Howard Hughes Corp
Form 10-K
February 28, 2013

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

FORM 10-K

(MARK ONE)
ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2012

or

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

For the transition period from to

Commission File Number 001-34856

The Howard Hughes Corporation

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**36-4673192** **(I.R.S. Employer Identification Number)**
13355 Noel Road, 22nd Floor, Dallas, Texas **(Address of principal executive offices)**	**75240** **(Zip Code)**

(214) 741-7744
(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class:	Name of Each Exchange on Which Registered:
Common Stock, $.01 par value	**New York Stock Exchange**

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ý NO o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO ý

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer	ý	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES o NO ý

As of June 30, 2012, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $2.3 billion based on the closing sale price as reported on the New York Stock Exchange.

As of February 24, 2013, there were 39,498,912 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to its 2013 Annual Meeting of Stockholders are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K. The registrant intends to file its Proxy Statement with the Securities and Exchange Commission within 120 days of the end of the fiscal year to which this Annual Report on Form 10-K relates.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact included in this Annual Report on Form 10-K are forward-looking statements. Forward-looking statements give our current expectations relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to current or historical facts. These statements may include words such as "anticipate," "estimate," "expect," "project," "forecast," "plan," "intend," "believe," "may," "should," "would," "likely," "realize," "transform" and other words of similar expression. Forward-looking statements should not be relied upon. They give our expectations about the future and are not guarantees. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance and achievements to materially differ from any future results, performance and achievements expressed or implied by such forward-looking statements. These forward-looking statements present our estimates and assumptions only as of the date of this Annual Report on Form 10-K. Except as may be required by law, we undertake no obligation to modify or revise any forward-looking statements to reflect events or circumstances occurring after the date of this report.

Factors that could cause actual results to differ materially from those expressed or implied by forward-looking statements include:

- our inability to obtain operating and development capital;
- continued low growth in the national economy and adverse economic conditions in the homebuilding and retail sectors;
- our inability to compete effectively;
- our directors may be involved or have interests in other businesses, including real estate activities and investments;
- our inability to control certain of our properties due to the joint ownership of such property and our inability to successfully attract desirable strategic partners; and
- the other risks described in Item 1A. "Risk Factors."

PART I

Throughout this Annual Report on Form 10-K, references to the "Company", "HHC", "we" and "our" refer to The Howard Hughes Corporation and its consolidated subsidiaries, unless the context requires otherwise.

ITEM 1. BUSINESS

OVERVIEW

Our mission is to be the preeminent developer of master planned communities and mixed use properties. We create timeless places and memorable experiences that inspire people while driving sustainable, long-term growth and value for our shareholders. We specialize in the development of Master Planned Communities and ownership, management and the redevelopment or repositioning of real estate assets currently generating revenues, also called Operating Assets, as well as other strategic real estate opportunities in the form of entitled and unentitled land and other development rights, also called Strategic Developments. We are headquartered in Dallas, Texas and our assets are located across the United States.

Unlike most real estate companies which are limited in their activities because they have elected to be taxed as a real estate investment trust, we, except for Victoria Ward, Limited, one of our subsidiaries which is a captive REIT, have no restrictions on our operating activities or types of services that we can offer. We believe our structure provides the greatest flexibility for maximizing the value of our real estate portfolio. As of December 31, 2012, our consolidated debt equaled approximately 19.6% of our total assets and we had $229.2 million of cash on hand.

Our master planned communities have won numerous awards for, among other things, design and community contribution. We expect the competitive position and desirable locations of our assets (which collectively comprise millions of square feet and thousands of acres of developable land), combined with their operations and long-term opportunity through entitlements, land and home site sales and project developments will drive our long-term growth.

We operate our business in three segments: Master Planned Communities, Operating Assets and Strategic Developments. Financial information about each of our segments is presented in Note 17 Segments of our audited financial statements on pages F-52 to F-55.

We were incorporated in Delaware in 2010 to receive certain assets and liabilities of GGP, Inc., formerly known as General Growth Properties, Inc. ("GGP" and collectively with its subsidiaries, our "predecessors") in connection with our predecessors' emergence from bankruptcy. We completed our spin-off from GGP on November 9, 2010.

Recent Significant Acquisitions and Other Transactions

In the fourth quarter of 2012, we retired warrants to purchase 6,083,333 shares of our common stock pursuant to the warrant purchase agreements by and among the Company and affiliates of Brookfield Asset Management, Fairholme Funds and Blackstone Real Estate Partners. We paid a total of $80.5 million in cash and issued 1,525,272 shares of our common stock to Brookfield in connection with the warrant transactions. The warrant transactions reduced diluted common shares outstanding by 9.2%, or 4,558,061 shares, to a total of 45,119,706 shares assuming all stock options and warrants outstanding at December 31, 2012, were exercised.

On July 1, 2011, we acquired our former partner's 47.5% economic interest in The Woodlands pursuant to a Partnership Interest Purchase Agreement. We paid $20.0 million in cash at closing and the remaining $97.5 million of the purchase price was represented by a non-interest bearing promissory note which we repaid from available cash on hand on December 1, 2011. Following the acquisition, we own 100% of The Woodlands and control all aspects related to the management and development of

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The Woodlands. Our management and development staff for The Woodlands master planned community also manages the development of Bridgeland, our other Houston, Texas master planned community. We are leveraging The Woodlands' nearly 40 years of master planned community development experience to replicate The Woodlands success at Bridgeland, which is located 40 miles southwest of The Woodlands and is in the early stages of its development life cycle.

Overview of Business Segments

Master Planned Communities. Our Master Planned Communities segment consists of the development and sale of residential and commercial land, primarily in large-scale projects. We own four master planned communities (The Woodlands, Summerlin, Bridgeland and Maryland). Our master planned community in Maryland includes four separate communities that are collectively referred to as the "Maryland Communities."

Our Master Planned Communities include over 12,500 acres of land remaining to be sold. Residential sales, which are made primarily to home builders, include standard and custom parcels as well as high density (*e.g.,* condominium, town homes and apartments) parcels designated for detached and attached single- and multi-family homes, ranging from entry-level to luxury homes. Commercial sales include land parcels designated for retail, office, resort, services and other for-profit activities, as well as those parcels designated for use by government, schools and other not-for-profit entities.

Operating Assets. Our Operating Assets segment contains 26 properties, investments and other assets that currently generate revenue, consisting primarily of commercial mixed-use, retail and office properties. These assets include nine mixed-use and retail properties, seven office properties (the "Columbia Office Properties" contain six separate office buildings), a resort and conference center, a 36-hole golf and country club, a multi-family apartment building, two equity investments and five other assets. We believe that there are opportunities to redevelop or reposition many of these assets, primarily the retail properties, to increase operating performance. These opportunities will require new capital investment and vary in complexity and scale. The redevelopment opportunities range from minimal disruption to the property to the partial or full demolition of existing structures for new construction.

Strategic Developments. Our Strategic Developments segment consists of near, medium and long-term development projects for 21 of our real estate properties. We believe most of these 21 assets will require substantial future development to achieve their highest and best use. We are in various stages of creating or executing strategic plans for many of these assets based on market conditions and availability of capital. In addition to the permitting and approval process attendant to almost all large-scale real estate developments of this nature, we will likely need to obtain financing to realize a development plan for one or more of these assets.

The chart below presents our assets by reportable segment at December 31, 2012.

Master Planned Communities

Our Master Planned Communities segment consists of the development and sale of residential and commercial land, primarily in large-scale projects, in and around Las Vegas, Nevada; Houston, Texas; and Columbia, Maryland. Summerlin and the Maryland Communities are additionally divided into regions or projects as described below in each of the separate community narratives. Revenues are derived primarily from the sale of finished lots and undeveloped pads to residential builders and commercial developers. Additional revenues are earned through participations with builders in their sales of finished homes to homebuyers. Revenues and net income are affected by factors such as: (1) the availability to purchasers of construction and permanent mortgage financing at acceptable interest rates; (2) consumer and business confidence; (3) regional economic conditions in the areas surrounding the projects, which includes levels of employment and homebuilder inventory; (4) other factors generally affecting the homebuilder business and sales of residential properties; (5) availability of saleable land for particular uses; and (6) our decisions to sell, develop or retain land.

Our Master Planned Communities are located in geographic markets which are experiencing different rates of recovery following the housing market decline that started in 2007. Our communities in Houston, Texas, have benefited from companies relocating to Houston and the growth of energy sector companies. The Las Vegas, Nevada market is recovering more slowly, and our Summerlin master planned community is experiencing more variability in sales pace and volume compared to our Houston communities. The Maryland Communities have no more remaining residential saleable acres and represent primarily a commercial real estate development opportunity. As a business venture, development of master planned communities requires expertise in large-scale, long-range land use planning, residential and commercial real estate development, sales and other special skills. The development of our large scale master planned communities requires decades of investment and a continual focus on the changing market dynamics surrounding these communities. We believe that the long-term value of our master planned communities remains strong because of their competitive and dominant positioning, our expertise and flexibility in land use planning and the fact that we have substantially completed the entitlement process within our communities.

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The following table summarizes our master planned communities, all of which are wholly owned, as of December 31, 2012:

Community	Location	Total Gross Acres(a)	People Living in Community (Approx. No.)	Remaining Saleable Acres(b) Residential (b)	Commercial (c)	Total	Other Acres(d)	Remaining Saleable Residential Lots(e)	Projected Community Sell-Out Date
Summerlin	Las Vegas, NV	22,500	100,000	5,184	890	6,074		43,000(f)	2039
Bridgeland	Houston, TX	11,400	6,250	3,635	1,226	4,861		18,523	2036
Maryland									
Columbia	Howard County	14,200	100,000				35		2022(g)
Gateway	Howard County	630			63	63	40		2018
Emerson	Howard County	520	3,407		68	68			2017
Fairwood	Prince George's County	1,100	2,600		11	11	24		2017
The Woodlands	Houston, TX	28,400	105,000	857	613	1,470	277	2,750	2022
Total		78,750	317,257	9,676	2,871	12,547	376	64,273	

(a) Encompasses all of the land located within the borders of the master planned community, including parcels already sold, saleable parcels and non-saleable areas, such as roads, parks and recreation and conservation areas.

(b) Includes standard, custom and high density residential land parcels. Standard residential lots are designed for detached and attached single- and multi-family homes, consisting of a broad range, from entry-level to luxury homes. At Summerlin and The Woodlands, we have designated certain residential parcels as custom lots as their premium price reflects their larger size and other distinguishing features such as being within a gated community, having golf course access or being located at higher elevations. High density residential includes townhomes, apartments and condominiums. Reflected are the remaining residential acres and lots associated with those acres.

(c) Designated for retail, office, resort, services and other for-profit activities, as well as those parcels allocated for use by government, schools, houses of worship and other not-for-profit entities.

(d) With the exception of Gateway and Emerson, reflects the number of net developable acres of raw land and subdivided land parcels available for new development, but which we currently intend to hold. In 2012, The Woodlands began developing 9.44 acres for its own use, which includes the construction of two office buildings, a parking garage and the contribution of land zoned for apartments to a joint venture.

(e) Includes only parcels that are intended for sale or joint venture. The mix of intended use, as well as the amount of remaining saleable acres, are primarily based on assumptions regarding entitlements and zoning of the remaining project and are likely to change over time as the master plan is refined. Remaining saleable acres are estimates.

(f) Amount represents remaining entitlements, not necessarily the number of lots that will ultimately be developed and sold.

(g) We currently intend to develop the land surrounding the Columbia Town Center. The date represents our estimated redevelopment completion date.

Summerlin (Las Vegas, Nevada)

Spanning the western rim of the Las Vegas Valley and located approximately nine miles from downtown Las Vegas, our 22,500 acre Summerlin master planned community is comprised of planned and developed villages and offers suburban living with accessibility to the Las Vegas Strip. For much of its 20-year history, Summerlin has consistently ranked in the Robert Charles Lesser annual poll of Top-Selling Master Planned Communities in the nation ranking 12th in 2012. With 26 public and private schools, four institutions of higher learning, nine golf courses, and cultural facilities, Summerlin is a fully integrated community. The first residents moved into their homes in 1991. As of December 31, 2012, there were approximately 40,000 homes occupied by approximately 100,000 residents.

Summerlin is comprised of hundreds of neighborhoods located in 19 developed villages, out of 30 currently planned, with nearly 150 neighborhood and village parks, all connected by a 150-mile long trail system. Summerlin is located adjacent to Red Rock Canyon National Conservation Area, a landmark in southern Nevada, which has become a world-class hiking and rock climbing destination and is in close proximity to our Shops at Summerlin development site. As more fully described in our Strategic Developments section, in 2012, we obtained two anchor retailer commitments needed to launch the development of a 1.5 million square feet mixed-use downtown development on the Shops at Summerlin site. We believe that the completion of the downtown will significantly increase the value of our surrounding land due to the addition of retail, office, restaurant and entertainment amenities. Red

Rock Casino Resort & Spa, which is adjacent to our site, receives more than one million visitors annually. Summerlin contains approximately 2.1 million square feet of developed retail space, 3.2 million square feet of developed office space and three hotel properties containing approximately 1,400 hotel rooms, as well as health and medical centers, including Summerlin Hospital.

Summerlin is divided into three separate regions or projects known as Summerlin North, Summerlin West and Summerlin South. Summerlin North is fully developed. In Summerlin South, we are entitled to develop 740 acres of commercial property with no square footage restrictions, 355 acres of which are owned by third parties or already committed to commercial development. We also have entitlements for an additional 18,000 residential units yet to be developed in Summerlin South. In Summerlin West, we are entitled to develop 5.85 million square feet of commercial space on up to 508 acres of which 100,000 square feet have already been developed through the construction of a grocery store anchored shopping center. We are also entitled to develop 30,000 residential units in Summerlin West, approximately 25,000 of which remain to be developed. The remaining saleable residential lots reflected in the chart above represents Summerlin's total entitlements, and utilization of these entitlements is based on economic conditions now and expected in the future. As of December 31, 2012, Summerlin had approximately 5,184 residential acres and 890 commercial acres remaining to be sold. Summerlin's population upon completion of the project is expected to be approximately 220,000 residents.

Bridgeland (Houston, Texas)

Bridgeland is a master planned community located near Houston, Texas and consists of approximately 11,400 acres. It was voted by The National Association of Home Builders as the "Master Planned Community of the Year" in 2009. Bridgeland ranked 15th nationally and was also the fourth ranked MPC in the Houston area in 2012. The first residents moved into their homes in June 2006. There were approximately 1,800 homes occupied by approximately 6,250 residents as of December 31, 2012. Bridgeland's conceptual plan includes four villages Lakeland Village, Parkland Village, Prairieland Village and Creekland Village plus a Town Center mixed-use district and a carefully designed network of trails totaling over 60 miles that will provide pedestrian connectivity to distinct residential villages and neighborhoods, as well as access to recreational, educational, cultural, employment, retail, religious and other offerings. Bridgeland's first five neighborhoods are located in Lakeland Village. These neighborhoods offer a unique home buying experience that includes two convenient model home parks showcasing 20 models by ten of Houston's top builders. Bridgeland has many home sites that enjoy views of water, buried power lines to maximize the views of open space, fiber-optic technology, brick-lined terrace walkways and brick, stone and timber architecture. The prices of the homes range from approximately $170,000 to more than $1.0 million. Lakeland Village is approximately 65% complete. The Lakeland Activity Center, the first of several planned activity complexes to be constructed as development progresses and more residents move to Bridgeland, opened in May 2007. The complex is anchored by a 6,000 square foot community center and features a water park with three swimming pools, two lighted tennis courts and a state-of-the-art fitness room. A grand promenade wrapping around Lake Bridgeland offers a boat dock, canoes, kayaks, sailboats and paddleboats. Bridgeland is expected to feature more than 3,000 acres of waterways, lakes, trails, parks and open spaces, as well as an expansive Town Center that will provide employment and room for retail, educational and entertainment facilities.

Bridgeland's conceptual plan, which was revised in 2012, includes an 800-acre Town Center mixed-use district. The conceptual plan contemplates that the Town Center will be located adjacent to the expansion of State Highway 99 (the "Grand Parkway"), which is an approved 180 mile circumferential highway traversing seven counties and providing access to southwest, west, northwest, north and northeast Houston. Segment E of the Grand Parkway will be a 15-mile four-lane controlled access toll road with intermittent frontage roads from Interstate 10 to Highway 290 through Harris County. Segment E, which will have three exchanges serving Bridgeland, will provide direct access to the portion of Bridgeland designated for the Town Center and to the future residential sections of

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Bridgeland allowing for enhanced access to the Master Planned development. Construction on Segment E began in October 2011 and is estimated to be completed by the end of 2013 or beginning of 2014. Additional segments are scheduled for completion in 2015 which will connect Bridgeland through the Energy Corridor to The Woodlands and to the new ExxonMobil Campus.

We anticipate that the Bridgeland community will eventually accommodate more than 20,000 homes and 65,000 residents, and we believe that it is poised to be one of the top master planned communities in the nation. The Woodlands, which has nearly 40 years of master planned community development experience, is leading the development and marketing of Bridgeland. As of December 31, 2012, Bridgeland had approximately 3,635 residential acres and 1,226 commercial acres remaining to be sold.

Maryland Communities

Our Maryland communities consist of four distinct projects:

- Columbia;
- Gateway;
- Emerson; and
- Fairwood.

Columbia

Columbia, located in Howard County, Maryland, is an internationally recognized model of a successful master planned community that began development in the 1960's. As of December 31, 2012, Columbia was home to approximately 100,000 people.

Situated between Baltimore and Washington, D.C., and encompassing 14,000 acres of land, Columbia offers a wide variety of living, business and recreational opportunities. The master planned community's full range of housing options is located in nine distinct, self-contained villages and a Town Center. Columbia has an estimated 5,500 businesses, which occupy approximately 26 million square feet of space and provide more than 63,000 jobs. There is a wide variety of retail options encompassing approximately 4.8 million square feet of retail space in more than 500 stores.

As a result of the 2005 Base Realignment and Closure Commission, additional government agencies have been relocated to Fort George G. Meade, just 11 miles from Downtown Columbia. By 2020, the overall workforce on the base is projected to exceed 70,000 people (a 25% increase from 2012), primarily because of the base's role in cyber security and protecting the nation's information technology assets from foreign threats. An economic engine for the region, Fort Meade directly or indirectly supports approximately 170,000 local jobs, and growth projections indicate that there will be future demand for office space and housing for highly paid personnel.

In downtown Columbia, 1.6 million square feet of office space is located close to shopping, restaurants and entertainment venues. We believe there is significant opportunity to redevelop this area in the future. During 2010, we received entitlements to develop up to 5,500 new residential units, 4.3 million square feet of commercial office space, 1.25 million square feet of retail space and 640 hotel rooms.

In November, 2010, we entered into development agreements with GGP that provide for the division of properties between our Company and GGP in an area within the mall Ring Road adjacent to The Mall in Columbia, which is owned by GGP. We have a Preferred Residential and Office Development Covenant that provides us the right of first offer for new development densities of residential and office within the Columbia Mall Ring Road. This covenant expires in 2030. The development agreements contain the key terms, conditions, responsibilities and obligations with respect to the future development of this area within the greater Downtown Columbia Redevelopment District. The agreements also provide us with a five-year right of first refusal and a subsequent six-month purchase option to acquire seven office buildings and associated parking lots, totaling approximately 22 acres. In August 2012, we acquired the 169,000-square-foot 70 Columbia Corporate Center, one of the buildings associated with our right of first refusal, from its lender. There are now six office buildings remaining under this right of first refusal.

During 2011, we contributed four plus acres of land to the Columbia Parcel D joint venture for the development of a 380-unit Class A apartment building on this land with a local partner, which is more fully described under Strategic Developments.

We also own approximately 35 acres, net of road and related infrastructure improvements, on the land around Merriweather Post Pavilion, which is south of the Mall. The acreage currently consists of raw land and subdivided land parcels readily available for new development. We intend to propose an initial Final Development Plan to the Howard County Planning department in 2013. Preliminary plans call for at least four million square feet of development activity, with high-rise buildings surrounding the Central Park-like setting afforded by the Pavilion and its surrounding property.

Gateway

Gateway is a 630-acre premier master planned corporate community located in a high traffic area in Howard County, Maryland. Gateway offers quality office space in a campus setting with approximately 63 commercial acres remaining to be sold as of December 31, 2012.

Emerson

Emerson is a substantially completed master planned community located in Howard County, Maryland and consists of approximately 520 acres. The first residents moved into their homes in 2002. There were approximately 1,210 homes occupied by approximately 3,407 residents as of December 31, 2012.

Emerson has a wide assortment of single-family and townhomes offered by some of the region's top homebuilders, and is located in one of Maryland's top-performing public school districts. As of December 31, 2012, we had approximately 68 commercial acres remaining to be sold. The remaining land is fully entitled for build-out, subject to meeting local requirements for subdivision and land development permits. As of May, 2012, the residential component of this project has been completely sold out. A total of 28 townhouse lots were delivered in 2012, generating $4.2 million in revenue.

Fairwood

Fairwood is a fully developed master planned community located in Prince George's County, Maryland, consisting of approximately 1,100 acres. As of December 31, 2012, 11 commercial acres were available for sale. The first residents moved into their single-family homes in 2002. There were approximately 1,200 homes occupied by approximately 2,600 residents as of December 31, 2012. Fairwood consists of single-family and townhouse lots, as well as undedicated open space and two historic houses. In addition to the commercial acres remaining to be sold, we own a few undedicated open space parcels, and 24 acres of unsubdivided land which cannot be developed as long as the nearby airport is operating.

