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 March 31, 2020

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)

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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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:

Common stock, par value $0.01 per share	HHC	New York Stock Exchange

The number of shares of common stock, $0.01 par value, outstanding as of May 7, 2020 was 54,929,674.

THE HOWARD HUGHES CORPORATION

TABLE OF CONTENTS

		PAGE NUMBER
PART I FINANCIAL INFORMATION		
Item 1:	Condensed Consolidated Financial Statements (Unaudited)	3
	Condensed Consolidated Balance Sheets as of March 31, 2020 and December 31, 2019	3
	Condensed Consolidated Statements of Operations for the three months ended March 31, 2020 and 2019	4
	Condensed Consolidated Statements of Comprehensive (Loss) Income for the three months ended March 31, 2020 and 2019	5
	Condensed Consolidated Statements of Equity for the three months ended March 31, 2020 and 2019	6
	Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2020 and 2019	7
	Notes to Condensed Consolidated Financial Statements	9
Item 2:	Management's Discussion and Analysis of Financial Condition and Results of Operations	35
Item 3:	Quantitative and Qualitative Disclosures about Market Risk	51
Item 4:	Controls and Procedures	52
PART II OTHER INFORMATION		52
Item 1:	Legal Proceedings	52
Item 1A:	Risk Factors	52
Item 2:	Unregistered Sales of Equity Securities And Use Of Proceeds	53
Item 3:	Default Upon Senior Securities	54
Item 4:	Mine Safety Disclosures	54
Item 5:	Other Information	54
Item 6:	Exhibits	54
EXHIBIT INDEX		55
SIGNATURE		57

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)	March 31, 2020	December 31, 2019
Assets:		
Investment in real estate:		
Master Planned Communities assets	$ 1,672,534	$ 1,655,674
Buildings and equipment	3,901,549	3,813,595
Less: accumulated depreciation	(549,452)	(507,933)
Land	359,211	353,022
Developments	1,488,869	1,445,997
Net property and equipment	6,872,711	6,760,355
Investment in real estate and other affiliates	127,293	121,757
Net investment in real estate	7,000,004	6,882,112
Net investment in lease receivable	2,933	79,166
Cash and cash equivalents	971,695	422,857
Restricted cash	267,018	197,278
Accounts receivable, net	9,944	12,279
Municipal Utility District receivables, net	301,897	280,742
Notes receivable, net	36,000	36,379
Deferred expenses, net	139,329	133,182
Operating lease right-of-use assets, net	58,347	69,398
Prepaid expenses and other assets, net	332,557	300,373
Total assets	$ 9,119,724	$ 8,413,766
Liabilities:		
Mortgages, notes and loans payable, net	$ 4,304,590	$ 4,096,470
Operating lease obligations	69,980	70,413
Deferred tax liabilities	140,763	180,748
Accounts payable and accrued expenses	831,793	733,147
Total liabilities	5,347,126	5,080,778
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, 55,989,263 issued and 54,939,003 outstanding as of March 31, 2020, and 150,000,000 shares authorized, 43,635,893 shares issued and 42,585,633 outstanding as of December 31, 2019	561	437
Additional paid-in capital	3,939,470	3,343,983
Accumulated deficit	(171,537)	(46,385)
Accumulated other comprehensive loss	(60,273)	(29,372)
Treasury stock, at cost, 1,050,260 shares as of March 31, 2020 and December 31, 2019	(120,530)	(120,530)
Total stockholders' equity	3,587,691	3,148,133
Noncontrolling interests	184,907	184,855
Total equity	3,772,598	3,332,988
Total liabilities and equity	$ 9,119,724	$ 8,413,766

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

UNAUDITED

	Three Months Ended March 31,	
(In thousands, except per share amounts)	**2020**	**2019**
Revenues:		
Condominium rights and unit sales	$ 43	$ 198,310
Master Planned Communities land sales	39,732	41,312
Minimum rents	70,987	54,086
Other land, rental and property revenues	34,897	41,479
Tenant recoveries	20,875	13,508
Builder price participation	7,759	5,195
Interest income from sales-type leases	882	—
Total revenues	175,175	353,890
Expenses:		
Condominium rights and unit cost of sales	97,901	137,694
Master Planned Communities cost of sales	16,786	16,818
Operating costs	64,606	68,759
Rental property real estate taxes	13,578	9,831
Provision for (recovery of) doubtful accounts	1,701	(2)
Demolition costs	—	49
Development-related marketing costs	2,816	5,702
General and administrative	39,081	25,332
Depreciation and amortization	61,637	36,131
Total expenses	298,106	300,314
Other:		
Provision for impairment	(48,738)	—
Gain (loss) on sale or disposal of real estate and other assets, net	38,124	(6)
Other (loss) income, net	(3,684)	173
Total other	(14,298)	167
Operating (loss) income	(137,229)	53,743
Interest income	1,146	2,573
Interest expense	(34,448)	(23,326)
Equity in earnings from real estate and other affiliates	11,349	9,951
(Loss) income before taxes	(159,182)	42,941
Provision for income taxes	(34,100)	11,016
Net (loss) income	(125,082)	31,925
Net income attributable to noncontrolling interests	(52)	(104)
Net (loss) income attributable to common stockholders	$ (125,134)	$ 31,821
Basic (loss) income per share:	$ (2.88)	$ 0.74
Diluted (loss) income per share:	$ (2.88)	$ 0.74

See Notes to Condensed Consolidated Financial Statements.

THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

UNAUDITED

	Three Months Ended March 31,	
(In thousands)	**2020**	**2019**
Net (loss) income	$ (125,082)	$ 31,925
Other comprehensive loss:		
Interest rate swaps (a)	(30,247)	(5,944)
Capitalized swap interest expense (b)	—	(51)
Terminated swap amortization	(654)	(638)
Other comprehensive loss:	(30,901)	(6,633)
Comprehensive (loss) income	(155,983)	25,292
Comprehensive income attributable to noncontrolling interests	(52)	(104)
Comprehensive (loss) income attributable to common stockholders	$ (156,035)	$ 25,188

(a) Amounts are shown net of deferred tax benefit of $6.9 million and $2.2 million for the three months ended March 31, 2020 and 2019, respectively.

(b) The deferred tax impact was zero for the three months ended March 31, 2020 and not meaningful for the three months ended March 31, 2019.

See Notes to Condensed Consolidated Financial Statements.

THE HOWARD HUGHES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
UNAUDITED

(In thousands, except shares)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Treasury Stock Shares	Treasury Stock Amount	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2018	43,511,473	$ 436	$3,322,433	$ (120,341)	$ (8,126)	(519,849)	$ (62,190)	$ 3,132,212	$ 105,914	$3,238,126
Net income	—	—	—	31,821	—	—	—	31,821	104	31,925
Interest rate swaps, net of tax of $2,187	—	—	—	—	(5,944)	—	—	(5,944)	—	(5,944)
Terminated swap amortization	—	—	—	—	(638)	—	—	(638)	—	(638)
Capitalized swap interest, net of tax of $14	—	—	—	—	(51)	—	—	(51)	—	(51)
Contributions to joint ventures	—	—	—	—	—	—	—	—	40,988	40,988
Stock plan activity	148,235	1	3,066	—	—	—	—	3,067	—	3,067
Balance, March 31, 2019	43,659,708	$ 437	$3,325,499	$ (88,520)	$ (14,759)	(519,849)	$ (62,190)	$ 3,160,467	$ 147,006	$3,307,473
Balance, December 31, 2019	43,635,893	$ 437	$3,343,983	$ (46,385)	$ (29,372)	(1,050,260)	$(120,530)	$ 3,148,133	$ 184,855	$3,332,988
Net (loss) income	—	—	—	(125,134)	—	—	—	(125,134)	52	(125,082)
Interest rate swaps, net of tax of $6,888	—	—	—	—	(30,247)	—	—	(30,247)	—	(30,247)
Terminated swap amortization	—	—	—	—	(654)	—	—	(654)	—	(654)
Adoption of ASU 2016-13	—	—	—	(18)	—	—	—	(18)	—	(18)
Common stock issued	12,270,900	123	593,575	—	—	—	—	593,698	—	593,698
Stock plan activity	82,470	1	1,912	—	—	—	—	1,913	—	1,913
Balance, March 31, 2020	55,989,263	$ 561	$3,939,470	$ (171,537)	$ (60,273)	(1,050,260)	$(120,530)	$ 3,587,691	$ 184,907	$3,772,598

See Notes to Condensed Consolidated Financial Statements.

THE HOWARD HUGHES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED

(In thousands)	Three Months Ended March 31, 2020	2019
Cash Flows from Operating Activities:		
Net (loss) income	$ (125,082)	$ 31,925
Adjustments to reconcile net (loss) income to cash provided by (used in) operating activities:		
Depreciation	57,349	32,905
Amortization	4,075	3,086
Amortization of deferred financing costs	4,114	2,201
Amortization of intangibles other than in-place leases	170	278
Straight-line rent amortization	(2,870)	(1,548)
Deferred income taxes	(34,625)	10,703
Restricted stock and stock option amortization	1,152	3,069
Net gain on sale of lease receivable	(38,124)	—
Proceeds from the sale of lease receivable	64,155	—
Impairment charges	48,738	—
Equity in earnings from real estate and other affiliates, net of distributions	(5,817)	(4,606)
Provision for doubtful accounts	(3,115)	(2)
Master Planned Communities land acquisitions	—	(752)
Master Planned Communities development expenditures	(64,895)	(56,772)
Master Planned Communities cost of sales	16,783	16,744
Condominium development expenditures	(60,688)	(40,559)
Condominium rights and unit cost of sales	97,901	137,694
Net changes:		
Accounts and notes receivable	9,596	(5,679)
Prepaid expenses and other assets	(31,565)	1,881
Condominium deposits received	46,186	(115,774)
Deferred expenses	(9,176)	(17,191)
Accounts payable and accrued expenses	(47,443)	(57,286)
Cash used in operating activities	(73,181)	(59,683)
Cash Flows from Investing Activities:		
Property and equipment expenditures	(270)	(1,178)
Operating property improvements	(10,419)	(25,854)
Property development and redevelopment	(144,422)	(148,894)
Reimbursements under Tax Increment Financings	1,625	—
Distributions from real estate and other affiliates	1,232	315
Investments in real estate and other affiliates, net	(952)	(222)
Cash used in investing activities	(153,206)	(175,833)
Cash Flows from Financing Activities:		
Proceeds from mortgages, notes and loans payable	256,770	61,614
Proceeds from issuance of common stock	593,698	—
Principal payments on mortgages, notes and loans payable	(5,115)	(4,587)
Special Improvement District bond funds released from (held in) escrow	1,126	936
Deferred financing costs and bond issuance costs, net	(2,276)	(343)
Taxes paid on stock options exercised and restricted stock vested	(662)	—
Stock options exercised	1,424	—
Contributions from noncontrolling interest	—	40,987

Cash provided by financing activities	844,965	98,607
Net change in cash, cash equivalents and restricted cash	618,578	(136,909)
Cash, cash equivalents and restricted cash at beginning of period	620,135	724,215
Cash, cash equivalents and restricted cash at end of period	$ 1,238,713	$ 587,306

THE HOWARD HUGHES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

	Three Months Ended March 31,	
(In thousands)	**2020**	**2019**
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 62,679	$ 52,905
Interest capitalized	19,041	18,370
Income taxes (refunded) paid, net	—	(1,839)
Non-Cash Transactions:		
Accrued property improvements, developments, and redevelopments	(28,221)	24,774
Special Improvement District bond transfers associated with land sales	3	74
Accrued interest on construction loan borrowing	4,773	860
Capitalized stock compensation	—	441
Initial recognition of ASC 842 Operating lease ROU asset	—	72,106
Initial recognition of ASC 842 Operating lease obligation	—	71,888

See Notes to Condensed Consolidated Financial Statements.

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 1 BASIS OF PRESENTATION AND ORGANIZATION

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), with intercompany transactions between consolidated subsidiaries eliminated. In accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as issued by the Securities and Exchange Commission (the "SEC"), these Condensed Consolidated Financial Statements do not include all of the information and disclosures required by GAAP for complete financial statements. Readers of this quarterly report on Form 10-Q ("Quarterly Report") should refer to The Howard Hughes Corporation's ("HHC" or the "Company") audited Consolidated Financial Statements, which are included in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2019, filed with the SEC on February 27, 2020 (the "Annual Report"). In the opinion of management, all normal recurring adjustments necessary for a fair presentation of the financial position, results of operations, comprehensive income, cash flows and equity for the interim periods have been included. The results for the three months ended March 31, 2020, are not necessarily indicative of the results that may be expected for the year ending December 31, 2020, and future fiscal years. Certain amounts in the 2019 results of operations have been reclassified to conform to the 2020 presentation. Specifically, the Company reclassified hospitality revenues, other land revenues, and other rental and property revenues to Other land, rental and property revenues; and master planned communities operations, other property operating costs, rental property maintenance costs, and hospitality operating costs to Operating costs for the three months ended March 31, 2019.

Management has evaluated for disclosure or recognition all material events occurring subsequent to the date of the Condensed Consolidated Financial Statements up to the date and time this Quarterly Report was filed.

COVID-19 Pandemic

In December 2019, a novel strain of coronavirus ("COVID-19") was reported to have surfaced in Wuhan, China. COVID-19 has since spread globally, including to every state in the United States. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, and on March 13, 2020, the United States declared a national emergency with respect to COVID-19. The outbreak of COVID-19 has severely impacted global economic activity and caused significant volatility and negative pressure in financial markets. The global impact of the outbreak has been rapidly evolving and many countries, including the United States, have reacted by instituting a wide variety of control measures including states of emergency, mandatory quarantines, required business and school closures, implementing "shelter in place" orders and restricting travel. Many experts predict that the outbreak will trigger a period of material global economic slowdown or a global recession.

The outbreak of COVID-19 has materially negatively impacted, and is expected to continue to materially negatively impact, the Company's business, financial performance and condition, operating results and cash flows. The significance, extent and duration of such impact remains largely uncertain and dependent on future developments that cannot be accurately predicted. The future developments include, but are not limited to: (1) the continued severity, duration, transmission rate and geographic spread of COVID-19 in the United States and other regions in which the Company operates; (2) the extent and effectiveness of the containment measures taken; and (3) the response of the overall economy, the financial markets and the population, particularly in areas in which the Company operates, once the current containment measures are lifted. Material impacts to the Company are noted below.

Accounts Receivable, net

Due to the impacts of COVID-19 on the collectability of the Company's accounts receivable, the Company completed an analysis of its collections and determined an additional reserve was required related to its Retail accounts receivable. Upon assessment of its uncollectible Accounts receivable, net balances, the Company determined that a reserve for estimated losses under ASC 450 - *Contingencies* is required, in addition to the specific reserve required under ASC 842, as the amount is probable and can be reasonably estimated. As a result, during the three months ended March 31, 2020, the Company recorded an additional $1.6 million reserve in the Provision for (recovery of) doubtful accounts on the Condensed Consolidated Statements of Operations. The reserve was estimated based on recent collection experience of retail receivables.

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

Impairment of long-lived assets

In conjunction with the Company's quarterly impairment assessment, the Company recorded a $48.7 million impairment charge for Outlet Collection at Riverwalk, due to decreases in estimated future cash flows resulting from the impact of a shorter than anticipated holding term due to management's plans to divest the non-core operating asset and decreased demand and reduced interest in brick and mortar retail due to the impact of COVID-19, as well as an increase in the capitalization rate used to evaluate future cash flows due to the impact of COVID-19. See Note 5 - *Impairment* for additional information.

Business closures

With the indefinite closures of the Company's Seaport District retail and food and beverage assets as well as the three hotels in The Woodlands, we have temporarily laid off the majority of the Company's staff there. The Company has retained key personnel at these locations to facilitate the efficient start-up of operations once restrictions are lifted.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The estimates and assumptions include, but are not limited to, capitalization of development costs, provision for income taxes, recoverable amounts of receivables and deferred tax assets, initial valuations of tangible and intangible assets acquired and the related useful lives of assets upon which depreciation and amortization is based. Estimates and assumptions have also been made with respect to future revenues and costs, debt and options granted. In particular, Master Planned Communities ("MPC") cost of sales estimates are highly judgmental as they are sensitive to cost escalation, sales price escalation and lot absorption, which are subject to judgment and affected by expectations about future market or economic conditions. Actual results could differ from these and other estimates. It is reasonably possible these estimates will change in the near term due to the rapid development and fluidity of the events and circumstances resulting from the COVID-19 pandemic.

Impact of New Accounting Standard Related to Financial Instruments - Credit Losses

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)*. The standard modifies the impairment model for most financial assets, including trade accounts receivables and loans, and requires the use of an "expected loss" model for instruments measured at amortized cost. Under this model, entities are required to estimate the lifetime expected credit loss on such instruments and record an allowance to offset the amortized cost basis of the financial asset, resulting in a net presentation of the amount expected to be collected on the financial asset. Subsequently, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses,* which amended the scope of ASU 2016-13 and clarified that receivables arising from operating leases are not within the scope of the standard and should continue to be accounted for in accordance with the leases standard (Topic 842).

The Company adopted ASU 2016-13 using the modified retrospective method for all financial assets measured at amortized costs. Results for reporting periods beginning after January 1, 2020, are presented under ASU 2016-13 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a net decrease to retained earnings of $18 thousand as of January 1, 2020, for the cumulative effect of adopting ASU 2016-13.

See Note 2 - *Accounting Policies and Pronouncements* for further discussion of accounting policies impacted by the Company's adoption of ASU 2016-13 and disclosures required by ASU 2016-13.

Corporate Restructuring

During the fourth quarter ended December 31, 2019, the Company initiated a plan to strategically realign and streamline certain aspects of its business, including selling approximately $2.0 billion of non-core assets, reducing overhead and relocating its corporate headquarters. The Company will consolidate its Dallas corporate headquarters with its largest regional office in The Woodlands. Charges of $2.5 million and $34.3 million associated with retention and severance expenses were recorded in the first quarter of 2020 and fourth quarter of 2019, respectively, and the Company expects to incur an additional $2.3 million to $4.3 million related to relocation, retention and severance expenses in the remainder of 2020. The restructuring costs are included in

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

Corporate income, expenses and other items in Note 18 - *Segments*. The Company expects to conclude its restructuring activity, excluding the disposition of non-core assets, in 2020.

The following table summarizes the changes to the restructuring liability included in Accounts payable and accrued expenses on the Condensed Consolidated Balance Sheets:

(In thousands)	Restructuring costs
Balance at December 31, 2019	$ 9,685
Charges (a)	2,478
Charges paid/settled	(4,293)
Balance at March 31, 2020	$ 7,870

(a) Charges relate to relocation, retention and severance expenses and are included in General and administrative expense in the accompanying Condensed Consolidated Statements of Operations.

NOTE 2 ACCOUNTING POLICIES AND PRONOUNCEMENTS

The following is a summary of recently issued and other notable accounting pronouncements which relate to the Company's business.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform.* The amendments in this Update provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform when certain criteria are met. The amendments in this Update apply only to contracts, hedging relationships, and other transaction that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, for which an entity has applied certain optional expedients, that are retained through the end of the hedging relationship. The amendments in this Update are effective as of March 12, 2020, through December 31, 2022. The guidance in ASU 2020-04 is optional and may be elected over time as reference rate reform activities occur. During Q1 2020, the Company has elected to apply the hedge accounting expedients related to probability and the assessments of effectiveness for future LIBOR-indexed cash flows to assume that the index upon which future hedge transactions will be based matches the index on the corresponding derivatives. Application of these expedients preserves the presentation of derivatives consistent with past presentation. The Company continues to evaluate the impact of the guidance and may apply other elections as applicable as additional changes in the market occur.

An entity may elect to apply the amendments for contract modifications by Topic or Industry Subtopic as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.* The amendments in this Update simplify the accounting for income taxes by removing certain exceptions from ASC 740. Additionally, the amendments in this Update also simplify the accounting for income taxes by requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax, requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination, and other targeted changes. The effective date of the amendments is for fiscal years, and interim periods within those years, beginning after December 15, 2020. The Company is currently evaluating the impact that the adoption of ASU 2019-12 may have on its consolidated financial statements.

In November 2019, the FASB issued ASU 2019-08, *Compensation-Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606*). The amendments in this Update require that an entity measure and classify share-based payment awards granted to a customer by applying the guidance in Topic 718. The amount recorded as a reduction of the transaction price is required to be measured on the basis of the grant-date fair value of the share-based payment award in accordance with Topic 718. The grant date is the date at which a grantor (supplier) and a grantee (customer) reach a mutual understanding of the key terms and conditions of the share-based payment award. The classification and subsequent measurement of the award are subject to the guidance in Topic 718 unless the share-based payment award is subsequently modified, and the grantee is no longer a customer. The effective date of the amendments is for fiscal years, and interim periods within those years, beginning after December 15, 2019. The Company adopted ASU 2019-08 as of January 1, 2020, and it did not have a material effect on its consolidated financial statements.

In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. The amendments in this update provide clarification on certain aspects of the amendments in ASU 2016-13, *Financial Instruments—Credit Losses,* ASU 2017-12, *Derivatives and Hedging,* and ASU 2016-01, *Financial Instruments—Overall.* The effective date of the standard is for fiscal years, and interim periods within those years, beginning after December 15,

2019. The Company adopted ASU 2019-04 as of January 1, 2020. See further discussion regarding adoption of ASU 2016-13 for the impact of amendments to Financial Instruments-Credit Losses. The amendments to Derivatives and Hedging, and Financial Instruments-Overall did not have a material effect on the Company's consolidated financial statements.

In October 2018, the FASB issued ASU 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*. This standard is intended to improve the accounting when considering indirect interests held through related parties under common control for determining whether fees paid to decision makers and service providers are variable interests. The effective date of the standard is for fiscal years, and interim periods within those years, beginning after December

15, 2019. The new standard must be adopted retrospectively with early adoption permitted. The Company adopted ASU 2018-17 as of January 1, 2020, and it did not have a material effect on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This standard is intended to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal use software (and hosting arrangements that include an internal use software license). The standard requires an entity in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. This standard also requires the entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. The effective date of the standard is for fiscal periods, and interim periods within those years, beginning after December 15, 2019. The new standard may be adopted prospectively or retrospectively with early adoption permitted. The Company adopted ASU 2018-15 prospectively as of January 1, 2020. There was no material impact to the Company's consolidated financial statements upon adoption.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* that eliminates, adds and modifies certain disclosure requirements for fair value measurements. The effective date of the standard is for fiscal periods, and interim periods within those years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted-average of significant unobservable inputs used to develop Level-3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively. All other amendments should be applied retrospectively. Early adoption is permitted. The Company adopted ASU 2018-13 as of January 1, 2020. The amended disclosure requirements did not have a material impact to the Company's consolidated financial statements upon adoption.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350)*. This standard is intended to simplify the subsequent measurement of goodwill by eliminating step two from the goodwill impairment test. In computing the implied fair value of goodwill under step two, an entity determined the fair value at the impairment testing date of its assets and liabilities, including unrecognized assets and liabilities, following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, an entity will perform only step one of its quantitative goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and then recognizing the impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. An entity will still have the option to perform a qualitative assessment for a reporting unit to determine if the quantitative step one impairment test is necessary. The effective date of the standard is for fiscal periods, and interim periods within those years, beginning after December 15, 2019. The new standard must be adopted prospectively with early adoption permitted. The Company adopted ASU 2017-04 as of January 1, 2020, and will eliminate step two from its goodwill impairment tests. There was no material impact to the consolidated financial statements upon adoption.

