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Howard Hughes Corp
Form 10-Q
November 09, 2015
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2015

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 001-34856

THE HOWARD HUGHES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	36-4673192
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)

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13355 Noel Road, 22nd Floor, Dallas, Texas 75240

(Address of principal executive offices, including zip code)

(214) 741-7744

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of common stock, \$0.01 par value, outstanding as of November 4, 2015 was 39,714,838.

Table of Contents

THE HOWARD HUGHES CORPORATION

INDEX

	PAGE NUMBER
PART I FINANCIAL INFORMATION	
Item 1: Condensed Consolidated Financial Statements (Unaudited)	
<u>Condensed Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014</u>	3
<u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2015 and 2014</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2015 and 2014</u>	5

<u>Condensed Consolidated Statements of Equity for the nine months ended September 30, 2015 and 2014</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	9
<u>Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	34
<u>Item 3: Quantitative and Qualitative Disclosures about Market Risk</u>	61
<u>Item 4: Controls and Procedures</u>	62
<u>PART II OTHER INFORMATION</u>	62
<u>Item 1: Legal Proceedings</u>	62
<u>Item 1A: Risk Factors</u>	62

<u>Item 6: Exhibits</u>	63
<u>SIGNATURE</u>	64
<u>EXHIBIT INDEX</u>	65

Table of Contents

THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

UNAUDITED

	September 30, 2015	December 31, 2014
	(In thousands, except share amounts)	
Assets:		
Investment in real estate:		
Master Planned Community assets	\$ 1,672,763	\$ 1,641,063
Land	305,634	317,211
Buildings and equipment	1,478,489	1,243,979
Less: accumulated depreciation	(213,040)	(157,182)
Developments	1,205,124	914,303
Net property and equipment	4,448,970	3,959,374
Investment in Real Estate and Other Affiliates	56,191	53,686
Net investment in real estate	4,505,161	4,013,060
Cash and cash equivalents	450,647	560,451
Accounts receivable, net	32,051	28,190
Municipal Utility District receivables, net	136,196	104,394
Notes receivable, net	23,610	28,630
Deferred expenses, net	73,263	75,070
Prepaid expenses and other assets, net	323,596	310,136
Total assets	\$ 5,544,524	\$ 5,119,931
Liabilities:		
Mortgages, notes and loans payable	\$ 2,322,296	\$ 1,993,470
Deferred tax liabilities	84,214	62,205
Warrant liabilities	308,630	366,080
Uncertain tax position liability	4,823	4,653
Accounts payable and accrued expenses	489,035	466,017
Total liabilities	3,208,998	2,892,425
Commitments and Contingencies (see Note 15)		
Equity:		
Preferred stock: \$.01 par value; 50,000,000 shares authorized, none issued	—	—
Common stock: \$.01 par value; 150,000,000 shares authorized, 39,714,838 shares issued and outstanding as of September 30, 2015 and 39,638,094 shares issued and outstanding as of December 31, 2014	398	396

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Additional paid-in capital	2,845,021	2,838,013
Accumulated deficit	(506,096)	(606,934)
Accumulated other comprehensive loss	(7,569)	(7,712)
Total stockholders' equity	2,331,754	2,223,763
Noncontrolling interests	3,772	3,743
Total equity	2,335,526	2,227,506
Total liabilities and equity	\$ 5,544,524	\$ 5,119,931

See Notes to Condensed Consolidated Financial Statements.

3

Table of Contents

THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

UNAUDITED

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands, except per share amounts)			
Revenues:				
Master Planned Community land sales	\$ 45,423	\$ 59,351	\$ 138,937	\$ 260,186
Builder price participation	6,680	5,311	20,285	13,251
Minimum rents	37,814	24,380	109,997	66,929
Tenant recoveries	10,706	7,601	31,074	20,509
Condominium rights and unit sales	78,992	4,032	200,362	11,516
Resort and conference center revenues	11,772	8,150	35,256	27,198
Other land revenues	4,617	4,112	11,055	9,322
Other rental and property revenues	7,438	6,291	20,729	18,601
Total revenues	203,442	119,228	567,695	427,512
Expenses:				
Master Planned Community cost of sales	19,674	27,743	67,806	93,540
Master Planned Community operations	10,349	10,995	32,295	31,645
Other property operating costs	16,680	15,198	54,459	45,603
Rental property real estate taxes	6,908	4,559	19,676	12,540
Rental property maintenance costs	3,094	2,313	8,738	6,402
Condominium rights and unit cost of sales	47,573	2,026	126,747	5,788
Resort and conference center operations	8,767	8,910	26,738	22,833
Provision for doubtful accounts	1,007	119	3,082	293
Demolition costs	1,024	760	2,637	6,711
Development-related marketing costs	7,639	6,387	19,476	15,909
General and administrative	18,526	14,759	57,095	49,138
Other income, net	659	(11,409)	(1,204)	(27,468)
Depreciation and amortization	24,998	13,018	71,577	35,000
Total expenses	166,898	95,378	489,122	297,934
Operating income	36,544	23,850	78,573	129,578
Interest income	109	(1,162)	516	19,651
Interest expense	(15,212)	(12,136)	(43,143)	(28,354)
Warrant liability gain (loss)	123,640	24,690	57,450	(139,120)
Gain on sale of The Club at Carlton Woods	29,073	—	29,073	—
Increase (reduction) in tax indemnity receivable	—	5,454	—	(5,473)
	295	5,509	3,164	18,164

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Equity in earnings from Real Estate and Other
Affiliates