The Woodlands (Houston, Texas)

The Woodlands is a mixed-use master planned community situated 27 miles north of Houston and consists of 28,400 acres. The Woodlands is a self-contained community that integrates recreational amenities, residential neighborhoods, commercial office space, retail shops and entertainment venues. Home site sales began in 1974. As of December 31, 2012, there were approximately 39,800 homes occupied by approximately 105,000 residents and more than 1,870 businesses providing employment for approximately 52,000 people, with a job to home ratio of 1.30 to 1.00. The Woodlands was ranked 3rd nationally and was also the top selling MPC in the Houston area for 2012.

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Approximately 28% of The Woodlands is dedicated to green space, including parks, pathways, open spaces, golf courses and forest preserves. The population of The Woodlands is projected to be approximately 130,000 by 2021. The Woodlands has full or partial ownership interests in commercial properties totaling 863,042 square feet of office space (of which 436,042 square feet is complete and 427,000 square feet is under construction) 201,280 square feet of retail and service space and 393 rental apartment units. We also own and operate a 440-room resort and conference center facility and a 36-hole golf and country club. These commercial properties are more fully described under Operating Assets. As of December 31, 2012, The Woodlands had approximately 857 acres of unsold residential land representing approximately 2,750 lots.

We had 890 acres of land designated for commercial use remaining to be sold or developed, which was designated as 613 acres for third-party land sales and 277 acres that we intend to hold and develop. The 277 acres intended to be developed by us is comprised of 108 acres for apartments or condominiums, 36 acres for retail development, 13 acres for hotel facilities, 35 acres for mixed-use and 85 acres for office buildings.

We have four projects under construction which include two Class A office buildings, a parking garage to service one of the office buildings and a Class A apartment complex. The office buildings are 3 Waterway Square in The Woodlands Town Center area and One Hughes Landing, which is located at the new Hughes Landing site at Lake Woodlands in the East Shore area. 3 Waterway Square is an eleven-story, 232,000 square foot building which will cost approximately $51.4 million to construct. The project is expected to be complete in May 2013 and is 90% pre-leased. One Hughes Landing and the corresponding parking garage are the first structures to be constructed in Hughes Landing at Lake Woodlands. One Hughes Landing is an eight-story, 195,000 square foot building and the adjacent parking garage will contain 632 parking spaces. The two structures together are projected to cost $45.8 million. This project is projected to be completed in September 2013 and is currently 28% pre-leased. The Millennium Woodlands Phase II is a 314-unit Class A apartment complex being constructed in a joint venture with The Dinerstein Companies. The project is expected to cost $38.4 million and is expected to be ready for initial occupancy in April 2014.

The Woodlands includes a waterway, outdoor art and an open-air performance pavilion, a resort and conference center, a luxury hotel and convention center, educational opportunities for all ages, hospitals and health care facilities and office space. The Fountains at Waterway Square located on The Woodlands Waterway connects all of the amenities of the community via a water taxi system serving The Woodlands Town Center area.

ExxonMobil is constructing a large corporate campus on a 385-acre site just south of The Woodlands. The site is expected to include approximately 20 buildings, representing three million square feet of space. ExxonMobil expects to begin relocating employees into this new location starting in 2014 and ending in 2015. Upon completion of the relocation, ExxonMobil estimates there will be approximately 10,000 employees working at the new campus. We believe that the direct and indirect jobs related to this relocation will have a significant positive impact on The Woodlands and Bridgeland due to increased housing demand, as well as commercial space needs for companies servicing ExxonMobil. Since inception, The Woodlands has always sought to maintain a wide array of home choices and communicated that information to the realtor community as they are critical in providing guidance to the corporate relocation homebuyer. As a result of this effort, over the years The Woodlands achieved an average of approximately 33% of new home sales attributable to the "Outside of Houston Area" as the location of former residence. Starting in 2009, the percentage of "Outside of Houston Area" relocations has been steadily increasing, and in 2012 the percentage totaled 37%. Due to the new ExxonMobil campus that opens in 2015, we are seeing increased velocity in home sales for many of these employees.

Construction of certain segments of The Grand Parkway is expected to be completed in early 2015. We believe the construction of The Grand Parkway linking The Woodlands and Bridgeland to the new

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ExxonMobil campus and the rest of the greater Houston area will have a positive impact on travel patterns for residents in our Houston Master Planned Communities.

Operating Assets

We own nine mixed-use and retail properties, seven office properties (the "Columbia Office Properties" contain six separate office buildings), a resort and conference center, a 36-hole golf course and country club, a multi-family apartment building, two equity investments and five other assets currently generating revenues. Based on a variety of factors, we believe that there are opportunities to redevelop or reposition several of these assets, primarily the retail properties, to improve their operating performance. These factors include, but are not limited to the following: (1) existing and forecasted demographics surrounding the property; (2) competition related to existing and/or alternative uses; (3) existing entitlements of the property and our ability to change them, compatibility of the physical site with proposed uses; and (4) environmental considerations, traffic patterns and access to the properties. We believe that, subject to obtaining all necessary consents and approvals, these assets have the potential for future growth by means of an improved tenant mix, additional gross leasable area ("GLA"), or repositioning of the asset for alternative use. Our retail operating assets include approximately 2.9 million total square feet of GLA in the aggregate. Redevelopment plans for these assets may include office, retail or residential space, shopping centers, movie theaters, parking complexes and open space. Any future redevelopment will require the receipt of permits, licenses, consents and waivers from various parties.

Retail Operating Assets

Ward Centers (Honolulu, Hawaii)

Ward Centers is comprised of approximately 60 acres situated along Ala Moana Beach Park and is within one mile of Waikiki and downtown Honolulu. It is also a ten minute walk from Ala Moana Center, Hawaii's largest shopping center. Ward Centers currently includes a 665,000 square foot shopping district containing seven specialty centers and approximately 140 unique shops, a variety of restaurants and an entertainment center which includes a 16- screen movie theater. In January 2009, the Hawaii Community Development Authority ("HCDA") approved a 15-year master plan, which entitles us to develop a mixed-use development encompassing a maximum of 9.3 million square feet, including up to 7.6 million square feet of residential space. In January 2011, we executed a development agreement with the HCDA.

Consistent with the master plan approved by the HCDA, we announced plans in October 2012 to create a world-class urban master planned community that will transform Ward Centers into Ward Village, a vibrant neighborhood offering unique retail experiences, exceptional residences and workforce housing set among dynamic open spaces and pedestrian friendly streets. The project is expected to include over 4,000 condominium units at an average of 1,500 square feet per unit, and over one million square feet of retail and other commercial space.

The redevelopment will commence with four components on four separate blocks: two mixed-use residential towers, one reserved housing tower and the renovation of the IBM building, a portion of which will serve as the information and sales center for Ward Village.

In May 2012, Phase One of Ward Village Shops was completed, and TJ Maxx opened a store that occupies the entire 36,000 square foot second floor of the project. We are seeking a tenant for the vacant, first floor space which is approximately 34,000 square feet. TJ Maxx is expected to contribute $1.0 million of annual net operating income ("NOI") and total completed costs for their space was approximately $20.5 million, or approximately $574 per square foot. Our budgeted costs for the vacant space are $16.4 million, of which $12.2 million has been incurred as of December 31, 2012. We also commenced construction on Phase Two of Ward Village Shops in July 2012. Phase Two includes 57,000 square feet and is 100% preleased to Nordstrom Rack and Pier One Imports, both of which will

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relocate from other sites in Ward Centers and are expected to add approximately $1.0 million of incremental annual net operating income when they relocate. The project is scheduled for completion in the Fall of 2013. Budgeted costs for the Phase Two project are $26.2 million with $5.4 million of costs incurred through December 31, 2012.

During 2012, we completed a $3.3 million renovation of Ward Centers, leased 30,000 square feet formerly occupied by Borders to Bed Bath & Beyond and 5,360 square feet to Grand Leyanda. Together, both tenants are expected to generate $0.9 million of annual net operating income, exclusive of percentage rent, when they occupy their locations in 2013.

During the first quarter 2013, we began a $24.4 million renovation of the IBM building, a well-known office building located at Ward Centers. A majority of the space will continue to serve as an office building and a portion will serve as a world-class sales center for the entire Ward Village project. The sales center will dedicate a section to telling the story of the land, while another will showcase our vision for Ward Village. We expect the IBM renovation project to be completed by the end of 2013.

During 2011, we completed a 722-stall parking deck that facilitates the leasing of additional space at Ward Centers. Completed costs for the parking deck were $70.8 million.

South Street Seaport (New York, New York)

South Street Seaport is comprised of three mid-rise buildings and the Pier 17 pavilion shopping mall located in a historic waterfront district on the East River in Manhattan. We also lease 24,000 square feet for sublet to retailers at the base of an adjacent 1.1 million square foot office tower. All of the property, except for the office tower retail space, which is subject to a lease expiring in 2072, is subject to a ground lease with the City of New York which also runs through 2072. The total property controlled by us approximates 300,551 square feet of leasable space, substantially all of which is retail.

On June 29, 2012, we entered into an agreement to amend and restate the South Street Seaport ground lease with the New York City Economic Development Corporation according to the terms described in a non-binding letter of intent, dated December 12, 2011. The agreement allows for the redevelopment of Pier 17 (the "Renovation Project") which will consist of approximately 195,000 square feet of leasable area. Construction on this site is expected to begin during the second quarter of 2013 and conclude in 2015. During 2012, our Pier 17 design was approved by the Landmarks Preservation Commission with the support of Community Board 1, and in February 2013, the City Planning Commission approved our Pier 17 redevelopment. We are in the process of obtaining the remaining approval for the project. The restated ground lease will become effective when we commence construction which is expected by June 30, 2013. Following commencement of construction of the Renovation Project, annual ground rent will be fixed at $1.2 million with an escalation of 3.0% annually, and we will be entitled to a total $1.5 million rent credit, to be taken monthly over a 30-month period. We also must provide a completion guarantee to New York City for the Renovation Project, and we agreed to pay approximately $1.1 million of esplanade maintenance costs over a five-year period. Please refer to Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations for further information regarding this development project.

On October 29, 2012, South Street Seaport was heavily impacted by Superstorm Sandy. The storm caused massive flooding in the waterfront areas of Lower Manhattan, including the South Street Seaport and the surrounding properties. With the safety and security of our customers, tenants and employees as a top priority, we, together with the New York City Economic Development Corporation, immediately began the recovery and repair process. The process included a post event inspection of the Pier 17 structure and remediation and environmental testing of all the flooded spaces. The inspection of Pier 17 found no significant damage to the structure, and it was re-opened on December 6, 2012. Once we receive the necessary environmental clearances for the other buildings, the rebuilding process will begin. We currently do not have a definitive timeline for reopening the damaged buildings. We are

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preparing an insurance claim that we anticipate will cover substantially all of the cost of the property damage and loss of income due to the storm.

Landmark Mall (Alexandria, Virginia)

Anchored by Macy's and Sears, Landmark Mall is an 879,294 square foot shopping mall located in affluent Alexandria, Virginia. This mall is located just nine miles west of Washington, D.C. and the Pentagon, and is within approximately one mile of public rail service on D.C.'s metro blue line. As part of the Van Dorn Small Area Plan, the site is envisioned to allow for up to 5.5 million square feet of net new density. Landmark Mall has the potential to be redeveloped into a dynamic destination for shopping, dining, working and living. Any redevelopment of Landmark Mall will be dependent upon our reaching agreements with the existing anchor tenants.

Park West (Peoria, Arizona)

Park West is a 249,168 square foot open-air shopping, dining and entertainment destination in Peoria, Arizona. Park West is approximately one mile northwest of the Arizona Cardinals' football stadium and the Phoenix Coyote's hockey arena. Park West has an additional 100,000 square feet of available development rights as permitted for retail, restaurant and hotel uses. On November 5, 2012, we acquired four parcels of land adjacent to our Park West property consisting of approximately 18 acres for $1.2 million. During 2012, we also leased 18,500 square feet to a national restaurant/entertainment tenant which is expected to take occupancy in the second quarter of 2013.

Rio West Mall (Gallup, New Mexico)

Rio West Mall is located in Gallup, New Mexico. This 521,194 square foot shopping center is the only enclosed regional shopping center within a 125-mile radius, and is easily accessed from Interstate 40 and historic Route 66.

Riverwalk Marketplace (New Orleans, Louisiana)

Riverwalk Marketplace is located along the Mississippi River in downtown New Orleans. Riverwalk Marketplace contains 193,874 leasable square feet and is adjacent to the New Orleans Memorial Convention Center and the Audubon Aquarium of the Americas. In July 2012, we announced plans for the redevelopment of Riverwalk Marketplace into an upscale outlet center. As part of the redevelopment, we expect to expand our footprint by about 50,000 square feet to approximately 250,000 square feet. Please refer to Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations for further information regarding this redevelopment project.

Cottonwood Square (Salt Lake City, Utah)

Cottonwood Square is a 77,079 square foot community center located in Salt Lake City, Utah. The center is located in a high traffic area and sits across from our Cottonwood Mall property, providing an opportunity for development synergies.

20 & 25 Waterway Avenue (The Woodlands, Texas)

20 & 25 Waterway Avenue are two retail properties located in The Waterway Square commercial district in The Woodlands Town Center. The properties total 49,972 square feet and were completed in 2009 and 2007, respectively.

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Waterway Garage Retail (The Woodlands, Texas)

Waterway Garage Retail is attached to The Waterway Square Garage located within The Woodlands Town Center. The 21,513 square feet retail portion of the garage was completed in 2011 and is currently 41.3% leased.

Office Operating Assets

110 N. Wacker (Chicago, Illinois)

We own a 99% interest in an entity that owns a 226,000 square foot office building located at 110 N. Wacker Drive in downtown Chicago. This office building is subject to a ground lease that expires in 2055, and it is 100% leased to a subsidiary of GGP through October 2019. GGP has several options to extend their lease through the duration of the ground lease. We have the right to terminate GGP's lease with six months' notice following the expiration of the initial term in 2019. We receive approximately $6.1 million in annual lease payments from GGP.

Columbia Office Properties (Columbia, Maryland)

We own five office buildings and are a master tenant of a sixth office building. The master ground lease under the sixth office building has a 2020 initial expiration and a 2060 final expiration date, including market renewal options. The buildings, which comprise approximately 491,000 square feet in the heart of downtown Columbia, include: (1) American City Building (master tenant); (2) the Columbia Association Building; (3) the Columbia Exhibit Building; (4) the Ridgley Building; (5) the newly acquired building known as 70 Columbia Corporate Center; and (6) the Columbia Regional Building. This group also contains the Merriweather Post Pavilion, an outdoor amphitheater and concert venue. Both the Columbia Regional Building and Merriweather Post Pavilion were designed by Frank Gehry. The Columbia Regional Office Building is being repositioned as a mixed-use project. In July 2012, we executed a lease with Whole Foods Market for 41,000 square feet. In December 2012, we executed a lease with The Columbia Association Inc. for an upscale fitness center comprised of 27,556 square feet. The tenants are expected to take occupancy in 2014. Columbia, Maryland is located 14 miles from the Baltimore Beltway and 17 miles from the Washington Beltway.

4 Waterway Square (The Woodlands, Texas)

4 Waterway Square is a nine-story Class A office building located within The Woodlands Town Center. The property totals 218,551 square feet, was completed in 2010, and is 100% leased as of December 31, 2012.

9303 New Trails (The Woodlands, Texas)

9303 New Trails is a four-story Class B office building located within the Research Forest district of The Woodlands. The property totals 97,705 square feet, was completed in 2008, and is 100% leased as of December 31, 2012.

1400 Woodloch Forest Drive (The Woodlands, Texas)

1400 Woodloch Forest Drive is a five-story Class B office building located at the entrance to The Woodlands Town Center. The property totals 95,667 square feet, was completed in 1981, and is 100% leased as of December 31, 2012.

2201 Lake Woodlands Drive (The Woodlands, Texas)

2201 Lake Woodlands Drive is a two-story Class C office building located in the East Shore commercial district of The Woodlands. The property totals 24,119 square feet, was completed in 1994, and is 100% leased as of December 31, 2012.

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Multi-family

The Millennium Waterway Apartments (The Woodlands, Texas)

On May 31, 2012, we purchased our partner's interest in a 393-unit apartment building located within The Woodlands Town Center and it is now consolidated in our financials. As of December 31, 2012, the property is 93.1% leased. This property was previously an equity investment.

Resort and Conference Center and Country Club

The Woodlands Resort & Conference Center (The Woodlands, Texas)

The Woodlands Resort and Conference Center is located approximately two miles south of The Woodlands Town Center. The property operates 440 hotel rooms and includes 90,000 square feet of meeting space. For the year ended December 31, 2012, the property generated revenue per available room of $109.84, a 14.7% increase from the prior year. Food and beverage and conference services accounted for 47.7% of the total revenue in 2012.

On February 8, 2013, we closed on a $95.0 million loan which refinanced the existing $36.1 million mortgage on the property. The loan term is 36-months with three one-year extension options, bears interest at LIBOR plus 3.5% and is interest only during the initial loan term. Please refer to Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations for further information regarding this redevelopment project.

The Club at Carlton Woods (The Woodlands, Texas)

The Club at Carlton Woods is located within one of the most exclusive communities in The Woodlands. In addition to an 18-hole Jack Nicklaus Signature Golf Course and an 18-hole Tom Fazio Championship Course, it contains two clubhouses, a spa, tennis courts, a golf learning center and fitness facilities totaling approximately 78,000 square feet.

Other Operating Assets and Investments

Waterway Square Garage (The Woodlands, Texas)

Waterway Square Garage is located within The Woodlands Town Center and was completed in 2009. It is a five-story parking garage that contains 1,933 parking spaces and 21,513 square feet of retail space. The garage was completed in 2009 and is reported separately from the retail space. The retail space is included in our retail operating asset section above.

Participation Interest in Golf Courses at TPC Summerlin and TPC Las Vegas, located in the Summerlin Master Planned Community (Las Vegas, Nevada)

The TPC Summerlin is an 18-hole private championship course designed by golf course architect Bobby Weed with player consultant Fuzzy Zoeller. TPC Las Vegas is an 18-hole public championship course designed by golf course architect Bobby Weed with player consultant Raymond Floyd. These courses represent the only two golf courses in Nevada that are owned and operated by the PGA Tour.

We are entitled to receive residual payments from the Professional Golfers' Association of America (the "PGA") with respect to the two golf courses through October 31, 2021, the termination date of the agreement with the PGA. We receive 75% of the net operating profits and 90% of all profits from membership sales at TPC Summerlin until such time as the original investment in the courses of $23.5 million has been recouped, which is projected to occur no sooner than 2015. Once we have received payments from the PGA totaling $23.5 million, we are entitled to receive 20% of all net operating profits from the two courses through the termination date of the agreement. As of December 31, 2012, the remaining balance of our investment is approximately $6.1 million, approximately $4.3 million greater than our $1.8 million book value.

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Note Approximating Office Lease Payments

We receive payments approximating the lease revenue that GGP receives from the Arizona 2 Office in Phoenix, Arizona. The right to receive these payments is in the form of a fully amortizing promissory note issued by a subsidiary of GGP. These payments total approximately $6.9 million per year through the end of 2015 and are recorded as interest income and principal amortization. The underlying real property interests in the Arizona 2 Office are owned by GGP, and we will not own or obtain any real property interest therein or have any rights to receive payments after 2015.

Woodlands Sarofim #1 Limited (The Woodlands, Texas)

We own a 20% interest in three office/industrial buildings located in The Woodlands Research Forest district within The Woodlands. The portfolio contains 129,790 square feet and the various buildings were constructed between the late 1980's and 2002.

Interest in Stewart Title (The Woodlands, Texas)

We own a 50% interest in Stewart Title, a company located in The Woodlands which handles a majority of the residential and commercial land sale closings for The Woodlands.

Interest in Summerlin Hospital Medical Center (Las Vegas, Nevada)

We have an indirect ownership interest of approximately 6.8% in the Summerlin Hospital Medical Center. This property is a 450-bed hospital located on a 32-acre medical campus near Las Vegas. Summerlin Hospital Medical Center is located in our Summerlin master planned community. It is an acute care facility with adjoining outpatient services for surgery, laboratory and radiology, as well as three medical office buildings. The hospital completed a major renovation in 2009 that expanded the hospital to 450 beds (from 281 beds) and added a new six-story patient tower, an expanded emergency room, a four-story 80,000 square foot medical office building and a 600-space parking garage.

The property's majority owner and operator is a subsidiary of Universal Health Services, Inc. ("UHS"), one of the largest healthcare management companies in the nation. We are members with UHS in a joint venture that was formed to build and manage the hospital. Our interest relates to the contributed land, and UHS provided the funds to build the hospital. Our ownership interest entitles us to a pro rata share of the cumulative undistributed profit in the hospital. We typically receive a distribution one time per year during the first quarter.

Interest in Head Acquisition (Hexalon)

We own 100% of the ownership interests in Hexalon Real Estate, LLC ("Hexalon"). Hexalon owns a 1.42% interest in Head Acquisition, L.P., a joint venture between GGP, Simon Property Group, L.P. and Westfield Group. The partnership owns certain retail mall interests. Hexalon receives a quarterly preferred interest distribution from Head Acquisition, L.P. which totaled approximately $321,000 in 2012. The entity possesses significant tax attributes related to deferred interest that we could utilize to reduce future taxable income. These attributes are expected to reduce our tax liability by approximately $77.0 million, net of a valuation allowance of $9.9 million as of December 31, 2012, subject to potential offset provided in the Tax Matters Agreement between us and GGP. Our annual taxable income will determine how our tax liability is reduced each year. This tax attribute carries over indefinitely until it is fully utilized.