Financial Instruments - Credit losses and related policy updates

The Company is exposed to credit losses through the sale of goods and services to the Company's customers. Receivables held by the Company primarily relate to short-term trade receivables and financing receivables, which include Municipal Utility District ("MUD") receivables, Special Improvement District ("SID") bonds, tax increment financing ("TIF") receivables, net investments in lease receivables, and notes receivable. The Company assesses its exposure to credit loss based on historical collection experience and future expectations by portfolio segment. Historical collection experience is evaluated on a quarterly basis by the Company.

The following table summarizes the amortized cost basis of financing receivables by portfolio segment as of March 31, 2020:

($ in thousands)	MUD receivables	SID receivables	TIF receivables	Net investments in lease receivable	Notes receivable	Total
Collection experience	$ 286,157	$ 42,103	$ 3,853	$ 2,950	$ 36,247	$ 371,310

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

Accrued interest of $15.7 million and $17.3 million are included within municipal utility district receivables on the Company's consolidated balance sheet as of March 31, 2020 and 2019, respectively.

The following table presents the activity in the allowance for credit losses for financing receivables by portfolio segment for the three months ended March 31, 2020:

($ in thousands)	MUD receivables	SID receivables	TIF receivables	Net investments in lease receivable	Notes receivable	Trade accounts receivable (a)
Beginning balance as of January 1, 2020	$ —	$ —	$ —	$ 17	$ 209	$ —
Current-period provision for expected credit losses	—	—	—	—	39	60
Write-offs	—	—	—	—	(1)	—
Recoveries	—	—	—	—	—	—
Ending balance as of March 31, 2020	$ —	$ —	$ —	$ 17	$ 247	$ 60

(a) Trade accounts receivable are presented within accounts receivable, net on the consolidated balance sheet. Accounts receivable, net also includes receivables related to operating leases. Collectability and related allowance for amounts due under operating leases is assessed under the guidance of ASC 842. Reserves related to operating lease receivables are not included in the above table.

Financing receivables are considered to be past due once they are 30 days contractually past due under the terms of the agreement. The Company currently does not have significant financing receivables that are past due or on nonaccrual status.

There have been no significant write-offs or recoveries of amounts previously written-off during the current period for financing receivables.

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 3 REAL ESTATE AND OTHER AFFILIATES

Equity investments in real estate and other affiliates are reported as follows:

	Economic/Legal Ownership		Carrying Value		Share of Earnings/Dividends	
	March 31,	December 31,	March 31,	December 31,	Three Months Ended March 31,	
($ in thousands)	2020	2019	2020	2019	2020	2019
Equity Method Investments						
Operating Assets:						
The Metropolitan Downtown Columbia (a)	50%	50%	$ —	$ —	$ 227	$ 183
Stewart Title of Montgomery County, TX	50%	50%	3,767	4,175	343	102
Woodlands Sarofim #1	20%	20%	3,019	2,985	35	20
m.flats/TEN.M	50%	50%	1,784	2,431	65	(1,221)
Master Planned Communities:						
The Summit (b)	—%	—%	92,216	84,455	8,934	7,837
Seaport District:						
Mr. C Seaport	35%	35%	7,000	7,650	(651)	(632)
Bar Wayō (Momofuku) (b)	—%	—%	6,745	7,469	(1,392)	—
Strategic Developments:						
Circle T Ranch and Power Center	50%	50%	8,405	8,207	86	35
HHMK Development	50%	50%	10	10	—	—
KR Holdings	50%	50%	394	422	(22)	2
			123,340	117,804	7,625	6,326
Other equity investments (c)			3,953	3,953	3,724	3,625
Investments in real estate and other affiliates			$ 127,293	$ 121,757	$ 11,349	$ 9,951

(a) The Metropolitan Downtown Columbia was in a deficit position of $4.9 million and $4.7 million at March 31, 2020, and December 31, 2019, respectively, due to distributions from operating cash flows in excess of basis. These deficit balances are presented in Accounts payable and accrued expenses at March 31, 2020, and December 31, 2019.

(b) Please refer to the discussion below for a description of the joint venture ownership structure.

(c) Other equity investments represent equity investments not accounted for under the equity method. The Company elected the measurement alternative as these investments do not have readily determinable fair values. There were no impairments, or upward or downward adjustments to the carrying amounts of these securities either during current year 2020 or cumulatively.

As of March 31, 2020, the Company is not the primary beneficiary of any of the joint ventures listed above because it does not have the power to direct the activities that most significantly impact the economic performance of the joint ventures; therefore, the Company reports its interests in accordance with the equity method. As of March 31, 2020, and December 31, 2019, the Mr. C Seaport variable interest entity ("VIE") does not have sufficient equity at risk to finance its operations without additional financial support. As of March 31, 2020, and December 31, 2019, Bar Wayō is also classified as a VIE because the equity holders, as a group, lack the characteristics of a controlling financial interest. The carrying values of Mr. C Seaport and Bar Wayō as of March 31, 2020, are $7.0 million and $6.7 million, respectively, and are classified as Investments in real estate and other affiliates in the Condensed Consolidated Balance Sheets. The Company's maximum exposure to loss as a result of these investments is limited to the aggregate carrying value of the investments as the Company has not provided any guarantees or otherwise made firm commitments to fund amounts on behalf of these VIEs. As of March 31, 2020, approximately $209.1 million of indebtedness was secured by the properties owned by the Company's real estate and other affiliates, of which the Company's share was $100.2 million based upon economic ownership. All of this indebtedness is without recourse to the Company.

As of March 31, 2020, the Company is the primary beneficiary of one VIE, 110 North Wacker, which is consolidated in its financial statements. The Company began consolidating 110 North Wacker and its underlying entities in the second quarter of 2018 as further discussed below. 110 North Wacker's creditors do not have recourse to the Company, except for 18%, or $41.4 million, of its outstanding loan balance. As of March 31, 2020, the carrying values of the assets and liabilities associated with the operations of the consolidated VIE were $433.9 million and $235.7 million, respectively. As of December 31, 2019, the carrying values of the assets and liabilities associated with the operations of the consolidated VIE was $393.3 million and $186.5 million, respectively. The assets of the VIE are restricted for use only by the particular VIE and are not available for the Company's general operations.

Significant activity for real estate and other affiliates and the related accounting considerations are described below.

110 North Wacker

During the second quarter of 2018, the Company's partnership with the local developer (the "Partnership") executed a joint venture agreement with USAA related to 110 North Wacker. At execution, the Company contributed land with a carrying value of $33.6 million and an agreed upon fair value of $85.0 million, and USAA contributed $64.0 million in cash. The Company had subsequent capital obligations of $42.7 million, and USAA was required to fund up to $105.6 million in addition to its initial contribution. The Company and its joint venture partners have also entered into a construction loan agreement further described in Note 7 - *Mortgages, Notes and Loans Payable, Net*. On May 23, 2019, the Company and its joint venture partners increased the construction loan. Concurrently with the increase in the construction loan, the Company and its joint venture partners agreed to eliminate the Company's subsequent capital obligations. USAA agreed to fund an additional $8.8 million, for a total commitment of $178.4 million. No changes were made to the rights of either the Company or the joint venture partners under the joint venture agreement. The Company has concluded that it is the primary beneficiary of the VIE because it has the power to direct activities that most significantly impact the joint venture's economic performance during the development phase of the project. Upon the building's completion, the Company expects to recognize the joint venture under the equity method.

Given the nature of the venture's capital structure and the provisions for the liquidation of assets, the Company's share of the venture's income-producing activities is recognized based on the Hypothetical Liquidation at Book Value ("HLBV") method, which represents an economic interest of approximately 23% for the Company. Under this method, the Company recognizes income or loss in Equity in earnings from real estate and other affiliates based on the change in its underlying share of the venture's net assets on a hypothetical liquidation basis as of the reporting date. After USAA receives a 9.0% preferred return on its capital contribution, the Partnership is entitled to cash distributions from the venture until it receives a 9.0% return. Subsequently, USAA is entitled to cash distributions equal to 11.11% of the amount distributed to the Partnership that resulted in a 9.0% return. Thereafter, the Partnership and USAA are entitled to distributions *pari passu* to their profit ownership interests of 90% and 10%, respectively.

The Summit

During the first quarter of 2015, the Company formed DLV/HHPI Summerlin, LLC ("The Summit") a joint venture with Discovery Land Company ("Discovery"). The Company contributed land with a carrying value of $13.4 million and transferred SID bonds related to such land with a carrying value of $1.3 million to the joint venture at the agreed upon capital contribution value of $125.4 million, or $226,000 per acre. Discovery is required to fund up to a maximum of $30.0 million of cash as their capital contribution, and the Company has no further capital obligations. The gains on the contributed land are recognized in Equity in earnings from real estate and other affiliates as the joint venture sells lots.

After the Company receives its capital contribution of $125.4 million and a 5.0% preferred return on such capital contribution, Discovery is entitled to cash distributions by the joint venture until it has received two times its equity contribution. Any further cash distributions are shared equally. Given the nature of the venture's capital structure and the provisions for the liquidation of assets, the Company's share of the venture's income-producing activities is recognized based on the HLBV method.

Relevant financial statement information for The Summit is summarized as follows:

(In thousands)	March 31, 2020	December 31, 2019
Total Assets	$ 222,447	$ 221,277
Total Liabilities	128,098	136,314
Total Equity	94,349	84,963

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

(In thousands)	Three Months Ended March 31, 2020	2019
Revenues (a)	$ 39,836	$ 30,483
Net income	10,559	7,423
Gross Margin	11,704	8,332

(a) The Summit adopted ASU 2014-09, *Revenues from Contracts with Customers (Topic 606)* effective in the fourth quarter of 2019 using the modified retrospective transition method. Therefore, for 2020, revenues allocated to each of The Summit's performance obligations is recognized over time based on an input measure of progress. The first quarter of 2019 amounts have not been adjusted and are recognized on a percentage of completion basis. The Summit's adoption of ASU 2014-09 did not have a material impact on the Company's consolidated financial statements.

Bar Wayō

During the first quarter of 2016, the Company formed Pier 17 Restaurant C101, LLC ("Bar Wayō"), a joint venture with MomoPier, LLC ("Momofuku"), an affiliate of the Momofuku restaurant group, to construct and operate a restaurant and bar at Pier 17 in the Seaport District. Under the terms of the joint venture agreement, the Company will fund 89.75% of the costs to construct the restaurant, and Momofuku will contribute the remaining 10.25%.

After each member receives a 10.0% preferred return on its capital contributions, available cash will be allocated 75.0% to the Company and 25.0% to Momofuku, until each member's unreturned capital account has been reduced to zero. Any remaining cash will be distributed to the members in proportion to their respective percentage interests, or 50% each to the Company and Momofuku. Given the nature of the venture's capital structure and the provisions for the liquidation of assets, the Company's share of the venture's income-producing activities is recognized based on the HLBV method.

NOTE 4 RECENT TRANSACTIONS

In November of 2019, the Company entered into a lease agreement related to its property at 100 Fellowship Drive, a 13.5-acre land parcel and 203,257-square-foot build-to-suit medical building with approximately 550 surface parking spaces in The Woodlands, Texas. At lease commencement, the Company derecognized $63.7 million from Developments and recorded a net investment in lease receivable of $75.9 million on the Condensed Consolidated Balance Sheets, recognizing $13.5 million of Selling profit from the sales-type lease on the Condensed Consolidated Statements of Operations.

On March 13, 2020, the Company closed on the sale of this asset for a total sales price of $115.0 million, resulting in a gain of $38.3 million, which is included in Gain (loss) on sale or disposal of real estate and other assets, net on the Condensed Consolidated Statements of Operations. The carrying value of the net investment in lease receivable was approximately $76.1 million at the time of sale. Gain on sale is calculated as the difference between the purchase price of $115.0 million, and the asset's carrying value, less related transaction costs of approximately $0.2 million. Contemporaneous with the sale, the Company credited to the buyer approximately $0.6 million for operating account funds and the buyer's assumption of the related liabilities. After the sale, the Company had no continuing involvement in this lease.

After repayment of debt associated with the property, the sale generated approximately $64.2 million in net proceeds, which are presented as cash inflows from operating activities in the Condensed Consolildated Statement of Cash Flows for the three months ended March 31, 2020. The Company intends to use the net proceeds from the sale to strengthen its balance sheet and improve liquidity. As this transaction was completed on a tax-free basis for federal income tax purposes as part of a reverse 1031 exchange involving the Company's December 2019 purchase of The Woodlands Towers at The Waterway, the net proceeds were held at the escrow agent as of the end of the current quarter and are reflected in Restricted cash on the Company's Condensed Consolidated Balance Sheets as of March 31, 2020.

NOTE 5 IMPAIRMENT

The Company reviews its long-lived assets for potential impairment indicators whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. During the first quarter of 2020, the Company recorded a $48.7 million impairment charge for Outlet Collection at Riverwalk, a 268,556-square-foot urban upscale outlet center located along the

Mississippi River in downtown New Orleans, LA. As of March 31, 2020, the Company recognized the impairment due to decreases in estimated future cash flows as a result of the impact of a shorter than anticipated holding term due to management's plans to divest the non-core operating asset, decreased demand and reduced interest in brick and mortar retail due to the impact of COVID-19, as well as an increase in the capitalization rate used to evaluate future cash flows due to the impact of COVID-19. The $46.8 million net carrying value of Outlet Collection at Riverwalk, after the impairment, represents the estimated current fair market value at March 31, 2020. There can be no assurance that the Company will ultimately recover this amount through a sale.

The following table summarizes the provision for impairment:

Impaired Asset	Location	Method of Determining Fair Value	Provision for Impairment as of March 31, 2020	2019
			(In thousands)	
Operating Assets:				
Outlet Collection at Riverwalk	New Orleans, LA	Discounted cash flow analysis using capitalization rate of 10.0%	$ 48,738	$ —

With respect to the Investment in real estate and other affiliates, a series of operating losses of an underlying asset or other factors may indicate that a decrease in value has occurred which is other-than-temporary. The investment in each real estate and other affiliate is evaluated periodically and as deemed necessary for recoverability and valuation declines that are other-than-temporary.
No impairment charges were recorded for the Investment in real estate and other affiliates during the three months ended March 31, 2020, or during the year ended December 31, 2019.

The Company periodically evaluates its strategic alternatives with respect to each of its properties and may revise its strategy from time to time, including its intent to hold an asset on a long-term basis or the timing of potential asset dispositions. These changes in strategy could result in impairment charges in future periods.

NOTE 6 OTHER ASSETS AND LIABILITIES

Prepaid Expenses and Other Assets

The following table summarizes the significant components of Prepaid expenses and other assets:

(In thousands)	March 31, 2020	December 31, 2019
Straight-line rent	$ 59,082	$ 56,223
Condominium inventory	55,577	56,421
In-place leases	53,059	54,471
Security, escrow, and other deposits	51,197	17,464
Special Improvement District receivable	42,103	42,996
Intangibles	33,105	33,275
Prepaid expenses	14,132	13,263
Other	8,127	9,252
Tenant incentives and other receivables	7,527	7,556
TIF receivable	3,854	3,931
Federal income tax receivable	2,389	655
Food and beverage and lifestyle inventory	1,914	4,310
Above-market tenant leases	491	556
Prepaid expenses and other assets, net	$ 332,557	$ 300,373

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

The $32.2 million net increase primarily relates to a $33.7 million increase in Security, escrow, and other deposits from December 31, 2019, primarily attributable to rate-lock and security deposits for The Woodlands Towers at the Waterway; a $2.9 million increase in Straight-line rent mainly due to the acquisition of The Woodlands Towers at the Waterway and Operating Assets placed in service during the year; and a $1.7 million increase in Federal income tax receivable due to a decrease in income before taxes. These increases are partially offset by a $2.4 million decrease in Food and beverage and lifestyle inventory predominantly due to the write-off of inventory at 10 Corso Como Retail and Café; a $1.4 million decrease in In-place leases partially as a result of amortization of the leases at The Woodlands Towers at the Waterway; and a $1.1 million decrease in Other attributable to tenant improvement write-offs related to the sale of 100 Fellowship Drive in the first quarter of 2020.

Accounts Payable and Accrued Expenses

The following table summarizes the significant components of Accounts payable and accrued expenses:

(In thousands)	March 31, 2020	December 31, 2019
Construction payables	$ 327,557	$ 261,523
Condominium deposit liabilities	240,980	194,794
Interest rate swap liabilities	77,363	40,135
Deferred income	63,817	63,483
Accounts payable and accrued expenses	31,651	37,480
Tenant and other deposits	27,632	24,080
Accrued payroll and other employee liabilities	21,697	44,082
Accrued real estate taxes	15,577	27,559
Other	14,101	16,173
Accrued interest	11,418	23,838
Accounts payable and accrued expenses	$ 831,793	$ 733,147

The $98.6 million net increase primarily relates to a $66.0 million increase in Construction payables primarily attributable to a $97.9 million charge for repairs and remediation on certain alleged construction defects at the Waiea condominium tower (see Note 10 - *Commitments and Contingencies* for details), partially offset by reduced construction spend at several projects approaching completion including Juniper Apartments, Bridgeland, 8770 New Trails, 110 North Wacker, Lakefront North and 6100 Merriweather; a $46.2 million increase in Condominium deposit liabilities primarily attributable to sales at Victoria Place, Kō'ula, and ʻAʻaliʻi and a $37.2 million increase in Interest rate swap liabilities due to a decrease of the one-month London Interbank Offered Rate ("LIBOR") forward curve for the periods presented. These increases are offset by a $22.4 million decrease in Accrued payroll and other employee liabilities primarily due to the 2019 annual incentive bonus payment in the first quarter of 2020; a $12.4 million decrease in Accrued interest attributable to the semi-annual payment of interest on the $1.0 billion Unsecured 5.375% Senior Notes; a $12.0 million decrease in Accrued real estate taxes primarily related to tax payments in the first quarter of 2020 for 2019; and a $5.8 million decrease in Accounts payable and accrued expenses.

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 7 MORTGAGES, NOTES AND LOANS PAYABLE, NET

Mortgages, notes and loans payable, net are summarized as follows:

(In thousands)	March 31, 2020	December 31, 2019
Fixed-rate debt:		
Unsecured 5.375% Senior Notes	$ 1,000,000	$ 1,000,000
Secured mortgages, notes and loans payable	882,727	884,935
Special Improvement District bonds	23,460	23,725
Variable-rate debt:		
Mortgages, notes and loans payable (a)	2,438,879	2,229,958
Unamortized bond issuance costs	(5,030)	(5,249)
Unamortized deferred financing costs (b)	(35,446)	(36,899)
Total mortgages, notes and loans payable, net	$ 4,304,590	$ 4,096,470

(a) As more fully described in Note 9 - *Derivative Instruments and Hedging Activities*, $706.2 million and $630.1 million of variable-rate debt has been swapped to a fixed rate for the term of the related debt, $229.9 million and $184.3 million of variable-rate debt was subject to interest rate collars and $75.0 million of variable-rate debt was capped at a maximum interest rate as of March 31, 2020, and December 31, 2019.

(b) Deferred financing costs are amortized to interest expense over the terms of the respective financing agreements using the effective interest method (or other methods which approximate the effective interest method).

Certain of the Company’s loans contain provisions which grant the lender a security interest in the operating cash flow of the property that represents the collateral for the loan. Certain mortgage notes may be prepaid subject to a prepayment penalty equal to a yield maintenance premium, defeasance or percentage of the loan balance. As of March 31, 2020, land, buildings and equipment and developments with a net book value of $6.6 billion have been pledged as collateral for HHC’s Mortgages, notes and loans payable, net. As of March 31, 2020, the Company was in compliance with all of its financial covenants included in the agreements governing its indebtedness.

The Summerlin MPC uses SID bonds to finance certain common infrastructure improvements. These bonds are issued by the municipalities and are secured by the assessments on the land. The majority of proceeds from each bond issued is held in a construction escrow and disbursed to the Company as infrastructure projects are completed, inspected by the municipalities and approved for reimbursement. Accordingly, the SID bonds have been classified as debt, and the Summerlin MPC pays the debt service on the bonds semi-annually. As Summerlin sells land, the buyers assume a proportionate share of the bond obligation at closing, and the residential sales contracts provide for the reimbursement of the principal amounts that the Company previously paid with respect to such proportionate share of the bond. In the three months ended March 31, 2020, no new SID bonds were issued and an insignificant amount of obligations were assumed by buyers.

Recent Financing Activity

The Company is currently documenting the terms of an extension for the remaining $280.3 million of the bridge loan for The Woodlands Towers at the Waterway and The Woodlands Warehouse, pursuant to which the Company would receive a six-month extension at LIBOR plus 2.35% and have the option for an additional six-month extension at LIBOR plus 2.90%, extending the final maturity to June 2021.

The Company received a term sheet from the existing Downtown Summerlin lender that contemplates extending the financing by three years at a rate of LIBOR plus 2.50% in exchange for a pay-down of approximately $35.7 million to a total commitment of $221.5 million.

The Company is still in the process of documenting and/or negotiating the foregoing, and there can be no assurances that the Company will enter into such arrangements on the proposed terms or at all.

Financing Activity During the Three Months Ended March 31, 2020

On March 27, 2020, the Company closed on a $356.8 million construction loan for the development of Kō'ula. The loan bears interest at LIBOR plus 3.00% with an initial maturity date of March 27, 2023, and a one-year extension option.

On March 26, 2020, the Company closed on a partial refinance of the bridge loan for The Woodlands Towers at the Waterway and The Woodlands Warehouse for $137.0 million. In conjunction with the partial refinance, the original loan was paid down by $63.5 million and 9950 Woodloch Forest Drive tower was split into a new loan. The new loan bears interest at LIBOR plus 1.95% with a maturity date of March 26, 2025.

On March 13, 2020, the Company paid off the $50.0 million outstanding loan balance relating to 100 Fellowship Drive in conjunction with the sale of the property. The payment was made using the proceeds from the sale of the property.

On March 5, 2020, the Company modified and extended the $61.2 million loan for Three Hughes Landing. The new $61.0 million loan bears interest at one-month LIBOR plus 2.60%, with a maturity of September 5, 2020, at which point the Company anticipates the Three Hughes Landing loan will be extended for an additional 12 months.

On January 7, 2020, the Company closed on a $43.4 million construction loan for the development of Creekside Park Apartments Phase II. The loan bears interest at LIBOR plus 1.75% with an initial maturity date of January 7, 2024, and a one-year extension option.

