

Section 1: 10-Q (10-Q)

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, 2019

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

(State or other jurisdiction of
incorporation or organization)

36-4673192

(I.R.S. employer
identification number)

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

Yes No

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

Title of each class:

Trading Symbol(s)

Name of each exchange on which registered:

The number of shares of common stock, \$0.01 par value, outstanding as of October 31, 2019 was 43,211,546.

THE HOWARD HUGHES CORPORATION

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PART I FINANCIAL INFORMATION**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

THE HOWARD HUGHES CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
UNAUDITED

(In thousands, except par values and share amounts)	September 30, 2019	December 31, 2018
Assets:		
Investment in real estate:		
Master Planned Communities assets	\$ 1,683,224	\$ 1,642,660
Buildings and equipment	3,268,926	2,932,963
Less: accumulated depreciation	(478,185)	(380,892)
Land	315,643	297,596
Developments	1,345,807	1,290,068
Net property and equipment	6,135,415	5,782,395
Investment in real estate and other affiliates	121,611	102,287
Net investment in real estate	6,257,026	5,884,682
Net investment in lease receivable	78,021	—
Cash and cash equivalents	637,979	499,676
Restricted cash	204,650	224,539
Accounts receivable, net	17,248	12,589
Municipal Utility District receivables, net	288,376	222,269
Notes receivable, net	36,425	4,694
Deferred expenses, net	110,935	95,714
Operating lease right-of-use assets, net	70,349	—
Prepaid expenses and other assets, net	246,906	411,636
Total assets	\$ 7,947,915	\$ 7,355,799
Liabilities:		
Mortgages, notes and loans payable, net	\$ 3,624,684	\$ 3,181,213
Operating lease obligations	71,190	—
Deferred tax liabilities	172,476	157,188
Accounts payable and accrued expenses	699,509	779,272
Total liabilities	4,567,859	4,117,673
Commitments and contingencies (see Note 10)		
Equity:		
Preferred stock: \$.01 par value; 50,000,000 shares authorized, none issued	—	—
Common stock: \$.01 par value; 150,000,000 shares authorized, 43,752,777 issued and 43,232,928 outstanding as of September 30, 2019 and 43,511,473 shares issued and 42,991,624 outstanding as of December 31, 2018	438	436
Additional paid-in capital	3,334,101	3,322,433
Accumulated deficit	(45,285)	(120,341)
Accumulated other comprehensive loss	(35,513)	(8,126)
Treasury stock, at cost, 519,849 shares as of September 30, 2019 and December 31, 2018	(62,190)	(62,190)
Total stockholders' equity	3,191,551	3,132,212
Noncontrolling interests	188,505	105,914
Total equity	3,380,056	3,238,126
Total liabilities and equity	\$ 7,947,915	\$ 7,355,799

THE HOWARD HUGHES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
UNAUDITED

(In thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues:				
Condominium rights and unit sales	\$ 9,999	\$ 8,045	\$ 443,931	\$ 39,767
Master Planned Communities land sales	77,368	127,730	177,001	226,727
Minimum rents	55,552	53,244	164,356	153,156
Tenant recoveries	13,704	12,806	40,724	37,808
Hospitality revenues	20,031	19,108	68,536	64,738
Builder price participation	9,660	8,685	24,224	19,394
Other land revenues	5,954	7,145	16,646	15,988
Other rental and property revenues	37,816	20,397	79,872	42,266
Interest income from sales-type leases	1,088	—	1,088	—
Total revenues	231,172	257,160	1,016,378	599,844
Expenses:				
Condominium rights and unit cost of sales	7,010	6,168	365,324	41,713
Master Planned Communities cost of sales	33,304	57,183	78,128	109,609
Master Planned Communities operations	11,866	13,044	35,948	33,956
Other property operating costs	53,214	42,942	131,808	91,847
Rental property real estate taxes	9,080	8,519	28,585	24,148
Rental property maintenance costs	3,533	4,456	11,862	11,604
Hospitality operating costs	14,080	14,723	46,310	45,707
(Recovery) provision for doubtful accounts	(107)	2,282	(195)	4,417
Demolition costs	138	2,835	737	16,166
Development-related marketing costs	5,341	7,218	16,874	20,484
General and administrative	32,519	20,645	87,923	71,795
Depreciation and amortization	40,093	31,123	115,142	88,398
Total expenses	210,071	211,138	918,446	559,844
Other:				
Gain on sale or disposal of real estate, net	24,201	—	24,051	—
Other income (loss), net	1,337	(3,710)	11,798	(3,444)
Total other	25,538	(3,710)	35,849	(3,444)
Operating income	46,639	42,312	133,781	36,556
Selling profit from sales-type leases	13,537	—	13,537	—
Interest income	2,872	2,080	7,696	6,759
Interest expense	(28,829)	(21,670)	(76,358)	(57,182)
Equity in earnings from real estate and other affiliates	4,542	8,612	20,847	39,297
Income before taxes	38,761	31,334	99,503	25,430
Provision for income taxes	8,718	7,487	24,207	5,628
Net income	30,043	23,847	75,296	19,802
Net income attributable to noncontrolling interests	(285)	(482)	(240)	(51)
Net income attributable to common stockholders	\$ 29,758	\$ 23,365	\$ 75,056	\$ 19,751

Basic income per share:	\$	0.69	\$	0.54	\$	1.74	\$	0.46
Diluted income per share:	\$	0.69	\$	0.54	\$	1.73	\$	0.46

See Notes to Condensed Consolidated Financial Statements.

