control includes a Business Combination, “**Post-Transaction Corporation**” will mean the corporation or other entity resulting from the Business Combination unless, as a result of such Business Combination, an ultimate parent entity controls the Company or all or substantially all of the Company’s assets either directly or indirectly, in which case, “Post-Transaction Corporation” will mean such ultimate parent entity.

(vii) Threshold Percentage: “**Threshold Percentage**” means 30% of all then outstanding Company Voting Stock.

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

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

- B. Borrower shall default in the payment of any of the other Obligations when due, and such default shall continue for ten (10) Business Days after written notice to Borrower from Lender; or
- C. An order for relief shall be entered against Borrower or any Subsidiary by any United States Bankruptcy Court; or Borrower or any Subsidiary shall generally not pay its debts as they become due (within the meaning of 11 U.S.C. 303(h) as at any time amended or any successor statute thereto) or make an assignment for the benefit of creditors; or Borrower or any Subsidiary shall apply for or consent to the appointment of a custodian, receiver, trustee, or similar officer for it or for all or any substantial part of its Property; or such custodian, receiver, trustee, or similar officer shall be appointed without the application or consent of Borrower or such Subsidiary and such appointment shall continue undischarged for a period of sixty (60) calendar days; or Borrower or such Subsidiary shall institute (by petition, application, answer, consent, or otherwise) any bankruptcy, insolvency, reorganization, moratorium, arrangement, readjustment of debt, dissolution, liquidation or similar proceeding relating to it under the laws of any jurisdiction; or any such proceeding shall be instituted (by petition, application, or otherwise) against Borrower or such Subsidiary and shall remain undismissed for a period of sixty (60) calendar days; or any judgment, writ, warrant of attachment, execution, or similar process shall be issued or levied against a substantial part of the Property of Borrower or such Subsidiary and such judgment, writ, or similar process shall not be released, vacated, or fully bonded within sixty (60) calendar days after its issue or levy; or
- D. Borrower shall be in breach of any other agreement, covenant, obligation, representation or warranty hereunder or with respect to any of the Loan Documents, and such breach shall continue for twenty (20) Business Days after whichever of the following dates is the earliest: (i) the date on which Borrower gives notice of such breach to Lender, and (ii) the date on which Lender gives notice of such breach to Borrower; provided, however, such twenty (20) Business Day period may be extended for up to an additional thirty (30) calendar days if and only if Lender extends such time period in writing following Lender's good faith determination that (X) Borrower is continuously and diligently taking action to cure such breach, and (Y) such breach cannot be cured within the initial twenty (20)-day cure period; or
- E. The aggregate book value of the Borrower's assets shall at any time be less than (1) \$80,000,000 minus (2) the product of \$80,000,000 multiplied by the Cash Collateral Factor.
- F. The aggregate market value of the Borrower's assets shall at any time be less than (1) \$160,000,000 minus (2) the product of \$160,000,000 multiplied by the Cash Collateral Factor.
- G. The Debt Service Coverage Ratio measured on a quarterly basis for the previous twelve (12) months shall be less than (1) (a) 5.0 minus (b) the product of 5.0 multiplied by the Cash Collateral Factor, to (2) 1.0.

- H. The ratio of (1) the Borrower's Indebtedness to (2) the aggregate market value of the Borrower's assets shall at any time exceed (a) sixty percent (60.0%) minus (b) the product of sixty percent (60.0%) multiplied by the Cash Collateral Factor.
- I. The ratio of (1) the Borrower's Secured Indebtedness to (2) the aggregate market value of the Borrower's assets shall at any time exceed (1) forty percent (40.0%) minus (2) forty percent (40.0%) multiplied by the Cash Collateral Factor.
- J. An "Event of Default" as defined in the Comerica Loan Agreement shall occur.
- K. Any Reportable Event (as defined in ERISA) shall have occurred and continue for 30 days; or any Plan shall have been terminated by the Borrower not in compliance with ERISA, or a trustee shall have been appointed by a court to administer any Plan, or the Pension Benefit Guaranty Corporation shall have instituted proceedings to terminate any Plan or to appoint a trustee to administer any Plan.