NOTE 8 FAIR VALUE

ASC 820, *Fair Value Measurement*, emphasizes that fair value is a market-based measurement that should be determined using assumptions market participants would use in pricing an asset or liability. The standard establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring assets or liabilities at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the asset or liability. Assets or liabilities with readily available active quoted prices, or for which fair value can be measured from actively quoted prices, generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

The following table presents the fair value measurement hierarchy levels required under ASC 820 for the Company's liabilities that are measured at fair value on a recurring basis:

	March 31, 2020				December 31, 2019			
	Fair Value Measurements Using				Fair Value Measurements Using			
(In thousands)	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Interest rate derivative liabilities	$ 77,363	$ —	$ 77,363	$ —	$ 40,135	$ —	$ 40,135	$ —

The fair values of interest rate derivatives are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates derived from observable market interest rate curves.

The estimated fair values of the Company's financial instruments that are not measured at fair value on a recurring basis are as follows:

		March 31, 2020		December 31, 2019	
(In thousands)	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:					
Cash and Restricted cash	Level 1	$ 1,238,713	$ 1,238,713	$ 620,135	$ 620,135
Accounts receivable, net (a)	Level 3	9,944	9,944	12,279	12,279
Notes receivable, net (b)	Level 3	36,000	36,000	36,379	36,379
Liabilities:					
Fixed-rate debt (c)	Level 2	1,906,187	1,864,876	1,908,660	1,949,773
Variable-rate debt (c)	Level 2	2,438,879	2,438,879	2,229,958	2,229,958

(a) Accounts receivable, net is shown net of an allowance of $9.8 million and $15.6 million at March 31, 2020, and December 31, 2019, respectively.
(b) Notes receivable, net is shown net of an allowance of $0.2 million at March 31, 2020, and December 31, 2019..
(c) Excludes related unamortized financing costs.

The carrying amounts of Cash and Restricted cash, Accounts receivable, net and Notes receivable, net approximate fair value because of the short-term maturity of these instruments.

The fair value of the Company's Senior Notes, included in fixed-rate debt in the table above, is based upon the trade price closest to the end of the period presented. The fair value of other fixed-rate debt in the table above was estimated based on a discounted future cash payment model, which includes risk premiums and risk-free rates derived from the current LIBOR or U.S. Treasury obligation interest rates. Please refer to Note 7 - *Mortgages, Notes and Loans Payable, Net* in the Company's Condensed Consolidated Financial Statements. The discount rates reflect the Company's judgment with respect to approximate current lending rates for loans or groups of loans with similar maturities and credit quality would be if credit markets were operating efficiently and assuming that the debt is outstanding through maturity.

The carrying amounts for the Company's variable-rate debt approximate fair value given that the interest rates are variable and adjust with current market rates for instruments with similar risks and maturities.

The following table includes a non-financial asset that was measured at fair value on a non-recurring basis as a result of the property being impaired:

	March 31, 2020				
	Fair Value Measurements Using				
(In thousands)	Total Fair Value Measurement	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total (Loss)
Operating Assets:					
Outlet Collection at Riverwalk (a)	$ 46,794	$ —	$ —	$ 46,794	$ (48,738)

(a) The fair value was determined based on a discounted cash flow analysis using a capitalization rate of 10.0% and is shown net of transaction costs.

NOTE 9 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to interest rate risk related to its variable interest rate debt, and it manages this risk by utilizing interest rate derivatives. The Company uses interest rate swaps, collars and caps to add stability to interest costs by reducing the Company's exposure to interest rate movements. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company's fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate collars designated as cash flow hedges involve the receipt of variable amounts from a counterparty if interest rates rise above an established ceiling rate and payment of variable amounts to a counterparty if interest rates fall below an established floor rate, in exchange for an up-front premium. No payments or receipts are exchanged on interest rate collar contracts unless interest rates rise above or fall below the established ceiling and floor rates. Interest rate caps designated as cash flow hedges involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium. The Company's interest rate cap is not currently designated as a hedge, and therefore, any gain or loss is recognized in current-period earnings. This derivative is recorded on a gross basis at fair value on the balance sheet.

Assessments of hedge effectiveness are performed quarterly using regression analysis. The change in the fair value of derivatives designated and qualifying as cash flow hedges is recorded in Accumulated Other Comprehensive Income ("AOCI") and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings within the same income statement line item being hedged. Derivatives accounted for as cash flow hedges are classified in the same category in the Condensed Consolidated Statements of Cash Flows as the items being hedged. Gains and losses from derivative financial instruments are reported in Cash used in operating activities within the Condensed Consolidated Statements of Cash Flows.

The Company is exposed to credit risk in the event of non-performance by its derivative counterparties. The Company evaluates counterparty credit risk through monitoring the creditworthiness of counterparties, which includes review of debt ratings and financial performance. To mitigate its credit risk, the Company enters into agreements with counterparties that are considered credit-worthy, such as large financial institutions with favorable credit ratings. As of March 31, 2020, and December 31, 2019, there were no events of default.

If the derivative contracts are terminated prior to their maturity, the amounts previously recorded in AOCI are recognized into earnings over the period that the hedged transaction impacts earnings. If the hedging relationship is discontinued because it is probable that the forecasted transaction will not occur in accordance with the original strategy, any related amounts previously recorded in AOCI are recognized in earnings immediately. As of March 31, 2020, there were no termination events, and as of December 31, 2019, there was one termination event, as discussed below. During the three months ended March 31, 2020, the Company recorded a $0.9 million reduction in Interest expense, related to the amortization of terminated swaps.

During the three months ended March 31, 2020, the Company did not settle any derivatives. During the year ended December 31, 2019, the Company settled one interest rate cap agreement with a notional amount of $230.0 million and received payment of $0.2 million. The Company has deferred the effective portion of the fair value changes of three previously settled interest rate swap agreements in Accumulated other comprehensive loss on the accompanying Condensed Consolidated Balance Sheets and will recognize the impact as a component of Interest expense over the next 7.8, 1.5 and 0.1 years, which are what remain of the original forecasted periods.

Amounts reported in AOCI related to derivatives will be reclassified to Interest expense as interest payments are made on the Company's variable-rate debt. Over the next 12 months, HHC estimates that an additional $19.6 million of net loss will be reclassified to Interest expense.

The following table summarizes certain terms of the Company's derivative contracts:

(In thousands)		Balance Sheet Location	Notional Amount	Fixed Interest Rate (a)	Effective Date	Maturity Date	Fair Value Asset (Liability) March 31, 2020	Fair Value Asset (Liability) December 31, 2019
Derivative instruments not designated as hedging instruments:								
Interest rate cap	(b)	Prepaid expenses and other assets, net	$230,000	2.50%	12/22/2016	12/23/2019	$ —	$ —
Interest rate cap	(c)	Prepaid expenses and other assets, net	75,000	5.00%	8/31/2019	8/31/2020	—	—
Derivative instruments designated as hedging instruments:								
Interest rate collar	(d)	Accounts payable and accrued expenses	193,967	2.00% - 3.00%	5/1/2019	5/1/2020	(164)	(182)
Interest rate collar	(d)	Accounts payable and accrued expenses	354,217	2.25% - 3.25%	5/1/2020	5/1/2021	(5,791)	(2,074)
Interest rate collar	(d)	Accounts payable and accrued expenses	381,404	2.75% - 3.50%	5/1/2021	4/30/2022	(9,182)	(4,578)
Interest rate swap	(e)	Accounts payable and accrued expenses	615,000	2.96%	9/21/2018	9/18/2023	(55,955)	(31,187)
Interest rate swap	(f)	Accounts payable and accrued expenses	1,810	4.89%	11/1/2019	1/1/2032	(6,271)	(2,114)
Total fair value derivative liabilities							$ (77,363)	$ (40,135)

(a) These rates represent the strike rate on HHC's interest swaps, caps and collars.
(b) The Company settled this Interest rate cap on February 1, 2019. Interest income of $0.2 million is included in the Condensed Consolidated Statements of Operations for the year ended December 31, 2019, related to this contract.
(c) On August 30, 2019, the Company executed an agreement to extend the maturing position of this cap. Interest income included in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2020, and the year ended December 31, 2019, related to this contract was not meaningful.
(d) On May 17, 2018, and May 18, 2018, the Company entered into these interest rate collars which are designated as cash flow hedges.
(e) Concurrent with the funding of the $615.0 million term loan on September 21, 2018, the Company entered into this interest rate swap which is designated as a cash flow hedge.
(f) Concurrent with the closing of the $35.5 million construction loan for 8770 New Trails on June 27, 2019, the Company entered into this interest rate swap which is designated as a cash flow hedge.

The tables below present the effect of the Company's derivative financial instruments on the Condensed Consolidated Statements of Operations for the three months ended March 31, 2020, and 2019 (in thousands):

Derivatives in Cash Flow Hedging Relationships	Amount of Loss Recognized in AOCI on Derivative Three Months Ended March 31, 2020	2019
Interest rate derivatives	$ (31,340)	$ (5,816)

Location of (Loss) Gain Reclassified from AOCI into Operations	Amount of (Loss) Gain Reclassified from AOCI into Operations Three Months Ended March 31, 2020	2019
Interest expense	$ (1,093)	$ 128

Interest Expense Presented in Results of Operations	Total Interest Expense Presented in the Results of Operations in which the Effects of Cash Flow Hedges are Recorded Three Months Ended March 31, 2020	2019
Interest expense	$ 34,448	$ 23,326

Credit-risk-related Contingent Features

The Company has agreements with certain derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. The Company also has agreements with certain derivative counterparties that contain a provision where the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company’s default on the indebtedness.

As of March 31, 2020, and December 31, 2019, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for non-performance risk, related to these agreements was $79.9 million and $41.6 million, respectively. As of March 31, 2020, the Company has not posted any collateral related to these agreements. If the Company had breached any of these provisions at March 31, 2020, it could have been required to settle its obligations under the agreements at their termination value of $79.9 million.

NOTE 10 COMMITMENTS AND CONTINGENCIES

In the normal course of business, from time to time, the Company is involved in legal proceedings relating to the ownership and operations of its properties.

On June 14, 2018, the Company was served with a petition involving approximately 500 individuals or entities who claim that their properties, located in the Timarron Park neighborhood of The Woodlands, were damaged by flood waters that resulted from the unprecedented rainfall that occurred throughout Harris County and surrounding areas during Hurricane Harvey in August 2017. The complaint was filed in State Court in Harris County of the State of Texas. In general, the plaintiffs allege negligence in the development of Timarron Park and violations of Texas' Deceptive Trade Practices Act and name as defendants The Howard Hughes Corporation, The Woodlands Land Development Company and two unaffiliated parties involved in the planning and engineering of Timarron Park. The plaintiffs are seeking restitution for damages to their property and diminution of their property values. The Company intends to vigorously defend the matter as it believes that these claims are without merit and that it has substantial legal and factual defenses to the claims and allegations contained in the complaint. Based upon the present status of this matter, the Company does not believe it is probable that a loss will be incurred. Accordingly, the Company has not recorded a charge as a result of this action.

In management's opinion, the liabilities, if any, that may ultimately result from normal course of business legal actions, including The Woodlands legal proceeding discussed above, are not expected to have a material effect on the Company's consolidated financial position, results of operations or liquidity.

In 2018, the Company recognized a $13.4 million charge for certain window repairs at Waiea. The Company is engaged in ongoing discussions with the Waiea homeowners association and expects to reach a settlement with the homeowners association to fund repairs and remediation of certain alleged construction defects at the tower that the Company believes are obligations of the general contractor. During the three months ended March 31, 2020, the Company recorded an additional $97.9 million charge for estimated costs related to this matter, which is included in Condominium rights and unit cost of sales in the accompanying Condensed Consolidated Statements of Operations. The Company intends to vigorously pursue recovery of these costs from the general contractor or other responsible parties.

The Company purchased its 250 Water Street property in the Seaport District in June 2018. The site is currently used as a parking lot while the Company evaluates redevelopment plans. The Company engaged a third-party specialist to perform a Phase I Environmental Site Assessment ("ESA") of the property, and the ESA identified, among other findings, the existence of mercury levels above regulatory criteria. The site does not require remediation until the Company begins redevelopment activities. The normal operations of the parking lot do not require the property to be remediated, and the Company has not started any redevelopment activities as of March 31, 2020. As a result, the potential remediation has no financial impact as of March 31, 2020, and for the three months ended March 31, 2020.

As of March 31, 2020, and December 31, 2019, the Company had outstanding letters of credit totaling $15.4 million, and surety bonds totaling $227.4 million and $200.1 million, respectively. These letters of credit and bonds were issued primarily in connection with insurance requirements, special real estate assessments and construction obligations.

The Company leases land or buildings at certain properties from third parties, the leases for which are recorded in Operating lease right-of-use assets, net and Operating lease obligations on the Condensed Consolidated Balance Sheets. See Note 17 - *Leases* for further discussion. Contractual rental expense, including participation rent, was $1.8 million and $2.1 million for the three months ended March 31, 2020, and 2019, respectively. The amortization of above and below-market ground leases and straight-line rents included in the contractual rent amount was not significant.

Guarantee Agreements

The Company has entered into guarantee agreements as part of certain development projects. In conjunction with the execution of the ground lease for the Seaport District, the Company executed a completion guarantee for the redevelopment of Pier 17 and the Tin Building. The Company satisfied its completion guarantee for Pier 17 in the second quarter of 2019.

The Company’s wholly owned subsidiaries have agreed to complete defined public improvements and to indemnify Howard County, Maryland for certain matters as part of the Downtown Columbia Redevelopment District TIF bonds. The Company has guaranteed the performance of its subsidiaries under the funding agreement for up to a maximum of $1.0 million until October 31, 2020. Furthermore, to the extent that increases in taxes do not cover debt service payments on the TIF bonds, the Company’s wholly owned subsidiary is obligated to pay special taxes. Management has concluded that any obligations under these guarantees are not probable.

As part of the Company’s development permits with the Hawai’i Community Development Authority for the condominium towers at Ward Village, the Company entered into a guarantee whereby it is required to reserve 20% of the residential units for local residents who meet certain maximum income and net worth requirements. This guarantee, which is triggered once the necessary permits are granted and construction commences, was satisfied for the Company’s four open condominium towers, Waiea, Anaha, Ae‘o and Ke Kilohana, with the opening of Ke Kilohana, which provided 375 reserved housing units. The reserved units for the Company’s ‘A‘ali‘i tower are included in the tower, and the units for Kō'ula will either be built off site or fulfilled by paying a cash-in-lieu fee.

The Company evaluates the likelihood of future performance under these guarantees and did not record an obligation as of March 31, 2020, and December 31, 2019.

NOTE 11 STOCK-BASED PLANS

The Company’s stock-based plans are described and informational disclosures are provided in the Notes to Consolidated Financial Statements included in the Annual Report.

Stock Options

The following table summarizes the Company’s stock option activity for the three months ended March 31, 2020:

	Stock Options	Weighted-average Exercise Price
Stock Options outstanding at December 31, 2019	721,496	$ 104.55
Granted	2,000	83.11
Exercised	(54,558)	67.88
Forfeited	(107,000)	126.24
Expired	(1,000)	125.09
Stock Options outstanding at March 31, 2020	560,938	$ 103.87

Compensation costs related to stock options were in a credit position of $0.7 million for the three months ended March 31, 2020 due to significant forfeitures which outweighed the expense. Compensation costs related to stock options were $0.7 million for the three months ended March 31, 2019, of which $0.2 million were capitalized to development projects.

Restricted Stock

The following table summarizes restricted stock activity for the three months ended March 31, 2020:

	Restricted Stock	Weighted-average Grant Date Fair Value
Restricted stock outstanding at December 31, 2019	406,802	$ 76.27
Granted	70,210	84.55
Forfeited	(12,796)	90.94
Restricted stock outstanding at March 31, 2020	464,216	$ 77.01

Compensation costs related to restricted stock awards for the three months ended March 31, 2020 and 2019 were $1.9 million and $2.3 million, of which zero and $0.3 million were capitalized to development projects, respectively.

NOTE 12 INCOME TAXES

The Company has significant permanent differences, primarily from stock compensation deductions and non-deductible executive compensation, which cause the effective tax rate to deviate from statutory rates. The effective tax rate, based upon actual operating results, was 21.4% for the three months ended March 31, 2020, compared to 25.7% for the three months ended March 31, 2019.

NOTE 13 WARRANTS

On October 7, 2016, the Company entered into a warrant agreement with its Chief Financial Officer, David R. O'Reilly, (the "O'Reilly Warrant") prior to his appointment to the position. Upon exercise of his warrant, Mr. O'Reilly may acquire 50,125 shares of common stock at an exercise price of $112.08 per share. The O'Reilly Warrant was issued at fair value in exchange for a $1.0 million payment in cash from Mr. O'Reilly. The O'Reilly Warrant becomes exercisable on April 6, 2022, subject to earlier exercise upon certain change in control, separation and termination provisions. On June 16, 2017, and October 4, 2017, the Company entered into warrant agreements with its Chief Executive Officer, David R. Weinreb, (the "Weinreb Warrant") and President, Grant Herlitz, (the "Herlitz Warrant") to acquire 1,965,409 shares and 87,951 shares of common stock for the purchase price of $50.0 million and $2.0 million, respectively. The Weinreb Warrant would have become exercisable on June 15, 2022, at an exercise price of $124.64 per share, and the Herlitz Warrant would have become exercisable on October 3, 2022, at an exercise price of $117.01 per share, subject in each case to earlier exercise upon certain change in control, separation and termination provisions (but such warrants became exercisable in connection with Mr. Weinreb's and Mr. Herlitz's terminations of employment, as described below). The purchase prices paid by the respective executives for the O'Reilly Warrant, the Weinreb Warrant and the Herlitz Warrant, which qualify as equity instruments, are included within Additional paid-in capital in the Condensed Consolidated Balance Sheets at March 31, 2020, and December 31, 2019.

On October 21, 2019, Mr. Weinreb and Mr. Herlitz stepped down from their roles as Chief Executive Officer and President of the Company, respectively. The Company and each of Mr. Weinreb and Mr. Herlitz have agreed to treat their terminations of employment as terminations without "cause" under their respective employment and warrant agreements with the Company. Thus, effective October 21, 2019, the Weinreb Warrant and Herlitz Warrant became exercisable by the terms of their respective warrant agreements in connection with their respective terminations of employment.

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

NOTE 14 ACCUMULATED OTHER COMPREHENSIVE LOSS

The following tables summarize changes in AOCI by component, all of which are presented net of tax:

(In thousands)		
Balance as of December 31, 2018	$	(8,126)
Other comprehensive loss before reclassifications		(5,867)
Gain reclassified from accumulated other comprehensive loss to net income		(128)
Terminated swap amortization		(638)
Net current-period other comprehensive loss		(6,633)
Balance as of March 31, 2019	$	(14,759)
Balance as of December 31, 2019	$	(29,372)
Other comprehensive loss before reclassifications		(31,340)
Loss reclassified from accumulated other comprehensive loss to net income		1,093
Terminated swap amortization		(654)
Net current-period other comprehensive loss		(30,901)
Balance as of March 31, 2020	$	(60,273)

The following table summarizes the amounts reclassified out of AOCI:

(In thousands)	Amounts reclassified from Accumulated Other Comprehensive Income (Loss) Three Months Ended March 31,		
Accumulated Other Comprehensive Income (Loss) Components	**2020**	**2019**	**Affected line items in the Statements of Operations**
Losses (gains) on cash flow hedges	$ 1,383	$ (162)	Interest expense
Interest rate swap contracts	(290)	34	Provision for income taxes
Total reclassifications of loss (income) for the period	$ 1,093	$ (128)	Net of tax

NOTE 15 EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding. Diluted EPS is computed after adjusting the numerator and denominator of the basic EPS computation for the effects of all potentially dilutive common shares. The dilutive effect of options and non-vested stock issued under stock-based compensation plans is computed using the treasury stock method. The dilutive effect of the warrants is computed using the if-converted method.

Information related to the Company's EPS calculations is summarized as follows:

	Three Months Ended March 31,	
(In thousands, except per share amounts)	**2020**	**2019**
Basic EPS:		
Numerator:		
Net (loss) income	$ (125,082)	$ 31,925
Net income attributable to noncontrolling interests	(52)	(104)
Net (loss) income attributable to common stockholders	$ (125,134)	$ 31,821
Denominator:		
Weighted-average basic common shares outstanding	43,380	43,106
Diluted EPS:		
Numerator:		
Net (loss) income attributable to common stockholders	$ (125,134)	$ 31,821
Denominator:		
Weighted-average basic common shares outstanding	43,380	43,106
Restricted stock and stock options	—	151
Weighted-average diluted common shares outstanding (a)	43,380	43,257
Basic (loss) income per share:	$ (2.88)	$ 0.74
Diluted (loss) income per share:	$ (2.88)	$ 0.74

(a) The diluted EPS computation for the three months ended March 31, 2020, excludes outstanding stock awards because their effect is anti-dilutive. The diluted EPS computation for the three months ended March 31, 2019, excludes 563,808 shares of stock options because their inclusion would have been anti-dilutive. The diluted EPS computation for the three months ended March 31, 2020, and 2019 excludes 265,699 and 288,010 shares of restricted stock, respectively, because performance conditions provided for in the restricted stock awards have not been satisfied.

On March 27, 2020, the Company offered 2,000,000 shares of common stock to the public at $50.00 per share and granted the underwriters an option to purchase up to an additional 300,000 shares of common stock at the same price. The underwriters partially exercised their option and purchased an additional 270,900 shares. Concurrently, the Company entered into a share purchase agreement with Pershing Square Capital Management, L.P., acting as investment advisor to funds that it manages, to issue and sell 10,000,000 shares of common stock in a private placement at $50.00 per share. The total issuance of 12,270,900 shares closed on March 31, 2020, and the Company received $593.7 million in net proceeds. The Company intends to use the net proceeds for general corporate purposes including strengthening the Company's balance sheet and enhancing liquidity.

NOTE 16 REVENUES

The core principle of ASC 606, *Revenues from Contracts with Customers*, is that revenues from contracts with customers (excluding lease-related revenues) are recognized when control of the promised goods or services is transferred to the Company's customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Condominium rights and unit sales revenues were previously required to be recognized under the percentage of completion method. Under ASC 606, revenue and cost of sales for condominium units sold are not recognized until the construction is complete, the sale closes and the title to the property has transferred to the buyer (point in time). Additionally, certain real estate selling costs, such as the costs related to the Company's condominium model units, are either expensed immediately or capitalized as property and equipment and depreciated over their estimated useful life.