Income (loss) before taxes	174,449	46,205	125,633	(5,554)
Provision for income taxes	18,237	590	24,795	49,895
Net income (loss)	156,212	45,615	100,838	(55,449)
Net loss (income) attributable to noncontrolling interests	12	—	—	(12)
Net income (loss) attributable to common stockholders	\$ 156,224	\$ 45,615	\$ 100,838	\$ (55,461)
Basic income (loss) per share:	\$ 3.96	\$ 1.16	\$ 2.55	\$ (1.41)
Diluted income (loss) per share:	\$ 0.76	\$ 0.48	\$ 1.01	\$ (1.41)

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

UNAUDITED

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands)			
Comprehensive income (loss), net of tax:				
Net income (loss)	\$ 156,212	\$ 45,615	\$ 100,838	\$ (55,449)
Other comprehensive income (loss):				
Interest rate swaps (a)	(411)	784	297	902
Capitalized swap interest (b)	(42)	(180)	(154)	(357)
Other comprehensive income	(453)	604	143	545
Comprehensive income (loss)	155,759	46,219	100,981	(54,904)
Comprehensive (income) loss attributable to noncontrolling interests	12	—	—	(12)
Comprehensive income (loss) attributable to common stockholders	\$ 155,771	\$ 46,219	\$ 100,981	\$ (54,916)

- (a) Amount is shown net of deferred tax expense of \$0.2 million and \$0.8 million for the three and nine months ended September 30, 2015, respectively. For the three and nine months ended September 30, 2014, amounts are shown net of deferred tax benefit of \$0.1 million and \$0.2 million, respectively.
- (b) Net of deferred tax benefit of \$0.1 million for the three and nine months ended September 30, 2015, respectively. For the three and nine months ended September 30, 2014, amounts shown net of deferred tax benefit of \$0.1 million and \$0.2 million, respectively.

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

UNAUDITED

(In thousands, except share amounts)	Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
Balance, January 1, 2014	39,576,344	\$ 396	\$ 2,829,813	\$ (583,403)	\$ (8,222)	\$ 6,562	\$ 2,245,146
Net income (loss)		—	—	(55,461)	—	12	(55,449)
Preferred dividend payment on behalf of REIT subsidiary		—	—	—	—	(12)	(12)
Interest rate swaps, net of tax of \$135		—	—	—	902	—	902
Capitalized swap interest, net of tax of \$126		—	—	—	(357)	—	(357)
Stock plan activity	61,750	—	5,940	—	—	—	5,940
Balance, September 30, 2014	39,638,094	\$ 396	\$ 2,835,753	\$ (638,864)	\$ (7,677)	\$ 6,562	\$ 2,196,170
Balance, January 1, 2015	39,638,094	\$ 396	\$ 2,838,013	\$ (606,934)	\$ (7,712)	\$ 3,743	\$ 2,227,506
Net income (loss)		—	—	100,838	—	—	100,838
Distribution to noncontrolling interest		—	—	—	—	29	29
Interest rate swaps, net of tax of \$800		—	—	—	297	—	297
Capitalized swap interest, net of tax benefit of \$83		—	—	—	(154)	—	(154)
Stock plan activity	76,744	2	7,008	—	—	—	7,010
Balance, September 30, 2015	39,714,838	\$ 398	\$ 2,845,021	\$ (506,096)	\$ (7,569)	\$ 3,772	\$ 2,335,526

See Notes to Condensed Consolidated Financial Statements.

6

Table of Contents

THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

	Nine Months Ended September 30,	
	2015	2014
	(In thousands)	
Cash Flows from Operating Activities:		
Net income (loss)	\$ 100,838	\$ (55,449)
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation	58,257	31,330
Amortization	13,320	3,670
Amortization of deferred financing costs	4,104	2,927
Amortization of intangibles other than in-place leases	679	462
Straight-line rent amortization	(3,255)	1,113
Deferred income taxes	23,065	47,925
Restricted stock and stock option amortization	5,269	5,940
Gain on disposition of asset	(29,073)	(2,373)
Warrant liability (gain) loss	(57,450)	139,120
Reduction in tax indemnity receivable	—	5,473
Interest income related to tax indemnity	—	(18,856)
Equity in earnings from Real Estate and Other Affiliates, net of distributions	1,426	(14,666)
Provision for doubtful accounts	3,082	293
Master Planned Community land acquisitions	(6,028)	(69,930)
Master Planned Community development expenditures	(129,298)	(93,080)
Master Planned Community cost of sales	65,692	86,044
Condominium development expenditures	(137,369)	(34,358)
Condominium and other cost of sales	126,747	5,788
Percentage of completion revenue recognition from sale of condominium rights and units	(200,362)	(11,516)
Non-monetary consideration relating to land sale	—	(13,789)
Deferred rental income	37,472	—
Net changes:		
Accounts and notes receivable	(1,192)	26,188
Prepaid expenses and other assets	(9,838)	(3,436)
Condominium deposits received	52,001	125,002
Deferred expenses	(5,562)	(32,028)
Accounts payable and accrued expenses	39,065	18,055
Condominium deposits held in escrow	(52,001)	(125,002)
Condominium deposits released from escrow	132,086	—
Other, net	969	(8,888)

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Cash provided by operating activities	32,644	15,959
Cash Flows from Investing Activities:		
Property and equipment expenditures	(9,505)	(6,213)
Operating property improvements	(5,856)	(3,581)
Property developments and redevelopments	(488,713)	(467,497)
Proceeds from insurance claims	—	12,901
Proceeds from dispositions	25,139	11,953
Distribution from KR Holdings, LLC	9,121	—
Investments in Real Estate and Other Affiliates, net	(635)	(3,929)
Change in restricted cash	(1,568)	(8,136)
Other	1,263	(1,484)
Cash used in investing activities	(470,754)	(465,986)