THE HOWARD HUGHES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
UNAUDITED

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$ 30,043	\$ 23,847	\$ 75,296	\$ 19,802
Other comprehensive (loss) income:				
Interest rate swaps (a)	(6,207)	(367)	(25,259)	13,031
Capitalized swap interest (expense) income (b)	—	(25)	(73)	34
Pension adjustment (c)	—	2,566	—	556
Adoption of ASU 2018-02 (d)	—	—	—	(1,148)
Adoption of ASU 2017-12 (e)	—	—	—	(739)
Terminated swap amortization	(764)	(239)	(2,055)	(319)
Other comprehensive (loss) income	(6,971)	1,935	(27,387)	11,415
Comprehensive income	23,072	25,782	47,909	31,217
Comprehensive income attributable to noncontrolling interests	(285)	(482)	(240)	(51)
Comprehensive income attributable to common stockholders	\$ 22,787	\$ 25,300	\$ 47,669	\$ 31,166

- (a) Amounts are shown net of deferred tax benefit of \$1.7 million and \$0.2 million for the three months ended September 30, 2019 and 2018, respectively, and deferred tax benefit of \$7.0 million and deferred tax expense of \$3.7 million for the nine months ended September 30, 2019 and 2018, respectively.
- (b) The deferred tax impact was zero for the three months ended September 30, 2019 and not meaningful for the nine months ended September 30, 2019 and the three and nine months ended September 30, 2018.
- (c) Net of deferred tax benefit of zero and \$0.6 million for the three and nine months ended September 30, 2018, respectively.
- (d) The Company adopted Accounting Standards Update ("ASU") 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, as of January 1, 2018.
- (e) The Company adopted ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, as of January 1, 2018.

See Notes to Condensed Consolidated Financial Statements.

THE HOWARD HUGHES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
UNAUDITED

(In thousands, except shares)	Common Stock		Additional	Accumulated	Other	Treasury Stock		Total	Noncontrolling	Total
	Shares	Amount	Paid-In Capital	Deficit	Comprehensive (Loss) Income	Shares	Amount	Stockholders' Equity	Interests	Equity
Balance, June 30, 2018	43,545,778	\$ 436	\$3,314,197	\$ (180,967)	\$ 2,515	(505,293)	\$ (60,743)	\$ 3,075,438	\$ 75,173	\$3,150,611
Net income	—	—	—	23,365	—	—	—	23,365	482	23,847
Interest rate swaps, net of tax of \$223	—	—	—	—	(367)	—	—	(367)	—	(367)
Terminated swap amortization	—	—	—	—	(239)	—	—	(239)	—	(239)
Pension adjustment, net of tax of \$21	—	—	—	—	2,566	—	—	2,566	—	2,566
Capitalized swap interest, net of tax of \$7	—	—	—	—	(25)	—	—	(25)	—	(25)
Contributions to joint ventures	—	—	—	—	—	—	—	—	83	83
Stock plan activity	(7,358)	—	4,550	—	—	—	—	4,550	—	4,550
Balance, September 30, 2018	<u>43,538,420</u>	<u>\$ 436</u>	<u>\$3,318,747</u>	<u>\$ (157,602)</u>	<u>\$ 4,450</u>	<u>(505,293)</u>	<u>\$ (60,743)</u>	<u>\$ 3,105,288</u>	<u>\$ 75,738</u>	<u>\$3,181,026</u>
Balance, June 30, 2019	43,661,694	\$ 437	\$3,329,062	\$ (75,043)	\$ (28,542)	(519,849)	\$ (62,190)	\$ 3,163,724	\$ 188,043	\$3,351,767
Net income	—	—	—	29,758	—	—	—	29,758	285	30,043
Interest rate swaps, net of tax of \$1,719	—	—	—	—	(6,207)	—	—	(6,207)	—	(6,207)
Terminated swap amortization	—	—	—	—	(764)	—	—	(764)	—	(764)
Deconsolidation of Associations of Unit Owners	—	—	—	—	—	—	—	—	177	177
Contributions to joint ventures	—	—	—	—	—	—	—	—	—	—
Stock plan activity	91,083	1	5,039	—	—	—	—	5,040	—	5,040
Balance, September 30, 2019	<u>43,752,777</u>	<u>\$ 438</u>	<u>\$3,334,101</u>	<u>\$ (45,285)</u>	<u>\$ (35,513)</u>	<u>(519,849)</u>	<u>\$ (62,190)</u>	<u>\$ 3,191,551</u>	<u>\$ 188,505</u>	<u>\$3,380,056</u>

THE HOWARD HUGHES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
UNAUDITED

(In thousands, except shares)	Common Stock		Additional	Accumulated	Accumulated Other	Treasury Stock		Total	Noncontrolling	Total
	Shares	Amount	Paid-In Capital	Deficit	Comprehensive (Loss) Income	Shares	Amount	Stockholders' Equity	Interests	Equity
Balance, December 31, 2017	43,300,253	\$ 433	\$3,302,502	\$ (109,508)	\$ (6,965)	(29,373)	\$ (3,476)	\$ 3,182,986	\$ 5,565	\$3,188,551
Net income	—	—	—	19,751	—	—	—	19,751	51	19,802
Interest rate swaps, net of tax of \$3,710	—	—	—	—	13,031	—	—	13,031	—	13,031
Terminated swap amortization	—	—	—	—	(319)	—	—	(319)	—	(319)
Pension adjustment, net of tax of \$620	—	—	—	—	556	—	—	556	—	556
Capitalized swap interest, net of tax of \$9	—	—	—	—	34	—	—	34	—	<span styl