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

The following table presents the Company's revenues disaggregated by revenue source:

	Three Months Ended March 31,	
(In thousands)	**2020**	**2019**
Revenues		
From contracts with customers		
Recognized at a point in time:		
Condominium rights and unit sales	$ 43	$ 198,310
Master Planned Communities land sales	39,732	41,312
Builder price participation	7,759	5,195
Total revenue from contracts with customers	47,534	244,817
Recognized at a point in time and/or over time:		
Other land, rental and property revenues	34,897	41,479
Total other income	34,897	41,479
Rental and other income (lease-related revenues)		
Minimum rents	70,987	54,086
Tenant recoveries	20,875	13,508
Interest income from sales-type leases	882	—
Total rental income	92,744	67,594
Total revenues	**$ 175,175**	**$ 353,890**
Revenues by segment		
Operating Assets revenues	$ 114,257	$ 91,953
Master Planned Communities revenues	50,446	50,896
Seaport District revenues	9,694	7,030
Strategic Developments revenues	760	204,011
Corporate revenues	18	—
Total revenues	**$ 175,175**	**$ 353,890**

Contract Assets and Liabilities

Contract assets are the Company's right to consideration in exchange for goods or services that have been transferred to a customer, excluding any amounts presented as a receivable. Contract liabilities are the Company's obligation to transfer goods or services to a customer for which the Company has received consideration.

The beginning and ending balances of contract assets and liabilities and significant activity during the period is as follows:

(In thousands)	**Contract Liabilities**
Balance as of December 31, 2019	$ 246,010
Consideration earned during the period	(17,885)
Consideration received during the period	64,432
Balance as of March 31, 2020	$ 292,557

Remaining Unsatisfied Performance Obligations

The Company's remaining unsatisfied performance obligations as of March 31, 2020, represent a measure of the total dollar value of work to be performed on contracts executed and in progress. These performance obligations are associated with contracts that generally are noncancelable by the customer after 30 days; however, purchasers of condominium units have the right to cancel the contract should the Company elect not to construct the condominium unit within a certain period of time or materially change the design of the condominium unit. The aggregate amount of the transaction price allocated to the Company's remaining unsatisfied performance obligations as of March 31, 2020, is $1.7 billion. The Company expects to recognize this amount as revenue over the following periods:

(In thousands)	Less than 1 year	1-2 years	3 years and thereafter
Total remaining unsatisfied performance obligations	$ 224,740	$ 432,467	$ 1,026,141

The Company's remaining performance obligations are adjusted to reflect any known project cancellations, revisions to project scope and cost, and deferrals, as appropriate. These amounts exclude estimated amounts of variable consideration which are constrained, such as builder price participation.

NOTE 17 LEASES

Leases (Topic 842) increases transparency and comparability among organizations by requiring the recognition of right-of-use assets and lease liabilities on the balance sheet. The Company determines whether an arrangement is a lease at inception. Operating leases are included in Operating lease right-of-use assets, net and Operating lease obligations on the Condensed Consolidated Balance Sheets. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at commencement date based on the present value of future minimum lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company uses an estimate of the incremental borrowing rate based on the information available at the lease commencement date in determining the present value of future lease payments. The Operating lease right-of-use asset also includes any lease payments made, less any lease incentives and initial direct costs incurred. The Company does not have any finance leases as of March 31, 2020.

The Company's lessee agreements consist of operating leases primarily for ground leases and other real estate. The Company's leases have remaining lease terms of less than one year to 53 years. Most leases include one or more options to renew, with renewal terms that can extend the lease term from two to 40 years, and some of which may include options to terminate the leases within one year. The Company considers its strategic plan and the life of associated agreements in determining when options to extend or terminate lease terms are reasonably certain of being exercised. Leases with an initial term of 12 months or less are not recorded on the balance sheet; the Company recognizes lease expense for these leases on a straight-line basis over the lease term. Certain of the Company's lease agreements include variable lease payments based on a percentage of income generated through subleases, changes in price indices and market rates, and other costs arising from operating, maintenance, and taxes. The Company's lease agreements do not contain residual value guarantees or restrictive covenants. The Company leases certain buildings and office space constructed on its ground leases to third parties.

Table of Contents

The Company’s leased assets and liabilities are as follows:

(In thousands)	**March 31, 2020**
Assets	
Operating lease right-of-use assets	$ 68,582
Riverwalk impairment	(10,235)
Total leased assets	$ 58,347
Liabilities	
Operating lease liabilities	$ 69,980
Total leased liabilities	$ 69,980

The components of lease expense are as follows:

(In thousands) **Lease cost**	**Three Months Ended** **March 31, 2020**
Operating lease cost	$ 2,179
Variable lease costs	158
Sublease income	—
Net lease cost	$ 2,337

Future minimum lease payments as of March 31, 2020, are as follows:

(In thousands) **Year Ended December 31,**	**Operating** **Leases**
2020 (excluding the three months ended March 31, 2020)	$ 5,131
2021	7,066
2022	6,328
2023	6,374
2024	6,432
Thereafter	266,852
Total lease payments	298,183
Less: imputed interest	(228,203)
Present value of lease liabilities	$ 69,980

Other information related to the Company’s lessee agreements is as follows:

(In thousands) **Supplemental Condensed Consolidated Statements of Cash Flows Information**	**Three Months Ended** **March 31, 2020**
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows on operating leases	$ 1,796

Other Information	**March 31, 2020**
Weighted-average remaining lease term (years)	
Operating leases	37.1
Weighted-average discount rate	
Operating leases	7.8%

The Company receives rental income from the leasing of retail, office, multi-family and other space under operating leases, as well as certain variable tenant recoveries. Such operating leases are with a variety of tenants and have a remaining average term of approximately 5 years. Lease terms generally vary among tenants and may include early termination options, extension options and fixed rental rate increases or rental rate increases based on an index. The minimum rentals based on operating leases of the consolidated properties held as of March 31, 2020, are as follows:

(In thousands)	**Three Months Ended March 31, 2020**
Total minimum rent payments	$ 59,099

Total future minimum rents associated with operating leases are as follows:

Year Ending December 31,	**Total Minimum Rent**
(In thousands)	
2020 (excluding the three months ended March 31, 2020)	$ 165,577
2021	233,538
2022	247,698
2023	237,217
2024	227,821
Thereafter	1,439,849
Total	$ 2,551,700

Minimum rent revenues are recognized on a straight-line basis over the terms of the related leases when collectability is reasonably assured and the tenant has taken possession of, or controls, the physical use of the leased asset. Percentage rent in lieu of fixed minimum rent is recognized as sales are reported from tenants. Minimum rent revenues reported on the Condensed Consolidated Statements of Operations also include amortization related to above and below-market tenant leases on acquired properties.

A sales-type lease is defined as a lease that meets one or more of the following: transfers ownership at the end of the lease term, grants the lessee an option to purchase that is reasonably expected to be exercised, covers the major part of the asset's economic life, the net present value of the lease payments equals or exceeds the fair value of the asset, or the asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease. As of March 31, 2020, the Company sold 100 Fellowship Drive, one of its sales-type leases. The Net investment in lease receivable, interest income and future minimum rents for the remaining sales-type lease are not significant.

NOTE 18 SEGMENTS

The Company has four business segments which offer different products and services. HHC's four segments are managed separately because each requires different operating strategies or management expertise and are reflective of management's operating philosophies and methods. As further discussed in Item 2. - *Management's Discussion and Analysis of Financial Condition and Results of Operations*, one common operating measure used to assess operating results for the Company's business segments is earnings before taxes ("EBT"). The Company's segments or assets within such segments could change in the future as development of certain properties commences or other operational or management changes occur. All operations are within the United States. The Company's reportable segments are as follows:

- Operating Assets – consists of retail, office, hospitality and multi-family properties along with other real estate investments. These assets are currently generating revenues and are comprised of commercial real estate properties recently developed or acquired, and properties with an opportunity to redevelop, reposition or sell to improve segment performance or to recycle capital.

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

- MPC – consists of the development and sale of land in large-scale, long-term community development projects in and around Las Vegas, Nevada; Houston, Texas; and Columbia, Maryland.

- Seaport District – consists of approximately 453,000 square feet of restaurant, retail and entertainment properties situated in three primary locations in New York, New York: Pier 17, Seaport District Historic Area/Uplands and Tin Building. While the latter is still under development and will comprise about 53,000 square feet when completed, the two operating locations consist of third-party tenants, tenants either directly or jointly owned and operated by the Company, and businesses owned and operated by the Company under licensing agreements.

- Strategic Developments – consists of residential condominium and commercial property projects currently under development and all other properties held for development which have no substantial operations.

Segment operating results are as follows:

	Three Months Ended March 31,	
(In thousands)	**2020**	**2019**
Operating Assets Segment EBT		
Total revenues (a)	$ 114,257	$ 91,953
Total operating expenses (b)	(52,240)	(42,912)
Segment operating income	62,017	49,041
Depreciation and amortization	(37,089)	(27,108)
Interest expense, net	(26,193)	(18,991)
Other (loss) income, net	(59)	35
Equity in earnings from real estate and other affiliates	4,394	2,709
Gain on sale or disposal of real estate	38,124	—
Provision for impairment	(48,738)	—
Segment EBT	(7,544)	5,686
MPC Segment EBT		
Total revenues	50,446	50,896
Total operating expenses	(23,722)	(28,514)
Segment operating income	26,724	22,382
Depreciation and amortization	(91)	(160)
Interest income, net	8,554	7,543
Other loss, net	—	(5)
Equity in earnings from real estate and other affiliates	8,934	7,837
Segment EBT	44,121	37,597
Seaport District Segment EBT		
Total revenues	9,694	7,030
Total operating expenses	(14,311)	(14,433)
Segment operating loss	(4,617)	(7,403)
Depreciation and amortization	(20,875)	(6,193)
Interest expense, net	(5,053)	(1,532)
Other loss, net	(3,368)	(86)
Equity in losses from real estate and other affiliates	(2,043)	(632)
Loss on sale or disposal of real estate	—	(6)
Segment EBT	(35,956)	(15,852)

THE HOWARD HUGHES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

(In thousands)	Three Months Ended March 31, 2020	2019
Strategic Developments Segment EBT		
Total revenues	760	204,011
Total operating expenses	(104,299)	(146,303)
Segment operating (loss) income	(103,539)	57,708
Depreciation and amortization	(1,761)	(1,056)
Interest income, net	1,931	3,262
Other (loss) income, net	(375)	693
Equity in earnings from real estate and other affiliates	64	37
Segment EBT	(103,680)	60,644
Consolidated Segment EBT		
Total revenues	175,157	353,890
Total operating expenses	(194,572)	(232,162)
Segment operating income	(19,415)	121,728
Depreciation and amortization	(59,816)	(34,517)
Interest expense, net	(20,761)	(9,718)
Other (loss) income, net	(3,802)	637
Equity in earnings from real estate and other affiliates	11,349	9,951
Gain (loss) on sale or disposal of real estate, net	38,124	(6)
Provision for impairment	(48,738)	—
Consolidated segment EBT	(103,059)	88,075
Corporate income, expenses and other items	(22,023)	(56,150)
Net (loss) income	(125,082)	31,925
Net income attributable to noncontrolling interests	(52)	(104)
Net (loss) income attributable to common stockholders	$ (125,134)	$ 31,821

(a) Includes hospitality revenues for the three months ended March 31, 2020, and 2019, of $17.2 million and $22.9 million, respectively.
(b) Includes hospitality operating costs for the three months ended March 31, 2020, and 2019, of $12.9 million and $15.6 million, respectively.

The assets by segment and the reconciliation of total segment assets to the Total assets in the Condensed Consolidated Balance Sheets are summarized as follows:

(In thousands)	March 31, 2020	December 31, 2019
Operating Assets	$ 3,527,387	$ 3,476,718
Master Planned Communities	2,228,230	2,166,472
Seaport District	919,523	930,067
Strategic Developments	1,612,002	1,540,161
Total segment assets	8,287,142	8,113,418
Corporate	832,582	300,348
Total assets	$ 9,119,724	$ 8,413,766

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis by management should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and Notes included in this quarterly report on Form 10-Q (the "Quarterly Report") and in The Howard Hughes Corporation's ("HHC" or the "Company") annual report on Form 10-K for the fiscal year ended December 31, 2019, filed with the Securities and Exchange Commission ("SEC") on February 27, 2020 (the "Annual Report"). All references to numbered Notes are to specific notes to our unaudited Condensed Consolidated Financial Statements included in this Quarterly Report.

Forward-looking information

We may make forward-looking statements in this Quarterly Report and in other reports and presentations that we file or furnish with the SEC. In addition, our management may make forward-looking statements orally to analysts, investors, creditors, the media and others.

Forward-looking statements give our current expectations relating to our financial condition, results of operations, plans, objectives, future performance, business and the Transformation Plan (as described below). 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," "believe," "estimate," "expect," "forecast," "intend," "likely," "may," "plan," "project," "realize," "should," "transform," "would," and other words of similar expression. Forward-looking statements give our expectations about the future and are not guarantees of performance or results. We caution you not to rely on these forward-looking statements.

Currently, one of the most significant factors is the potential adverse effect of the current pandemic of the novel strain of coronavirus ("COVID-19") on the financial condition, results of operations, cash flows and performance of our Company, our industry, and the global economy and financial markets. The extent to which COVID-19 impacts us will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of the pandemic, the actions taken to contain the pandemic or mitigate its impact, and the direct and indirect economic effects of the pandemic and containment measures, among others. Moreover, you should interpret many of the risks identified in this Quarterly Report, as well as the risks set forth below, as being heightened as a result of the ongoing and numerous adverse impacts of COVID-19.

Forward-looking statements include, among others:

- the impact of the novel strain of COVID-19 on our business;
- our "Transformation Plan", including new executive leadership, reduction in our overhead expenses, the proposed sale of our non-core assets and accelerated growth in our core Master Planned Communities ("MPC") assets;
- expected performance of our stabilized, income-producing properties and the performance and stabilization timing of properties that we have recently placed into service or are under construction;
- forecasts of our future economic performance;
- expected capital required for our operations and development opportunities for our properties;
- expected performance of our MPC segment;
- expected commencement and completion for property developments and timing and amount of sales or rentals of certain properties;
- estimates of our future liquidity, development opportunities, development spending and management plans; and
- descriptions of assumptions underlying or relating to any of the foregoing.

There are several factors, many beyond our control, which could cause results to differ materially from our expectations. These risk factors are described in Item 1A.- *Risk Factors* of this Quarterly Report as well as our Annual Report and are incorporated herein by reference. Any factor could, by itself, or together with one or more other factors, adversely affect our business, results of operations or financial condition. There may be other factors currently unknown to us that we have not described in this Quarterly Report or in our Annual Report that could cause results to differ from our expectations. These forward-looking statements present our estimates and assumptions as of the date of this Quarterly Report. 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 Quarterly Report.

Executive Overview

Description of Business

We strive to create timeless places and extraordinary experiences that inspire people while driving sustainable, long-term growth and value for our shareholders. We operate in four business segments: Operating Assets, MPC, Seaport District and Strategic Developments. The operational synergies of combining our three main business segments, Operating Assets, MPC and Strategic Developments, create a unique and continuous value-creation cycle. We sell land to residential homebuilders in our MPCs, and the new homes attract residents to our cities looking for places to work and shop. New homeowners create demand for commercial developments, such as retail, office, self-storage and hospitality offerings. We build these commercial properties through Strategic Developments when the timing is right using the cash flow harvested from the sale of land to homebuilders, which helps mitigate development risk. Once these strategic developments are completed and stabilized, they transition to Operating Assets, which are located across the United States and increase recurring Net Operating Income ("NOI"), further funding the equity requirements in Strategic Developments. New office, retail and other commercial amenities make our MPC residential land more appealing to buyers and increase the velocity of land sales at premiums that exceed the broader market. Increased demand for residential land generates more cash flow from MPC, thus continuing the cycle. Our fourth business segment, the Seaport District, is one of the only privately controlled districts in New York City and is being transformed into a culinary, fashion and entertainment destination with a focus on unique offerings not found elsewhere in the city. The Seaport District spans across approximately 453,000 square feet and several city blocks, including Pier 17, the Tin Building, the Historic District as well as the 250 Water Street parking lot and our interest in the 66-room Mr. C Seaport hotel.

Transformation Plan

Following the previously announced review of strategic alternatives, we announced that we will execute a transformation plan, led by new executive leadership, comprised of three pillars: (1) a $45 - $50 million reduction in annual overhead expenses, (2) the sale of approximately $2 billion of non-core assets and (3) accelerated growth in our core MPC assets. Paul Layne, former President of our Central Region, has been named Chief Executive Officer, effective October 21, 2019.

As of the end of the quarter, while we have continued to make significant progress on the execution of our Transformation Plan commitments with meaningful reductions in overhead and the disposition of some non-core properties, we expect that the current situation will make additional non-core asset sales more challenging to execute during the remainder of the year. Since the announcement of the Transformation Plan, we have executed on the sale of five non-core assets generating approximately $131.3 million of net proceeds after debt repayment, including approximately $64.2 million of net proceeds from the sale of the 100 Fellowship Drive building during the quarter. Since the disposition of the 100 Fellowship Drive building was part of a reverse 1031 exchange, the net proceeds from this sale were held at the escrow agent as of the end of the quarter and not reflected in our total cash and cash equivalents balance of $971.7 million. This escrow was released during April 2020 and included in our Cash and cash equivalents balance at April 30, 2020.

COVID-19 Pandemic

In December 2019, COVID-19 was reported to have surfaced in Wuhan, China. COVID-19 has since spread globally, including to every state in the United States. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, and on March 13, 2020, the United States declared a national emergency with respect to COVID-19. The outbreak of COVID-19 has severely impacted global economic activity and caused significant volatility and negative pressure in financial markets. The global impact of the outbreak has been rapidly evolving and many countries, including the United States, have reacted by instituting a wide variety of control measures including states of emergency, mandatory quarantines, required business and school closures, implementing "shelter in place" orders and restricting travel. Many experts predict that the outbreak will trigger a period of material global economic slowdown or a global recession.

COVID-19 Impacts

The pandemic has caused economic problems across the country. In direct response to the unprecedented COVID-19 pandemic and the impacts on our four business segments, as well as the economy and capital markets in general, we initiated measures to increase our liquidity.

The following are preliminary impacts on our segments related to COVID-19:

Operating Assets

We have experienced significant cancellations and declines in occupancy in our three hotel properties (which accounted for 7% of our revenues for the year ended December 31, 2019), and have now closed all three of our hotel properties for an indeterminate period of time. We expect significant declines in occupancy, compared to levels achieved prior to the impact of the pandemic, when our hotel properties reopen.

Retail locations at our properties have been significantly negatively impacted, including the closure of all non-essential retail in Summerlin, Houston and Ward Village, and the complete closure of Riverwalk (revenues from our retail properties accounted for 12% of our revenues for the year ended December 31, 2019).

Further, there may be (i) a failure of our tenants in our retail properties as well as in our office and multi-family properties to make timely rental payments (revenues from our office and multi-family properties accounted for 13% of our revenues for the year ended December 31, 2019), (ii) rent reductions, deferrals, downsizing or other concessions, (iii) reductions in demand for leased space and/or (iv) defaults under our leases as a result of downturns in our tenants' personal financial situations as well as commercial businesses, due in part due to containment measures, such as travel restrictions, mandatory government closures, quarantines, "shelter in place" orders and social distancing, as well as the overall impact on the economy and our tenants' industries (including the energy sector). We cannot predict whether government action will require rent delays or other abatement measures or concessions or prohibit lease terminations or foreclosures for tenants.

We have experienced a delay in, and may experience a complete cancellation of, the season for the Las Vegas Aviators, our Triple-A professional baseball team (which accounted for 2% of our revenues for the year ended December 31, 2019).

We are closely monitoring our rental revenue, and for the month ending April 30, 2020, we collected, of our total commercial billings, 94.5% of our office portfolio billings, 95.3% of our multi-family portfolio billings, 44.3% of our retail portfolio billings and 76.6% of our other portfolio billings.

MPC

We may experience a decrease in land sales in our MPCs as a result of the fluctuations in regional economies. Houston would be adversely affected by negative impacts on the energy sector and the local economy. In particular, The Woodlands, The Woodlands Hills and Bridgeland are correlated with the energy sector. Our success depends to a large extent upon the business activity, population, income levels, employment trends and real estate activity in and around Houston. Summerlin is to some degree correlated with the gaming industry, which could be adversely affected by changes in consumer trends and preferences in times of economic uncertainty, and have a negative impact on the local Las Vegas economy.

In response to the foregoing, we have taken steps to reduce expenses and preserve cash, including ceasing development of MPC land that is not under contract for sale or where we do not have a post-closing requirement, and reducing or postponing voluntary capital expenditures. In addition, builders are implementing new model home practices by adding 3D virtual tours of interactive floor plans, live chat capabilities with sales staff, and increased photographs on their websites conducive to social distancing and hygiene recommendations.

Seaport District

There has been a complete closure of the Seaport District and a potential cancellation of our Seaport summer concert series, the revenue and sponsorship of which historically has been a meaningful contribution to our annual revenue. In addition, we have halted the construction on the Tin Building and are uncertain as to the timing of construction completion and the opening of the Tin Building.

Further, there may be (i) a failure of our tenants in our retail and office properties to make timely rental payments, (ii) rent reductions, deferrals, downsizing or other concessions, (iii) reductions in demand for leased space and/or (iv) defaults under our leases as a result of downturns in our tenants' personal financial situations as well as commercial businesses, which include our leased and wholly owned retail stores, our managed businesses, including restaurants and event attractions at the Seaport District, in part due to containment measures, such as travel restrictions, mandatory government closures, quarantines, "shelter in place" orders and social distancing, as well as the overall impact on the economy and our tenants' industries. We cannot predict whether government action will require rent delays or other abatement measures or concessions or prohibit lease terminations or foreclosures for tenants.

Strategic Developments

We may experience a substantial decrease in condominium sales in Hawai'i, in light of the impact on the overall economy and consumers' reluctance to make significant capital decisions, and availability of consumer financing, in times of economic uncertainty.

Given the challenges presented by this new environment, we have launched digital sales efforts, including virtual tours to sell condominiums, which we expect to maintain until social distancing recommendations are lifted. We are also implementing new model home practices by adding 3D virtual tours of interactive floor plans, live chat capabilities with sales staff, and increased photographs on their websites conducive to social distancing recommendations. While we have not seen any delays in our existing construction to date (other than the Tin Building mentioned above), with respect to our future development projects, we have delayed or postponed certain of our projects and will continue to evaluate our other development projects going forward. We have also deferred the non-core asset dispositions expected to occur as part of our Transformation Plan.

Liquidity Outlook

As described above, the pandemic has caused economic problems in most of the regions in which we operate, as well as directly impacted sectors which have historically been meaningful contributors to HHC, such as residential land sales, hospitality, retail and sports venues. In direct response to the unprecedented COVID-19 pandemic and the impacts on our four business segments, as well as the economy and capital markets in general, we initiated measures to increase our liquidity. During the first quarter of 2020, we enhanced our liquidity profile through a successful common stock offering, which generated $593.6 million in proceeds, new financings totaling over $537.2 million, the agreement to extend our bridge loan for The Woodlands Towers at The Waterway, as well as the sale of 100 Fellowship Drive in The Woodlands, Texas, which generated $64.2 million in net proceeds. As of March 31, 2020, we had $971.7 million of Cash and cash equivalents on our Condensed Consolidated Balance Sheets with an additional $64.2 million of net proceeds from the sale of 100 Fellowship Drive held at the escrow agent. This escrow was released during April 2020 and included in our Cash and cash equivalents balance at April 30, 2020.