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

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

Section 1 0 . Limitation of Consequential Damage. Lender shall not be responsible for any lost profits of Borrower arising from any breach of contract, tort (excluding Lender's gross negligence or willful misconduct), or any other wrong arising from the establishment, administration or collection of the obligations evidenced hereby.

Section 1 1 . Indemnification and Expenses. **Borrower agrees to hold Lender harmless from and indemnify Lender against all liabilities, losses, damages, judgments, costs and expenses of any kind which may be imposed on, incurred by or asserted against Lender (collectively, the "Costs") relating to or arising out of this Agreement, any other Loan Document, or any transaction contemplated hereby or thereby, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, this Agreement, any other Loan Document, or any transaction contemplated hereby or thereby, that, in each case, results from anything other than Lender's gross negligence or willful**

misconduct. Borrower also agrees to reimburse Lender as and when billed by Lender for all Lender's reasonable costs and expenses incurred in connection with the enforcement or the preservation of Lender's rights under this Agreement, any other Loan Document, or any transaction contemplated hereby or thereby, including without limitation the reasonable fees and disbursements of its counsel. Borrower's obligations under this Section 11 shall survive repayment of the Loan.

Section 12. Miscellaneous.

- A. Entire Agreement. The Loan Documents embody the entire agreement and understanding between the parties hereto and supersede all prior agreements and understandings relating to the subject matter hereof. No course of prior dealings between the parties, no usage of the trade, and no parole or extrinsic evidence of any nature, shall be used or be relevant to supplement, explain or modify any term used herein.
- B. No Waiver. No failure to exercise and no delay in exercising any right, power, or remedy hereunder or under the Loan Documents shall impair any right, power, or remedy which Lender may have, nor shall any such delay be construed to be a waiver of any of such rights, powers, or remedies, or any acquiescence in any breach or default under the Loan Documents; nor shall any waiver of any breach or default of Borrower hereunder be deemed a waiver of any default or breach subsequently occurring. The rights and remedies specified in the Loan Documents are cumulative and not exclusive of each other or of any rights or remedies which Lender would otherwise have.
- C. Survival. All representations, warranties and agreements herein contained on the part of Borrower shall survive the making of advances hereunder and all such representations, warranties and agreements shall be effective so long as the Obligations arising pursuant to the terms of this Agreement remain unpaid or for such longer periods as may be expressly stated therein.
- D. Notices. All notices of any type hereunder shall be effective as against Borrower or Lender, as the case may be, upon the first to occur of (a) three (3) Business Days after deposit in a receptacle under the control of the United States Postal Service, (b) one (1) Business Day after being transmitted by electronic means to a receiver under the control of the receiving party, provided there is an electronic confirmation of receipt, or (c) actual receipt by an employee or agent of the receiving party. For the purposes hereof, the addresses are as follows:

DEBTOR:
Stratus Properties Inc.
98 San Jacinto Boulevard, Suite 220
Austin, TX 78791
Attention: Mr. William H. Armstrong III
Phone: (512) 478-5788
Fax: (512) 478-6340

with a copy to:
Armbrust & Brown, L.L.P.
100 Congress Avenue, Suite 1300
Austin, TX 78701
Attention: Kenneth Jones, Esq.
Phone: (512) 435-2312
Fax: (512) 435-2360

LENDER:
Holliday Fenoglio Fowler, L.P.
8401 North Central Expressway,
Suite 700
Dallas, TX 75225
Attn: Whitaker Johnson
Phone: (214) 265-0880
Fax: (469) 232-1955

with a copy to:
Leonard, Street and Deinard
Suite 2300, 150 S. Fifth Street
Minneapolis, Minnesota 55402
Attention: Andrew P. Lee

Phone: (612) 335-1881
Fax: (612) 335-1657

- E. Separability of Provisions. In the event that any one or more of the provisions contained in this Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality, and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.
- F. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of Borrower, Lender, and their respective successors and assigns, provided, however, that Borrower may not transfer its rights or obligations under any of the Loan Documents without the prior written consent of Lender which may be withheld in its sole and absolute discretion. Lender may assign its interest in the Loan Documents, in whole, or in part, without any consent from, or notice to, Borrower.
- G. Counterparts. This Agreement may be executed in any number of counterparts all of which taken together shall constitute one agreement and any party hereto may execute this Agreement by signing any such Counterpart.
- H. Choice of Law; Location of Loan. This Agreement shall be governed by and construed in accordance with the laws of the State of Minnesota. Lender and Borrower agree that the Loan will be negotiated, funded and closed in the State of Minnesota.
- I. Amendment and Waiver. Neither this Agreement nor any provisions hereof may be changed, waived, discharged or terminated orally, but only by an

instrument in writing signed by the party against whom enforcement of the change, waiver, discharge or termination is sought.