Forest View/Timbermill Apartments (The Woodlands, Texas)

In April 2012, the joint ventures owning Forest View and Timbermill Apartments completed their sale to a third party. There was no gain or loss recognized on these sales. Our share of the distributable cash after repayment of debt and transaction costs was $8.6 million.

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Strategic Developments

Our Strategic Developments segment is made up of near, medium and long-term real estate properties and development projects. We continue to advance the strategic plans for each of these assets based on market conditions and availability of capital. We will likely need to obtain financing to undertake a development plan, in addition to obtaining the proper permits and approvals which are typical of most large-scale real estate developments of this nature.

We are executing strategic plans to substantially develop several of these assets with construction either under way or pending. The remainder of these assets will require substantial future development to achieve their highest and best use.

The following table summarizes our strategic development projects as of December 31, 2012:

	Location	Size/GLA	Size (Acres)	Net Book Value, December 31, 2012 (Millions)	Acquisition Year
Under (Pending) Construction:					
3 Waterway Square (a)	Houston, TX	232,000	0.8	$ 26.2	
Millennium Woodlands Phase II (b)	Houston, TX	314 units	4.8	2.2	
One Hughes Landing (c)	Houston, TX	195,000	2.7	5.3	
ONE Ala Moana Condo Project (d)	Honolulu, HI			25.6	2002
Columbia Parcel D (e)	Columbia, MD		4	4.4	2004
The Shops at Summerlin Center	Las Vegas, NV		106	44.8	2004
Other Projects Under Development:					
Alameda Plaza (f)	Pocatello, ID	75,292	11	$ 1.0	2002
AllenTowne	Allen, TX		238	25.4	2006
Bridges at Mint Hill	Charlotte, NC		210(g)	16.6	2007
Century Plaza	Birmingham, AL	740,180(h)	63	5.4	1997
Circle T Ranch and Power Center (b)	Dallas/Ft. Worth, TX		279	9.0	2005
Commercial Land (i)	Houston, TX		31	18.1	
Cottonwood Mall	Holladay, UT	214,354(j)	54	19.9	2002
Elk Grove Promenade	Elk Grove, CA		100	5.7	2003
Fashion Show Air Rights	Las Vegas, NV				2004
Kendall Town Center	Kendall, FL		70	17.7	2004
Lakemoor (Volo) Land	Lakemoor, IL		40	0.3	1995
Maui Ranch Land	Maui, HI		20(k)		2002
Redlands Promenade	Redlands, CA		10	2.9	2004
Redlands Mall	Redlands, CA	174,787	12(l)	6.6	2004
West Windsor	West Windsor, NJ		658	21.8	2004
Total		1,631,613	1,914	$ 258.9	

Note: Projects are grouped according to development activity. For the purposes of this table, the assets under or pending construction are grouped first. All other projects under development are grouped alphabetically.

(a) 3 Waterway Square development was announced in October 2011. After the announcement, the building size was increased to approximately 232,000 square feet from 192,000 square feet due to strong market demand. Construction is expected to be completed in May 2013. The Net Book Value includes $2.6 million of leasing costs.

(b) The Net Book Value is made up of our investment in the joint venture. Please refer to Note 5 Real Estate Affiliates, in our Consolidated and Combined Financial Statements.

(c)

Construction for One Hughes Landing, the first Class A office building which is part of the Hughes Landing development at The Woodlands, was announced in July 2012, and is currently under construction.

(d) The Net Book Value for ONE Ala Moana Condo Project includes our condominium rights and land value of $24.3 million as well as our $1.3 million investment in the HHMK Development, LLC joint venture. Please refer to Note 5 Real Estate Affiliates, in our Consolidated and Combined Financial Statements.

(e) The Net Book Value is primarily made up of our investment in the joint venture. Please refer to Note 5 Real Estate Affiliates, in our Consolidated and Combined Financial Statements.

(f) During 2012, we sold 11.5 acres including 104,705 square feet of mostly vacant retail space.

(g) Increase in acreage from 2011 related to land contribution from our joint venture partner.

(h) Century Plaza square footage represents GLA for entire mall.

(i) Represents land identified for future retail, office, hotel and / or other commercial developments at The Woodlands.

(j) Cottonwood Mall GLA represents total square footage of Macy's building.

(k) Maui Ranch Land size represents two-10 acre land parcels.

(l) Redlands Mall acreage represents total mall site; of which, The Howard Hughes Corporation owns 5 acres, and the remaining 7 acres is a parking lot owned by The City of Redlands.

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3 Waterway Square (The Woodlands, Texas)

In October 2011, we announced the construction of a nine-story, 192,000 square foot office building that will be located in The Woodlands Town Center and adjacent to the 4 Waterway Square office building. Due to high demand for Class A office space in The Woodlands, the building size was increased to eleven stories and will now total approximately 232,000 square feet. Approximately 90.0% of the space has been pre-leased as of December 31, 2012, and net rent per square foot for the first year is expected to average approximately $27.80. Exclusive of land, the building is expected to cost approximately $51.4 million to construct. As of December 31, 2012, construction costs incurred are $25.4 million, inclusive of $2.6 million in leasing costs. We anticipate that the building will open in July of 2013.

Millennium Woodlands Phase II (The Woodlands, Texas)

On May 14, 2012, we entered into a joint venture, Millennium Woodlands Phase II, LLC ("Millennium Phase II"), with The Dinerstein Companies, for the construction of a 314-unit Class A multi-family complex in The Woodlands Town Center. Our partner is the managing member of Millennium Phase II. On July 5, 2012, Millennium Phase II was capitalized by our contribution of 4.8 acres of land valued at $15.5 million (compared to $2.2 million book value), our partner's contribution of $3.0 million in cash and a construction loan in the amount of $37.7 million, which is guaranteed by our partner. Total construction costs are estimated to be approximately $38.4 million (exclusive of land value). Completion is expected in the second quarter of 2014.

One Hughes Landing (The Woodlands, Texas)

On July 18, 2012, we announced the development of a 66-acre mixed use site called Hughes Landing on Lake Woodlands. One Hughes Landing and the adjacent parking garage will be the first buildings constructed in the development. One Hughes Landing is an eight-story, 195,000 square foot Class A office building set on 2.7 acres. The parking garage will contain 632 spaces. Construction started in November 2012 and is expected to be completed by September 2013. Total budgeted costs exclusive of land are $45.8 million, and we have incurred approximately $2.2 million as of December 31, 2012. As of January 31, 2013, the building was 28% pre-leased. Please refer to Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations for further information regarding the development of this project.

ONE Ala Moana Tower Condo Project (Honolulu, Hawaii)

We own the rights to develop a residential condominium tower over a parking structure at Ala Moana Center in Honolulu, Hawaii pursuant to a condominium property regime declaration. The declaration permits the construction of a first-class residential tower that is approximately 18 stories above the existing five-story parking structure.

In October 2011, we and two local developers, Kobayashi Group and The MacNaughton Group, formed a joint venture to explore the development of the luxury condominium tower. We and an entity jointly owned by the two development partners each own 50% of the venture. Unanimous consent of the partners is required for all major decisions and the partners will equally fund all predevelopment costs relating to the project. In June 2012, we formed another 50/50 joint venture, KR Holdings, LLC, with the same two development partners. The venture is responsible for all predevelopment activities, as well as for obtaining construction financing for the project. During September 2012, KR Holdings, LLC closed on non-recourse mezzanine loans to provide a combined $40.0 million of mezzanine financing. The mezzanine financing has a blended 12.0% interest rate and, if the construction loan funds, the mezzanine financing will mature on April 30, 2018. The mezzanine lenders also both have a profit interest in the project, which entitles them to receive a share of the profits after we receive a return of our capital plus a 13.0% preferred return on our capital.

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During December 2012, we commenced pre-sales for the 206-unit tower we designed for this site, and as of January 31, 2013, 100% of the units were contracted to buyers. We are in the process of obtaining first mortgage financing for the project. Upon closing of the first mortgage loan, we will sell our condominium rights into the joint venture at a $47.5 million valuation. Our book value of the ONE Ala Moana condominium rights, exclusive of the predevelopment costs, was $22.8 million as of December 31, 2012. Please refer to Item 7 Management's Discussion and Analysis for a more detailed discussion of this project.

Columbia Parcel D (Columbia, Maryland)

In October 2011, we entered into a joint venture with a local developer to construct an approximate 380-unit Class A apartment building with approximately 10,000 square feet of ground floor retail space in downtown Columbia, Maryland. We contributed a 4.2-acre site, having a $3.0 million book value, in exchange for a 50% interest in the venture. Our partner will provide construction and property management services, including the funding and oversight of predevelopment and development activities, as well as obtaining construction financing. The joint venture has secured Site Development Plan approvals from Howard County and commenced construction in February of 2013. Total budgeted costs for this project are $95.7 million and our share of the cost, exclusive of land, is $5.9 million. Our share of costs to date, exclusive of land for the year ended December 31, 2012 is $1.9 million. We anticipate that the project will open during the third quarter of 2014. Please refer to Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations for further information regarding the development of this property.

The Shops at Summerlin (Las Vegas, Nevada)

Construction of The Shops at Summerlin began in 2008, but was delayed due to changing market conditions. The development project fronts Interstate 215 between Sahara Drive and Summerlin Centre Drive, approximately nine miles west of the Las Vegas Strip. Originally planned for approximately 1.5 million square feet of retail and office development, the 106-acre parcel is part of a 1,300-acre mixed-use town center for the Summerlin Master Planned Community. The project has the potential to be developed with retail, office, hotel and multifamily residential. During 2012, we received anchor commitments from Dillard's, Inc. and Macy's Inc. and are currently securing commitments for the small shop space. We expect to resume construction in 2013. Please refer to Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations for further information regarding this project.

Alameda Plaza (Pocatello, Idaho)

Alameda Plaza is located in Pocatello, Idaho at the intersection of Yellowstone Park Highway and Alameda Road. The 22-acre site contains 190,341 square feet of mostly vacant retail space. During 2012, we sold 11.5 acres, including 104,705 square feet of mostly vacant retail spaces for $4.5 million which had a book value of $1.3 million. We are continuing to explore the sale of the remaining 10.5 acres.

AllenTowne (Allen, Texas)

AllenTowne consists of 238 acres located at the high-traffic intersection of Highway 121 and U.S. Highway 75 in Allen, Texas, 27 miles northeast of downtown Dallas. We are considering plans to best position the property for the opportunities presented by evolving market conditions.

Bridges at Mint Hill (Charlotte, North Carolina)

This combined property consists of vacant land located southeast of Charlotte, North Carolina. On September 8, 2011, we entered into a joint venture with the owner of land adjacent to our property to develop a shopping center. On October 30, 2012, we contributed $4.5 million in cash to pay off an existing mortgage on our partner's property, and both parties contributed their respective properties in the venture. Our ownership in the venture increased from 79.0% to 90.5% as a result of the contribution. The combined parcel is now approximately 210 acres consisting of 120 developable acres and is currently zoned for approximately 1.3 million square feet of retail, hotel and commercial development. The land is divided by a small stream known as Goose Creek. The current zoning plan contemplates connecting the resulting parcels with bridges over the creek. Development will require construction of internal roadways, connecting bridges, expansion of roads and an installation of a force main (offsite) for sewer utility. Please refer to Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations for further details regarding this property.

Century Plaza (Birmingham, Alabama)

Century Plaza is located on the southeastern side of Birmingham, Alabama, on U.S. Route 78 (Crestwood Blvd.) near Interstate 20, across from Eastwood Village. In May 2009, the mall was shuttered. The site consists of approximately 63 acres with 740,000 square feet of GLA.

Circle T Ranch and Circle T Power Center (Fort Worth, Texas)

Located at the intersection of Texas highways 114 and 170, Circle T Ranch is 20 miles north of downtown Fort Worth, in Westlake, Texas. The property is approximately 279 total acres on two parcels. The Circle T Ranch parcel contains 128 acres while the Circle T Power Center parcel contains 151 acres. We have a 50% joint venture ownership interest with Hillwood Properties, a local developer.

Cottonwood Mall (Holladay, Utah)

Located 7.5 miles from downtown Salt Lake City, in the city of Holladay, Utah, Cottonwood Mall is a unique infill development opportunity. In 2008, work began on a complete redevelopment of the 54-acre site, but development was delayed due to the changing economic environment. The original mall was completely demolished with the exception of Macy's which continues to operate as a stand-alone store on the site. The project is entitled for 575,000 square feet of retail, 195,000 square feet of office and 614 residential units. We are exploring the feasibility of a mixed-use development and are soliciting retailer interest in the site.

Elk Grove Promenade (Elk Grove, California)

Elk Grove Promenade was originally planned as a 1.1 million square foot outdoor shopping center on approximately 100 acres. Construction began in 2007, but was delayed due to changing economic conditions. Located approximately 17 miles southeast of Sacramento, the location affords easy access and visibility from State Highway 99 at Grant Line Road. Plans for the site are being evaluated in light of evolving market conditions.

Fashion Show Air Rights (Las Vegas, Nevada)

We entered into a binding set of core principles with GGP pursuant to which we will have the right to acquire for nominal consideration an 80% ownership interest in the air rights above the portions of Fashion Show Mall located on the Las Vegas Strip. This right is contingent upon the satisfaction of a number of conditions and will not become effective unless and until the existing loans and guaranties of Fashion Show Mall and The Shoppes at the Palazzo are satisfied in full, which is currently expected to occur with GGP's scheduled repayment in May 2017.

Kendall Town Center (Kendall, Florida)

Kendall Town Center is a mixed-used site located at the intersection of North Kendall Drive and SW 158th, approximately 20 miles southwest of downtown Miami. A 31-acre parcel was sold to Baptist

Hospital in March 2008, and a 282,000 square foot hospital with 133 beds, along with a 62,000 square foot medical office building, opened in 2011. In addition, we sold five acres in 2011 and 18 acres in 2009. These 23 acres are expected to include a 120-room hotel with ancillary office and retail space and a senior housing development. Land totaling 14 acres has been deeded to the property owners association and three acres have been deeded to the County. We own the remaining 70 acres, which are currently entitled for 621,300 square feet of retail, 60,000 square feet of office space and a 50,000 square foot community center.

Lakemoor (Volo) Land (Lakemoor, Illinois)

This 40-acre vacant land parcel is located on Route 12 which is 50 miles north of Chicago in a growing suburb. The project has no utilities in place and is currently designated as farmland.

Maui Ranch Land (Maui, Hawaii)

This site consists of two, non-adjacent, ten-acre undeveloped land-locked parcels located near the Kula Forest Preserve on the island of Maui, Hawaii. The land currently is zoned for native vegetation. There is no ground right of way access to the land and there is no infrastructure or utilities currently in the surrounding area. Accordingly, only a nominal value was ascribed to these parcels when they were acquired by our predecessors in conjunction with the purchase of Ward Centers.

Nouvelle at Natick Condominium (Natick, Massachusetts)

Nouvelle at Natick is a full service luxury condominium community comprised of 215 residences located in the Natick Collection in the Boston suburb of Natick, Massachusetts. Nouvelle at Natick's amenities include a 4,000 square foot private club, a 2,800 square foot fitness center and a 1.2-acre rooftop garden with winding boardwalks, native grasses, flowers and trees. In 2012, we completed the sale of our last remaining units.

Redlands Promenade (Redlands, California)

Redlands Promenade is a ten-acre site located at Eureka and the Interstate 10 freeway off ramp in Redlands, California. The project is entitled for 125,000 square feet of retail development.

Redlands Mall (Redlands, California)

The Redlands Mall is a single-level, 174,787 square foot enclosed shopping center at the intersection of Redlands Boulevard and Orange Street. Currently anchored by CVS, Denny's and Union Bank, the site is located in downtown Redlands two blocks south of the Redlands Promenade site. The interior portion of the mall closed in September 2010. Originally envisioned as a mixed-use retail and residential redevelopment, plans for the future of Redlands Mall are being evaluated in light of evolving market conditions.

West Windsor (West Windsor, New Jersey)

West Windsor is a former Wyeth Agricultural Research & Development Campus on Quakerbridge Road and U.S. Route One near Princeton, New Jersey. The land consists of 658 total acres comprised of two large parcels which are bisected by Clarksville Meadows Road and a third smaller parcel. Zoning, environmental and other development factors are currently being evaluated in conjunction with a development feasibility study of the site.

Competition

The nature and extent of the competition we face depends on the type of property involved. With respect to our master planned communities segment, we compete with other landholders and

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residential and commercial property developers in the development of properties within Las Vegas, Nevada, Houston, Texas and the Baltimore/Washington, D.C. markets. Significant factors which we believe allow us to compete effectively in this business include:

- the size and scope of our master planned communities;
- years of experience serving the industry;
- the recreational and cultural amenities available within the communities;
- the commercial centers in the communities, including the retail properties that we own and/or operate or may develop;
- our relationships with homebuilders;
- our low level of debt relative to total assets; and
- the proximity of our developments to major metropolitan areas.

We primarily compete for retail and office tenants within our Operating Assets segment. We believe the principal factors that retailers consider in making their leasing decisions include: (1) consumer demographics; (2) quality, design and location of properties; (3) neighboring real estate projects that have been developed by our predecessors or that we, in the future, may develop; (4) diversity of retailers and anchor tenants at shopping center locations; (5) management and operational expertise; and (6) rental rates.

With respect to our Strategic Developments segment, our direct competitors include other commercial property developers, retail mall development and operating companies and other owners of retail real estate that engage in similar businesses.

Environmental Matters

Under various federal, state and local laws and regulations, an owner of real estate is liable for the costs of removal or remediation of certain hazardous or toxic substances on such real estate. These laws often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. The costs of remediation or removal of such substances may be substantial, and the presence of such substances, or the failure to promptly remediate such substances, may adversely affect the owner's ability to sell such real estate or to borrow using such real estate as collateral.

Substantially, all of our properties have been subject to Phase I environmental assessments, which are intended to evaluate the environmental condition of the surveyed and surrounding properties. As of December 31, 2012, the assessments have not revealed any known environmental liability that we believe would have a material adverse effect on our overall business, financial condition or results of operations. Nevertheless, it is possible that these assessments do not reveal all environmental liabilities or that the conditions have changed since the assessments were prepared (typically at the time the property was purchased or encumbered with debt). Moreover, no assurances can be given that future laws, ordinances or regulations will not impose any material environmental liability on us, or the current environmental condition of our properties will not be adversely affected by tenants and occupants of the properties, by the condition of properties in the vicinity of our properties (such as the presence on such properties of underground storage tanks) or by third parties unrelated to us.

Future development opportunities may require additional capital and other expenditures to comply with federal, state and local statutes and regulations relating to the protection of the environment. In addition, there is a risk when redeveloping sites, that we might encounter previously unknown issues that require remediation or residual contamination warranting special handling or disposal, which could affect the speed of redevelopment. Where redevelopment involves renovating or demolishing existing facilities, we may be required to undertake abatement and/or the removal and disposal of building

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materials or other remediation or cleanup activities that contain hazardous materials. We cannot predict with any certainty the magnitude of any such expenditures or the long-range effect, if any, on our operations. Compliance with such laws has not had a material adverse effect on our operating results or competitive position in the past, but could have such an effect on our operating results or competitive position in the future.

Employees

As of December 31, 2012, we had approximately 842 employees.

Available Information

We maintain a website at www.howardhughes.com. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K are available and may be accessed free of charge through the Investors section of our website under the SEC Filings subsection, as soon as reasonably practicable after those documents are filed with, or furnished to, the SEC. Also available through our Investors section of our website are reports filed by our directors and executive officers or Forms 3, 4 and 5, and amendments to those reports. Our website and included or linked information on the website are not intended to be incorporated into this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

The risks and uncertainties described below are those that we deem currently to be material, and do not represent all of the risks that we face. Additional risks and uncertainties not presently known to us or that we currently do not consider material may in the future become material and impair our business operations. If any of the following risks actually occur, our business could be materially harmed, and our financial condition and results of operations could be materially and adversely affected. Our business, prospects, financial condition or results of operations could be materially and adversely affected by the following:

Risks Related to our Business

We have minimal operating history as an independent company upon which investors can evaluate our performance, and accordingly, our prospects must be considered in light of the risks that any newly independent public company encounters.

We have a limited operating history as an independent public company. There can be no assurance that we will be able to successfully implement our business plan. Further, at this stage of our operation, we face certain risks and uncertainties frequently encountered by new companies in an intensely competitive industry. Our prospects must be considered in light of these risks.

Our performance is subject to risks associated with the real estate industry.

Our economic performance and the value of our properties are subject to developments that affect real estate generally and that are specific to our properties. If our properties do not generate revenues sufficient to meet our operating expenses, including debt service and capital expenditures, our cash flow will be adversely affected. The following factors, among others, may adversely affect the income generated by our properties:

- downturns in the economic conditions at the national, regional or local levels, particularly a decline in one or more of our primary markets;
- competition from other master planned communities, retail properties, office properties or other commercial space;

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- increases in interest rates;
- the availability of financing, including refinancing or extensions of existing mortgage debt, on acceptable terms, or at all;
- increased operating costs, including insurance expense, utilities, real estate taxes, state and local taxes and heightened security costs;
- vacancies and changes in rental rates;
- declines in the financial condition of our tenants and our ability to collect rents from our tenants;
- declines in consumer confidence and spending that adversely affect our revenue from our retail properties;
- natural disasters or terrorist acts which may result in uninsured or underinsured losses;
- adoption of more restrictive laws and government regulations, including more restrictive zoning, land use or environmental regulations and an increase in real estate taxes; and
- opposition from local community or political groups with respect to the development, construction or operations at a particular site.