First Quarter 2020 Highlights

Capital and Financing Activities

- On March 27, 2020, we announced a public offering of 2,000,000 shares of our common stock at a price per share to the public of $50.00. We also granted the underwriters an option to purchase an additional 300,000 shares of common stock at the same price. The underwriters partially exercised their option and purchased an additional 270,900 shares. In addition, we entered into a purchase agreement with Pershing Square Capital Management, L.P., acting as investment advisor to funds that it manages, for 10,000,000 shares of our common stock at $50.00 per share. We received aggregate net proceeds of $593.7 million.
- On March 27, 2020, we closed on a $356.8 million construction loan for the development of Kō'ula. The loan bears interest at LIBOR plus 3.0% with an initial maturity date of March 27, 2023, and a one-year extension option.
- On March 26, 2020, we closed on a partial refinance of the bridge loan for The Woodlands Towers at the Waterway and The Woodlands Warehouse for $137.0 million. In conjunction with the partial refinance, the original loan was paid down by $63.5 million and 9950 Woodloch Forest Drive tower was split into a new loan. The new loan bears interest at LIBOR plus 1.95% with an initial maturity date of March 26, 2025.
- On March 13, 2020, we paid off the $50.0 million outstanding loan balance relating to 100 Fellowship Drive in conjunction with the sale of the property. The payment was made using the proceeds from the sale of the property.
- On March 5, 2020, we modified and extended the $61.2 million loan for Three Hughes Landing. The new $61.0 million loan bears interest at one-month LIBOR plus 2.60%, with a maturity of September 5, 2020, at which point we anticipate the Three Hughes Landing loan will be extended for an additional 12 months.
- On January 7, 2020, we closed on a $43.4 million construction loan for the development of Creekside Park Apartments Phase II. The loan bears interest at LIBOR plus 1.75% with an initial maturity date of January 7, 2024 and a one-year extension option.

Operating Assets

- NOI increased $12.7 million due to an increase of $15.5 million in our office properties primarily attributable to The Woodlands Towers at the Waterway acquisition, partially offset by a $3.5 million decrease in our hospitality properties due to their closure as a result of the COVID-19 pandemic.

MPC

- Segment earnings before taxes ("EBT") increased by $6.5 million primarily due to higher builder price participation at Summerlin, higher Equity in earnings from real estate and other affiliates at The Summit, lower Operating expenses, and higher Interest income, net. These net increases are partially offset by lower Master Planned Communities land sales, net of costs.
- Achieved a $439,000 residential price per acre at Bridgeland, an increase of $58,000, over prior year.
- Sold 16.0 acres of institutional land at Bridgeland for $2.1 million, compared to no institutional land sales in the prior year.

Seaport District

- Revenues increased $2.7 million, or 37.9%, primarily due to The Fulton and Malibu Farm, which opened in the second and third quarters of 2019, respectively, as well as rental revenue as a result of increased occupancy over the period. This growth was despite the complete shut-down of the Seaport District on March 14, 2020.
- Permanent closure of 10 Corso Como Retail and Café, resulting in a write-off of $17.4 million.
- NOI remained relatively flat at a net operating loss of $3.9 million for the three months ended March 31, 2020, primarily due to an increase of $0.6 million in NOI in our managed businesses, partially offset by decreases of $0.3 million and $0.1 million in NOI in our events, sponsorships and catering category and landlord operations, respectively, primarily as a result of business closures related to the COVID-19 pandemic.

Strategic Developments

- Recognized segment loss before taxes of $103.7 million, a decrease of $164.3 million primarily due to a $97.9 million charge related to our expected funding of costs to correct alleged construction defects at Waiea. We intend to vigorously pursue recovery of these costs from the general contractor or other responsible parties. The timing of condominium closings also contributed to the segment loss.
- Continued sales at Ward Village by contracting to sell 239 condominiums in the first quarter of 2020. The primary drivers of the increase are Kō'ula and Victoria Place, which contributed 11 and 225 contracted units, respectively.
- Victoria Place, our newest building that began public sales in December 2019, was 64.5% presold as of March 31, 2020.
- Excluding Victoria Place, we have sold 2,435 residential units at our six towers in Ward Village since inception, bringing the total percentage sold at our under-construction condominium towers to 90.3%.

Earnings Before Taxes

In addition to the required presentations using GAAP, we use certain non-GAAP performance measures, as we believe these measures improve the understanding of our operational results and make comparisons of operating results among peer companies more meaningful. Management continually evaluates the usefulness, relevance, limitations and calculation of our reported non-GAAP performance measures to determine how best to provide relevant information to the public, and thus such reported measures could change.

Because our four segments, Operating Assets, MPC, Seaport District and Strategic Developments, are managed separately, we use different operating measures to assess operating results and allocate resources among them. The one common operating measure used to assess operating results for our business segments is earnings before taxes ("EBT"). EBT, as it relates to each business segment, represents the revenues less expenses of each segment, including interest income, interest expense, depreciation and amortization and equity in earnings of real estate and other affiliates. EBT excludes corporate expenses and other items that are not allocable to the segments. See discussion herein at Corporate income, expenses and other items for further details. We present EBT for each segment because we use this measure, among others, internally to assess the core operating performance of our assets.

EBT should not be considered an alternative to GAAP net income attributable to common stockholders or GAAP net income, 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 EBT are that it does not include the following in our calculations:

- cash expenditures, or future requirements for capital expenditures or contractual commitments;
- corporate general and administrative expenses;
- interest expense on our corporate debt;
- income taxes that we may be required to pay;
- any cash requirements for replacement of fully depreciated or amortized assets; and
- limitations on, or costs related to, the transfer of earnings from our real estate and other affiliates to us.

A reconciliation between EBT and Net income is presented below:

	Three Months Ended March 31,		
(In thousands)	**2020**	**2019**	**$ Change**
Operating Assets Segment EBT			
Total revenues (a)	$ 114,257	$ 91,953	$ 22,304
Total operating expenses (b)	(52,240)	(42,912)	(9,328)
Segment operating income	62,017	49,041	12,976
Depreciation and amortization	(37,089)	(27,108)	(9,981)
Interest expense, net	(26,193)	(18,991)	(7,202)
Other (loss) income, net	(59)	35	(94)
Equity in earnings from real estate and other affiliates	4,394	2,709	1,685
Gain on sale or disposal of real estate	38,124	—	38,124
Provision for impairment	(48,738)	—	(48,738)
Segment EBT	(7,544)	5,686	(13,230)
MPC Segment EBT			
Total revenues	50,446	50,896	(450)
Total operating expenses	(23,722)	(28,514)	4,792
Segment operating income	26,724	22,382	4,342
Depreciation and amortization	(91)	(160)	69
Interest income, net	8,554	7,543	1,011
Other loss, net	—	(5)	5
Equity in earnings from real estate and other affiliates	8,934	7,837	1,097
Segment EBT	44,121	37,597	6,524
Seaport District Segment EBT			
Total revenues	9,694	7,030	2,664
Total operating expenses	(14,311)	(14,433)	122
Segment operating loss	(4,617)	(7,403)	2,786
Depreciation and amortization	(20,875)	(6,193)	(14,682)
Interest expense, net	(5,053)	(1,532)	(3,521)
Other loss, net	(3,368)	(86)	(3,282)
Equity in losses from real estate and other affiliates	(2,043)	(632)	(1,411)
Loss on sale or disposal of real estate	—	(6)	6
Segment EBT	(35,956)	(15,852)	(20,104)
Strategic Developments Segment EBT			
Total revenues	760	204,011	(203,251)
Total operating expenses	(104,299)	(146,303)	42,004
Segment operating (loss) income	(103,539)	57,708	(161,247)
Depreciation and amortization	(1,761)	(1,056)	(705)
Interest income, net	1,931	3,262	(1,331)
Other (loss) income, net	(375)	693	(1,068)
Equity in earnings from real estate and other affiliates	64	37	27
Segment EBT	(103,680)	60,644	(164,324)

(In thousands)	Three Months Ended March 31, 2020	2019	$ Change
Consolidated Segment EBT			
Total revenues	175,157	353,890	(178,733)
Total operating expenses	(194,572)	(232,162)	37,590
Segment operating income	(19,415)	121,728	(141,143)
Depreciation and amortization	(59,816)	(34,517)	(25,299)
Interest expense, net	(20,761)	(9,718)	(11,043)
Other (loss) income, net	(3,802)	637	(4,439)
Equity in earnings from real estate and other affiliates	11,349	9,951	1,398
Gain (loss) on sale or disposal of real estate, net	38,124	(6)	38,130
Provision for impairment	(48,738)	—	(48,738)
Consolidated segment EBT	(103,059)	88,075	(191,134)
Corporate income, expenses and other items	(22,023)	(56,150)	34,127
Net (loss) income	(125,082)	31,925	(157,007)
Net income attributable to noncontrolling interests	(52)	(104)	52
Net (loss) income attributable to common stockholders	$ (125,134)	$ 31,821	$ (156,955)

(a) Includes hospitality revenues for the three months ended March 31, 2020 and 2019, of $17.2 million and $22.9 million, respectively.
(b) Includes hospitality operating costs for the three months ended March 31, 2020 and 2019, of $12.9 million and $15.6 million, respectively.

Results of Operations

Comparison of the three months ended March 31, 2020 to the three months ended March 31, 2019

Consolidated segment EBT decreased $191.1 million due to a charge related to our expected funding of costs to correct alleged defects at Waiea, as mentioned above, as well as lower Condominium rights and unit sales, net of costs, driven by the timing of condominium closings; an increase in the Provision for impairment and higher Depreciation and amortization at the Operating Assets and Seaport District segments. These decreases were partially offset by an increase in the Gain on sale or disposal of real estate, net due to the sale of 100 Fellowship Drive and an increase in Minimum rents and Tenant recoveries due to the acquisition of The Woodlands Towers at the Waterway in the fourth quarter of 2019 and placing various office properties into service subsequent to the first quarter of 2019. As a result of these factors, Net income attributable to common stockholders decreased $157.0 million to a loss of $125.1 million for the three months ended March 31, 2020, compared to the prior year period. These changes are explained in further detail below.

Operating Assets

The Operating Assets segment consists of retail, office, hospitality and multi-family properties along with other real estate investments, excluding the properties located at the Seaport District, which are reported in the Seaport District segment for all periods presented.

Segment EBT for Operating Assets are presented below:

Operating Assets Segment EBT (In thousands)	Three Months Ended March 31, 2020	2019	$ Change
Total revenues	$ 114,257	$ 91,953	**$ 22,304**
Total operating expenses	(52,240)	(42,912)	**(9,328)**
Segment operating income	62,017	49,041	**12,976**
Depreciation and amortization	(37,089)	(27,108)	**(9,981)**
Interest expense, net	(26,193)	(18,991)	**(7,202)**
Other (loss) income, net	(59)	35	**(94)**
Equity in earnings from real estate and other affiliates	4,394	2,709	**1,685**
Gain on sale or disposal of real estate	38,124	—	**38,124**
Provision for impairment	(48,738)	—	**(48,738)**
Segment EBT	$ (7,544)	$ 5,686	**$ (13,230)**

Segment revenues increased $22.3 million to $114.3 million for the three months ended March 31, 2020, compared to the prior year period primarily attributed to an increase in Minimum rents and Tenant recoveries due to the acquisition of The Woodlands Towers at the Waterway in the fourth quarter of 2019 and placing various office properties into service subsequent to the first quarter of 2019.

Segment EBT decreased $13.2 million to a loss of $7.5 million for the three months ended March 31, 2020, compared to the prior year period primarily driven by an increase in the Provision for impairment of $48.7 million for Outlet Collection at Riverwalk. Please refer to Note 5 - *Impairment* in the Company's Condensed Consolidated Financial Statements for further details. The increase in the Provision for impairment was partially offset by an increase in Gain on sale or disposal of real estate related to the sale of 100 Fellowship Drive, a 203,257-square-foot office building in The Woodlands, Texas.

Net Operating Income

We believe that NOI is a useful supplemental measure of the performance of our Operating Assets and Seaport District segments 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 rental and occupancy rates and operating costs as variances between years in NOI typically result from changes in rental rates, occupancy, tenant mix and operating expenses. We define NOI as operating revenues (rental income, tenant recoveries and other revenue) less operating expenses (real estate taxes, repairs and maintenance, marketing and other property expenses). NOI excludes straight-line rents and amortization of tenant incentives, net; interest expense, net; ground rent amortization; demolition costs; other (loss) income; amortization; depreciation; development-related marketing cost; gain on sale or disposal of real estate and other assets, net; provision for impairment and equity in earnings from real estate and other affiliates. We use NOI to evaluate our operating performance on a property-by-property basis because NOI allows us to evaluate the impact that property-specific factors such as lease structure, lease rates and tenant base have on our operating results, gross margins and investment returns.

Although we believe that NOI provides useful information to investors about the performance of our Operating Assets and Seaport District segments, due to the exclusions noted above, NOI should only be used as an additional measure of the financial performance of such assets and not as an alternative to GAAP net income. A reconciliation of Operating Assets segment EBT to Operating Assets NOI is presented in the table below. Refer to the Seaport District section for a reconciliation of Seaport District segment EBT to Seaport District NOI.

Reconciliation of Operating Assets Segment EBT to NOI	**Three Months Ended March 31,**		
(In thousands)	**2020**	**2019**	**$ Change**
Total Operating Assets segment EBT	$ (7,544)	$ 5,686	**$ (13,230)**
Depreciation and amortization	37,089	27,108	**9,981**
Interest expense, net	26,193	18,991	**7,202**
Equity in earnings from real estate and other affiliates	(4,394)	(2,709)	**(1,685)**
Gain on sale or disposal of real estate and other assets, net	(38,124)	—	**(38,124)**
Provision for impairment	48,738	—	**48,738**
Impact of straight-line rent	(3,103)	(2,845)	**(258)**
Other	173	122	**51**
Operating Assets NOI	$ 59,028	$ 46,353	**$ 12,675**

Operating Assets NOI increased $12.7 million, or 27.3%, to $59.0 million for the three months ended March 31, 2020, compared to the prior year period driven by an increase of $15.5 million in our office properties primarily attributable to NOI from the recent acquisition of The Woodlands Towers at the Waterway, partially offset by a $3.5 million decrease in our hospitality properties due to their closure as a result of the COVID-19 pandemic. In addition, Operating Assets NOI for the three months ended March 31, 2020, includes NOI from 8770 New Trails and Juniper Apartments, projects that were transferred from Strategic Developments to Operating Assets during the three months ended March 31, 2020.

Master Planned Communities

EBT for Master Planned Communities are presented below:

MPC Segment EBT	**Three Months Ended March 31,**		
(In thousands)	**2020**	**2019**	**$ Change**
Total revenues	$ 50,446	$ 50,896	**$ (450)**
Total operating expenses	(23,722)	(28,514)	**4,792**
Segment operating income	26,724	22,382	**4,342**
Depreciation and amortization	(91)	(160)	**69**
Interest income, net	8,554	7,543	**1,011**
Other loss, net	—	(5)	**5**
Equity in earnings from real estate and other affiliates	8,934	7,837	**1,097**
Segment EBT	$ 44,121	$ 37,597	**$ 6,524**

MPC segment EBT increased $6.5 million to $44.1 million for the three months ended March 31, 2020, compared to the prior year period primarily due to higher builder price participation at Summerlin, higher Equity in earnings from real estate and other affiliates at The Summit, lower Operating expenses, and higher Interest income, net. These net increases are partially offset by lower Master Planned Communities land sales, net of costs. The decrease in Master Planned Communities land sales, net of costs is primarily due to a 20-acre superpad sale at Summerlin in the first quarter of 2019 which yielded an average gross margin of 72.1% but did not recur in 2020. At Bridgeland, residential land sales revenues for the three months ended March 31, 2020 increased $5.8 million, or 49.2% compared to the same period in 2019, due to an increase in lots sold and price per acre. For the three months ended March 31, 2020, Bridgeland sold 213 lots compared to 151 lots in the prior year period, a 41.1% increase. Bridgeland's average price per residential acre increased $58,000, or 15.2%, to $439,000 for the three months ended March 31, 2020, compared to $381,000 in the prior year period. During the three months ended March 31, 2020, institutional land sales revenues at Bridgeland were $2.1 million with 16.0 acres sold, or $131,000 per acre, compared to no institutional land sales in the same period in 2019. Summerlin's land sales revenues decreased $7.3 million primarily due to fewer superpad sales as mentioned above, partially offset by an increase in deferred revenues in the three months ended March 31, 2020. Summerlin's average price per custom lot for the three months ended March 31, 2020, was $925,000, or 23.3% higher than the prior-year period. At The Woodlands Hills, land sales revenues increased $135,000, or 5.5%, to $2.6 million for the three months ended March 31, 2020, compared to $2.4 million in the same period in 2019 attributable to a 16.7% increase in the number of lots sold and an 8.2% increase in price per acre. The Woodlands achieved a $1.2 million price per single-family acre, an increase of $647,000 or 122.3%, due to the mix of lots sold.

MPC Net Contribution

In addition to MPC segment EBT, we believe that certain investors measure the value of the assets in this segment based on their contribution to liquidity and capital available for investment. MPC Net Contribution is defined as MPC segment EBT, plus MPC cost of sales, Depreciation and amortization, and net collections from SID bonds and Municipal Utility District ("MUD") receivables, reduced by MPC development expenditures, land acquisitions and Equity in earnings from real estate and other affiliates, net of distributions. MPC Net Contribution 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 nor should it be used as a comparison metric with other comparable businesses. A reconciliation of segment EBT to MPC Net Contribution is presented below.

The following table sets forth the MPC Net Contribution for the three months ended March 31:

MPC Net Contribution	**Three Months Ended March 31,**		
(In thousands)	**2020**	**2019**	**$ Change**
MPC Segment EBT (a)	$ 44,121	$ 37,597	**$ 6,524**
Plus:			
Cost of sales - land	16,786	16,818	**(32)**
Depreciation and amortization	91	160	**(69)**
MUD and SID bonds collections, net (b)	1,123	862	**261**
Distributions from real estate and other affiliates	1,173	1,435	**(262)**
Less:			
MPC development expenditures	(64,896)	(56,772)	**(8,124)**
MPC land acquisitions	—	(752)	**752**
Equity in earnings in real estate and other affiliates	(8,934)	(7,837)	**(1,097)**
MPC Net Contribution	$ (10,536)	$ (8,489)	**$ (2,047)**

(a) For a detailed breakdown of our MPC segment EBT, refer to Note 18 - *Segments* in our Notes to Condensed Consolidated Financial Statements.
(b) SID collections are shown net of SID transfers to buyers in the respective periods.

MPC Net Contribution decreased $2.0 million for the three months ended March 31, 2020, compared to the same period in 2019 due to the increase in MPC development expenditures, partially offset by the items that increased MPC's EBT as discussed above.

The following table sets forth MPC land inventory activity for the three months ended March 31, 2020:

(In thousands)	**Bridgeland**	**Columbia**	**Summerlin**	**The Woodlands**	**The Woodlands Hills**	**Total MPC**
Balance at December 31, 2019	$ 487,314	$ 16,643	$ 845,440	$ 186,773	$ 119,504	$ 1,655,674
MPC development expenditures (a)	33,439	—	26,739	1,921	2,797	64,896
MPC cost of sales	(6,304)	—	(4,536)	(4,968)	(978)	(16,786)
MUD reimbursable costs (b)	(20,924)	—	—	8	(1,771)	(22,687)
Other (c)	(7,202)	(18)	(1,067)	(415)	139	(8,563)
Balance at March 31, 2020	$ 486,323	$ 16,625	$ 866,576	$ 183,319	$ 119,691	$ 1,672,534

(a) Development expenditures are inclusive of capitalized interest and property taxes.
(b) MUD reimbursable costs represent land development expenditures transferred to MUD Receivables.
(c) Primarily consists of changes in accrued development expenditures payable.

Seaport District

The Seaport District is part non-stabilized operating asset, part development project and part operating business. As such, the Seaport District has a greater range of possible outcomes than our other projects. The greater uncertainty is largely the result of (i) seasonality; (ii) potential sponsorship revenue; (iii) potential event revenue; and (iv) business operating risks from various start-up businesses. We operate and own, either directly, through license agreements or in joint ventures, many of the tenants in the Seaport District, including retail stores such as SJP by Sarah Jessica Parker and restaurants such as The Fulton by Jean-Georges, Bar Wayō, Malibu Farm, two concepts by Andrew Carmellini, R17 and the marketplace operated by Jean-Georges. As a result, the revenues and expenses of these businesses, as well as the underlying market conditions affecting these types of businesses, will directly impact the NOI of the Seaport District. This is in contrast to our other retail properties where we primarily receive lease payments and are not as directly impacted by the operating performance of the underlying businesses. This causes the financial results and eventual stabilized yield of the Seaport District to be less predictable than our other operating real estate assets with traditional lease structures. Further, as we open new operating businesses, either owned entirely or in joint venture, we expect to incur pre-opening expenses and operating losses until those businesses stabilize, which likely will not happen until the Seaport District reaches its critical mass of offerings. We expect the time to stabilize the Seaport District will be primarily driven by the construction, interior finish work and stabilization to occur at the Jean-Georges marketplace in the Tin Building. As a result of impacts related to COVID-19, including the halting of construction on the Tin Building, we are uncertain as to the timing of construction completion and the opening of the Tin Building. We expect stabilization to occur approximately 12 to 18 months after opening. Given the factors and uncertainties listed above combined with potential future impacts related to COVID-19 and our operating experience during this past summer as we opened multiple new venues, we do not currently provide guidance on our expected NOI yield and stabilization date for the Seaport District. We will continue all other aspects of our disclosure for the Seaport District segment including revenues, expenses, NOI and EBT. As we move closer to opening a critical mass of offerings at the Seaport District, we will re-establish goals for yield on costs and stabilization dates when the uncertainties and range of possible outcomes are clearer.

We primarily categorize the businesses in the Seaport District segment into three groups: landlord operations, managed businesses, and events and sponsorships. Real Estate Operations (Landlord) represents physical real estate we have developed and own, either wholly or through joint ventures, and is inclusive of our office, retail, hotel and multi-family properties. Managed Businesses represents retail and food and beverage businesses that HHC owns, either wholly or through joint ventures, and operates, including license and management agreements. For the three months ended March 31, 2020, our managed businesses include, among others, The Fulton, SJP by Sarah Jessica Parker, R17 and Cobble & Co. Our events and sponsorship businesses include our concert series, Winterland skating and bar, event catering, private events and sponsorships from 11 partners.