- J. Plural. When permitted by the context, the singular includes the plural and vice versa.
- K. Retention of Records. Lender shall retain any documents, schedules, invoices or other papers delivered by Borrower only for such period as Lender, at its sole discretion, may determine necessary.
- L. Headings. Section and paragraph headings and numbers have been set forth for convenience only.
- M. Information to Participants. Borrower agrees that Lender may furnish any financial or other information concerning Borrower or any of its Subsidiaries heretofore or hereafter provided by Borrower to Lender, pursuant to this Agreement or otherwise, to any prospective or actual purchaser of any participation or other interest in any of the loans made by Lender to Borrower (whether under this Agreement or otherwise), or to any prospective purchaser of any securities issued or to be issued by Lender; provided, however, any such delivery shall be delivered on the condition that such information is delivered on a confidential basis.
- N. Acknowledgments. Borrower hereby acknowledges that: (i) it has been advised by counsel in the negotiation, execution and delivery of this Agreement and the other Loan Documents; (ii) Lender has no fiduciary relationship to Borrower, and the relationship between Borrower and Lender is solely that of debtor and creditor; and (iii) no joint venture exists between Lender and Borrower.

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

Section 14. Waiver Of Trial By Jury. In recognition of the higher costs and delay which may result from a jury trial, the parties hereto waive any right to trial by jury of any claim, demand, action or cause of action (1) arising hereunder or any other instrument, document or agreement executed or delivered in connection herewith, or (2) in any way connected with or related or incidental to the dealings of the parties hereto or any of them with respect hereto or any other instrument, document or agreement executed or delivered in connection herewith, or the transactions related hereto or thereto, in each case whether now existing or hereafter arising, and whether sounding in contract or tort or otherwise; and each party hereby agrees and consents that

any such claim, demand, action or cause of action shall be decided by court trial without a jury, and that any party hereto may file an original counterpart or a copy of this section with any court as written evidence of the consent of the parties hereto to the waiver of their right to trial by jury.

Section 1 5 . Liability of Officers, Directors, Shareholders. Notwithstanding anything contained herein or in the other Loan Documents, or any conduct or course of conduct by the parties hereto, before or after signing the Loan Documents, this Agreement shall not be construed as creating any rights, claims or causes of action against any partner of Borrower or any officers, directors, or shareholders of Borrower.

[Signature page follows.]

LOAN AGREEMENT

[SIGNATURE PAGE]

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

BORROWER:

STRATUS PROPERTIES INC.,

a Delaware corporation

By: /s/ John E. Baker

Name: John E. Baker

Title: Senior Vice President

LENDER:

HOLLIDAY FENOGLIO FOWLER, L.P., a Texas limited partnership, by Holliday GP Corp., a Delaware corporation, its General Partner

By: /s/ Nancy Goodson

Name: Nancy Goodson

Its: Vice President

SIGNATURE PAGE TO \$8,000,000 LOAN AGREEMENT

SCHEDULE 1 TO LOAN AGREEMENT

CERTAIN DEFINITIONS

“Accounting Period” means each calendar quarter during the term of the Loan, commencing on July 1, 2007.

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

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

“Borrower” has the meaning provided in the introductory paragraph of the Agreement.

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

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

“Capital Improvements Expenditures” means investments of Borrower and certain affiliates of Borrower in real estate and facilities investments, plus any municipal utility reimbursements which have been credited to such real estate and/or facilities investments, determined on a consolidated basis.

“Cash and Cash Equivalents” means cash and cash equivalents of Borrower and certain affiliates of Borrower, determined on a consolidated basis.

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

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

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

“Comerica Loan Agreement” means that certain Loan Agreement dated as of September 30, 2005, among Borrower and certain Affiliates of Borrower and Comerica Bank-Texas.