We may face potential difficulties in obtaining operating and development capital.

The successful execution of our business strategy will require us to obtain substantial amounts of operating and development capital. Sources of such capital could include bank borrowings, public and private offerings of debt or equity, or sale of certain assets including joint venture interests to one or more third parties. Although the sourcing of new financing for real estate development and acquisition projects, as well as basic working capital needs have improved, we may be unable to obtain financing in the future and financing we are able to secure may only be available on unfavorable terms.

The slow recovery in the national economy, or a downturn in national or regional economic conditions, could adversely impact our business.

The latest recession and subsequent slow growth in the national economy has resulted in prolonged high unemployment and lower consumer spending as compared to pre-recession levels. Our business may suffer until market conditions improve. If market conditions were to worsen, the demand for our real estate products could decline, negatively impacting our earnings, cash flow and liquidity.

The housing market and the demand from builders for lots vary depending on location. Projected lot sales used in our feasibility analyses may not be met. In addition, the success of our master planned communities business is heavily dependent on local housing markets in Las Vegas, Nevada, Houston, Texas and Baltimore, Maryland/Washington, D.C., which in turn are dependent on the health and growth of the economies and availability of credit in these regions.

We may be unable to develop and expand our properties in our Strategic Developments segment.

Our business objective related to our Strategic Developments segment is to develop and redevelop our properties, which we may be unable to do if we do not have or cannot obtain sufficient capital to proceed with planned development, redevelopment or expansion activities. We may be unable to obtain anchor store, mortgage lender and property partner approvals that are required for any such development, redevelopment or expansion. We may abandon redevelopment or expansion activities already under way that we are unable to complete, which may result in charge-offs of costs previously capitalized. In addition, if redevelopment, expansion or reinvestment projects are unsuccessful, the

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investment in such projects may not be fully recoverable from future operations or sale resulting in impairment charges.

We are exposed to risks associated with the development or redevelopment of our properties.

Our development or redevelopment activities entail risks that could adversely impact our results of operations, cash flows and financial condition, including:

- increased construction costs for a project that exceeded our original estimates due to increases in materials, labor or other costs, which could make completion of the project less profitable because market rents may not increase sufficiently to compensate for the increase of construction costs;
- construction delays or cost overruns, which may increase project development costs;
- claims for construction defects after a property has been developed;
- compliance with building codes and other local regulations; and
- an inability to secure tenants necessary to support commercial projects.

Development of properties in our Strategic Developments segment entails a lengthy, uncertain and costly entitlement process.

Approval to develop real property entails an extensive entitlement process involving multiple and overlapping regulatory jurisdictions and often requires discretionary action by local governments. This process is often political and uncertain. Real estate projects must generally comply with local land development regulations and may need to comply with state and federal regulations. In addition, our competitors and local residents may challenge our efforts to obtain entitlements and permits for the development of properties. The process to comply with these regulations is usually lengthy and costly, may not result in the approvals we seek, and can be expected to materially affect our Strategic Developments segment activities.

Our Master Planned Communities segment is highly dependent on homebuilders.

We are highly dependent on our relationships with homebuilders to purchase lots at our master planned communities. Our business will be adversely affected if homebuilders do not view our master planned communities as desirable locations for homebuilding operations. Also, some homebuilders may be unwilling or unable to close on previously committed lot purchases. As a result, we may sell fewer lots and may have lower sales revenues, which could have an adverse effect on our financial position and results of operations.

Our results of operations are subject to significant fluctuation by various factors that are beyond our control.

Our results of operations are subject to significant fluctuations by various factors that are beyond our control. Fluctuations in these factors may decrease or eliminate the income generated by a property, and include:

- the regional and local economy, which may be negatively impacted by material relocation by residents, industry slowdowns, plant closings, increased unemployment, lack of availability of consumer credit, levels of consumer debt, housing market conditions, adverse weather conditions, natural disasters and other factors;
- local real estate conditions, such as an oversupply of, or a reduction in demand for, retail space or retail goods, and the availability and creditworthiness of current and prospective tenants;

- perceptions by retailers or shoppers of the safety, convenience and attractiveness of the retail property;
- the convenience and quality of competing retail properties and other retailing options such as the internet;
- our ability to lease space, collect rent and attract new tenants; and
- tenant rental rates, which may decline for a variety of reasons, including the impact of co-tenancy provisions in lease agreements with certain tenants.

A decline in our results of operations could have a negative impact on the trading price of our common stock.

We may be unable to renew leases or re-let space as leases expire.

When a lease expires, a tenant may elect not to renew it. We may not be able to re-let the property on similar terms, if we are able to re-let the property at all. The terms of renewal or re-lease (including the cost of required tenant improvements, renovations and/or concessions to tenants) may be less favorable to us than the prior lease. If we are unable to re-let all or a substantial portion of our properties, or if the rental rates upon such re-letting are significantly lower than expected, our cash generated before debt repayments and capital expenditures and our ability to make expected distributions, may be adversely effected.

The Houston, Texas economy is highly dependent on the energy sector.

The greater Houston area is home to a large number of energy companies. A decline in the energy sector could have a significant negative effect on the performance of energy companies and may lead to layoffs. A decrease in economic activity and increased unemployment levels in Houston may negatively affect The Woodlands and Bridgeland by decreasing demand for housing and commercial space.

Significant competition could have an adverse effect on our business.

The nature and extent of the competition we face depends on the type of property. With respect to our master planned communities, we compete with other landholders and residential and commercial property developers in the development of properties within the Las Vegas, Nevada, Houston, Texas and Baltimore/Washington, D.C. markets. A number of residential and commercial developers, some with greater financial and other resources, compete with us in seeking resources for development and prospective purchasers and tenants. Competition from other real estate developers may adversely affect our ability to attract purchasers and sell residential and commercial real estate, sell undeveloped rural land, attract and retain experienced real estate development personnel, or obtain construction materials and labor. These competitive conditions can make it difficult to sell land at desirable prices and can adversely affect our results of operations and financial condition.

There are numerous shopping facilities that compete with our operating retail properties in attracting retailers to lease space. In addition, retailers at these properties face continued competition from other retailers, including retailers at other regional shopping centers, outlet malls and other discount shopping centers, discount shopping clubs, catalog companies, internet sales and telemarketing. Competition of this type could adversely affect our results of operations and financial condition.

In addition, we will compete with other major real estate investors with significant capital for attractive investment and development opportunities. These competitors include REITs and private institutional investors.

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Our business model includes entering into joint venture arrangements with strategic partners. This model may not be successful and our business could be adversely affected if we are not able to successfully attract desirable strategic partners or complete agreements with strategic partners or if our strategic partners fail to satisfy their obligations to the joint venture.

We currently have and intend to enter into future joint venture partnerships. These joint venture partners may bring local market knowledge and relationships, development experience, industry expertise, financial resources, financing capabilities, brand recognition and credibility or other competitive assets. In the future, we may not have sufficient resources, experience and/or skills to locate desirable partners. We also may not be able to attract partners who want to conduct business in the locations where our properties are located, and who have the assets, reputation or other characteristics that would optimize our development opportunities.

While we generally participate in making decisions for our jointly owned properties and assets, we might not always have the same objectives as the partner in relation to a particular asset, and we might not be able to formally resolve any issues that arise. In addition, actions by a partner may subject property owned by the joint venture to liabilities greater than those contemplated by the joint venture agreements, be contrary to our instructions or requests or result in adverse consequences. We cannot control the ultimate outcome of any decision made, which may be detrimental to our interests. Some of our interests, such as the Summerlin Medical Hospital Center and Hexalon, are controlled entirely by our partners.

The bankruptcy of one of the other investors in any of our joint ventures could materially and adversely affect the relevant property or properties. If this occurred, we would be precluded from taking some actions affecting the estate of the other investor without prior court approval which would, in most cases, entail prior notice to other parties and a hearing. At a minimum, the requirement to obtain court approval may delay the actions we would or might want to take. If the relevant joint venture through which we have invested in a property has incurred recourse obligations, the discharge in bankruptcy of one of the other investors might result in our ultimate liability for a greater portion of those obligations than would otherwise be required.

If the recoverable values of our real estate assets were to drop below the book value of those properties, we would be required to write-down the book value of those properties, which would have an adverse effect on our balance sheet and our earnings.

Adverse market conditions, in certain circumstances, may require the book value of real estate assets to be decreased, often referred to as a "write-down" or "impairment." A write-down of an asset would decrease the value of the asset on our balance sheet and would reduce our earnings for the period in which the write-down is recorded.

If market conditions were to deteriorate, and the recoverable values for our real estate assets and land were to fall below the book value for these assets, we could be required to take additional write-downs of the book value for those assets and such write-downs could be material.

Indebtedness could have an adverse impact on our financial condition and operating flexibility.

As of December 31, 2012, our consolidated debt was approximately $688.3 million, of which $7.0 million is recourse. Our share of the debt of our Real Estate Affiliates is $1.4 million. Our indebtedness, particularly if increased over time, could have important consequences, including:

- limiting our ability to borrow additional amounts for working capital, capital expenditures, debt service requirements, execution of business strategy or other purposes;

- limiting our ability to use operating cash flow in other areas of the business or to pay dividends;
- increasing our vulnerability to general adverse economic and industry conditions, including increases in interest rates, particularly given that certain indebtedness bears interest at variable rates;
- limiting our ability to capitalize on business opportunities, reinvest in and develop their properties, and to react to competitive pressures and adverse changes in government regulation;
- limiting our ability, or increasing the costs, to refinance indebtedness; and
- giving secured lenders the ability to foreclose on assets.

We are obligated to comply with financial and other covenants that could affect our operating activities.

Certain of our loan agreements contain various restrictive covenants, including minimum net worth requirements, maximum payout ratios on distributions, minimum debt yield ratios, minimum fixed charge coverage ratios, minimum interest coverage ratio and maximum leverage ratios. These covenants may restrict our ability to pursue certain business initiatives or certain transactions that might otherwise be advantageous. In addition, failure to meet certain of these financial covenants could cause an event of default under and accelerate some or all of such indebtedness which could have a material adverse effect on us.

The derivative instruments that we may use to hedge against interest rate fluctuations may not be successful in mitigating our risks associated with interest rates.

We seek to manage our exposure to interest rate volatility by using interest rate hedging arrangements, such as interest rate swap agreements. There cannot be any assurance that our hedging strategy and the derivatives that we use will adequately offset the risk of interest rate volatility or that our hedging of these transactions will not result in losses. Our policy is to use derivatives only to hedge interest rate risks related to our borrowings, not for speculative or trading purposes, and to enter into contracts only with major financial institutions based on their credit ratings and other factors. These hedging arrangements, which could include a number of counterparties, may expose us to additional risks, including failure of any of our counterparties to perform under these contracts, and may involve extensive costs, such as transaction fees or breakage costs, if we terminate them. Failure to hedge effectively against interest rate changes may materially adversely affect our results of operations.

In addition, hedging instruments involve risks because the business failure of a hedging counterparty with whom we entered into a hedging transaction will most likely result in the counterparty's default on its obligation to pay. Further, the credit quality of the counterparty owing money on the hedge may be downgraded to such an extent that it impacts our ability to sell or assign our side of the hedging transaction.

Changes in our income tax estimates could affect our profitability.

In preparing our consolidated and combined financial statements, significant management judgment is required to estimate our income taxes. Our estimates are based on our interpretation of federal and state tax laws. We estimate our actual current tax due and assess temporary differences resulting from differing treatment of items for tax and accounting purposes. The temporary differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheets. Adjustments may be required by a change in assessment of our deferred tax assets and liabilities, changes due to audit adjustments by federal and state tax authorities, and changes in tax laws and rates. To the extent adjustments are required in any given period, we include the adjustments in the tax provision in our financial statements. These adjustments could materially impact our financial position, cash flow and results of operations.

We may not realize the value of our tax assets.

Certain provisions of the Internal Revenue Code could limit our ability to fully utilize the tax assets if we were to experience a "change of control". If such an event were to occur, the cash flow benefits we might otherwise have received would be eliminated.

Some of our directors are involved in other businesses including real estate activities and public and/or private investments and, therefore, may have competing or conflicting interests with us.

Certain of our directors have and may in the future have interests in other real estate business activities, and may have control or influence over these activities or may serve as investment advisors, directors or officers. These interests and activities, and any duties to third parties arising from such interests and activities, could divert the attention of such directors from our operations. Additionally, certain of our directors are engaged in investment and other activities in which they may learn of real estate and other related opportunities in their non-director capacities. Our Code of Business Conduct and Ethics applicable to our directors expressly provides, as permitted by Section 122(17) of the Delaware General Corporation Law (the "DGCL"), that our non-employee directors are not obligated to limit their interests or activities in their non-director capacities or to notify us of any opportunities that may arise in connection therewith, even if the opportunities are complementary to, or in competition with, our businesses. Accordingly, we have no expectation that we will be able to learn of or participate in such opportunities. If any potential business opportunity is expressly presented to a director exclusively in his or her director capacity, the director will not be permitted to pursue the opportunity, directly or indirectly through a controlled affiliate in which the director has an ownership interest, without the approval of the independent members of our board of directors.

We are a holding company and depend on our subsidiaries for cash.

We are a holding company, with no operations of our own. In general, we rely on our subsidiaries for cash and our operations are conducted almost entirely through our subsidiaries. Our ability to generate cash to pay our operating expenses is dependent on the earnings of and the receipt of funds from subsidiaries through dividends and distributions. The ability of our subsidiaries to pay dividends or to make distributions or other payments to us will depend on their respective operating results and may be restricted by, among other things, the laws of their respective jurisdiction of organization, regulatory requirements, agreements entered into by those operating subsidiaries and the covenants of any existing or future outstanding indebtedness that we or our subsidiaries may incur. For example, the credit agreements entered into by certain of our subsidiaries for The Woodlands contain restrictions on their ability to pay dividends and make distributions.

We may face potential successor liability.

We may be subject to successor liability based on previous actions of our predecessors. Such liability may arise in a number of circumstances, such as: (1) if a creditor of our predecessors did not receive proper notice of the pendency of the GGP bankruptcy proceedings or the deadline for filing claims; (2) the injury giving rise to, or source of, a creditor's claim did not manifest itself in time for the creditor to file the creditor's claim; (3) a creditor did not timely file the creditor's claim in such bankruptcy case due to excusable neglect; (4) we are found liable for our predecessors' tax liabilities under a federal and/or state theory of successor liability; or (5) the order of confirmation for the GGP bankruptcy plan is found to be procured by fraud. If we should become subject to such successor liability, it could materially adversely affect our business, financial condition and results of operations.

Ineffective internal controls could impact the Company's business and results of operations.

Our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in our implementation, our business and operating results could be harmed and we could fail to meet our financial reporting obligations.

Some of our properties are subject to potential natural or other disasters.

A number of our properties are located in areas which are subject to natural or other disasters, including hurricanes, floods, earthquakes and oil spills. Some of our properties, including Ward Centers, South Street Seaport and Riverwalk Marketplace are located in coastal regions, and would therefore be affected by increases in sea levels, the frequency or severity of hurricanes and tropical storms, or environmental disasters, whether such events are caused by global climate changes or other factors. For example, some buildings at South Street Seaport suffered damage as a result of Superstorm Sandy.

Some potential losses are not insured.

We carry comprehensive liability, fire, flood, earthquake, terrorism, extended coverage and rental loss insurance on all of our properties. We believe the policy specifications and insured limits of these policies are adequate and appropriate. There are some types of losses, including lease and other contract claims, which generally are not insured. If an uninsured loss or a loss in excess of insured limits occurs, we could lose all or a portion of the capital invested in a property, as well as the anticipated future revenue from the property. If this happens, we might remain obligated for any mortgage debt or other financial obligations related to the property.

A downgrade or financial failure of our insurance carrier may have an adverse impact on our financial condition.

The insurance carriers that we utilize had satisfactory financial ratings at the time the policies were placed and made effective based on various insurance carrier rating agencies commonly used in the insurance industry. We cannot assure our investors that these financial ratings will remain satisfactory or constant throughout the policy period. There is a risk that these financial ratings may be downgraded throughout the policy period or that the insurance carries may experience a financial failure. A downgrade or financial failure of our insurance carriers may result in their inability to pay current and future claims. This inability to pay claims may have an adverse impact on our financial condition. In addition, a downgrade or a financial failure of our insurance carriers may cause our insurance renewal or replacement policy costs to increase.

Possible terrorist activity or other acts of violence could adversely affect our financial condition and results of operations.

Future terrorist attacks in the United States or other acts of violence may result in declining economic activity, which could harm the demand for goods and services offered by tenants and the value of our properties and might adversely affect the value of an investment in our securities. Such a resulting decrease in retail demand could make it difficult to renew or re-lease properties at lease rates equal to

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or above historical rates. Terrorist activities or violence also could directly affect the value of our properties through damage, destruction or loss, and the availability of insurance for such acts, or of insurance generally, might be lower or cost more, which could increase our operating expenses and adversely affect our financial condition and results of operations. To the extent that tenants are affected by future attacks, their businesses similarly could be adversely affected, including their ability to continue to meet obligations under their existing leases. These acts might erode business and consumer confidence and spending and might result in increased volatility in national and international financial markets and economies. Any one of these events might decrease demand for real estate, decrease or delay the occupancy of new or redeveloped properties, and limit access to capital or increase the cost of capital.

We may be subject to potential costs to comply with environmental laws.

Future development opportunities may require additional capital and other expenditures to comply with laws and regulations relating to the protection of the environment. Under various federal, state or local laws, ordinances and regulations, a current or previous owner or operator of real estate may be required to investigate and clean up hazardous or toxic substances released at a property and may be held liable to a governmental entity or to third parties for property damage or personal injuries and for investigation and clean-up costs incurred by the parties in connection with the contamination. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of the hazardous or toxic substances. The presence of contamination or the failure to remediate contamination may adversely affect the owner's ability to sell or lease real estate or to borrow using the real estate as collateral. Other federal, state and local laws, ordinances and regulations require abatement or removal of asbestos-containing materials in the event of demolition or certain renovations or remodeling, the cost of which may be substantial for certain redevelopments, and also govern emissions of and exposure to asbestos fibers in the air. Federal and state laws also regulate the operation and removal of underground storage tanks. In connection with our ownership, operation and management of certain properties, we could be held liable for the costs of remedial action with respect to these regulated substances or tanks or related claims.

We cannot predict with any certainty the magnitude of any expenditures relating to the environmental compliance or the long-range effect, if any, on our operations. Compliance with such laws has not had a material adverse effect on our operating results or competitive position in the past, but could have such an effect on our operating results and competitive position in the future.

There is a risk of investor influence over our company that may be adverse to our best interests and those of our other stockholders.

Pershing Square Capital Management, L.P. ("Pershing Square"), General Trust Company, and Brookfield Retail Holdings LLC ("Brookfield") beneficially own 9.0%, 8.5% and 5.8%, respectively, of our outstanding common stock (excluding shares issuable upon the exercise of warrants) as of December 31, 2012. Under the terms of our stockholder agreements, Pershing Square currently has the ability to designate three members of our board of directors.

Although Pershing Square has entered into a standstill agreement to limit its influence over us, the concentration of ownership of our outstanding common stock held by General Trust Company, Pershing Square, Brookfield and other substantial stockholders may make some transactions more difficult or impossible without the support of these stockholders, or more likely with the support of these stockholders. The interests of our substantial stockholders could conflict with or differ from the interests of our other stockholders. For example, the concentration of ownership held by General Trust Company, Pershing Square and Brookfield, even if these stockholders are not acting in a coordinated manner, could allow General Trust Company, Pershing Square and Brookfield to influence our policies and strategy and could delay, defer or prevent a change of control or impede a merger, takeover or other business combination that may otherwise be favorable to us and our other stockholders.

Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our tenants and business partners and personally identifiable information of our employees on our networks. The secure processing, maintenance and transmission of this information is critical to our operations. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks, and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings and liability under laws that protect the privacy of personal information, which could adversely affect our business.

Risks Related to Spin-off

We may be required to pay substantial U.S. federal income taxes related to certain prior sales of assets in our Master Planned Communities segment.

In connection with the spin-off, GGP has agreed to indemnify us from and against 93.75% of any losses, claims, damages, liabilities and reasonable expenses to which we become subject, in each case solely to the extent attributable to certain taxes related to sales of certain assets in our Master Planned Communities segment prior to March 31, 2010, in an amount equal to a maximum of $303.8 million, plus applicable interest. We will be responsible for the remainder of any such taxes. GGP may not have sufficient cash to reimburse us for its share of these taxes described above. As of December 31, 2012, the maximum amount covered by the GGP indemnity is $283.0 million plus applicable interest. We have ongoing litigation related to the foregoing taxes that, whether resolved in our favor or otherwise, could impact the timing of the items subject to indemnification by GGP. In addition, if the IRS were successful in litigation with respect to such audits, we may be required to change our method of tax accounting for certain transactions, which could affect the timing of our future tax payments, increasing our tax payments in the short term relative to our current tax cost projections.

Risks Related to Our Common Stock

The trading price of our common stock may fluctuate widely.