Segment EBT for Seaport District are presented below:

Seaport District Segment EBT	**Three Months Ended March 31,**		
(In thousands)	**2020**	**2019**	**$ Change**
Total revenues	$ 9,694	$ 7,030	**$ 2,664**
Total operating expenses	(14,311)	(14,433)	**122**
Segment operating loss	(4,617)	(7,403)	**2,786**
Depreciation and amortization	(20,875)	(6,193)	**(14,682)**
Interest expense, net	(5,053)	(1,532)	**(3,521)**
Other loss, net	(3,368)	(86)	**(3,282)**
Equity in losses from real estate and other affiliates	(2,043)	(632)	**(1,411)**
Loss on sale or disposal of real estate	—	(6)	**6**
Segment EBT	$ (35,956)	$ (15,852)	**$ (20,104)**

Segment revenues increased $2.7 million for the three months ended March 31, 2020, compared to the prior year period. This increase is primarily attributable to The Fulton and Malibu Farm, which opened in the second and third quarters of 2019, respectively, as well as rental revenue as a result of increased occupancy over the period. This growth was despite the complete shut-down of the Seaport District on March 14, 2020.

Segment EBT decreased $20.1 million to a loss of $36.0 million for the three months ended March 31, 2020, compared to the prior-year period primarily due to write-offs related to the permanent closure of 10 Corso Como Retail and Café. During the current quarter, we wrote off $3.4 million of retail inventory and $14.0 million of building improvements recorded within Other loss, net, and Depreciation and amortization, respectively, for a total of $17.4 million related to the permanent closure of 10 Corso Como Retail and Café. Interest expense, net also contributed to the decrease in EBT due to the term loan acquired in June 2019 related to the Seaport District.

A reconciliation of Seaport District segment EBT to Seaport District NOI is presented in the table below.

Reconciliation of Seaport District Segment EBT to NOI	**Three Months Ended March 31,**		
(In thousands)	**2020**	**2019**	**$ Change**
Total Seaport District segment EBT	$ (35,956)	$ (15,852)	**$ (20,104)**
Depreciation and amortization	20,875	6,193	**14,682**
Interest expense, net	5,053	1,532	**3,521**
Equity in losses from real estate and other affiliates	2,043	632	**1,411**
Loss on sale or disposal of real estate	—	6	**(6)**
Impact of straight-line rent	125	755	**(630)**
Other loss, net (a)	3,970	2,749	**1,221**
Seaport District NOI	$ (3,890)	$ (3,985)	**$ 95**

(a) Includes miscellaneous development-related items as well as the loss related to the write-off of inventory due to the permanent closure of 10 Corso Como Retail and Café during the three months ended March 31, 2020.

Seaport District NOI remained relatively flat at a net operating loss of $3.9 million for the three months ended March 31, 2020, primarily due to an increase of $0.6 million in NOI in our managed businesses, partially offset by decreases of $0.3 million and $0.1 million in NOI in our events, sponsorships and catering category and landlord operations, respectively, primarily as a result of business closures related to the COVID-19 pandemic.

Including managed businesses, events, sponsorships, catering and the Tin Building, the Seaport District is approximately 60% leased. We may continue to incur operating expenses in excess of rental revenues while the remaining available space is in lease-up. Additionally, rental revenue earned from businesses we own and operate is eliminated in consolidation. We expect to incur operating losses for our landlord operations, managed business entities and event and sponsorship until businesses in New York are able to safely re-open, the economy recovers from the economic impact of the COVID-19 pandemic and the Seaport District reaches its critical mass of offerings.

Strategic Developments

Our Strategic Developments assets generally require substantial future development to maximize their value. Other than our condominium properties, most of the properties and projects in this segment do not generate revenues. Our expenses relating to these assets are primarily related to costs associated with constructing the assets, selling condominiums, marketing costs associated with our Strategic Developments, carrying costs including, but not limited to, property taxes and insurance, and other ongoing costs relating to maintaining the assets in their current condition. If we decide to redevelop or develop a Strategic Developments asset, we would expect that with the exception of the residential portion of our condominium projects, upon completion of development, the asset would likely be reclassified to Operating Assets when the asset is placed into service and NOI would become a meaningful measure of its operating performance. All development costs discussed herein are exclusive of land costs.

Segment EBT for Strategic Developments are summarized as follows:

Strategic Developments Segment EBT	**Three Months Ended March 31,**		
(In thousands)	**2020**	**2019**	**$ Change**
Total revenues	$ 760	$ 204,011	**$ (203,251)**
Total operating expenses	(104,299)	(146,303)	**42,004**
Segment operating (loss) income	(103,539)	57,708	**(161,247)**
Depreciation and amortization	(1,761)	(1,056)	**(705)**
Interest income, net	1,931	3,262	**(1,331)**
Other (loss) income, net	(375)	693	**(1,068)**
Equity in earnings from real estate and other affiliates	64	37	**27**
Segment EBT	$ (103,680)	$ 60,644	**$ (164,324)**

Segment EBT decreased $164.3 million to a loss of $103.7 million for the three months ended March 31, 2020, compared to the prior year period primarily due to a $97.9 million charge related to our expected funding of costs to correct alleged construction defects at Waiea. We intend to vigorously pursue recovery of these costs from the general contractor or other responsible parties. Please refer to Note 10 - *Commitments and Contingencies* in our Condensed Consolidated Financial Statements for additional

information. Segment EBT also decreased due to a decrease in Condominium rights and unit sales, net due to the timing of condominium closings. Condominium revenue is recognized when construction of the condominium tower is complete and unit sales close, leading to variability in revenue recognized between periods. As a result of significantly lower available inventory, we closed on zero condominium units during the three months ended March 31, 2020, compared to 162 for the three months ended March 31, 2019. However, as highlighted below, overall progress at our condominium projects remains strong. As of March 31, 2020, we have entered into contracts for 76.3% of the units at Kō'ula since launching public sales in January 2019. At March 31, 2020, our six completed or under construction towers are 90.3% sold with only five units that remain to be sold at Waiea and one at Anaha. Both Ae‘o and Ke Kilohana are completely sold. At Victoria Place, our seventh condominium project which launched public sales in December 2019, we have entered into 225 contracts, or 64.5% of the total units, for three months ended March 31, 2020.

The following is a summary of activity during the current period for Ward Village.

Waiea - We have entered into contracts for 172 of the 177 units and closed on 170 units as of March 31, 2020. These units under contract or closed represent 97.2% of total units, and 95.2% of the total residential square feet available for sale as of March 31, 2020. The retail portion of the project is 100% leased and has been placed into service.

Anaha - We have entered into contracts for 316 of the 317 units and closed on 315 units as of March 31, 2020. These units under contract or closed represent 99.7% of total units and 98.7% of the total residential square feet available for sale as of March 31, 2020. The retail portion of the project is 100% leased and has been placed into service.

Ae‘o - We have closed on all 465 units, and the retail portion of the project, which is primarily comprised of the 57,000- square-foot flagship Whole Foods Market, is 95% leased and has been placed into service.

Ke Kilohana - We have closed on all 423 units, and the 22,000 square feet of retail, which is 100% leased to CVS/Longs Drugs, was placed into service in the fourth quarter of 2019.

‘A‘ali‘i - We have entered into contracts for 628 of the 750 units as of March 31, 2020. These units under contract represent 83.7% of total units and 79.1% of the total residential square feet available for sale as of March 31, 2020.

Kō'ula - We have entered into contracts for 431 of the 565 units as of March 31, 2020. These units under contract represent 76.3% of total units and 78.5% of the total residential square feet available for sale as of March 31, 2020.

Victoria Place – As a result of strong demand demonstrated by sales at ‘A‘ali‘i and Kō'ula, we launched public sales of our seventh condominium project at Ward Village in December 2019. Victoria Place will be a 40-story, 349-unit condominium project located between Auahi Street and Ala Moana Boulevard, immediately to the west of Waiea and adjacent to Victoria Ward Park. The project will consist of one, two and three-bedroom residences. The units will range from approximately 750 square feet to 1,850 square feet. Additionally, there will be approximately 15,600 square feet of ground level open space, and 64,000 square feet of indoor and outdoor recreational space. We have entered into contracts for 225 and 230 of the 349 units as of March 31, 2020 and April 30, 2020. These units under contract represent 64.5% and 65.9% of total units and 67.0% and 68.3% of the total residential square feet available for sale as of March 31, 2020, and April 30, 2020, respectively.

Projects Under Construction

The following table summarizes our projects under construction and related debt held in Operating Assets, the Seaport District and Strategic Developments as of March 31, 2020. Projects that are substantially complete and which have been placed into service in the Operating Assets or the Seaport District segment are included in the following table if the project has more than $1.0 million of estimated costs remaining to be incurred. Typically, these amounts represent budgeted tenant allowances necessary to bring the asset to stabilized occupancy. Tenant build-out costs represent a significant portion of the remaining costs for the following properties in the Operating Assets and Seaport District segments:

- 6100 Merriweather and Garage
- Two Merriweather
- Creekside Park West
- 1725-1735 Hughes Landing Boulevard
- Three Hughes Landing
- Two Summerlin
- Pier 17

The total estimated costs and costs paid are prepared on a cash basis to reflect the total anticipated cash requirements for the projects. This table does not include projects for which construction has not yet started. We expect to be able to meet our cash funding requirements with a combination of existing and anticipated construction loans, condominium buyer deposits, free cash flow from our Operating Assets and MPC segments, net proceeds from condominium sales, our existing cash balances and as necessary, the postponement of certain projects.

($ in thousands)	Total Estimated Costs (a)	Costs Paid Through March 31, 2020 (b)	Estimated Remaining to be Spent	Remaining Buyer Deposits/Holdback to be Drawn	Debt to be Drawn (c)	Costs Remaining to be Paid, Net of Debt and Buyer Deposits/Holdbacks to be Drawn (c)		Estimated Completion Date
Operating Assets	(A)	(B)	(A) - (B) = (C)	(D)	(E)	(C) - (D) - (E) = (F)		
Columbia								
6100 Merriweather and Garage	$ 138,221	$ 89,519	$ 48,702	$ —	$ 49,187	$ (485)	(d)(e)	Open
Two Merriweather	40,941	36,589	4,352	—	3,070	1,282	(d)	Open
Juniper Apartments	116,386	82,708	33,678	—	34,208	(530)	(e)	Open
The Woodlands								
Creekside Park West	22,625	16,045	6,580	—	5,833	747	(d)	Open
1725-1735 Hughes Landing Boulevard	204,878	201,783	3,095	—	—	3,095	(d)(f)	Open
Three Hughes Landing	90,133	84,816	5,317	—	1,129	4,188	(d)	Open
8770 New Trails	45,985	31,570	14,415	—	11,749	2,666		Open
Bridgeland								
Lakeside Row	48,412	39,027	9,385	—	7,987	1,398		Open
Summerlin								
Las Vegas Ballpark	127,802	123,287	4,515	—	—	4,515	(g)	Open
Two Summerlin	53,238	48,801	4,437	—	—	4,437	(d)(f)	Open
Tanager Apartments	59,276	52,037	7,239	—	8,130	(891)	(e)	Open
Total Operating Assets	947,897	806,182	141,715	—	121,293	20,422		
Seaport Assets								
Pier 17 and Seaport District Historic Area / Uplands	659,018	592,260	66,758	—	—	66,758	(d)(h)(i)	Open
Tin Building	173,452	81,289	92,163	—	—	92,163	(i)	2021
Total Seaport Assets	832,470	673,549	158,921	—	—	158,921		
Strategic Developments								
Chicago								
110 North Wacker	722,643	393,684	328,959	—	328,959	—	(j)	Q4 2020
Columbia								
Merriweather District Area 3 Standalone Retail	5,680	1,368	4,312	—	—	4,312	(k)	Q4 2020
The Woodlands								
Creekside Park Apartments Phase II	57,472	4,734	52,738	—	43,386	9,352	(k)	2021
Millennium Phase III Apartments	45,033	15,000	30,033	—	30,699	(666)	(e)	Q4 2020
Two Lakes Edge	107,706	82,659	25,047	—	21,981	3,066		Q2 2020
Ward Village								
‘A‘ali‘i	411,900	151,439	260,461	15,487	258,579	(13,605)	(e)	2021
Anaha	401,314	396,302	5,012	—	—	5,012		Open
Ke Kilohana	218,898	212,907	5,991	—	—	5,991	(l)	Open
Kō'ula	487,039	65,415	421,624	95,905	315,466	10,253	(k)(m)	2022
Waiea	464,269	419,701	44,568	—	—	44,568	(n)	Open
Total Strategic Developments	2,921,954	1,743,209	1,178,745	111,392	999,070	68,283		
Combined Total at March 31, 2020	$ 4,702,321	$ 3,222,940	$ 1,479,381	$ 111,392	$ 1,120,363	$ 247,626		

(a) Total Estimated Costs represent all costs to be incurred on the project which include construction costs, demolition costs, marketing costs, capitalized leasing, payroll or project development fees, deferred financing costs and advances for certain accrued costs from lenders and excludes land costs and capitalized corporate interest allocated to the project. Total Estimated Costs for assets at Ward Village and Columbia exclude master plan infrastructure and amenity costs at Ward Village and Merriweather District.

(b) Costs included in (a) above which have been paid through March 31, 2020.

(c) With respect to our condominium projects, remaining debt to be drawn is reduced by deposits utilized for construction.
(d) Final completion is dependent on lease-up and tenant build-out.
(e) Negative balances represent cash to be received in excess of Estimated Remaining to be Spent. These items are primarily related to March 2020 costs that were paid by us, but not yet reimbursed by our lenders. We expect to receive funds from our lenders for these costs in the future.
(f) Construction loans for 1725-1735 Hughes Landing Boulevard and Two Summerlin have been repaid in full and any remaining project costs will be funded by us.
(g) Excludes cost to acquire the Las Vegas Aviators.
(h) Pier 17 and Seaport District Historic Area / Uplands Total Estimated Costs and Costs Paid Through March 31, 2020, include costs required for the Pier 17 and Seaport District Historic Area / Uplands and are not reduced by the insurance proceeds received to date.
(i) We closed on a $250.0 million loan for the redevelopment of the Seaport District during the three months ended June 30, 2019. All proceeds, less the interest escrow, have been received, and future project costs will be funded with the loan proceeds, which are included in our cash balance.
(j) 110 North Wacker is a consolidated joint venture discussed further in Note 3 - *Real Estate and Other Affiliates*. Total Estimated Costs exclude $76.0 million of the $86.0 million land value contributed to the joint venture at closing; The Debt to be Drawn includes future draws on the construction loan and anticipated equity partner and JV partner contributions. Costs Remaining to be Paid represent our remaining equity commitment. At loan closing, we received a $52.2 million cash distribution from the venture. In May 2019, we closed on a loan modification which reduced the amount of equity we are required to put into the project by $35.3 million.
(k) Positive balances represent future spending which we anticipate will be funded through a combination of construction loans which we are currently seeking and equity.
(l) The Ke Kilohana facility was repaid in June 2019 in conjunction with closing on the sales of units at the property.
(m) We closed on a $356.8 million loan for the development of Kō'ula during the three months ended March 31, 2020.
(n) Total estimate includes amounts necessary for warranty repairs. However, we anticipate recovering a substantial amount of these costs in the future which is not reflected in this schedule.

Corporate Income, Expenses and Other Items

Corporate income, expenses and other items decreased by $34.1 million to $22.0 million for the three months ended March 31, 2020, compared to the prior year period due to the following:

- $45.1 million decrease in the Provision for income taxes primarily due to a $202.1 million decrease in income before taxes and
- $2.9 million decrease in Development-related marketing costs primarily related to the reduction of costs at parts of Ward Village, including Kō'ula, and the Seaport District.

This activity was partially offset by a $12.8 million increase in General and administrative expenses primarily due to consulting fees for technology and data integration projects, labor costs due to increased operations at the Seaport District, corporate restructuring costs, which are part of an overall plan to reduce recurring overhead costs, and $1.5 million increase in corporate interest expense, net related to lower interest income driven by unfavorable interest rates and lower cash balances during the quarter.

Liquidity and Capital Resources

In direct response to the unprecedented COVID-19 pandemic and the impacts on our four business segments, as well as the economy and capital markets in general, we initiated measures to increase our liquidity. We generated $593.7 million in proceeds from the issuance of common stock, entered into new financings totaling over $537.2 million, entered into an agreement to extend our bridge loan for The Woodlands Towers at The Waterway, as well as completed the sale of 100 Fellowship Drive in The Woodlands, Texas. We ended the quarter with $971.7 million of Cash and cash equivalents on our Condensed Consolidated Balance Sheets as of March 31, 2020, with an additional $64.2 million of net proceeds from the sale of 100 Fellowship Drive held at the escrow agent. This escrow was released during April and included in our Cash and cash equivalents balance at April 30, 2020. Despite the limited visibility into the future depth and duration of the economic impact of the pandemic, we believe that our expanded liquidity position enhances our ability to make the best long-term value decisions for shareholders.

Our primary sources of cash include cash flow from land sales in MPC, cash generated from our operating assets, condominium closings, deposits from condominium sales (which are restricted to funding construction of the related developments), equity offerings, first mortgage financings secured by our assets and the corporate bond markets. Additionally, the sale of our non-core assets may provide additional cash proceeds to our operating or investing activities. Our primary uses of cash include working capital, overhead, debt service, property improvements, acquisitions and development costs. Uses of cash also include one-time charges associated with relocation expenses, retention and severance payments. We believe that our sources of cash, including existing cash on hand, will provide sufficient liquidity to meet our existing non-discretionary obligations and anticipated ordinary course operating expenses for at least the next 12 months, even after taking into account the consequences of the COVID-19 pandemic discussed above. The development and redevelopment opportunities in Operating Assets and Strategic Developments are capital intensive and will require significant additional funding, if and when pursued. Any additional funding, if available, would be raised with a mix of construction, bridge and long-term financings, by entering into joint venture arrangements and the sale of non-core assets at the appropriate time. We cannot provide assurance that financing arrangements for our properties will be on favorable terms or occur at all, which could have a negative impact on our liquidity and capital resources. In addition, we typically must provide completion guarantees to lenders in connection with their providing financing for our projects. We also provided a completion guarantee to the City of New York for the redevelopment of Pier 17 and the Tin Building.

Total outstanding debt was $4.3 billion as of March 31, 2020. Certain mortgages may require paydowns in order to exercise contractual extension terms. Our proportionate share of the debt of our real estate and other affiliates, which is non-recourse to us, totaled $100.2 million as of March 31, 2020. The following table summarizes our net debt on a segment basis as of March 31, 2020. Net debt is defined as Mortgages, notes and loans payable, including our ownership share of debt of our real estate and other affiliates, reduced by liquidity sources to satisfy such obligations such as our ownership share of Cash and cash equivalents and SID, MUD and TIF receivables. Although net debt is a non-GAAP financial measure, we believe that such information is useful to our investors and other users of our financial statements as net debt and its components are important indicators of our overall liquidity, capital structure and financial position. However, it should not be used as an alternative to our debt calculated in accordance with GAAP.

(In thousands) **Segment Basis (a)**	**Operating Assets**	**Master Planned Communities**	**The Seaport District**	**Strategic Developments**	**Segment Totals**	**Non-Segment Amounts**	**March 31, 2020**
Mortgages, notes and loans payable	$ 2,363,378 (b)	$ 274,143 (d)	$ 353,436 (f)	$ 353,406	$ 3,344,363	$ 1,060,381	$ 4,404,744
Less: Cash and cash equivalents	(27,274) (c)	(139,570) (e)	(2,548) (g)	(46,817) (h)	(216,209)	(804,810)	(1,021,019)
Special Improvement District receivables	—	(42,103)	—	—	(42,103)	—	(42,103)
Municipal Utility District receivables, net	—	(301,897)	—	—	(301,897)	—	(301,897)
TIF receivable	—	—	—	(3,854)	(3,854)	—	(3,854)
Net Debt	$ 2,336,104	$ (209,427)	$ 350,888	$ 302,735	$ 2,780,300	$ 255,571	$ 3,035,871

(a) Please refer to Note 18 - *Segments* in our Condensed Consolidated Financial Statements.
(b) Includes our $79.5 million share of Mortgages, notes and loans payable of our real estate and other affiliates in Operating Assets (Woodlands Sarofim #1, The Metropolitan Downtown Columbia and m.flats/TEN.M).
(c) Includes our $2.0 million share of Cash and cash equivalents of our real estate and other affiliates in Operating Assets (Woodlands Sarofim #1, The Metropolitan Downtown Columbia, Stewart Title of Montgomery County, TX and m.flats/TEN.M).
(d) Includes our $6.3 million share of Mortgages, notes and loans payable of our real estate and other affiliates in MPC related to The Summit.
(e) Includes our $45.6 million share of Cash and cash equivalents of our real estate and other affiliates in MPC related to The Summit.
(f) Includes our $14.4 million share of Mortgages, notes and loans payable of our real estate and other affiliates in the Seaport District related to Mr. C Seaport.
(g) Includes our $0.8 million share of Cash and cash equivalents of our real estate and other affiliates in Seaport District (Mr. C Seaport and Bar Wayō).
(h) Includes our $0.9 million share of Cash and cash equivalents of our real estate and other affiliates in Strategic Developments (KR Holdings, HHMK Development and Circle T Ranch and Power Center).

Cash Flows

Operating Activities

Each segment's relative contribution to our cash flows from operating activities will likely vary significantly from year to year given the changing nature of our development focus. Other than our condominium properties, most of the properties and projects in our Strategic Developments segment do not generate revenues and the cash flows and earnings may vary. Condominium deposits received from contracted units offset by other various cash uses related to condominium development and sales activities are a substantial portion of our operating activities in 2020. Operating cash continued to be utilized in the first quarter of 2020 to fund ongoing development expenditures in our Strategic Developments, Seaport District and MPC segments, consistent with prior years.

The cash flows and earnings from the MPC business may fluctuate more than from our operating assets because the MPC business generates revenues from land sales rather than recurring contractual revenues from operating leases. MPC land sales are a substantial portion of our cash flows from operating activities and are partially offset by development costs associated with the land sales business and acquisitions of land that is intended to ultimately be developed and sold.

The extent to which the COVID-19 pandemic impacts our operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of the pandemic, the actions taken to contain the pandemic or mitigate its impact, and the direct and indirect economic effects of the pandemic and containment measures, among others.

Net cash used in operating activities was $73.2 million and $59.7 million for the three months ended March 31, 2020, and 2019, respectively. The $13.5 million net increase in cash used in operating activities in the three months ended March 31, 2020, compared to the same period in 2019 was primarily related to the timing of condominium development expenditures and closings, and timing of MPC development expenditures, which were partially offset by proceeds received from the sale of lease receivable.

Investing Activities

Net cash used in investing activities was $153.2 million and $175.8 million for the three months ended March 31, 2020, and 2019, respectively. The $22.6 million decrease in cash used was primarily the result of the decrease in operating property improvements expenditures during the three months ended March 31, 2020, with the most significant decrease relating to Pier 17.