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

“Costs” has the meaning contained in Section 11.

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

“Debt Service Coverage Ratio” means for any period of time the ratio of (1) the sum of the Borrower’s increase (or decrease) in Cash and Cash Equivalents during that period, plus Capital Improvements Expenditures during that period, plus Debt Service on all of Borrower’s Indebtedness during that period, to (2) Debt Service on all of Borrower’s Indebtedness.

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

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

“Indebtedness” of any Person means all items of indebtedness which, in accordance with GAAP, would be deemed a liability of such Person as of the date as of which indebtedness is to be determined and shall also include, without duplication, all indebtedness and liabilities of others assumed or guaranteed by such Person or in respect of which such Person is secondarily or contingently liable (other than by endorsement of instruments in the course of collection) that would otherwise be deemed to be liabilities under GAAP, whether by reason of any agreement to acquire such indebtedness, to supply or advance sums, or otherwise.

“Lender” has the meaning provided in the introductory paragraph of the Agreement.

“Lending Office” shall refer to Lender’s office described in Section 12.D of the Agreement.

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

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

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

- (i) the ability of Borrower to perform its obligations under the Agreement, the Note, or any other Loan Document; or
- (ii) the validity, enforceability or collectibility of the Note, the Agreement or any other Loan Document.

“Maturity Date” means December 31, 2011.

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

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

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

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

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

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

“Related Lenders” shall mean American Strategic Income Portfolio Inc., a Minnesota corporation, American Select Portfolio Inc., a Minnesota corporation, American Strategic Income Portfolio Inc.—II, a Minnesota corporation, and American Strategic Income Portfolio Inc.—III, a Minnesota corporation.

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

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

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

EXHIBIT A TO LOAN AGREEMENT

FORM OF NOTE

EXHIBIT B TO LOAN AGREEMENT

FORM OF BORROWER'S OFFICER'S COMPLIANCE CERTIFICATE

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

[DATE]

Holliday Fenoglio Fowler, L.P.
c/o FAF Advisors, Inc.
800 Nicollet Mall, Suite 500
BC-MN-H05W
Minneapolis, MN 55402
Attention: John G. Wenker

Re Loan Agreement dated as of June 1, 2007 between Stratus Properties Inc. ("**Borrower**") and Holliday Fenoglio Fowler, L.P. ("**Lender**") (the "**Loan Agreement**") (capitalized terms not defined herein have the respective meanings contained in the Loan Agreement)

Ladies and Gentlemen:

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

1. As of the date of this Certificate, no act or omission has occurred which has resulted in an Event or Default or, if not cured, remedied, waived or otherwise eliminated to the satisfaction of Lender, would result in an Event of Default.
2. The undersigned officer is authorized to make this Certificate on behalf of Borrower and has reviewed the terms of the Loan Agreement and has made, or caused to be made under such officer's supervision, a review in reasonable detail of the facts necessary to make the certifications contained herein.

STRATUS PROPERTIES INC.,

a Delaware corporation

By: _____

Name: John E. Baker

Title: Senior Vice President

August 8, 2007

Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Commissioners:

We are aware that our report dated August 8, 2007 on our review of interim financial information of Stratus Properties Inc. for the three and six month periods ended June 30, 2007 and 2006 and included in the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2007 is incorporated by reference in its Registration Statements on Form S-8 (File Nos. 33-78798, 333-31059, 333-52995 and 333-104288).

Very truly yours,

/s/ PricewaterhouseCoopers LLP

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.

Date: August 8, 2007

/s/ William H. Armstrong III

William H. Armstrong III

Chairman of the Board, President
and Chief Executive Officer

CERTIFICATION

I, John E. Baker, 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.

Date: August 8, 2007

/s/ John E. Baker
John E. Baker
Senior Vice President &
Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q of Stratus Properties Inc. (the "Company") for the quarter ending June 30, 2007, 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. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 8, 2007

/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 § 18 of the Securities Exchange Act of 1934, as amended.

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

In connection with the Quarterly Report on Form 10-Q of Stratus Properties Inc. (the "Company") for the quarter ending June 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), John E. Baker, as Senior Vice President & Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of 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 8, 2007

/s/ John E. Baker
John E. Baker
Senior Vice President &
Chief Financial Officer

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

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