We cannot predict the prices at which our common stock may trade. The market price of our common stock may fluctuate widely, depending upon many factors, some of which may be beyond our control, including:

- our quarterly or annual earnings, or those of other comparable companies;
- actual or anticipated fluctuations in our operating results and other factors related to our business;
- announcements by us or our competitors of significant acquisitions or dispositions;
- the failure of securities analysts to cover our common stock;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- the operating and stock price performance of other comparable companies;

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- our ability to implement our business strategy;
- our tax payments;
- our ability to raise capital;
- overall market fluctuations; and
- general economic conditions.

Further, General Trust Company, Pershing Square and Brookfield may hold their investments for an extended period of time, thereby decreasing the number of shares available in the market and creating artificially low supply for, and trading prices of our common stock. If one or more of these principal holders sell a significant amount of our common stock, it could decrease the price of our common stock.

Provisions in our certificate of incorporation, our by-laws, Delaware law, stockholders rights agreement and certain other agreements may prevent or delay an acquisition of us, which could decrease the trading price of our common stock.

Our certificate of incorporation and bylaws contain the following limitations:

- the inability of our stockholders to act by written consent;
- restrictions on the ability of stockholders to call a special meeting without 15% or more of the voting power of the issued and outstanding shares entitled to vote generally in the election of our directors;
- rules regarding how stockholders may present proposals or nominate directors for election at stockholder meetings; and
- the right of our board of directors to issue preferred stock without stockholder approval.

Additionally, our certificate of incorporation imposes certain restrictions on the direct or indirect transferability of our securities to assist in the preservation of our valuable tax attributes (generally consisting of (1) approximately $300 million of suspended federal income tax deductions and (2) a relatively high federal income tax basis in our assets), including, subject to certain exceptions, that until such time as our board of directors determines that it is no longer in our best interests to continue to impose such restrictions (i) no person or entity may acquire or accumulate the Threshold Percentage (as defined below) or more (as determined under tax law principles governing the application of section 382 of the Internal Revenue Code) of our securities, and (ii) no person owning directly or indirectly (as determined under such tax law principles) on the date of our spin-off, after giving effect to the spin-off plan, the Threshold Percentage or more of our securities may acquire additional securities of ours. Notwithstanding the restrictions in our certificate of incorporation, no assurance can be given regarding our ability to preserve our tax attributes. Threshold Percentage means, in the case of (i) our common stock, 4.99% of the number of outstanding shares of our common stock and (ii) any other class of our equity, 4.99% of each such class.

We have also implemented a so-called poison pill by adopting our stockholders rights agreement. The poison pill assists in the preservation of our valuable tax attributes by significantly increasing the costs that would be incurred by an unwanted third party acquirer if such party owns or announces its intent to commence a tender offer for the Threshold Percentage or more of our securities. The stockholders rights agreement expires on March 14, 2015. All of these provisions could limit the price that investors might be willing to pay in the future for shares of our common stock.

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There may be dilution of our common stock from the exercise of outstanding warrants, which may materially adversely affect the market price of our common stock and negatively impact a holder's investments.

The exercise of some or all of the outstanding warrants to purchase shares of our common stock held by Pershing Square and certain members of our management would materially dilute the ownership interest of our existing stockholders. Likewise, any additional issuances of common stock, through The Howard Hughes Corporation Amended and Restated 2010 Incentive Plan or otherwise, will dilute the ownership interests of our existing stockholders. Any sales in the public market of such additional common stock could adversely affect prevailing market prices of the outstanding shares of our common stock. In addition, the existence of our outstanding warrants may encourage short selling or arbitrage trading activity by market participants because the exercise of our warrants could depress the price of our common stock.

Additional issuances and sales of our capital stock or securities convertible into or exchangeable for our capital stock, or the perception that such issuances and sales could occur, may cause prevailing market prices for our common stock to decline and may adversely affect our ability to raise additional capital in the financial markets at a favorable time and price.

Certain of our substantial stockholders, including Brookfield and Pershing Square, have the right to purchase the number of our shares as necessary to allow the stockholder to maintain its proportionate ownership interest on a fully diluted basis, for so long as the stockholder beneficially owns at least 5% of our outstanding common stock on a fully-diluted basis.

In most circumstances, stockholders will not be entitled to vote on whether or not additional capital stock or securities convertible into or exchangeable for our capital stock is issued. In addition, depending on the terms and pricing of an additional offering of common stock or securities convertible into or exchangeable for our capital stock, and the value of our properties, stockholders may experience dilution in both the book value and the market value of their shares.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive offices are located in Dallas, Texas where we lease approximately 34,932 square feet under an arrangement that expires in 2021. We also maintain offices at certain of our properties as well as in The Woodlands, Texas and in Los Angeles, California. We believe our present facilities are sufficient to support our operations.

Our Master Planned Communities and our Strategic Developments assets are described above in Item 1. Business "Overview of Business Segments". Leases with tenants at our retail operating asset locations generally include base rent and common area maintenance charges.

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The following table summarizes certain metrics of the retail properties within our Operating Assets segment as of December 31, 2012.

					Year Ended December 31, 2012					
Property	**Location**	**Existing Gross Leasable Area**	**Size (Acres)**	**Net Book Value, December 31, 2012 (Millions)**	**Average Annual Tenant Sales per Square Foot(a)**	**Mall and Other Rental NOI (000)(b)**	**Average Sum of Rent and Recoverable Common Area Costs per Square Foot(c)**	**Occupancy Cost(d)**	**NOI Margin(e)**	**Year Built / Acquired**
Ward Centers	Honolulu, HI	1,192,917(f)	60	$ 359.7(g)	$ 535	$ 22,045	$ 62	11.6%	53.1%	2002
Landmark Mall	Alexandria, VA	440,357(h)	22	24.9(i)	315	923	30	9.5%	19.7%	2004
Rio West	Gallup, NM	341,548(j)(k)	50	10.6	183	1,250	17	9.3%	39.7%	1981(l)
South Street Seaport (m)	New York, NY	300,551(j)	11	11.5(n)	464	639	60	12.9%	3.5%	2004
Park West	Peoria, AZ	249,168	66(o)	78.7	366	830	25	6.8%	27.5%	2006
Riverwalk Marketplace	New Orleans, LA	193,874(j)	11	15.7(p)	252	221	32	12.7%	3.3%	2004
Cottonwood Square (q)	Salt Lake City, UT	77,079(r)	7(s)	5.3	n.a.	432	n.a.	n.a.	76.5%	2002
20/25 Waterway Avenue	The Woodlands, TX	49,972	1	11.8	324	1,582	46	14.2%	67.8%	2007/2009
Waterway Garage Retail (t)	The Woodlands, TX	21,513(u)		6.1	n.a.	97	n.a.	n.a.	48.2%	2011
Total		2,866,979	228	$ 524.3		$ 28,019				

n.a. not available

(a) Average Annual Tenant Sales per Square Foot is calculated by the sum of all comparable sales for the year ended December 31, 2012 for tenants that are contractually obligated to report sales data, divided by the comparable square footage for the same period. When calculating comparable sales and comparable square footage, we include all tenants that have operated for the entire twelve month period, excluding anchor tenants of 30,000 or more square feet and tenants for whom we do not maintain their premises.

(b) Mall and Other Rental NOI includes mall and other rental revenue and expenses according to accounting principles generally accepted in the United States of America ("GAAP"), excludes straight-line rent, market lease amortization, depreciation and other amortization expense. For the year ended December 31, 2012, tenant reimbursements represented approximately 23.9% of total revenue. The impact of concessions, such as free rent and new tenant inducements, are not significant to our business.

(c) Average Sum of Rent and Recoverable Common Area Costs per Square Foot is calculated as the sum of total rent and tenant recoveries for the year ended December 31, 2012 for the tenant base used to calculate (a), divided by the total square footage occupied by the above mentioned tenant base.

(d) Occupancy Cost is calculated by dividing (c) Average Sum of Rent and Recoverable Common Area Costs per Square Foot by (a) Average Annual Tenant Sales per Square Foot.

(e) NOI Margin is calculated by dividing NOI by total contractual and other property revenue.

(f) GLA represents all leasable area and includes approximately 35,744 square feet related to the upper level of Phase I of Ward Village Shops, which was completed in May 2012.

(g) Net Book Value includes $21.3 million of development costs at Ward Centers.

(h) Excludes 438,937 square feet that is owned and occupied by Sears and Macy's.

(i) Net Book Value includes $2.8 million of development costs at Landmark Mall.

(j)

All of the project is on a ground lease where we are the ground lessee.

(k) Excludes 179,646 square feet of outparcel improvements currently owned by tenant.

(l) Reflects the year that Rio West Mall opened.

(m) As a result of Superstorm Sandy, South Street Seaport experienced decreases in (a) Average Annual Tenant Sales per Square Foot, (b) Mall and Other Rental NOI, and (c) Average Sum of Rent and Recoverable Common Area Costs per Square Foot.

(n) Net Book Value includes $8.6 million of development costs at South Street Seaport.

(o) Acreage includes acquisition of approximately 18 acres of land in 2012.

(p) Net Book Value includes $4.1 million of development costs at Riverwalk Marketplace.

(q) Tenants at Cottonwood Square are not required to report sales.

(r) 41,612 square feet of the Existing Gross Leasable Area is part of a ground lease where we are the ground lessee. The ground lease payments are paid by the current tenant directly to the ground lessor.

(s) Cottonwood Square includes only 7 acres; 3 acres of which we are subject to the ground lessee, and 4 acres of which we own.

(t) Waterway Garage Retail has two retail tenants that are not required to report sales data.

(u) Ground floor retail space attached to the Waterway Square Garage.

With respect to certain of our office properties, we enter into triple net leases. These leases typically include provisions whereby tenants are required to pay their pro-rata share of certain property operating costs such as real estate taxes, utilities and insurance.

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The following table summarizes certain metrics of our office assets within our Operating Assets Segment as of December 31, 2012:

Asset	Economic Ownership %	Existing Gross Leasable Area	% Leased	Average Effective Annual Rent per Square Foot(a)	Year Built / Acquired	Net Book Value, December 31, 2012 (Millions)
110 N. Wacker (Chicago, IL)	99%	226,000	100.0%	$ 27.08	1957	$ 22.7
4 Waterway Square	100%	218,551	100.0%	34.79	2010	56.7
9303 New Trails	100%	97,705	100.0%	25.40	2008	14.9
1400 Woodloch Forest	100%	95,667	100.0%	23.68	1981	8.7
2201 Lake Woodlands Drive	100%	24,119	100.0%	10.03(b)	1994	3.8
Columbia Office Properties (c) (d)	100%	491,000	60.9%	19.58	1969/1972	44.5
Total		1,153,042				$ 151.3

(a) Average Effective Annual Rent per Square Foot is equal to the sum of base minimum rent and tenant reimbursements divided by the average occupied square feet. For the year ended December 31, 2012, tenant reimbursements represented approximately 15.5% of total revenue. The impact of concessions, such as free rent and new tenant inducements, are not significant to our business.

(b) Occupied entirely by a temporary tenant that is only paying expenses.

(c) Includes 70 Columbia Corporate Center, which was acquired in August 2012 and is a 167,513 square foot Class A office building.

(d) % Leased is computed based on the weighted average square feet of each office building. At December 31, 2012 the occupancies of each building were as follows: 70 Corporate Center Building 31.0%; American City Building 99.0%; Columbia Association Building 100.0%; Columbia Exhibit Building 61.2%; Ridgely Building 32.8%.

The following table summarizes certain metrics of our other Operating Assets (exclusive of owned retail and office properties) as of December 31, 2012:

Other than Owned Retail and Office Operating	Economic Ownership %	Property Type	Square Feet / Keys / Other	% Leased	Year Built	Net Book Value, December 31, 2012 (Millions)
Millennium Waterway Apartments	100%	Apartments	393 units	93.1%	2010	70.6
The Woodlands Resort & Conference Center	100%	Hotel	440 keys		1974/2002(a)	54.0
Arizona 2 Office Lease	100%	Note				19.3
The Club at Carlton Woods	100%	Country Club	36 holes		2001	15.2
The Woodlands Parking Garages	100%	Garage	2,988 spaces		2008/2009	5.9
Head Acquisition (Hexalon)	1%	Retail				5.0
Summerlin Hospital Medical Center	7%	Hospital			1997	4.1
Stewart Title of Montgomery Company	50%	Title Company				3.9
Woodlands Sarofim #1 Ltd.	20%	Industrial	129,790	75.1%	late 1980s	2.5
Golf Courses at Summerlin and TPC Las Vegas	Participation	Golf				1.8
Total Net Book Value						$ 182.3

(a)

The Woodlands Resort & Conference Center was built in 1974, and expanded in 2002.

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The following table summarizes our retail and office lease expirations:

Year	Number of Expiring Leases	Total Square Feet Expiring	Total Annualized Base Rent Expiring (Thousands)	% of Total Annual Gross Rent Expiring
2013 (a)	316	806,545	$ 9,298	15.6%
2014	103	439,836	7,571	12.7%
2015	78	255,619	6,214	10.4%
2016	65	396,038	10,349	17.4%
2017	49	232,081	6,017	10.1%
2018	35	129,826	2,017	3.4%
2019	14	65,473	2,242	3.8%
2020	14	132,855	4,532	7.6%
2021	11	195,132	3,967	6.7%
2022	9	225,561	5,840	9.8%
2023+	18	890,889	1,421	2.4%
	712	3,769,855	$ 59,468	100.00%

(a) Includes 221 specialty leases which expire in less than 365 days.

The following table sets forth the occupancy rates, for each of the last five years for our wholly owned retail and office properties:

	Occupancy as of December 31, 2012	Annual Weighted Average Occupancy Rates(a)				
		2012	2011	2010	2009	2008
Retail:						
Rio West	95.4%	92.1%	90.8%	91.8%	92.4%	96.3%
Ward Centers (b)	93.6%	89.5%	90.1%	90.0%	88.6%	91.5%
20/25 Waterway Avenue Retail (c)	88.4%	95.6%	91.7%	64.2%	51.8%	75.1%
South Street Seaport (d)	85.9%	92.1%	89.7%	89.7%	91.3%	92.6%
Landmark Mall	76.1%	75.0%	73.7%	76.0%(e)	85.5%	87.9%
Cottonwood Square	75.5%	74.1%	73.8%	78.2%	73.8%	91.6%
Riverwalk Marketplace (f)	70.0%	92.2%	89.9%	87.9%	84.5%	69.3%
Park West (g)	68.2%	65.1%	64.6%	62.5%	63.6%	85.4%
Waterway Garage Retail (h)	41.3%	24.8%	19.3%	n.a.	n.a.	n.a.
Office:						
110 N. Wacker	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
1400 Woodloch Forest	100.0%	100.0%	78.3%	94.2%	100.0%	98.8%
4 Waterway Square Office	100.0%	99.3%	59.8%	25.7%	n.a.	n.a.
9303 New Trails Office	100.0%	99.0%	78.8%	73.8%	52.4%	29.4%
2201 Lake Woodlands Drive	100.0%	83.4%	100.0%	100.0%	100.0%	n.a.
Columbia Office Properties (i)	60.9%	76.6%(j)	89.3%	89.9%	89.9%	89.9%

n.a. not available

(a) Occupancy rates represent the weighted average occupancy for the year divided by total GLA.

(b) In prior years, temporary tenants and ground leases were excluded from year end occupancy and the calculation of Annual Weighted Average Occupancy Rates. The occupancy rates in this table have been adjusted to now include the above mentioned tenants as part of the calculation for all years.

(c) 25 Waterway opened in February 2007 and 20 Waterway opened in May 2009.

(d) 2012 Year-end occupancy decrease due largely to impact of Superstorm Sandy.

(e) Loss of permanent and specialty tenants in 2010 due to potential redevelopment.

(f) Loss of permanent and specialty tenants in 2012 is a result of announcing a pending redevelopment.

(g) 2008 Occupancy rate reflects a lower GLA due to the timing of space added inline. Full GLA was achieved in 2009.

(h) Waterway Garage Retail opened in July 2011.

(i) % Leased is computed based on the weighted average square feet of each office building. At December 31, 2012 the occupancies of each building were as follows: 70 Columbia Corporate Center 31.0%; American City Building 99.0%; Columbia Association Building 100.0%; Columbia Exhibit Building 61.2%; Ridgely Building 32.8%.

(j) Decrease in occupancy is attributed to acquisition of 70 Columbia Corporate Center, which was 44.1% occupied upon acquisition.

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of our business, we are from time to time involved in legal proceedings related to the ownership and operations of our properties. Neither we nor any of our Real Estate Affiliates is currently involved in any legal or administrative proceedings that we believe are likely to have a material adverse effect on our business, results of operations or financial condition.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Prices of Common Stock

The following table shows the high and low sales prices of the Company's common stock on the New York Stock Exchange (the "NYSE"), as reported in the consolidated transaction reporting system for each quarter of fiscal 2012 and 2011. The Company's common stock is traded on the NYSE under the symbol "HHC".

	Common Stock Price Range		Dividends
	High	Low	Per Share
Year Ended December 31, 2012			
Fourth Quarter	$ 76.71	$ 67.43	$
Third Quarter	$ 73.88	$ 60.85	$
Second Quarter	$ 68.94	$ 55.36	$
First Quarter	$ 65.63	$ 44.02	$
Year Ended December 31, 2011			
Fourth Quarter	$ 49.67	$ 35.51	$
Third Quarter	$ 66.42	$ 41.53	$
Second Quarter	$ 76.83	$ 56.86	$
First Quarter	$ 71.94	$ 49.00	$

Number of Holders of Record

As of February 19, 2013, there were 2,513 stockholders of record of the Company's common stock.

No dividends have been declared or paid in 2012 or 2011. Any future determination related to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including future earnings, capital requirements, financial condition and future prospects and other factors the board of directors may deem relevant.

Performance Graph

The following performance graph compares the monthly dollar change in the cumulative shareholder return on our common stock with the cumulative total returns of the NYSE Composite Index and the group of companies in the Morningstar Real Estate General Index. The graph was prepared on the following assumptions:

$100 was invested on November 5, 2010 in our common stock, the NYSE Composite Index and the Morningstar Real Estate General Index.

Dividends have been reinvested subsequent to the initial investment.

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth the selected consolidated and combined financial and other data of our business for the most recent five years. We were formed in 2010 to receive certain assets and liabilities of our predecessors in connection with their emergence from bankruptcy. We did not conduct any business and did not have any material assets or liabilities until our spin-off was completed on November 9, 2010.

Our selected historical data for 2012 and 2011 presented in accordance with generally accepted accounting principles is not comparable to prior periods due to the acquisition of our partner's 47.5% economic interest in The Woodlands on July 1, 2011. As of the acquisition date, we consolidated The Woodlands' financial results. Prior to the acquisition, we accounted for our investment in The Woodlands using the equity method.

The selected historical financial data as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011, and 2010 has been derived from our audited Consolidated and Combined Financial Statements, which are included on pages F-2 to F-8 in this Annual Report. The selected historical combined financial data as of December 31, 2010 and for the years ended December 31, 2009 and 2008 was derived from our audited combined financial statements which are not included in this Annual Report. Our spin-off did not change the carrying value of our assets and liabilities. Operations for 2010 are presented as the aggregation of the combined results from January 1, 2010 to November 9, 2010 and the consolidated results from November 10, 2010 to December 31, 2010.

Prior to the spin-off, our combined financial statements were carved out from the financial books and records of GGP at a carrying value reflective of historical cost in GGP's records. Our historical financial results for these periods reflect allocations for certain corporate costs, and we believe such allocations are reasonable. Such results do not reflect what our expenses would have been had we been operating as a separate, stand-alone publicly traded company. The historical combined financial information presented for periods prior to our separation from GGP are not indicative of the results of operations, financial position or cash flows that would have been obtained if we had been an independent, stand-alone entity during such periods.

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The historical results set forth below do not indicate results expected for any future periods. The selected financial data set forth below are qualified in their entirety by, and should be read in conjunction with, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated and Combined Financial Statements and related notes thereto included on pages F-2 to F-8 in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
	(In thousands, except per share amounts)				
Operating Data:					
Revenues	$ 376,886	$ 275,689	$ 142,718	$ 136,348	$ 172,507
Depreciation and amortization	(24,429)	(16,782)	(16,563)	(19,841)	(18,421)
Provisions for impairment			(503,356)	(680,349)	(52,511)
Other property operating costs	(279,992)	(231,442)	(134,666)	(128,833)	(141,392)
Interest (expense) income, net	8,473	9,876	(2,053)	712	1,105
Reorganization items			(57,282)	(6,674)	
Warrant liability gain (loss)	(185,017)	101,584	(140,900)		
Benefit from (provision for) income taxes	(6,887)	18,325	633,459	23,969	(2,703)
Reduction in tax indemnity receivable	(20,260)				
Equity in income (loss) of Real Estate Affiliates	3,683	8,578	9,413	(28,209)	23,506
Investment in real estate affiliate basis adjustment		(6,053)			
Early extinguishment of debt		(11,305)			
Income (loss) from continuing operations	(127,543)	148,470	(69,230)	(702,877)	(17,909)
Discontinued operations loss on dispositions				(939)	
Net income (loss)	(127,543)	148,470	(69,230)	(703,816)	(17,909)
Net (income) loss attributable to noncontrolling interests	(745)	(1,290)	(201)	204	(100)
Net income (loss) attributable to common stockholders	$ (128,288)	$ 147,180	$ (69,431)	$ (703,612)	$ (18,009)
Basic Earnings (Loss) Per Share:					
Continuing operations	$ (3.36)	$ 3.88	$ (1.84)	$ (18.64)	$ (0.48)
Discontinued operations				(0.02)	
Total basic income (loss) per share	$ (3.36)	$ 3.88	$ (1.84)	$ (18.66)	$ (0.48)
Diluted Earnings (Loss) Per Share:					
Continuing operations	$ (3.36)	$ 1.17	$ (1.84)	$ (18.64)	$ (0.48)
Discontinued operations				(0.02)	
Total diluted income (loss) per share	$ (3.36)	$ 1.17	$ (1.84)	$ (18.66)	$ (0.48)
Cash dividends per common share	$	$	$	$	$
Cash Flow Data:					
Operating activities	$ 149,416	$ 86,508	$ (67,899)	$ (17,870)	$ (50,699)
Investing activities	(77,701)	(39,680)	(111,829)	(21,432)	(300,201)
Financing activities	(70,084)	(103,944)	461,206	37,543	348,424

	As of December 31,				
	2012	2011	2010	2009	2008
	(In thousands)				
Balance Sheet Data:					

Investments in real estate	cost	$ 2,778,775	$ 2,648,520	$ 2,311,520	$ 2,822,692	$ 3,367,032
Total assets		3,503,042	3,399,593	3,022,707	2,905,227	3,443,956
Total debt		688,312	606,477	318,660	342,833	358,467
Total equity		2,310,997	2,329,599	2,179,107	1,503,520	1,985,815

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated and combined financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks, uncertainties, assumptions and other factors, including those described in Part I, "Item 1A. Risk Factors" and elsewhere in this Annual Report on Form 10-K. These factors could cause our actual results in 2013 and beyond to differ materially from those expressed in, or implied by, those forward-looking statements. You are cautioned not to place undue reliance on this information which speaks only as of the date of this report. We are not obligated to update this information, whether as a result of new information, future events or otherwise, except to the extent we are required to do so in connection with our obligation to file periodic reports with the SEC.