Financing Activities

Net cash provided by financing activities was $845.0 million for three months ended March 31, 2020, as compared to net cash provided by financing activities of $98.6 million for three months ended March 31, 2019. The increase of $746.4 million was primarily due to the proceeds from issuance of common stock, construction loan for the development of Kō'ula, and the partial refinance of the bridge loan for The Woodlands Towers at the Waterway and The Woodlands Warehouse. Principal payments on mortgages, notes and loans payable increased by $0.5 million during the three months ended March 31, 2020, as compared to the three months ended March 31, 2019.

Off-Balance Sheet Financing Arrangements

We do not have any material off-balance sheet financing arrangements. Although we have interests in certain property owning non-consolidated ventures which have mortgage financing, the financings are non-recourse to us and totaled $209.1 million as of March 31, 2020.

Critical Accounting Policies

Critical accounting policies are those that are both significant to the overall presentation of our financial condition and results of operations and require management to make difficult, complex or subjective judgments. See Note 1 - *Basis of Presentation and Organization* in our Annual Report and Note 2 - *Accounting Policies and Pronouncements* in this Quarterly Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to interest rate risk with respect to our variable-rate financings in that increases in interest rates will increase our payments under these variable rates. With respect to fixed-rate financings, increases in interest rates could make it more difficult to refinance such debt when due. We manage a portion of our variable interest rate exposure by using interest rate swaps, collars and caps. As of March 31, 2020, of our $2.4 billion of variable-rate debt outstanding, $706.2 million is swapped to a fixed rate and $229.9 million is subject to interest rate collars. We may enter into interest rate cap contracts to mitigate our exposure to rising interest rates. We have a cap contract for our credit facility for the The Woodlands and Bridgeland, of which $250.0 million is outstanding and $75.0 million is capped. As properties are placed into service and become stabilized, we typically refinance the variable-rate debt with long-term fixed-rate debt.

As of March 31, 2020, annual interest costs would increase approximately $17.3 million for every 1.00% increase in floating interest rates. Generally, a significant portion of our interest expense is capitalized due to the level of assets we currently have under development; therefore, the current impact of a change in our interest rate on our Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Comprehensive Income would be less than the total change, but we would incur higher cash payments and the development costs of our assets would be higher. For additional information concerning our debt and management's estimation process to arrive at a fair value of our debt as required by GAAP, please refer to the Liquidity and Capital Resources section of Item 2. - *Management's Discussion and Analysis of Financial Condition and Results of Operations,* Note 7 - *Mortgages, Notes and Loans Payable, Net* and Note 9 - *Derivative Instruments and Hedging Activities* in our Condensed Consolidated Financial Statements. See also the Liquidity and Capital Resources section of Item 2. - *Management's Discussion and Analysis of Financial Condition and Results of Operations* and Note 7 - *Mortgages, Notes and Loans Payable, Net* for discussion of the impact of COVID-19 on our business, including our success in closing on and extending various debt facilities after the onset of the pandemic.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) that are designed to provide reasonable assurance that information required to be disclosed in our reports to the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and our principal financial and accounting officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by SEC rules, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and our principal financial and accounting officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2020, the end of the period covered by this report. Based on the foregoing, our principal executive officer and principal financial and accounting officer concluded that our disclosure controls and procedures were effective as of March 31, 2020.

Changes in Internal Control over Financial Reporting

As of January 1, 2020, we adopted Topic 326. In connection with the adoption, we implemented certain changes to our processes and controls related to accounting for the measurement of credit losses on financial instruments. These changes included the development of new practices based on the guidance outlined in Topic 326, new credit quality review requirements and new processes related to the additional disclosure requirements.

Due to the COVID-19 pandemic, beginning on March 13, 2020, we instituted a telecommuting arrangement for employees whose job duties are conducive to working from home. Our transition of a large portion of associates working remotely did not have a material effect on our internal controls over financial reporting.

There were no other changes to our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Please refer to Note 10 - *Commitments and Contingencies* in the Condensed Consolidated Financial Statements.

ITEM 1A. RISK FACTORS

There are no material changes to the risk factors previously disclosed in our Annual Report, with the exception of the additional risk factors discussed below.

COVID-19 has disrupted our business and has had a material adverse effect on our business, financial performance and condition, operating results and cash flows, and will continue to materially adversely impact and cause disruption to, our business, financial performance and condition, operating results and cash flows. Factors that would negatively impact our ability to successfully operate during and after COVID-19 or another pandemic include:

- our ability to continue to sell land to residential homebuilders and developers in our MPCs at attractive prices, which would lead to lower land sales revenue in our MPC segment, if such homebuilders continue to see a decline in new home sales to their consumers or if there is reduced availability of loans to support such homebuilders;

- our ability to continue to collect rents, on a timely basis or at all, without reductions or other concessions, in multi-family and office properties (revenues from which properties accounted for 13% of our revenues for the year ended December 31, 2019);

- our ability to reopen our hotels in a timely manner, and our ability to attract customers to our hotels when we are able to reopen (revenues from our hotel properties accounted for 7% of our revenues for the year ended December 31, 2019);

- our ability to collect rent from our retail tenants where most retail tenants have closed their businesses (including nearly all of our retail tenants in Summerlin, Ward Village and Riverwalk) (revenues from our retail properties accounted for 12% of our revenues for the year ended December 31, 2019);

- reductions in demand for leased space and/or defaults under our leases, as a result of downturns in our tenants' personal financial situations as well as commercial businesses, which include retail stores, restaurants and event attractions such as those in the Seaport District, in part due to containment measures, such as travel restrictions, mandatory government closures, quarantines, "shelter in place" orders and social distancing, as well as the overall impact on the economy and our tenants' industries (including the energy sector);

- our ability to resume the season for the Las Vegas Aviators, our Triple-A professional baseball team, which is currently delayed for an indeterminate period of time and may be completely canceled for 2020 (revenues from the Las Vegas Aviators accounted for 2% of our revenues for the year ended December 31, 2019);

- fluctuations in regional and local economies, the residential housing and condominium markets, local real estate conditions, and tenant rental rates;

- our ability to continue to make condominium sales in Hawai'i and land sales in our MPCs, in light of the impact on the overall economy and consumers' reluctance to make significant capital decisions in times of economic uncertainty, particularly if there is reduced availability of loans for such consumers;

- our ability to reopen the Seaport District in a timely manner, which is now completely closed and our ability to hold our Seaport District summer concert series, the revenue and sponsorship of which historically has been a meaningful contribution to our annual revenue;

- our and our tenants' ability to continue or complete construction as planned for their operations, or delays in the supply of materials or labor necessary for construction;

- the continued service and availability of personnel, including our executive officers and other leaders that are part of our management team and our ability to recruit, attract and retain skilled personnel to the extent our management or personnel are impacted in significant numbers or in other significant ways by the outbreak of pandemic or epidemic disease and are not available or allowed to conduct work;

- our ability to ensure business continuity in the event our continuity of operations plan is not effective or improperly implemented or deployed during a disruption;

- a complete or partial closure of, or other operational issues at, one or more of our MPCs or our corporate headquarters resulting from government action or otherwise;

- delays in, or our ability to complete, our "Transformation Plan" on the expected terms or timing, or at all; and

- difficulty accessing debt and equity capital on attractive terms, or at all, and a severe disruption and instability in the global financial markets or deteriorations in credit and financing conditions may affect our access to capital necessary to fund business operations or address maturing liabilities.

The extent to which the COVID-19 pandemic impacts our operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of the pandemic, the actions taken to contain the pandemic or mitigate its impact, and the direct and indirect economic effects of the pandemic and containment measures, among others.

The rapid development and fluidity of this situation precludes any prediction as to the full adverse impact of the COVID-19 pandemic. Nevertheless, the COVID-19 pandemic presents material uncertainty and risk with respect to our financial condition, results of operations, cash flows and performance. Moreover, many risk factors set forth in the Annual Report should be interpreted as heightened risks as a result of the impact of the COVID-19 pandemic.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULT UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following Exhibit Index to this Quarterly Report lists the exhibits furnished as required by Item 601 of Regulation S-K and is incorporated by reference.

EXHIBIT INDEX

3.1	Second Amended and Restated Certificate of Incorporation of The Howard Hughes Corporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed May 24, 2016)
3.2	Amended and Restated Bylaws of The Howard Hughes Corporation (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed November 12, 2010)
3.3	Amendment No. 1 to the Amended and Restated Bylaws of The Howard Hughes Corporation (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed May 24, 2016)
3.4	Certificate of Designations of Series A Junior Participating Preferred Stock, filed with the Secretary of State of Delaware on February 29, 2012 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed February 29, 2012)
4.1	Indenture, dated as of March 16, 2017 by and between The Howard Hughes Corporation and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed March 21, 2017)
4.2	Form of Senior Indenture (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-3, filed March 27, 2020)
4.3	Form of Subordinated Indenture (incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-3, filed March 27, 2020)
4.4	Form of Senior Note (incorporated by reference to Exhibit 4.5 to the Company's Registration Statement on Form S-3, filed March 27, 2020)
4.5	Form of Subordinated Note (incorporated by reference to Exhibit 4.6 to the Company's Registration Statement on Form S-3, filed March 27, 2020)
4.6*	Form of Deposit Agreement
4.7*	Form of Warrant Agreement
4.8*	Form of Purchase Contract Agreement
4.9*	Form of Unit Agreement
10.1**+	Form of Time-based Restricted Stock Agreement for Executive Officers under The Howard Hughes Corporation 2010 Amended and Restated Incentive Plan
10.2**+	Form of Performance-based Restricted Stock Agreement for Executive Officers under The Howard Hughes Corporation 2010 Amended and Restated Incentive Plan
10.3**+	Form of Time-based Restricted Stock Agreement for Employees under The Howard Hughes Corporation 2010 Amended and Restated Incentive Plan
10.4**+	Form of Performance-based Restricted Stock Agreement for Employees under The Howard Hughes Corporation 2010 Amended and Restated Incentive Plan
10.5**+	Saul Scherl Employment Letter, dated as of February 12, 2020

10.6**+	Time-based Restricted Stock Agreement, dated as of February 12, 2020, by and between The Howard Hughes Corporation and Saul Scherl
10.7**+	Performance-based Restricted Stock Agreement, dated as of February 12, 2020, by and between The Howard Hughes Corporation and Saul Scherl
10.8**+	Amendment No. 1 to Nonqualified Employee Stock Option Agreement, dated as of February 12, 2020, by and between The Howard Hughes Corporation and Saul Scherl
10.9	Share Purchase Agreement, dated March 27, 2020, by and among The Howard Hughes Corporation and Pershing Square Capital Management, L.P. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed March 31, 2020)
10.10**+	Employment Separation Agreement and Release, dated as of February 8, 2020, by and between The Howard Hughes Corporation and Simon Treacy
31.1+	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2+	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1+	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH+	Inline XBRL Taxonomy Extension Schema Document
101.CAL+	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB+	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE+	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF+	Inline XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* To be filed by amendment to the Form S-3 filed on March 27, 2020 or by a Current Report on Form 8-K.
** Management contract, compensatory plan or arrangement
+ Filed herewith

Attached as Exhibit 101 to this report are the following documents formatted in iXBRL (Inline Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Operations for the three months ended March 31, 2020 and 2019, (ii) Condensed Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2020 and 2019, (iii) the Condensed Consolidated Balance Sheets as of March 31, 2020 and December 31, 2019, (iv) Condensed Consolidated Statements of Equity for the three months ended March 31, 2020 and 2019, (v) the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2020 and 2019, and (vi) the Notes to Condensed Consolidated Financial Statements.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

The Howard Hughes Corporation

By: /s/ David R. O'Reilly

David R. O'Reilly
Chief Financial Officer
May 11, 2020

(Back To Top)

Section 2: EX-10.1 (EXHIBIT 10.1)

EXHIBIT 10.1

THE HOWARD HUGHES CORPORATION

RESTRICTED STOCK AGREEMENT

WHEREAS, **<INSERT NAME>** (the "Grantee") is an employee of The Howard Hughes Corporation (and its successors, the "Company");

WHEREAS, the grant of Restricted Stock was authorized by the Compensation Committee of the Board of Directors of the Company (the "Compensation Committee") on February 12, 2020;

WHEREAS, the date of grant is February 12, 2020 ("Date of Grant"); and

WHEREAS, pursuant to The Howard Hughes Corporation Amended and Restated 2010 Incentive Plan (the "Plan"), and subject to the terms and conditions thereof and the terms and conditions of this agreement (this "Agreement"), the Company has granted to Grantee as of the Date of Grant the right to receive **<INSERT AMOUNT>** shares of common stock of the Company (the "Restricted Shares").

NOW, THEREFORE, the Company and Grantee hereby agree as follows:

1. Rights of Grantee. The Restricted Shares subject to this grant shall be fully paid and nonassessable and shall be either: (i) represented by certificates held in custody by the Company until all restrictions thereon have lapsed, together with a stock power or powers executed by Grantee in whose name such certificates are registered, endorsed in blank and covering such Restricted Shares; or (ii) held at the Company's transfer agent in book entry form with appropriate restrictions relating to the transfer of such Restricted Shares, and endorsed with an appropriate legend referring to the restrictions hereinafter set forth. Grantee shall have the right to vote the Restricted Shares. Upon vesting of the Restricted Shares hereunder, the Grantee: (x) shall receive cash dividends or cash distributions, if any, paid or made by the Company with respect to common shares after the Date of Grant and prior to the vesting of the Restricted Stock; and (y) shall receive any additional Restricted Shares that Grantee may become entitled to receive by virtue of a Restricted Share dividend, a merger or reorganization in which the Company is the surviving corporation or any other change in the capital structure of the Company.

2. Restrictions on Transfer of Restricted Shares. The Restricted Shares subject to this grant may not be assigned, exchanged, pledged, sold, transferred or otherwise disposed of by Grantee, except to the Company, until the Restricted Shares have become nonforfeitable in accordance with Sections 3, 4 and 5 hereof. The Grantee's rights with respect to such purported transfer in violation of the provisions of this Section 2 of this Agreement shall be null and void, and the purported transferee shall obtain no rights with respect to such Restricted Shares.

3. Vesting of Restricted Shares. Subject to the terms and conditions of Sections 4 and 5 of this Agreement and the applicable provisions of that certain Employment Agreement, dated as of **<INSERT DATE>** (as amended, the "Employment Agreement"), by and between

the Company and the Grantee, the Restricted Shares covered by this Agreement shall vest ratably over a five-year period (the "Time-based Vesting Component"), with 20% of the Time-based Vesting Component vesting on each of December 31, 2020; December 31, 2021; December 31, 2021; December 31, 2023; and December 31, 2024.

4. Forfeiture of Awards. Except as otherwise expressly provided in the Employment Agreement, the Grantee's rights to receive the unvested Restricted Shares covered by this Agreement shall be forfeited automatically and without further notice on the date that Grantee ceases to be an employee of the Company or a Subsidiary.

5. Compliance with Law. The Company shall make reasonable efforts to comply with all applicable federal and state securities laws; provided, however, that notwithstanding any other provision of this Agreement, the Company shall not be obligated to issue any of the Restricted Shares covered by this Agreement if the issuance thereof would result in violation of any such law.

6. Compliance with Section 409A of the Code. To the extent applicable, it is intended that this Agreement and the Plan comply with the provisions of Section 409A of the Code, so that the income inclusion provisions of Section 409A(a)(1) of the Code do not apply to Grantee. This Agreement and the Plan shall be administered in a manner consistent with this intent. Reference to Section 409A of the Code is to Section 409A of the Internal Revenue Code of 1986, as amended, and will also include any proposed, temporary or final regulations, or any other guidance promulgated with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service.

7. Amendments. Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto; provided, however, that no amendment shall adversely affect the rights of Grantee under this Agreement or the Employment Agreement without Grantee's consent; further, provided, that Grantee's consent shall not be required to an amendment that is deemed necessary by the Company to ensure compliance with Section 409A of the Code or the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 or any regulations promulgated thereunder, including as a result of the implementation of any recoupment policy the Company adopts to comply with the requirements set forth in the Dodd-Frank Act.

8. Severability. In the event that one or more of the provisions of this Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

9. Relation to Plan and Employment Agreement. This Agreement is subject to the terms and conditions of the Plan and the Employment Agreement. In the event of any inconsistency between the provisions of this Agreement and the Plan, the Plan shall govern. Capitalized terms used herein without definition shall have the meanings assigned to them in the Plan or the Employment Agreement. The Compensation Committee acting pursuant to the Plan, as constituted from time to time, shall, except as expressly provided otherwise herein or in the Plan, have the right to determine any questions which arise in connection with the grant of Restricted Shares.

10. Successors and Assigns. Without limiting Section 2 hereof, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors, administrators, heirs, legal representatives and assigns of Grantee, and the successors and assigns of the Company.

11. Governing Law. This Agreement is made under, and shall be construed in accordance with, the internal substantive laws of the State of Delaware without giving effect to the principles of conflict of laws thereof.

[Remainder of Page Intentionally Left Blank, Signature Page to Follow]

Executed in the name and on behalf of the Company, as of the 12th day of February 2020.

THE HOWARD HUGHES CORPORATION

By: __

Name:

Title:

The undersigned Grantee hereby acknowledges receipt of an executed original of this Agreement and accepts the right to receive the Restricted Shares or other securities covered hereby, subject to the terms and conditions of the Plan and the terms and conditions herein above set forth.

Employee (Grantee)

Date: __

(Back To Top)

Section 3: EX-10.2 (EXHIBIT 10.2)

EXHIBIT 10.2

THE HOWARD HUGHES CORPORATION

RESTRICTED STOCK AGREEMENT

WHEREAS, **<INSERT NAME>** (the "Grantee") is an employee of The Howard Hughes Corporation (and its successors, the "Company");

WHEREAS, the grant of Restricted Stock was authorized by the Compensation Committee of the Board of Directors of the Company (the "Compensation Committee") on February 12, 2020;

WHEREAS, the date of grant is February 12, 2020 ("Date of Grant"); and

WHEREAS, pursuant to The Howard Hughes Corporation Amended and Restated 2010 Incentive Plan (the "Plan"), and subject to the terms and conditions thereof and the terms and conditions of this agreement (this "Agreement"), the Company has granted to Grantee as of the Date of Grant the right to receive **<INSERT AMOUNT>** shares of common stock of the Company (the "Restricted Shares").

NOW, THEREFORE, the Company and Grantee hereby agree as follows:

1. Rights of Grantee. The Restricted Shares subject to this grant shall be fully paid and nonassessable and shall be either: (i) represented by certificates held in custody by the Company until all restrictions thereon have lapsed, together with a stock power or powers executed by Grantee in whose name such certificates are registered, endorsed in blank and covering such Restricted Shares; or (ii) held at the Company's transfer agent in book entry form with appropriate restrictions relating to the transfer of such Restricted Shares, and endorsed with an appropriate legend referring to the restrictions hereinafter set forth. Grantee shall have the right to vote the Restricted Shares. Upon vesting of the Restricted Shares hereunder, the Grantee: (x) shall receive cash dividends or cash distributions, if any, paid or made by the Company with respect to common shares after the Date of Grant and prior to the vesting of the Restricted Stock; and (y) shall receive any additional Restricted Shares that Grantee may become entitled to receive by virtue of a Restricted Share dividend, a merger or reorganization in which the Company is the surviving corporation or any other change in the capital structure of the Company.

Restrictions on Transfer of Restricted Shares. The Restricted Shares subject to this grant may not be assigned, exchanged, pledged, sold, transferred or otherwise disposed of by Grantee, except to the Company, until the Restricted Shares have become nonforfeitable in accordance with Sections 3, 4 and 5 hereof. The Grantee's rights with respect to such purported transfer in violation of the provisions of this Section 2 of this Agreement shall be null and void, and the purported transferee shall obtain no rights with respect to such Restricted Shares.

2. Vesting of Restricted Shares. Subject to the terms and conditions of Sections 4 and 5 of this Agreement, and the applicable provisions of that certain Employment Agreement, dated as of **<INSERT DATE>** (as amended, the "Employment Agreement"), by and between the Company and the Grantee, the Restricted Shares covered by this Agreement shall vest in accordance with the vesting schedule based on the total shareholder return as set forth on Exhibit A (the "Performance-based Vesting Component").

3. Forfeiture of Awards. Except as otherwise expressly provided in the Employment Agreement, the Grantee's rights to receive the unvested Restricted Shares covered by this Agreement shall be forfeited automatically and without further notice on the date that Grantee ceases to be an employee of the Company or a Subsidiary.

4. Compliance with Law. The Company shall make reasonable efforts to comply with all applicable federal and state securities laws; provided, however, that notwithstanding any other provision of this Agreement, the Company shall not be obligated to issue any of the Restricted Shares covered by this Agreement if the issuance thereof would result in violation of any such law.

5. Compliance with Section 409A of the Code. To the extent applicable, it is intended that this Agreement and the Plan comply with the provisions of Section 409A of the Code, so that the income inclusion provisions of Section 409A(a)(1) of the Code do not apply to Grantee. This Agreement and the Plan shall be administered in a manner consistent with this intent. Reference to Section 409A of the Code is to Section 409A of the Internal Revenue Code of 1986, as amended, and will also include any proposed, temporary or final regulations, or any other guidance promulgated with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service.

6. Amendments. Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto; provided, however, that no amendment shall adversely affect the rights of Grantee under this Agreement or the Employment Agreement without Grantee's consent; further, provided, that Grantee's consent shall not be required to an amendment that is deemed necessary by the Company to ensure compliance with Section 409A of the Code or the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 or any regulations promulgated thereunder, including as a result of the implementation of any recoupment policy the Company adopts to comply with the requirements set forth in the Dodd-Frank Act.

7. Severability. In the event that one or more of the provisions of this Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

8. Relation to Plan and Employment Agreement. This Agreement is subject to the terms and conditions of the Plan and the Employment Agreement. In the event of any inconsistency between the provisions of this Agreement and the Plan, the Plan shall govern. Capitalized terms used herein without definition shall have the meanings assigned to them in the Plan or the Employment Agreement. The Compensation Committee acting pursuant to the Plan, as constituted from time to time, shall, except as expressly provided otherwise herein or in the Plan, have the right to determine any questions which arise in connection with the grant of Restricted Shares.

9. Successors and Assigns. Without limiting Section 2 hereof, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors, administrators, heirs, legal representatives and assigns of Grantee, and the successors and assigns of the Company.

10. Governing Law. This Agreement is made under, and shall be construed in accordance with, the internal substantive laws of the State of Delaware without giving effect to the principles of conflict of laws thereof.

[Remainder of Page Intentionally Left Blank, Signature Page to Follow]

Executed in the name and on behalf of the Company, as of the 12th day of February 2020.

THE HOWARD HUGHES CORPORATION

By: __

Name:

Title:

The undersigned Grantee hereby acknowledges receipt of an executed original of this Agreement and accepts the right to receive the Restricted Shares or other securities covered hereby, subject to the terms and conditions of the Plan and the terms and conditions herein above set forth.