All references to numbered Notes are to specific Notes to our Consolidated and Combined Financial Statements included in this Annual Report on Form 10-K and which descriptions are incorporated into the applicable response by reference. Capitalized terms used, but not defined, in this Management's Discussion and Analysis of Financial Condition and Results of Operation ("MD&A") have the same meanings as in such Notes.

Overview

Our mission is to be the preeminent developer and operator of master planned communities and mixed-use and other real estate properties. We create timeless places and memorable experiences that inspire people while driving sustainable, long-term growth and value for our shareholders. We specialize in the development of master planned communities, the redevelopment or repositioning of real estate assets currently generating revenues, also called operating assets, and other strategic real estate opportunities in the form of entitled and unentitled land and other development rights. Our assets are located across the United States. We expect to drive income and growth through entitlements, land and home site sales and project developments. We are focused on maximizing value from our assets, and we continue to develop and refine business plans to achieve that goal.

We operate our business in three segments: Master Planned Communities ("MPCs"), Operating Assets and Strategic Developments. Unlike real estate companies that are limited in their activities because they have elected to be taxed as real estate investment trusts, we, except for Victoria Ward, Limited, one of our subsidiaries which is a captive REIT, have no restrictions on our operating activities or types of services that we can offer. We believe our structure provides the greatest flexibility for maximizing the value of our real estate portfolio.

We believe many of our operating and strategic development assets require repositioning or redevelopment to maximize their value. We are pursuing development opportunities for a number of our assets that were previously postponed due to the tightening of financial markets resulting from weak economic conditions, the credit market collapse and the bankruptcy filing of our predecessors. We are also continuing to develop plans for other strategic development assets for which no formal plans had been previously established.

The development and redevelopment process for each specific asset can be complex and take several months to several years prior to the commencement of actual construction. We must study each local market, determine the highest and best use of the land and improvements, obtain entitlements and permits, complete architectural design, construction drawings and plans, secure tenant commitments and commit sources of capital. During this period, these activities generally have very little impact on our financial statements relative to the activity and effort involved in the development process.

During 2012, we advanced many of our development plans, began securing leases for projects nearing construction, started construction on two office buildings and retired a significant amount of our outstanding warrants. We also modified our residential sales strategy for The Woodlands MPC to

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capitalize on the strong Houston market. We continue to preserve flexibility to redevelop certain of our operating assets by generally not signing long term leases or reserving the right to terminate leases prior to expiration.

Significant milestones achieved during 2012:

Retired 6,083,333 Sponsors Warrants for $80.5 million in cash and the issuance of 1,525,272 shares of common stock. As a result of the warrant purchases, shareholders now own 10.1% more of the Company assuming these warrants were exercised;

Generated $21.3 million increase in MPC land sales revenue for 2012, a 13.2% increase compared to 2011 (on a "same property basis" assuming The Woodlands was consolidated by us during all of 2011);

Implemented a new auction process at The Woodlands which in August generated an increase in sales prices of approximately $16.7 million, or 49.0%, for 375 lots, compared to the selling prices before the auction;

Secured a $43.3 million non-recourse construction loan for 3 Waterway Square, an approximate 232,000 square foot office building in The Woodlands. 3 Waterway Square is 90% pre-leased and is expected to be completed in May 2013;

Announced the development of Hughes Landing at Lake Woodlands, a 66-acre mixed use site within The Woodlands, and secured a $38.0 million non-recourse construction loan for One Hughes Landing, an approximate 195,000 square foot office building at Hughes Landing. One Hughes Landing is under construction and is expected to be complete in September of 2013. We executed a 51,152 square foot lease with Layne Christensen Company for the top two floors of One Hughes Landing and as of January 31, 2013, the building is 28% pre-leased;

Acquired our partner's equity interest in the 393-unit Millennium Waterway apartment property located in The Woodlands at a $72.0 million negotiated value using proceeds from a $55.6 million ten-year mortgage bearing a 3.75% interest rate. The property is expected to generate $4.9 million of stabilized annual net operating income;

Commenced construction on Millennium Woodlands Phase II, a 314-unit Class A apartment building located in The Woodlands, which is being developed through a joint venture with the same developer with whom we developed the Millennium Waterway apartments;

Entered into a letter of intent with Macy's to become a 180,000 square foot anchor tenant and received a commitment from Dillard's to be a 200,000 square foot anchor tenant at The Shops at Summerlin. The Shops at Summerlin project is expected to contain 1.5 million square feet of mixed use development, including retail, entertainment and approximately 200,000 square feet of office space;

At Ward Centers, TJ Maxx took occupancy of 36,000 square feet of newly completed space at the Ward Village Shops and Bed Bath & Beyond took possession of approximately 30,000 square feet during 2012. Both of these tenants are expected to contribute a combined annual NOI of approximately $2.0 million;

Commenced Phase Two of the Ward Village Shops part of Ward Centers in Honolulu, Hawaii a $26.2 million project to build 57,000 square feet of new retail space for Pier 1 Imports and Nordstrom Rack, whose relocation opens space for future redevelopment. The tenants are expected to take occupancy in late 2013 or early 2014 and should contribute approximately $1.0 million of incremental annual NOI to Ward Centers;

Announced the master plan to transform Ward Centers into an urban master planned community called Ward Village. When fully developed, Ward Village will contain over 4,000 condominium units and over one million square feet of retail and other commercial space.

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Phase One of the redevelopment will consist of two market rate, mixed-use residential towers comprising approximately 500 units, one reserved housing tower comprising at least 125 units to satisfy the project's 20% reserved housing requirement and the renovation of the IBM building into a world-class sales center for the 4,000 condominium units which we expect to build under the master plan. Construction on Phase One is expected to begin in 2014;

Completed a $3.3 million renovation at Ward Center, leased the 30,000 square feet formerly occupied by Borders to Bed, Bath & Beyond and 5,360 square feet to Grand Leyanda. Together, both tenants are expected to generate $0.9 million of annual incremental NOI to Ward Centers when they occupy their respective locations in 2013;

Closed on $40.0 million of mezzanine capital commitments for the ONE Ala Moana condominium development, including $3.0 million of non-refundable capital for predevelopment costs;

Launched presales and contracted with buyers to buy all of the 206 units offered at our ONE Ala Moana condominium development resulting in the receipt of $19.6 million in deposits. Construction is expected to begin in the second quarter of 2013;

Completed the ground lease amendment with the Economic Development Corporation of the City of New York ("EDC") which permits the redevelopment of Pier 17 and the option to propose a mixed-use development on the city owned property adjacent to Pier 17. Advanced Urban Land Use Review Procedure (ULURP) application for Pier 17 redevelopment to New York City Planning Commission after receiving recommendation from Borough President and approvals from Community Board 1 and Landmarks Preservation Commission for the proposed Pier 17 design;

Announced the redevelopment of Riverwalk Marketplace into an upscale urban outlet center. Upon completion, the property will comprise approximately 250,000 square feet of retail space;

Acquired 70 Columbia Corporate Center, a 167,513 square foot Class A office building in Columbia, Maryland by assuming a $16.0 million non-recourse mortgage bearing interest at 4.25% and our commitment to fund $5.0 million for leasing and capital improvements. Secured a 76,308 square foot tenant which will increase occupancy to 68.7% and generate an estimated $1.9 million in annual net operating income when the tenant occupies its space in 2013.

Obtained all needed approvals to begin construction of a 380-unit apartment building on Parcel D in Columbia, MD;

Entered into agreements with Whole Foods Market, Inc. and The Columbia Association to lease the majority of the approximate 89,000 square feet Columbia Regional Building, located in Downtown Columbia, Maryland. The restoration and redevelopment of the building is anticipated to serve as a catalyst for future development in the Columbia Town Center area. Construction is expected to begin in the first quarter of 2013; and

During 2012, we closed on $348.6 million of non-recourse financing commitments, including $158.1 million for Bridgeland, of which $140.0 million is a revolver to fund horizontal land improvements, $55.6 million to refinance the Millenium Waterway Apartments and to fund the purchase of our partner's interest, $40.0 million of mezzanine debt for the ONE Ala Moana project, $43.3 million for the construction of 3 Waterway office building, $38.0 million for the construction of One Hughes Landing office building and $13.6 million related to 20/25 Waterway retail.

In early 2013, we achieved the following significant milestones:

Obtained City Planning Commission approval for redevelopment of Pier 17 at South Street Seaport;

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- Began construction of the apartment building on Parcel D in Columbia, MD; and

- Closed on a $95.0 million non-recourse mortgage for The Woodlands Conference Center and Resort. The loan refinances an existing $36.1 million mortgage and provides a majority of the funding for a $75.0 million redevelopment of the property into one of the premier destination resorts in the area.

Real Estate Property Earnings Before Taxes

We use a number of operating measures for assessing operating performance of our communities, assets, properties and projects within our segments, some of which may not be common among all three of our segments. We believe that investors may find some operating measures more useful than others when separately evaluating each segment. One common operating measure used to assess operating results for our business segments is Real Estate Property Earnings Before Taxes ("REP EBT"). Management believes that REP EBT provides useful information about our operating performance because it excludes certain non-recurring and non-cash items which we believe are not indicative of our core business.

REP EBT, as it relates to our business, is defined as net income (loss) excluding general and administrative expenses, corporate interest income, corporate interest and depreciation expense, provision (benefit) for income taxes, warrant liability gain (loss), the reduction in tax indemnity receivable, equity in earnings from Real Estate Affiliates, Investment in Real Estate Affiliate basis adjustment and reorganization items. We present REP EBT because we use this measure, among others, internally to assess the core operating performance of our assets. We also present this measure because we believe certain investors use it as a measure of a company's historical operating performance and its ability to service and incur debt. We believe that the inclusion of certain adjustments to net income (loss) to calculate REP EBT is appropriate to provide additional information to investors.

REP EBT should not be considered as an alternative to GAAP net income (loss) attributable to common stockholders or GAAP net income (loss), as it has limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of the limitations of this metric are that it:

- does not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;

- does not reflect corporate general and administrative expenses;

- does not reflect income taxes that we may be required to pay;

- does not reflect any cash requirements for replacement of depreciated or amortized assets or that these assets have different useful lives;

- does not reflect limitations on, or costs related to, transferring earnings from our Real Estate Affiliates to us; and

- may be calculated differently by other companies in our industry, limiting its usefulness as a comparative measure.

Operating Assets Net Operating Income

We believe that net operating income ("NOI") is a useful supplemental measure of the performance of our Operating Assets because it provides a performance measure that, when compared year over year, reflects the revenues and expenses directly associated with owning and operating real estate properties and the impact on operations from trends in occupancy rates, rental rates, and operating costs. We define NOI as revenues (rental income, tenant recoveries and other income) less expenses (real estate

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taxes, repairs and maintenance, marketing and other property expenses). NOI also excludes straight line rents, net interest expense, depreciation, ground rent and other amortization expenses and equity in earnings from real estate affiliates. We use NOI to evaluate our operating performance on a property-by-property basis because NOI allows us to evaluate the impact that factors such as lease structure, lease rates and tenant base, which vary by property, have on our operating results, gross margins and investment returns.

Although we believe that NOI provides useful information to the investors about the performance of our Operating Assets, due to the exclusions noted above, NOI should only be used as an alternative measure of the financial performance of such assets and not as an alternative to GAAP operating income (loss) or net income (loss) available to common stockholders. For reference, and as an aid in understanding our computation of NOI, a reconciliation of NOI to REP EBT has been presented in the Operating Assets segment discussion below and a reconciliation of REP EBT to consolidated net income (loss) as computed in accordance with GAAP has been presented in Note 17 Segments.

Results of Operations

Our revenues primarily are derived from the sale of individual lots at our master planned communities to home builders and from tenants at our operating assets in the form of fixed minimum rents, overage rent and recoveries of operating expenses.

On July 1, 2011, we acquired our partner's economic interest in The Woodlands located near Houston, Texas. As a result of the acquisition, we now consolidate The Woodlands' operations in our consolidated and combined financial statements, and our consolidated and combined statements of operations and cash flows for the year ended December 31, 2012 are not comparable to the same period in 2011 and 2010. Prior to such acquisition, The Woodlands was presented as a Real Estate Affiliate and accounted for using the equity method. The Woodlands operating results for periods prior to July 1, 2011 when this investment was a Real Estate Affiliate are presented on a consolidated basis for the purposes of this Management's Discussion and Analysis of Financial Condition and Results of Operations and segment reporting, in order to provide comparability between periods for analyzing operating results. For a reconciliation of REP EBT to net income (loss) see Note 17 Segments to the Consolidated and Combined Financial Statements.

Consolidated revenues for the year ended December 31, 2012 increased $101.2 million or 36.7% to $376.9 million from $275.7 million for the year ended December 31, 2011. The increase is primarily due to the inclusion of $83.3 million of revenue from The Woodlands for the first half of 2012 compared to no revenues for the same period in 2011 because we did not begin consolidating The Woodlands operations until July 1, 2011 which is the date we acquired our partner's remaining interest. Master Planned Community land sales and builder price participation increased $27.5 million primarily due to price increases and accelerated lot sales at The Woodlands resulting from an auction of 375 lots in August 2012. Minimum rents and tenant recoveries increased $8.8 million primarily due to the acquisition of our partner's interest in, and consolidation of, Millennium Waterway apartments, 4 Waterway reaching stabilization in 2012, improved occupancy at Ward Centers and 1400 Woodloch Forest slightly offset by lost revenue due to Superstorm Sandy at South Street Seaport. The Woodlands Resort and Conference Center revenues increased $2.4 million primarily due to higher revenue per available room. Condominium unit sales decreased $21.8 million in 2012 compared to 2011 due to the sales of the last two units in the first quarter of 2012.

Consolidated revenues for the year ended December 31, 2011 increased $133.0 million or 93.2% to $275.7 million from $142.7 million for the year ended December 31, 2010. The increase is primarily due to the inclusion of $84.6 million of revenue from The Woodlands for the second half of 2011 compared to no revenues for the same period in 2010 because we did not begin consolidating The Woodlands' operations until 2011 as noted above. Master Planned Community land sales and builder price participation increased $24.0 million primarily due to higher lot sales resulting from the federal

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incentive for first-time home buyers. Condominium unit sales increased $20.9 million in 2011 compared to 2010 due to the sales of 57 condominium units during 2011. Prior to the spin-off from GGP in 2010, we did not report any condominium unit sales. Other land sales, rental and property revenues increased $3.2 million in 2011 compared to 2010 primarily due to builder forfeited deposits at Summerlin.

Net loss attributable to common stockholders was $128.3 million for the year ended December 31, 2012 compared to net income attributable to common stockholders of $147.2 million for the same period in 2011. The net loss in 2012 is primarily due to the $185.0 million warrant liability loss related to the increase in value of the Sponsors and Management warrants in 2012 compared to the $101.6 million warrant liability gain in 2011. Land sales, builder price participation and other land sales revenue net of cost of sales and MPC operations improved $32.9 million in 2012 compared to 2011 primarily due to higher lot prices and lower cost of sales for The Woodlands MPC in 2012. The Woodlands also contributed $17.1 million to net income during the first half of 2012 as compared to $3.7 million during the first half of 2011 when it was an equity investment. The increases in income were somewhat offset by income taxes of $6.1 million attributable to our higher earnings, the reduction in tax indemnity receivable of $20.3 million related to our utilization of tax assets and the profit contribution from Nouvelle at Natick decreasing by $7.4 million due to the sale of the two remaining units in the first quarter of 2012.

Net income attributable to common stockholders was $147.2 million for the year ended December 31, 2011 compared to net loss attributable to common stockholders of $69.4 million for the same period in 2010. Net income in 2011 includes a $101.6 million warrant liability gain related to the decrease in value of the Sponsors and Management warrants compared to a warrant liability loss of $140.9 million in 2010. In 2010, we recorded $560.6 million of impairment and reorganization charges and had no such items in 2011. The $633.5 million tax benefit in 2010 is primarily attributable to these charges. Land sales, builder price participation and other land sales revenue net of cost of sales and MPC operations expenses improved $22.7 million in 2011 primarily due to lower cost of sales margin as a result of MPC impairments in 2010 and management's efforts to reduce costs. In addition, the sale of 57 Nouvelle at Natick condominium units increased our income by $7.6 million in 2011. Interest income increased $9.5 million to $9.9 million in 2011 primarily due to interest income accrued on the tax indemnity receivable. Depreciation expense was also lower by $2.8 million in 2011 as result of the 2010 impairments. 2011 included charges for the early extinguishment of debt of $11.3 million related to our early pay-off of the Ward Centers mortgage and the investment in real estate affiliate basis adjustment of $6.1 million related to the remeasurement of our previously held investment in The Woodlands in connection with the purchase of our partner's interest. Net income related to The Woodlands operations in 2011 since we acquired our partner's remaining share was insignificant.

Master Planned Communities Segment

MPC revenues vary between periods based on economic conditions and several factors such as, but not limited to, location, development density and commercial or residential use. Although our business does not involve the sale or resale of homes, we believe that net new home sales are an important indicator of future demand for lots; therefore, we use this statistic in the discussion of our MPCs below. Reported results may differ significantly from actual cash flows generated principally because cost of sales for GAAP purposes is derived from margins calculated using carrying values, projected future improvements and other capitalized costs in relation to projected future land sale revenues. Carrying values, generally, represent acquisition costs and development costs less adjustments for previous impairment charges. Development expenditures are capitalized and generally not reflected in the Consolidated and Combined Statements of Operations in the current year.

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MPC Sales Summary

	Land Sales			Acres Sold			Number of Lots/Units			Price per acre			Price per lot		
	Year Ended December 31, 2012														
	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010
	($ In thousands)														
Columbia															
Residential															
Single family detached	$	$ 1,480	$ 2,400		1.4	1.9		7	12	$	$ 1,040	$ 1,275	$	$ 211	$ 200
Townhomes	4,156	5,538	3,031	1.2	1.8	1.7	28	39	29	3,463	3,077	1,783	148	142	105
Commercial															
Apartments	5,300			18.7						283					
	9,456	7,018	5,431	19.9	3.2	3.6	28	46	41	475	2,193	1,509	148	153	132
Bridgeland															
Residential															
Single family detached	21,875	16,707	15,123	80.5	63.2	58.2	389	318	289	272	265	259	56	53	52
Commercial															
Not-for-profit			1,600			20.0						80			
	21,875	16,707	16,723	80.5	63.2	78.2	389	318	289	272	265	214	56	53	52
Summerlin															
Residential															
Single family detached	26,899	30,247	8,909	75.9	83.5	17.0	390	419	95	354	362	519	69	72	94
Custom lots	4,141	679	2,253	5.3	1.0	1.9	10	2	4	781	694	1,204	414	340	563
Commercial															
Retail	784			1.0						784					
Not-for-profit		3,616			16.1						225				
	31,824	34,542	11,162	82.2	100.6	18.9	400	421	99	387	343	591	78	73	113
The Woodlands															
Residential															
Single family detached	100,235	76,362	66,272	241.6	210.4	181.3	979	826	737	415	363	366	102	92	90
Single family attached		1,235	1,063		3.0	3.5		46	52		409	304		27	20
Commercial															
Office and other	9,069	6,213	10,597	14.2	14.0	21.3				639	449	497			
Retail	7,904	6,365	5,843	18.4	12.0	20.2				430	547	290			
Other	50	1,839	7,210	0.8	5.0	15.7				63	348	1,111			
	117,258	92,014	90,985	275.0	244.4	242.0	979	872	789	426	376	376	102	88.99	85
Total acreage sales revenue	180,413	150,281	124,301	457.6	411.4	342.7	1,796	1,657	1,218						
Deferred revenue	(2,092)	5,680	3,994												
Special Improvement District revenue	4,322	5,420	749												
Total segment land sale revenues	182,643	161,381	129,044												
Less: Real Estate Affiliates land sales revenue		(46,771)	(90,986)												
	$ 182,643	$ 114,610	$ 38,058												

Total land sales revenue GAAP basis

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Total segment land sales increased to $182.6 million for the year ended December 31, 2012 from $161.4 million and $129.0 million for the years ended December 31, 2011 and 2010, respectively. Residential revenues for Bridgeland, Summerlin and The Woodlands have increased each year since 2010. Residential land in the Columbia, Maryland community of Emerson is sold out. The Maryland communities of Emerson, Gateway and Fairwood have 142 remaining saleable commercial acres as of December 31, 2012. Columbia's residential sales increased from 2010 to 2011; however, due to the few remaining saleable acres, 2012 sales were lower than each of the previous two years.

In 2012, we sold 404 residential acres at our MPCs compared to 364 and 266 in 2011 and 2010, respectively. These acreage sales represented approximately 1,796 lot sales for 2012, compared to 1,657 and 1,218 for the years ended December 31, 2011 and 2010, respectively. Lot sales from all of our MPCs totaled 4,671 for the years 2010 to 2012 with The Woodlands accounting for 56.5% of total lot sales, followed by Bridgeland with 21.3%, Summerlin with 19.7% and Columbia with 2.5%.

The Woodlands and Bridgeland MPCs

The Woodlands residential land sales were $100.2 million in 2012, compared to $77.6 million and $67.3 million in 2011 and 2010, respectively. We sold 979 lots in 2012, compared to 872 and 789 lot sales in 2011 and 2010, respectively. The price per acre of $415,000 in 2012 was 14.0% higher than the $364,000 per acre in both 2011 and 2010. In 2012, The Woodlands average price per lot increased by 15.1% to $102,385, compared to $88,987 in 2011 and $85,342 in 2010. The Woodlands housing market continues to be strong with 1,007 net new home sales in 2012, compared to 945 and 786 net new home sales in 2011 and 2010, respectively. This robust housing market created a higher demand for finished lots in 2012. Our goal is to maximize value by finding the optimal pricing/volume relationship for the 2,750 remaining lots as of December 31, 2012. In the third quarter of 2012, we restructured our production lot sales program to an auction process that has generated a substantial increase in average lot prices. In August 2012, we conducted an auction with homebuilders in The Woodlands for 375 lots in seven new sections. The auction generated an aggregate increase in price of approximately $16.7 million, or 49%, compared to selling prices prior to the auction. We plan to continue the bid process for future sections to ensure we maximize values; however, we expect that the higher lot prices will result in a slower pace of annual lot sales. With the anticipated slower lot sales pace, our current projections indicate a complete sell-out of all lots within six to seven years.

Commercial land sales at The Woodlands increased by 18.1% to $17.0 million for 2012 compared to 2011 while commercial sales in 2011 decreased by 39.0% as compared to 2010. The increase in 2012 was the result of slightly higher interest in commercial land pad sites compared to 2011. The significant decrease in 2011 compared to 2010 reflects a change in strategy for The Woodlands since we acquired a controlling interest in 2011. In prior years, ownership favored generating cash from commercial land sales to deliver dividends to the parent companies. We believe that the commercial land, especially within and surrounding The Woodlands Town Center, is poised for strategic growth and we may develop and hold properties in this desirable area. We believe that through controlling a greater share of the commercial development within The Woodlands, we can enhance the value of the community by having more input into the mix and quality of new vertical products that are developed in the future. By maintaining ownership and control of five sources of revenue office, residential, hotel, multifamily and golf we are able to attract corporate relocations and have been successful doing so with Layne Christensen Company and Waste Connections Inc., among others, that have moved or committed to move to the Houston metro area. This symbiotic relationship between product segments should be accretive to our long-term growth.

Bridgeland's residential land sales were $21.9 million in 2012, compared to $16.7 million and $15.1 million in 2011 and 2010, respectively. We sold 389 lots in 2012, compared to 318 and 289 lot sales in 2011 and 2010, respectively. The price per acre was $272,000 in 2012, compared to $265,000 and $259,000 in 2011 and 2010, respectively. Bridgeland's net new home sales for 2012 totaled 423, compared to 332 and 272 net new home sales in 2011 and 2010, respectively. Bridgeland's average price

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per lot increased by 7.0% to $56,235 in 2012 compared to $52,538 in 2011 and $52,326 in 2010. Bridgeland, which is in its early stages of development, has approximately 18,523 lots remaining to be developed, representing an estimated 25 years of expected future sales.

At Bridgeland, we are awaiting receipt of a permit from the Environmental Protection Agency to build on 806 acres of land for future development. Presently, the timing of receiving the permit is unknown, but the longer we have to wait on receipt of the permit, the more likely it will be that Bridgeland will have a slower sales pace than expected, potentially resulting in lower revenues in 2013.

There were no commercial land sales at Bridgeland during 2012. We expect minimal commercial sales until new home sales generate a critical mass of demand for local commercial retail, office and lodging properties.

The Houston, Texas area has benefitted from a strong energy sector. According to the Bureau of Labor Statistics ("BLS"), the area's unemployment rate at the end of 2012 was approximately 5.8%, which was two percentage points lower than the 7.8% national average. ExxonMobil is constructing a large corporate campus on a 385 acre site just south of The Woodlands. The site is expected to include approximately 20 buildings, representing three million square feet of space. ExxonMobil expects to begin relocating employees into this new location starting in 2014 and ending in 2015. Upon completion of the relocation, ExxonMobil projects there will be approximately 10,000 employees working at the new campus. We believe that the direct and indirect jobs related to this relocation will have a significantly positive impact on The Woodlands and Bridgeland due to increased housing demand, as well as commercial space needs for companies servicing ExxonMobil. Construction of Segment E of The Grand Parkway should be completed by late 2013 or early 2014, and segments F1 and F2 are scheduled for completion in early 2015, both of which will have a positive impact on travel patterns for residents living in The Woodlands and Bridgeland.

Summerlin MPC

Residential land sales at our Summerlin community improved to $31.0 million for the year ended December 31, 2012, compared to $30.9 million and $11.2 million for the years ended December 31, 2011 and 2010, respectively. The price per acre was $387,000 in 2012, compared to $343,000 and $591,000 in 2011 and 2010, respectively. Summerlin's net new home sales for 2012 totaled 471, compared to 215 and 170 net new home sales in 2011 and 2010, respectively. Lot sales were down marginally by 5.0% in 2012 (400), compared to 2011 (421), which followed an increase of 325.3% in lot sales for 2011 compared to 2010 (99).

The Las Vegas residential market continues to be challenging, but has steadily improved during 2012 and into 2013. According to the BLS, the Las Vegas, Nevada area unemployment rate was approximately 10.0% at the end of 2012, which was more than two percentage points higher than the national average. Net new home closings in the Las Vegas market increased approximately 42% in 2012 compared to 2011. This significant increase represents a strong recovery from the 28% decline in new home sales from 2010 to 2011. A total of 5,544 new home sales were recorded in 2012 with a median home price of $218,114, which was an increase of 2.8% over 2011. Total home sales in the Las Vegas area were 44,902, the third best year on record, according to the Las Vegas Review-Journal. In addition, the number of single-family homes available for sale in the Multiple Listing Service at December 31, 2012 declined 24.1% from a year earlier, and represented only a five week supply of inventory. Although the local economy continues to be uncertain, economic news for the Las Vegas market is showing signs of improvement and a recovery appears to have gained traction during 2012.

To date in 2013, builder activity continues to increase. In January, Summerlin closed on three sales totaling 31 residential lots, as well as the sale of one residential super pad. Revenue from these closings totaled $5.5 million. In addition, 81 lots and two super pads are in escrow with closings scheduled throughout 2013, representing revenue of $25.9 million if the builders close on their contracts.

Master Planned Communities Revenues and Expenses (*)

	Year Ended December 31, 2012	2011	2010
	(In thousands)		
Land sales	$ 182,643	$ 161,383	$ 129,044
Builder price participation	5,747	4,924	6,901
Other land sale revenues	18,649	17,730	15,186
Total revenues	207,039	184,037	151,131
Cost of sales land	89,298	94,040	73,133
Land sales operations	40,375	41,584	50,680
Provisions for impairments			405,331
Depreciation and amortization	72	48	128
Interest expense, net	(14,643)	(10,296)	(7,094)
Total expenses	115,102	125,376	522,178
Venture partner share of The Woodlands EBT		(7,949)	(11,827)
MPC REP EBT	$ 91,937	$ 50,712	$ (382,874)

(*) For a detailed breakdown of our Master Planned Communities segment EBT, refer to Note 17. Such amounts include The Woodlands as if consolidated for all periods presented.

Land sales increased $21.3 million for the year ended December 31, 2012 as compared to the year ended December 31, 2011. The increase for the year ended December 31, 2011 as compared to 2010 was $32.3 million. These year over year increases were due to factors described more fully above.

Builder price participation represents the contractual percentage we collect from builder home settlements with the home buyers. Generally, the percentage ranges from one to two percent of the home price, but can vary by contract and by community. Builder price participation increased in 2012 and 2011 due to increased home closings in Summerlin and Bridgeland. During 2010, builder price participation decreased at The Woodlands because land sales contracts were restructured to eliminate price participation in exchange for a greater fixed lot sale price.

Other land sales revenue for the year ended December 31, 2012 is $18.6 million. It is comprised of $4.9 million of ground maintenance revenue, $1.9 million for land use modification fees, and $1.8 million of energy easement fees from The Woodlands. Also included are $2.2 million of homeowners' association fees, $2.1 million for a legal settlement, $1.3 million for advertising fees at Summerlin and $1.6 million for a purchase price premium in Columbia. The remaining $2.8 million balance is made up of several smaller items from all of our communities, such as transfer fees, advertising fees, ground rent and interest income.

Land sales margins, which include builder price participation were 52.6%, 43.5% and 46.2% for the periods ended December 31, 2012, 2011 and 2010, respectively. The increase in the 2012 margin as compared to 2011 was principally caused by a lower cost of sales percentage attributed to The Woodlands' sales in 2012 as compared to 2011 because the majority of The Woodlands third and fourth quarter cost of sales for 2011 reflected the finished lots at the fair value established in connection with our July 1, 2011 acquisition of our partner's interest. Many of the 577 finished lots acquired at acquisition were sold in 2011. During 2012, The Woodlands margins were 54.4% due to selling the majority of the finished lots acquired at the acquisition date in 2011 and increasing lot prices in 2012. Also, Summerlin sales, which have a lower margin than Bridgeland and The Woodlands, comprised a larger portion of total sales for 2011 than in 2010. Costs of land sales is based on carrying values of the lots sold and varies by community based on historical purchase price of the land and improvements made, and to be made, by us, less any impairment charges previously recorded on the land.

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Land sales operations expenses decreased $1.2 million for the year ended December 31, 2012 as compared to the year ended December 31, 2011, and decreased $9.1 million for the year ended December 31, 2011 as compared to 2010. The decrease in 2011 as compared to 2010 is principally due to approximately $6.6 million of real estate tax savings in our Summerlin project as a result of a successful tax appeal, in addition to approximately $2.6 million of reduced net legal costs related to development matters in our Summerlin and Bridgeland communities.

Master Planned Communities recorded impairment charges of $345.9 million for Summerlin South and $59.4 million for Columbia and Gateway in 2010. There were no impairment charges in 2011 or 2012. The detail of these impairment charges are described below.

Interest, net reflects the amount of interest that is capitalized at the project level. The increase in 2012 compared to 2011 is related to higher qualified asset base and increased debt levels providing the opportunity for increased capitalized interest.

In addition to REP EBT for the Master Planned Communities, management believes that certain investors measure the value of the assets in this segment based on their annual contribution to liquidity and capital available for investment. Accordingly, the following table sets forth MPC Net Contribution for the years ended 2012, 2011 and 2010. MPC Net Contribution is defined as MPC REP EBT, plus MPC cost of sales, provisions for impairment and depreciation and amortization, and reduced by MPC development and acquisition expenditures.

MPC Net Contribution

	Year Ended December 31,		
	2012	**2011**	**2010**
		(In thousands)	
MPC REP EBT (*)	$ 91,937	$ 50,712	$ (382,874)
Plus:			
Cost of sales land	89,298	82,672	73,133
Provisions for impairments			405,331
Depreciation and amortization	72	26	75
Less:			
MPC land/residential development and acquisition expenditures	107,144	97,216	57,138
MPC Net Contribution	$ 74,163	$ 36,194	$ 38,527

(*) For a detailed breakdown of our Master Planned Communities segment EBT, refer to Note 17. Such amounts include The Woodlands as if consolidated for all periods presented.

The improvement in MPC Net Contribution during 2012 compared to 2011 and 2010 is primarily attributable to increased land sales and a lower increase in development costs compared to the increase in revenues. Although MPC Net Contribution can be computed from GAAP elements of income and cash flows, it is not a GAAP based operational metric and should not be used to measure operating performance of the MPC assets as a substitute for GAAP measures of such performance. A reconciliation of REP EBT to consolidated and combined statements of operations as computed in accordance with GAAP has been presented in Note 17.

Operating Assets Segment

We view NOI as an important measure of the operating performance of our Operating Assets. These assets typically generate rental revenues sufficient to cover their operating costs, and variances between years in net operating income typically results from changes in rental rates, occupancy, tenant mix and operating expenses.

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Operating Assets NOI and REP EBT

	Year Ended December 31, 2012	2011	2010
	(In thousands)		
Retail			
Ward Centers	$ 22,045	$ 21,481	$ 22,980
South Street Seaport	639	5,650	4,238
Rio West Mall	1,250	1,319	1,897
Landmark Mall	923	737	1,619
Riverwalk Marketplace	221	418	579
Cottonwood Square	432	380	484
Park West	830	576	366
20/25 Waterway Avenue	1,582	1,310	674
Waterway Garage Retail	97	7	
Total Retail	28,019	31,878	32,837
Office			
110 N. Wacker	6,073	6,115	6,628
Columbia Office Properties	2,304	2,649	2,657
70 Columbia Corporate Center	140		
4 Waterway Square	5,544	1,639	15
9303 New Trails	1,819	742	706
1400 Woodloch Forest	1,995	649	1,036
2201 Lake Woodlands Drive	53	332	322
Total Office	17,928	12,126	11,364
Millennium Waterway Apartments (a)	2,589		
The Woodlands Resort and Conference Center	10,670	7,726	4,379
Total Retail, Office, Multi-family, Resort and Conference Center	59,206	51,730	48,580
The Club at Carlton Woods	(4,242)	(5,126)	(3,885)
The Woodlands Parking Garages	(1,128)	(1,204)	(1,049)
The Woodlands Ground leases	404	403	337
Other Properties	1,703	1,530	3,042
Total Other	(3,263)	(4,397)	(1,555)
Total Operating Assets NOI Consolidated	55,943	47,333	47,025
Straight-line lease amortization	(736)	918	183
Provisions for impairment			(80,924)
Early extinguishment of debt		(11,305)	
Depreciation and amortization	(23,318)	(20,309)	(23,461)
Equity in earnings (loss) from Real Estate Affiliates	3,683	3,926	(338)
Interest, net	(16,104)	(12,775)	(17,183)
Less: Partners' share of Operating Assets REP EBT		425	2,157
Total Operating Assets REP EBT (b)	$ 19,468	$ 8,213	$ (72,541)

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	Year Ended December 31,		
	2012	2011	2010
		(In thousands)	
Operating Assets NOI Equity and Cost Method Investments			
Millennium Waterway Apartments (a)	$ 1,768	$ 2,571	$ (157)
Woodlands Sarofim # 1	621	1,489	1,572
Stewart Title (title company)	1,876	1,069	1,222
Forest View/Timbermill Apartments (c)	487	1,826	1,610
Total NOI equity investees	4,752	6,955	4,247
Adjustments to NOI (d)	(1,476)	(3,862)	(1,937)
Equity Method Investments REP EBT	3,276	3,093	2,310
Less: Joint Venture Partner's Share of REP EBT	(1,969)	(3,061)	(2,648)
Equity in earnings (loss) from Real Estate Affiliates	1,307	32	(338)
Distributions from Summerlin Hospital Investment	2,376	3,894	
Segment equity in earnings (loss) from Real Estate Affiliates	$ 3,683	$ 3,926	$ (338)
Company's Share of Equity Method Investments NOI			
Millennium Waterway Apartments (a)	$ 1,477	$ 2,148	$ (131)
Woodlands Sarofim # 1	124	298	314
Stewart Title (title company)	938	535	611
Forest View/Timbermill Apartments (c)	244	913	805
Total NOI equity investees	$ 2,783	$ 3,894	$ 1,599

	Economic Ownership	December 31, 2012	
		Debt	Cash
		(In thousands)	
Woodlands Sarofim #1	20.00%	6,882	811
Stewart Title (title company)	50.00%		426
Forest View/Timbermill Apartments (c)	50.00%	not applicable	1,258

(a) On May 31, 2012, we acquired our partner's interest in the 393-unit Millennium Waterway Apartments. NOI for periods prior to June 1, 2012 is included in Operating Assets NOI Equity and Cost Method Investment.

(b) For a detailed breakdown of our Operating Asset segment REP EBT, please refer to Note 17 Segments in the Consolidated and Combined Financial Statements. Such amounts in prior periods include The Woodlands as if consolidated.

(c) On April 19, 2012, the joint ventures owning the Forest View and Timbermill Apartments completed their sale to a third party. Our share of the distributable cash after repayment of debt and transaction expenses was $8.6 million.

(d) Adjustments to NOI include straight-line and market lease amortization, depreciation and amortization and non-real estate taxes.

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Reconciliation of Operating Assets Segment Equity in Earnings

	December 31,		
	2012	2011	2010
	(In thousands)		
Segment Equity in Earnings from Real Estate Affiliates	$ 3,683	$ 3,926	$ (338)
Less: Equity Method Investments Share of REP EBT	(1,307)	(32)	338
Cost Basis Investments and dividends	2,376	3,894	
Add HHC Equity Method investments:			
The Woodlands		3,731	9,417
Circle T		(1)	(4)
Forest View/ Timbermill Apartments	4	5	
Millennium Waterway Apartments	407	682	
Stewart Title (title company)	902	204	
Woodlands Sarofim #1	(6)	64	
Equity in Earnings from Real Estate Affiliates	$ 3,683	$ 8,579	$ 9,413

Retail Properties

Retail NOI of $28.0 million in 2012 decreased $3.9 million compared to 2011 primarily due to the fourth quarter loss of $3.4 million at South Street Seaport caused by flooding from Superstorm Sandy. We believe that a substantial portion of the lost income from Superstorm Sandy will be recovered from our insurance carriers in 2013. Retail NOI of $31.9 million in 2011 decreased $1.0 million compared to 2010 primarily due to an increase of $1.4 million in utility and other operating costs at Ward Center and a decrease of $0.9 million in rental revenue at Landmark Mall due to higher vacancies. The vacancies were partially offset by the recovery of a $1.2 million tenant receivable at South Street Seaport which was fully reserved in 2010. 20/25 Waterway Avenue and Waterway Garage Retail were either placed in service and/or were not stabilized during 2011 and 2010. Occupancy relating to our stabilized operating assets was essentially flat during 2012, 2011 and 2010. As our leases expire, we generally have been able to lease the available space either to existing or new tenants with rental rates approximating the expired leases.

For the year ended December 31, 2012, we have executed 87 retail leases representing 347,205 square feet with average rents of $29.23 per square foot during the initial year of the lease term. Of the 87 leases, 72% represent comparable leases where there was a prior tenant with an increase in cash basis rent of 1.1%. Included in our executed leases are two existing tenants who will relocate from approximately 46,000 square feet to approximately 57,000 square feet of space within the same retail property. Additionally, we had total tenant improvement costs of $5.7 million and leasing commissions of $0.5 million during 2012 with a cost per square foot of $69.85 and $8.29, respectively.

Ward Centers

During 2012, we executed a lease with Bed Bath & Beyond for approximately 30,000 square feet in space formerly occupied by Borders. We expect Bed Bath & Beyond to occupy the space during the first quarter of 2013. Additionally, during 2012, we completed and opened the upper level of Phase One of Ward Village Shops at Ward Centers at a cost of approximately $20.5 million. The space is approximately 36,000 square feet and was leased to TJ Maxx commencing in May 2012. We are seeking a tenant for the approximately 34,000 square foot space in the lower level. Approximately $12.2 million has been incurred to complete this space as of December 31, 2012, and we estimate approximately $4.2 million of additional costs (including tenant allowances) to complete. TJ Maxx and Bed Bath & Beyond are expected to provide an additional $2.0 million in annual NOI when Bed Bath and Beyond occupies its space in early 2013.

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On July 25, 2012, we announced the development of Phase Two of Ward Village Shops, a 57,000 square foot, two story retail center. Construction began in the third quarter of 2012. Our anticipated investment is expected to be approximately $26.2 million with an expected opening in the fall of 2013. Approximately $5.4 million of costs have been incurred as of December 31, 2012. Phase Two is 100% leased as we will relocate Pier 1 Imports and Nordstrom Rack from their current locations to make their current locations available for redevelopment. These tenants are expected to contribute an incremental $1.0 million of combined annual NOI when they take possession in late 2013 or early 2014.

In October 2012, we announced plans to create an urban master planned community at Ward Centers. Ward Centers will transform into Ward Village, a vibrant neighborhood offering unique retail experiences, dining and entertainment, along with exceptional residences and workforce housing set among dynamic open public spaces and pedestrian-friendly streets. The development of Ward Village will be consistent with the master plan approved by the Hawaii Community Development Authority ("HCDA"). In January 2011, we entered into a development agreement with the HCDA which allows for up to 9.3 million square feet, including up to 7.6 million square feet of residential (4,000 units which are initially estimated to average 1,500 square feet per unit), and up to 1.7 million square feet of retail, office, commercial and other uses. Full build out is estimated to take over 15 years, but will ultimately depend on market absorption and many other factors that are difficult to estimate. The redevelopment will commence with four components on four separate blocks consisting of two mixed-use market-rate residential towers, one reserved housing tower and the renovation of the IBM building, a portion of which will serve as the information and world-class sales center for Ward Village. We anticipate breaking ground on the first phase in 2014 with an expected completion in 2016.

South Street Seaport

As more fully described in Note 10 Commitments and Contingencies, during June 2012, we entered into an agreement to amend and restate the South Street Seaport ground lease, which allows us to renovate and rehabilitate Pier 17 ("Renovation Project"). The Renovation Project includes the renovation and reconstruction of the existing Pier 17 Building, which consists of approximately 195,000 square feet of leasable area. Construction on this site is expected to begin during the second quarter of 2013 and conclude by the end of 2015. During 2012, our Pier 17 design was approved by the Landmarks Preservation Commission with the support of Community Board 1, and in February 2013 the City Planning Commission approved our Pier 17 redevelopment. We are currently undergoing the Uniform Land Use Review Procedure (ULURP) process with the City of New York and we are actively pursuing potential tenants. Design development drawings are complete and construction documents and the development budget are underway for this project. As of December 31, 2012, we have incurred $8.6 million of costs related to this project.

In the fourth quarter of 2012, as a result of Superstorm Sandy, the uplands portion of South Street Seaport suffered damage due to flooding, but the Pier 17 structure was not damaged. Remediation efforts are ongoing and the property is only partially operating. Additionally, as of December 31, 2012 we have abated approximately $2.9 million in rent due to the space being untenantable. We believe that our insurance will cover substantially all of the cost of repairing the property and will also compensate us for any revenue that has been lost as a result of the storm.

Riverwalk Marketplace

On July 26, 2012, we announced plans to redevelop Riverwalk Marketplace into an upscale outlet center. The Outlet Collection at Riverwalk will be the nation's first outlet center located in the downtown of a major city. The redevelopment will feature a tenant mix of top national retailers with established outlet stores, local retailers and several dining and entertainment options. Plans currently include expanding the current leasable area by approximately 50,000 square feet to 250,000 square feet. We have retailer commitments for a majority of the property and are in the process of converting these commitments to leases. We also are documenting a mortgage financing for the redevelopment. The

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$0.2 million NOI decrease in 2012 compared to 2011 is primarily attributable to the redevelopment announcement and subsequent termination of tenant leases to prepare for the redevelopment.

Office Properties

All of the office properties listed in the NOI schedule are located in The Woodlands with the exception of 110 N. Wacker, 70 Columbia Corporate Center ("70 CCC") and the Columbia Office Properties. Leases related to our office properties, except those located in Columbia, Maryland, are generally triple net leases. These leases typically require tenants to pay their pro-rata share of certain property operating costs, such as real estate taxes, utilities and insurance.

Office property NOI of $17.9 million in 2012 increased $5.8 million, or 47.8% as compared to 2011 primarily due to 4 Waterway and 1400 Woodloch Forest improving average occupancy percentages from 59.8% and 78.3% to 99.3% and 100.0%, respectively. NOI for 9303 New Trails improved $1.1 million in 2012 as compared to 2011 primarily because certain space previously occupied by The Woodlands was leased to a third party. As of December 31, 2012, all of the office properties have reached stabilized NOI with the exception of 70 CCC and certain properties included in the Columbia Office portfolio that are more fully described below. NOI of $12.1 million in 2011 improved $0.8 million compared to 2010 primarily because 4 Waterway Square was in a lease-up stage subsequent to its completion in 2010. In addition, prior to 2012 certain members of The Woodlands staff occupied between 5,900 and 10,000 square feet of the 9303 New Trails office building. Occupancy relating to our stabilized operating assets was essentially flat during 2012, 2011 and 2010. During 2013, we expect to complete the 3 Waterway and One Hughes Landing office developments totaling approximately 427,000 square feet. Please refer to Strategic Developments section for further information relating to these projects. As our leases expire, we generally have been able to lease the available space either to existing or new tenants with rental rates approximating or exceeding those of the expired leases.

On August 15, 2012, we acquired 70 CCC, a 167,513 square foot Class A office building located in Columbia, Maryland town center. The building was approximately 23.7% leased at closing. Simultaneous to the closing of the transaction, we executed a lease for 76,308 square feet that will increase occupancy to approximately 68.7% and annual NOI to approximately $1.9 million when the tenant takes possession which is estimated to occur in March 2013. Please refer to Note 4   Acquisitions and Dispositions.

During 2012 we entered into agreements with Whole Foods Market, Inc. and The Columbia Association to lease the majority of the approximately 89,000 square feet of our Columbia Regional Building. We will begin a complete restoration and redevelopment of the building which we believe will serve as a catalyst for future development in the Columbia Town Center area. We expect to invest approximately $23.1 million and plan to begin construction by the second quarter of 2013 with anticipated completion during the third quarter of 2014. Based on our pro forma analyses and market rental rates, we estimate stabilized annual NOI of $2.1 million in the second quarter of 2015, compared to our current annual loss of approximately $1.0 million. Carrying costs from development incurred to date are approximately $1.6 million (excluding our existing building and land basis). We are in the process of documenting a financing that should provide proceeds approximately equal to our expected construction costs.

For the year ended December 31, 2012, we executed 17 leases for our office properties representing 293,783 square feet with average annual rents of $24.19 per square foot during the initial year of the lease term. Of the 17 leases, 12 are initial leases for first generation space that has never been occupied or represents pre-leasing at 3 Waterway Square, which is currently under construction. Four of the 17 leases represent comparable leases where there was a prior tenant with an increase in cash basis rent of 19.7%. Additionally, we had total tenant improvement costs of $16.1 million and leasing commissions and tenant concessions of $6.4 million during 2012 with a cost per square foot of $49.90 and $16.71, respectively.

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Multi-family

On May 31, 2012, we acquired our partner's interest in Millennium Waterway Apartments at a negotiated $72.0 million valuation of the property and consolidated the asset after the purchase. This asset adds a stabilized Class A multi-family property located in The Woodlands Town Center to our portfolio. The property is currently 93.1% occupied and is expected to generate stabilized annual NOI of approximately $4.9 million. In conjunction with this acquisition, we entered into a joint venture agreement with our partner to construct a 314-unit Class A multi-family property as more fully discussed under our Strategic Developments segment.

The Woodlands Resort and Conference Center

The Woodlands Resort and Conference Center's NOI of $10.7 million in 2012 increased $2.9 million as compared to 2011 primarily due to an increase in RevPAR to $109.84 from $95.73, or 14.7%. RevPAR is defined as the average daily room rate multiplied by average occupancy. NOI of $7.7 million in 2011 increased $3.3 million as compared to 2010 primarily due to an increase in RevPAR to $95.73 from $82.52, or 16.0%. Increased business activity and strong local economic conditions at The Woodlands and surrounding areas are driving increased revenue and NOI.

On February 8, 2013, we closed on a $95.0 million non-recourse loan which refinanced the existing $36.1 million mortgage on the property and will fund a majority of the costs of a $75.0 million redevelopment of the Resort and Conference Center. The new loan bears interest at LIBOR plus 3.50%, has a three-year initial term and contains three one-year extensions at our option. We believe that the redevelopment will enable the property to meet increasing demand for world-class hospitality driven by the strength of the Houston economy. The redevelopment will replace 206 rooms originally built in the early 1970s with 184 new guest rooms and suites, and will renovate 222 existing guest rooms and suites. The project also includes construction of a 1,000-foot Lazy River amenity, a 120-seat prime steak house and restaurant, and renovation and expansion of the arrivals area and conference center space. The entire facility will continue to operate during the redevelopment, and the rooms being replaced will not be taken out of service until the new rooms are completed.

Other

The Club at Carlton Woods (the "Club") is a 36-hole golf and country club at The Woodlands with 646 total members as of December 31, 2012. The Club sold 72 new golf memberships generating approximately $4.2 million in cash during 2012. The NOI loss was reduced by $0.9 million due to higher revenues from members. In October of 2012, the Club implemented a new membership program. The program is based on the addition of a variety of new membership options with reduced refundable initiation fees and lower price points. This effectively allowed the Club to expand its market from the top 1.0% of the local population to the top 2.0-3.0%, thereby increasing the pace of membership growth. The program includes a preview period with no requirement for payment of initiation fees. Up to 60 days into the preview period, potential new members have the ability to commit to membership at a reduced price point with financing terms of 18 months. Since the inception of the program, we have completed 61 transactions on upgrades or preview memberships that have resulted in 40 total memberships being sold during this period in all categories. We sold 31 new memberships year-to-date through February 5, 2013. The conversion rate from preview to full membership within the preview period is currently 93.0%.

The Woodlands Parking Garages comprise nearly 3,000 parking spaces in two separate parking structures. The Waterway Square Garage (1,933 spaces) is located in The Woodlands Town Center and has excess parking capacity for future commercial development. Woodloch Forest garage has approximately 1,000 total spaces with 300 spaces available for future adjacent office development.

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Partially Owned

On April 19, 2012, the joint ventures owning the Forest View and Timbermill tax-credit apartments completed their sale to a third party. There was no gain or loss recognized on these sales. Our share of the distributable cash, after repayment of debt and transaction costs, was $8.6 million. The NOI associated with the management fees for operating these joint ventures were included in Other Properties on the schedule of Operating Assets NOI and REP EBT.

Operating Assets Revenues and Expenses (*)

	Year Ended December 31,		
	2012	**2011**	**2010**
		(In thousands)	
Minimum rents	$ 81,140	$ 72,405	$ 69,937
Resort and conference center revenues	39,782	34,850	28,850
Other rental and property revenues	44,169	41,318	41,707
Total revenues	165,091	148,573	140,494
Rental property real estate taxes	11,292	10,638	12,147
Rental property maintenance costs	8,073	6,922	6,874
Resort and conference center operations	29,112	27,124	24,471
Other property operating costs	60,072	55,745	48,033
Provisions for (recovery of) doubtful accounts	1,335	(107)	1,761
Provisions for impairment			80,924
Depreciation and amortization	23,318	20,309	23,461
Interest expense, net	16,104	12,775	17,183
Early extinguishment of debt		11,305	
Equity in Earnings (loss) from Real Estate Affiliates	(3,683)	(3,926)	338
Total expenses	145,623	140,785	215,192
Venture partner share of The Woodlands		425	2,157
EBT			
Operating Assets REP EBT	$ 19,468	$ 8,213	$ (72,541)

(*) For a detailed breakdown of our Operating Assets segment EBT, refer to Note 17.Such amounts include The Woodlands as if consolidated for all periods presented.

Minimum rents for 2012 increased $8.7 million compared to 2011 primarily due to the inclusion of $4.3 million of rents related to our acquisition of Millennium Waterway Apartments as well as $2.8 million related to 4 Waterway Square being fully stabilized for all of 2012 and $2.0 million related to increased occupancy at 1400 Woodloch Forest slightly offset by the reduction in revenues of $1.4 million for South Street Seaport due to Superstorm Sandy. Minimum rents increased $2.5 million in 2011 compared to 2010 primarily due to 4 Waterway Square reaching full stabilization.

Resort and conference revenues for 2012 increased $4.9 million or 14.7% primarily due to an increase in the revenue per available room. Revenue per available room was $109.84 and $95.73 for the year ended December 31, 2012 and 2011, respectively. Revenues in 2011 increased $6.0 million due to a 4.4% increase in the average daily room rate as well as an 11.1% increase in room occupancy as compared to 2010.

Other rental and property revenues increased $2.9 million in 2012 compared to 2011 primarily due to tenant recoveries from 4 Waterway Square of $1.3 million related to it being fully stabilized for all of 2012 and $0.9 million at The Club at Carlton Woods due to the addition of 72 new golf memberships. Other rental and property revenues in 2011 were flat compared to 2010.

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Resort and conference center operations expense increased $2.0 million in 2012 compared to 2011 primarily due to higher operating costs associated with the increased occupancy. Margins for the resort and conference center improved to 73.2% from 77.8% due to a slight $0.3 million increase in fixed costs in 2012 compared 2011.

Other property operating costs increased $4.3 million to $60.1 million for the year ended December 31, 2012 compared to 2011. The increase in 2012 is primarily related to the inclusion of $0.9 million related to the acquisition of Millennium Waterway apartments and $1.4 million related to higher legal fees at South Street Seaport due to tenant related matters. Other property operating costs increased $7.7 million to $55.7 million for the year ended December 31, 2011 compared to 2010. The principal reasons for the increase in 2011 compared to 2010 were, a $0.5 million increase related to certain insurance costs, $0.5 million of increased legal costs recorded at our properties, $0.8 million of higher utilities and $1.5 million related to increased operating costs at The Club at Carlton Woods. Other property operating costs generally include recoverable and non-recoverable costs such as utilities and property management expenses relating to our operating assets, with the exception of real estate taxes and maintenance which are shown separately.

The provision for doubtful accounts increased in 2012 by $1.4 million compared to 2011 primarily due to bad debt charges at South Street Seaport of $1.2 million related to Superstorm Sandy which resulted in several tenant terminations. The provision for bad debts in 2010 included $1.2 million relating to a single tenant at South Street Seaport. In 2011, the tenant agreed to a payment plan which required payment of current amounts when due and payment of past due balances. As of December 31, 2011, the tenant had substantially complied with the agreement resulting in a favorable variance for 2011 as compared to 2010.

Depreciation expense in 2012 increased $3.0 million compared to 2011 primarily due to the higher depreciation expense of $1.7 million at Ward Centers and 4 Waterway and depreciation expense of $2.7 million related to the acquisition of our partner's interest in Millennium Waterway Apartments. Depreciation expense decreased $3.2 million in 2011 compared to 2010 primarily due to lower depreciation expense of $4.3 million at Riverwalk, Landmark and The Woodlands partially offset by an increase in depreciation expense at Ward Centers of $1.3 million, principally relating to putting the new parking garage in service during 2011. The Woodlands' operating assets depreciation expense decreased due to its assets being remeasured at fair value as of the date of acquisition.

Net interest expense increased $3.3 million in 2012 compared to 2011 due to interest expense of $1.5 million relating to the debt assumed from the Millennium Waterway Apartments and 70 Columbia Corporate Center acquisitions, higher interest expense of $2.3 million related to 4 Waterway Square and 9303 New Trails and interest expense of $0.4 million related to new debt incurred at 20/25 Waterway Avenue offset by lower interest expense at Ward Centers of $1.2 million as a result of the new financing at a lower interest rate in 2011. Net interest expense decreased in 2011 compared to 2010 primarily due to the new financing at Ward Centers. The early extinguishment of debt amount of $11.3 million in 2011 resulted from the new debt financing at Ward Centers. In 2010, GGP allocated interest expense of $2.7 million to Ward Centers as part of its corporate allocations.

We received distributions of $2.4 million and $3.9 million from our Summerlin Hospital cost investment in the first quarter of 2012 and 2011, respectively. Dividends by Summerlin Hospital are typically made one time per year; however, no dividends were paid in 2010 principally due to a capital project at the hospital. Approximately $2.0 million of the amount received in the first quarter of 2011 relates to calendar year 2010. The remaining $1.9 million related to periods prior to 2010 which were deferred pending completion of the capital project.

Strategic Developments Segment

Our Strategic Development assets generally require substantial future development to achieve their highest and best use. Most of the properties in this segment generate no revenues. Our expenses

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relating to these assets are primarily related to carrying costs, such as property taxes and insurance, and other ongoing costs relating to maintaining the assets in their current condition. If we decide to redevelop a Strategic Development asset, we would expect that, upon completion of redevelopment, the asset would be reclassified to the Operating Assets segment and NOI would become an important measure of its operating performance.

Strategic Developments Revenues and Expenses (*)

	Year Ended December 31,		
	2012	2011	2010
	(In thousands)		
Minimum rents	$ 905	$ 917	$ 1,015
Condominium unit sales	267	22,067	$ 1,139
Other rental and property revenues	3,584	1,876	529
Total revenues	4,756	24,860	2,683
Condominium unit cost of sales	96	14,465	1,000
Rental and other property operations	6,027	6,703	10,617
Provision for (recovery of) doubtful accounts	(111)	(137)	175
Provisions for impairment			17,101
Depreciation and amortization	225	234	212
Interest expense, net	219	323	34
Equity in Earnings from Real Estate Affiliates			
Total expenses	6,456	21,588	29,139
Venture partner share of the Woodlands EBT			
Strategic Developments REP EBT	$ (1,700)	$ 3,272	$ (26,456)

(*) For a detailed breakdown of our Strategic Developments segment of EBT, please refer to Note 17 Segments.

In 2012, condominium unit sales and costs of sales decreased as the remaining two condominiums were sold at Nouvelle at Natick as compared to 57 and three units sold in 2011 and 2010, respectively. The project is sold out, therefore this cash flow will not be replicated in 2013.

The increase in Other rental and property revenues for 2012 as compared to 2011 is primarily due to the sale of 11.5 acres including 104,705 square feet of mostly vacant retail space at Alameda Plaza in Pocatello, Idaho. In 2011, we sold two ancillary parcels of land, aggregating 4.6 acres, at the Kendall Town Center at a lower realized gain as compared to the Alameda Plaza sale in 2012.

Rental and other property operations for the year ended 2012 and 2011 are consistent and are lower than 2010 as these two years reflect a reduction in real estate taxes as compared to the year ended 2010. Additionally, the year ended 2010 reflected the expensing of certain costs such as overhead. These costs were reflected in General and administrative expenses for the year ended 2011 and were capitalized in 2012.

No impairment charges were taken on any properties during 2012 and 2011. Two strategic development properties were impaired in 2010.

The Woodlands

3 Waterway Square began construction in the first quarter of 2012 and has incurred approximately $25.4 million (exclusive of land value) of costs as of December 31, 2012. Included in this amount is approximately $2.6 million in prepaid leasing costs. Total budgeted cost for this project is $51.4 million (exclusive of land value). We estimate an additional $26.0 million of costs to complete construction with

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an anticipated completion during the second quarter of 2013. This project is financed with a $43.3 million non-recourse loan bearing interest at LIBOR plus 2.65% having a January 2015 initial maturity with two one-year extensions at our option. Approximately 90% of the space has been pre-leased as of December 31, 2012 and we currently expect the property to reach stabilized annual NOI of $5.9 million in the third quarter of 2013.

Millennium Woodlands Phase II, a joint venture, began construction in the second quarter 2012. We have approximately $2.2 million of contributed land costs, representing approximately $75.00 per square foot compared to $51.40 per square foot attributed to the Phase I land contribution, invested in this venture as of December 31, 2012. Budgeted construction costs are $38.4 million. The project is expected to be completed by the third quarter of 2014.

During 2012 we announced plans for the first mixed-use development on Lake Woodlands called Hughes Landing. The development will encompass approximately 66 acres and is envisioned to contain one million square feet of office space in up to eight office buildings, approximately 200,000 square feet of retail and entertainment venues, 1,500 multi-family units and a boutique hotel.

We began construction of One Hughes Landing, a 195,000 square foot Class A office building, on November of 2012. It is expected to be complete by September of 2013 and as of December 31, 2012 was 28% pre-leased. This project is financed with a $38.0 million non-recourse loan bearing interest at LIBOR plus 2.65% having a November 2015 initial maturity with two one-year extensions at our option. We incurred $2.2 million (exclusive of land value) of costs related to this project as of December 31, 2012. Total budgeted construction cost is $45.8 million (exclusive of land value).

ONE Ala Moana Tower Condo Project

We own the rights to develop a residential condominium tower over a parking structure at Ala Moana Center in Honolulu, Hawaii pursuant to a condominium property regime declaration. In 2011, we formed a joint venture with two local developers to explore the development of a luxury condominium tower, owned by our wholly owned subsidiary, and we and an entity jointly owned by the two development partners formed an entity called HHMK Development, LLC, in which we own 50% and our partners jointly own the remaining 50%. In 2012, we formed another 50/50 joint venture, KR Holdings, LLC ("KR Holdings"), with the same two development partners. On September 17, 2012, KR Holdings closed on $40.0 million non-recourse mezzanine financing commitments with List Island Properties, LLC and A & B Properties, Inc., including funding for $3.0 million of predevelopment costs ($2.0 million of which are non-interest bearing) which are not required to be repaid if the construction loan fails to close or the project fails to go forward. If the construction loan funds, the mezzanine financing will mature on April 30, 2018 and have a profit interest in the project that entitles them to receive a share of the profits after we get a return of our capital plus a 13.0% preferred return on our capital.

During the fourth quarter 2012, our Restated Condo Documents received approval from the Real Estate Commission, and in December we launched pre-sales of the condominium units. As of December 31, 2012 the condominium units were sold out, and we had collected $19.6 million of deposits. KR Holdings is currently seeking first mortgage financing for the project, and upon closing of the first mortgage loan, we will sell our condominium rights, owned by our wholly owned subsidiary, into the joint venture at their $47.5 million valuation. We anticipate the construction loan to close during the second quarter of 2013 and the construction to begin by the end of the second quarter of 2013. We anticipate that ONE Ala Moana will be completed by the end of 2014. As of December 31, 2012, our share of predevelopment costs incurred to date are $2.8 million (exclusive of air rights).

The Shops at Summerlin

During 2012, we obtained commitments from Macy's and Dillard's as our two major department store anchors for the Shops at Summerlin. When completed, The Shops at Summerlin will be an approximate