Employee (Grantee)

Date: __

EXHIBIT A

PERFORMANCE-BASED VESTING SCHEDULE

Cumulative Compounded Annual Total Shareholder Return	Stock Price End	Vesting %
0.00% to 10.99%	$193.69 or below	0%
11.00% to 11.99%	$193.70	30%
12.00% to 12.99%	$202.59	60%
13.00% to 13.99%	$211.80	90%

14.00% to 14.99%	$221.33	120%
+	+	150%

The Performance-based Vesting Component of the Award shall vest on December 31, 2024, according to the schedule above; provided, that the Company achieves the corresponding cumulative compounded annual total shareholder return ("TSR") target. $114.95, the volume weighted average share price of the Company for the last 30 trading days of 2019, shall be used as the beginning price for the purpose of calculating TSR. The ending price for the purpose of calculating TSR shall be the volume weighted average share price of the Company for the last 30 trading days of 2024. A TSR target is deemed satisfied if the TSR (calculated as described above) meets or exceeds such target. If the "Stock Price End" amount is higher than the threshold "Stock Price End" amount, but less than the "Stock Price End" amount for the next highest threshold, then, in this instance, the percentage of the award that vests shall be interpolated between the two thresholds. For example, if your award was for 1,000 shares and on December 31, 2024 the "Stock Price End" was $226.57 (i.e. mid-way between $221.33 and $231.21), then, in this instance, you would be entitled to 1,350 fully vested shares of HHC Common Stock (135% of 1,000 shares). Share price shall be based on the daily closing price of the Company's common stock as reported in the consolidated transaction reporting system and shall be rounded to the nearest whole cent.

The Compensation Committee may make adjustments to the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events, including without limitation, stock splits, stock dividends, spinoffs or other similar events, or as a result of changes in applicable laws, regulations or accounting principles, to prevent dilution or enlargement of the benefits or increase in intended benefits or potential intended benefits provided by an Award; provided, that such adjustments shall be consistent with the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code") with regard to Awards subject to Section 162(m) of the Code.

The term "Award" shall have the meaning set forth in The Howard Hughes Corporation 2010 Amended and Restated Incentive Plan. All other capitalized terms used herein without definition shall have the meanings assigned to them in the Restricted Stock Agreement to which this Exhibit A is attached.

(Back To Top)

Section 4: EX-10.3 (EXHIBIT 10.3)

EXHIBIT 10.3

THE HOWARD HUGHES CORPORATION

RESTRICTED STOCK AGREEMENT

WHEREAS, **<INSERT NAME>** (the "Grantee") is an employee of The Howard Hughes Corporation (and its successors, the "Company");

WHEREAS, the grant of Restricted Stock was authorized by the Compensation Committee of the Board of Directors of the Company (the "Compensation Committee") on February 12, 2020;

WHEREAS, the date of grant is February 12, 2020 ("Date of Grant"); and

WHEREAS, pursuant to The Howard Hughes Corporation Amended and Restated 2010 Incentive Plan (the "Plan"), and subject to the terms and conditions thereof and the terms and conditions of this agreement (this "Agreement"), the Company has granted to Grantee as of the Date of Grant the right to receive **<INSERT AMOUNT>** shares of common stock of the Company (the "Restricted Shares").

NOW, THEREFORE, the Company and Grantee hereby agree as follows:

1. Rights of Grantee. The Restricted Shares subject to this grant shall be fully paid and nonassessable and shall be either: (i) represented by certificates held in custody by the Company until all restrictions thereon have lapsed, together with a

stock power or powers executed by Grantee in whose name such certificates are registered, endorsed in blank and covering such Restricted Shares; or (ii) held at the Company's transfer agent in book entry form with appropriate restrictions relating to the transfer of such Restricted Shares, and endorsed with an appropriate legend referring to the restrictions hereinafter set forth. Grantee shall have the right to vote the Restricted Shares. Upon vesting of the Restricted Shares hereunder, the Grantee: (x) shall receive cash dividends or cash distributions, if any, paid or made by the Company with respect to common shares after the Date of Grant and prior to the vesting of the Restricted Stock; and (y) shall receive any additional Restricted Shares that Grantee may become entitled to receive by virtue of a Restricted Share dividend, a merger or reorganization in which the Company is the surviving corporation or any other change in the capital structure of the Company.

Restrictions on Transfer of Restricted Shares. The Restricted Shares subject to this grant may not be assigned, exchanged, pledged, sold, transferred or otherwise disposed of by Grantee, except to the Company, until the Restricted Shares have become nonforfeitable in accordance with Sections 3, 4 and 5 hereof. The Grantee's rights with respect to such purported transfer in violation of the provisions of this Section 2 of this Agreement shall be null and void, and the purported transferee shall obtain no rights with respect to such Restricted Shares.

2. Vesting of Restricted Shares. Subject to the terms and conditions of Sections 4 and 5 of this Agreement, the Restricted Shares covered by this Agreement shall vest ratably over a five-year period (the "Time-based Vesting Component"), with 20% of the Time-based Vesting Component vesting on each of December 31, 2020; December 31, 2021; December 31, 2022; December 31, 2023; and December 31, 2024.

3. Forfeiture of Awards. The Grantee's rights to receive the unvested Restricted Shares covered by this Agreement shall be forfeited automatically and without further notice on the date that Grantee ceases to be an employee of the Company or a Subsidiary.

4. Death or Disability. Notwithstanding Sections 3 and 4 of this Agreement, if the Grantee dies or suffers a Permanently Disability (as defined below) prior to the vesting of the entire Time-based Vesting Component, then the entire Time-based Vesting Component shall vest and become nonforfeitable. "Permanent Disability" means, unless otherwise provided by the Compensation Committee (talking into account the requirements of Section 409A of the Code, if applicable), the inability of an employee to perform the material duties of his or her employment by reason of a medically determinable physical or mental impairment that can be expected to result in death or that has lasted or is expected to last for a continuous period of at least twelve (12) months, as determined by a duly licensed physician selected by the Committee.

5. Compliance with Law. The Company shall make reasonable efforts to comply with all applicable federal and state securities laws; provided, however, that notwithstanding any other provision of this Agreement, the Company shall not be obligated to issue any of the Restricted Shares covered by this Agreement if the issuance thereof would result in violation of any such law.

6. Compliance with Section 409A of the Code. To the extent applicable, it is intended that this Agreement and the Plan comply with the provisions of Section 409A of the Code, so that the income inclusion provisions of Section 409A(a)(1) of the Code do not apply to Grantee. This Agreement and the Plan shall be administered in a manner consistent with this intent. Reference to Section 409A of the Code is to Section 409A of the Internal Revenue Code of 1986, as amended, and will also include any proposed, temporary or final regulations, or any other guidance promulgated with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service.

7. Amendments. Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto; provided, however, that no amendment shall adversely affect the rights of Grantee under this Agreement without Grantee's consent; further, provided, that Grantee's consent shall not be required to an amendment that is deemed necessary by the Company to ensure compliance with Section 409A of the Code or the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 or any regulations promulgated thereunder, including as a result of the implementation of any recoupment policy the Company adopts to comply with the requirements set forth in the Dodd-Frank Act.

8. Severability. In the event that one or more of the provisions of this Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

9. Relation to Plan. This Agreement is subject to the terms and conditions of the Plan. In the event of any inconsistency between the provisions of this Agreement and the Plan, the Plan shall govern. Capitalized terms used herein without definition shall have the meanings assigned to them in the Plan. The Compensation Committee acting pursuant to the Plan, as constituted from time to time, shall, except as expressly provided otherwise herein or in the plan, have the right to determine any questions which arise in connection with the grant of Restricted Shares.

10. Successors and Assigns. Without limiting Section 2 hereof, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors, administrators, heirs, legal representatives and assigns of Grantee, and the successors and assigns of the Company.

Governing Law. This Agreement is made under, and shall be construed in accordance with, the internal substantive laws of the State of Delaware without giving effect to the principles of conflict of laws thereof.

[Remainder of Page Intentionally Left Blank, Signature Page to Follow]

Executed in the name and on behalf of the Company, as of the 12th day of February 2020.

THE HOWARD HUGHES CORPORATION

By: ____

Name: Paul Layne

Title: Chief Executive Officer

The undersigned Grantee hereby acknowledges receipt of an executed original of this Agreement and accepts the right to receive the Restricted Shares or other securities covered hereby, subject to the terms and conditions of the Plan and the terms and conditions herein above set forth.

Employee (Grantee)

Date: __

(Back To Top)

Section 5: EX-10.4 (EXHIBIT 10.4)

EXHIBIT 10.4

THE HOWARD HUGHES CORPORATION

RESTRICTED STOCK AGREEMENT

WHEREAS, **<INSERT NAME>** (the "Grantee") is an employee of The Howard Hughes Corporation (and its subsidiaries, the "Company");

WHEREAS, the grant of Restricted Stock was authorized by the Compensation Committee of the Board of Directors of the Company (the "Compensation Committee") on February 12, 2020;

WHEREAS, the date of grant is February 12, 2020 ("Date of Grant"); and

WHEREAS, pursuant to The Howard Hughes Corporation Amended and Restated 2010 Incentive Plan (the "Plan"), and subject to the terms and conditions thereof and the terms and conditions of this agreement (this "Agreement"), the Company has granted to Grantee as of the Date of Grant the right to receive **<INSERT AMOUNT>** shares of common stock of the Company (the "Restricted Shares").

NOW, THEREFORE, the Company and Grantee hereby agree as follows:

1. Rights of Grantee. The Restricted Shares subject to this grant shall be fully paid and nonassessable and shall be either: (i) represented by certificates held in custody by the Company until all restrictions thereon have lapsed, together with a stock power or powers executed by Grantee in whose name such certificates are registered, endorsed in blank and covering such Restricted Shares; or (ii) held at the Company's transfer agent in book entry form with appropriate restrictions relating to the transfer of such Restricted Shares, and endorsed with an appropriate legend referring to the restrictions hereinafter set forth. Grantee shall have the right to vote the Restricted Shares. Upon vesting of the Restricted Shares hereunder, the Grantee: (x) shall receive cash dividends or cash distributions, if any, paid or made by the Company with respect to common shares after the Date of Grant and prior to the vesting of the Restricted Stock; and (y) shall receive any additional Restricted Shares that Grantee may become entitled to receive by virtue of a Restricted Share dividend, a merger or reorganization in which the Company is the surviving corporation or any other change in the capital structure of the Company.

Restrictions on Transfer of Restricted Shares. The Restricted Shares subject to this grant may not be assigned, exchanged, pledged, sold, transferred or otherwise disposed of by Grantee, except to the Company, until the Restricted Shares have become nonforfeitable in accordance with Sections 3, 4 and 5 hereof. The Grantee's rights with respect to such purported transfer in violation of the provisions of this Section 2 of this Agreement shall be null and void, and the purported transferee shall obtain no rights with respect to such Restricted Shares.

2. Vesting of Restricted Shares. Subject to the terms and conditions of Sections 4 and 5 of this Agreement, the Restricted Shares covered by this Agreement shall vest in accordance with the vesting schedule based on the total shareholder return as set forth on Exhibit A (the

"Performance-based Vesting Component"). Notwithstanding anything to the contrary set forth in this Agreement, in the event that Grantee's employment relationship with the Company or a Subsidiary is involuntarily terminated by the Company or a Subsidiary for any reason, except for cause, and Grantee has been employed by the Company or a Subsidiary continuously for a period of at least forty-eight (48) months from December 31, 2019, then a percentage of the Performance-based Vesting Component shall become nonforfeitable on December 31, 2024 based on the total shareholder return from the Date of Grant to the date of termination in accordance with the schedule set forth on Exhibit A.

3. Forfeiture of Awards. Except to the extent Grantee's rights to receive the Restricted Shares (and any dividends declared thereunder) covered by this Agreement have become nonforfeitable pursuant to Section 3 of this Agreement, Grantee's rights to receive the Restricted Shares covered by this Agreement shall be forfeited automatically and without further notice on the date that Grantee ceases to be an employee of the Company or a Subsidiary.

4. Death or Disability. Notwithstanding Sections 3 and 4 of this Agreement, if the Grantee dies or suffers a Permanently Disability (as defined below) before the vesting of the Performancez-based Vesting Component, then 100% of the Performance-based Vesting Component shall vest and become nonforfeitable. "Permanent Disability" means, unless otherwise provided by the Compensation Committee (talking into account the requirements of Section 409A of the Code, if applicable), the inability of an employee to perform the material duties of his or her employment by reason of a medically determinable physical or mental impairment that can be expected to result in death or that has lasted or is expected to last for a continuous period of at least twelve (12) months, as determined by a duly licensed physician selected by the Committee.

5. Compliance with Law. The Company shall make reasonable efforts to comply with all applicable federal and state securities laws; provided, however, that notwithstanding any other provision of this Agreement, the Company shall not be obligated to issue any of the Restricted Shares covered by this Agreement if the issuance thereof would result in violation of any such law.

6. Compliance with Section 409A of the Code. To the extent applicable, it is intended that this Agreement and the Plan comply with the provisions of Section 409A of the Code, so that the income inclusion provisions of Section 409A(a)(1) of the Code do not apply to Grantee. This Agreement and the Plan shall be administered in a manner consistent with this intent. Reference to Section 409A of the Code is to Section 409A of the Internal Revenue Code of 1986, as amended, and will also include any proposed, temporary or final regulations, or any other guidance promulgated with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service.

7. Amendments. Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto; provided, however, that no amendment shall adversely affect the rights of Grantee under this Agreement without Grantee's consent; further, provided, that Grantee's consent shall not be required to an amendment that is deemed necessary by the Company to ensure compliance with Section 409A of the Code or the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 or any regulations promulgated thereunder, including as a result of the implementation of any recoupment policy the Company adopts to comply with the requirements set forth in the Dodd-Frank Act.

8. Severability. In the event that one or more of the provisions of this Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

9. Relation to Plan. This Agreement is subject to the terms and conditions of the Plan. In the event of any inconsistency between the provisions of this Agreement and the Plan, the Plan shall govern. Capitalized terms used herein without definition shall have the meanings assigned to them in the Plan. The Compensation Committee acting pursuant to the Plan, as constituted from time to time, shall, except as expressly provided otherwise herein or in the plan, have the right to determine any questions which arise in connection with the grant of Restricted Shares.

10. Successors and Assigns. Without limiting Section 2 hereof, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors, administrators, heirs, legal representatives and assigns of Grantee, and the successors and assigns of the Company.

11. Governing Law. This Agreement is made under, and shall be construed in accordance with, the internal substantive laws of the State of Delaware without giving effect to the principles of conflict of laws thereof.

[Remainder of Page Intentionally Left Blank, Signature Page to Follow]

Executed in the name and on behalf of the Company, as of the 12th day of February 2020.

THE HOWARD HUGHES CORPORATION

By: __

Name: Paul Layne

Title: Chief Executive Officer

The undersigned Grantee hereby acknowledges receipt of an executed original of this Agreement and accepts the right to receive the Restricted Shares or other securities covered hereby, subject to the terms and conditions of the Plan and the terms and conditions herein above set forth.

Employee (Grantee)

Date: __

EXHIBIT A

PERFORMANCE-BASED VESTING SCHEDULE

Cumulative Compounded Annual Total Shareholder Return	Stock Price End	Vesting %
0.00% to 10.99%	$193.69 or below	0%
11.00% to 11.99%	$193.70	30%
12.00% to 12.99%	$202.59	60%
13.00% to 13.99%	$211.80	90%
14.00% to 14.99%	$221.33	120%
+	+	150%

The Performance-based Vesting Component of the Award shall vest on December 31, 2024, according to the schedule above; provided, that the Company achieves the corresponding cumulative compounded annual total shareholder return ("TSR") target. $114.95, the volume weighted average share price of the Company for the last 30 trading days of 2019, shall be used as the beginning price for the purpose of calculating TSR. The ending price for the purpose of calculating TSR shall be the volume weighted average share price of the Company for the last 30 trading days of 2024. A TSR target is deemed satisfied if the TSR (calculated as described above) meets or exceeds such target. If the "Stock Price End" amount is higher than the threshold "Stock Price End" amount, but less than the "Stock Price End" amount for the next highest threshold, then, in this instance, the percentage of the award that vests shall be interpolated between the two thresholds. For example, if your award was for 1,000 shares and on December 31, 2024 the "Stock Price End" was $226.57 (i.e. mid-way between $221.33 and $231.21), then, in this instance, you would be entitled to 1,350 fully vested shares of HHC Common Stock (135% of 1,000 shares). Share price shall be based on the daily closing price of the Company's common stock as reported in the consolidated transaction reporting system and shall be rounded to the nearest whole cent.

The Compensation Committee may make adjustments to the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events, including without limitation, stock splits, stock dividends, spinoffs or other similar events, or as a result of changes in applicable laws, regulations or accounting principles, to prevent dilution or enlargement of the benefits or increase in intended benefits or potential intended benefits provided by an Award; provided, that such adjustments shall be consistent with the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code") with regard to Awards subject to Section 162(m) of the Code.

The term "Award" shall have the meaning set forth in The Howard Hughes Corporation 2010 Amended and Restated Incentive Plan. All other capitalized terms used herein without definition shall have the meanings assigned to them in the Restricted Stock Agreement to which this Exhibit A is attached.

(Back To Top)

Section 6: EX-10.5 (EXHIBIT 10.5)

EXHIBIT 10.5

THE HOWARD HUGHES CORPORATION Howard Hughes.

February 12, 2020

Saul Scherl
232 Lydecker Street
Englewood, NJ 07631

Dear Saul,

Thank you so much for your contributions thus far to HHC. Because you have been identified as critical to the success of our New York operations through the completion of the Tin Building scheduled for 1/3/2022, the below terms outline the Company's retention efforts to retain you in your current role through such time. All prior agreements between you and HHC shall remain in effect, and shall be enforceable in accordance with their terms, except, and to the extent that, the terms of any such agreements are modified per terms of this letter.

The details of the retention package are as follows:

Compensation:

Your annual base salary compensation remains $600,000 which calculates to $23,076.92 less applicable taxes and withholdings, to be paid on a biweekly basis. Except as described herein, if either you or HHMC elects to terminate your employment with HHMC, you shall only be eligible to receive that portion of your compensation which you have actually earned as of the date when your employment is terminated and you shall have no right or claim to receive any future or expectant interest in any additional compensation to which you otherwise may have been entitled as of the date of such termination.

HHMC requests that you treat as confidential and not discuss compensation information, including but not limited to base salary, any applicable bonuses and/or incentives, with any HHMC employee or any individual associated with HHMC in any way, other than your direct manager or the Culture + People Department.

Annual Cash Incentives:

You will be eligible for an annual discretionary bonus at a target of up to **100%** of base salary, to be determined by overall company and individual performance goals being achieved.

- Based on the fact that your intended termination date is scheduled for 12/31/2021, for the performance year 2021, you will be eligible for an additional cash incentive of up to **100%** of base salary in lieu of an annual LTIP award for the same year, to be determined by overall company and individual performance goals being achieved.

Annual Long-Term Incentives for Performance Year 2019 and 2020:

You will continue to be eligible to participate in the annual award program under The Howard Hughes Corporation 2010 Amended and Restated Incentive Plan with an accelerated vesting schedule based on a mutually agreed upon separation date with the company on 12/31/2021. You will be eligible for an annual award of Restricted Stock at a target of **100%** of Base Salary subject to the attainment of certain metrics that will be established at the end of each year for the following year, with a grant date and stock price to be determined by the HHC Compensation Committee.

- The annual incentive award issued in 2020 for the performance year 2019 will vest according to 50% for performance with a 2-year cliff vest and the remaining 50% for time, vesting at 50% per year over a 2- year period. The prevailing terms of this grant of HHC restricted stock will be set forth in The Howard Hughes Corporation Restricted Stock Agreement.

- The annual incentive award issued in 2021 for the performance year 2020 will vest according to 50% for performance with a 1-year cliff vest and the remaining 50% for time, also with a 1- year cliff vest. The prevailing terms of this grant of HHC restricted stock will be set forth in The Howard Hughes Corporation Restricted Stock Agreement.

Additional Performance Based Long-Term Incentives:

Based on the critical role that you play in the successful operations and government relations activities of the Seaport District and in order to properly incentivize you to successfully see the project through to its completion, you have been approved to receive an additional Restrict Stock Award in the future per below:

- You will receive a restricted stock award with an issue date and immediate vest date of 12/31/2021 in a value of up to **$1,500,000,** in the aggregate, to be converted to shares using the stock close price on the date of issuance, only upon the achievement of one or more performance goals that have been approved by the Compensation Committee, in whole or on a pro-rated basis, as it may be, based upon certain levels of achievement.

Expiration Date of Stock Options awarded on January 25, 2016:

In an effort to optimize the value realization of the stock options granted to you on January 25, 2016 with a strike price of $112.64, the Company will provide you with amended terms that allows the expiration of this stock option award to remain as originally stated on 1/25/2026 without regard to your separation date with the company.

Treatment of Unvested LTIP Awards:

If your employment is terminated by HHC for any reason, other than for cause or due to your death or disability, or by you for good reason, then you shall be eligible to (i) receive a cash payment equal to the market value, of all of your outstanding time-based LTIP awards, determined using the fair market value of the shares on the date of forfeiture and (ii) all performance-based LTIP awards will remain outstanding and vest or forfeit as the case may be, based on and in accordance with, the terms of each applicable award; and (iii) all unvested stock options shall fully vest

Paid Time Off and Other Benefit Programs:

Paid Time Off will continue to accrue per your current bi-weekly accrual rate. You are entitled to the exact same benefit programs and offerings.

Expense Reimbursement:

If applicable, HHMC agrees to reimburse you 100% of your company related expenses on a monthly basis, subject to review and approval by your immediate supervisor of receipts and other appropriate documentation verifying in reasonable detail the nature of such expenditures for which you seek reimbursement.

As you know, HHMC is an at-will employer. Except as described in this letter, there is no employment contract between you and HHMC. There are no guarantees of future employment, promotion, salary increases, bonuses or location. It should also be understood that HHMC retains the right to revise, amend, delete or in any manner change any and all benefits and benefit related policies.

As a material inducement to HHMC making this offer of employment, you hereby represent and warrant to HHMC that you are free to enter into employment with HHMC and you are not subject to any obligation, agreement or restrictive covenant which will prevent or interfere with your performance of your duties as an employee of HHMC. You hereby acknowledge that, in the event you are bound by any prior agreement or obligation, the effect of which is to restrict you from the performance of your duties on behalf of HHMC, and HHMC is sought to be held liable for your actions, you agree to indemnify, defend and hold HHMC harmless from and against any and all damages, losses, liabilities, costs and expenses, including reasonable attorneys' fees incurred by HHMC in connection with such claims or causes of action which are threatened or actually asserted against HHMC, and you agree that any compensation which may be due and owed to you by SH may be offset and reduced to the extent of HHMC's expenditures under this paragraph.

By your signature you agree to the terms of this offer. It is very important for you to understand and acknowledge that except as duly authorized, you have no personal authority to bind HHMC, Howard Hughes Management Co., LLC or any of their affiliates to any contract, agreement or obligation, and that all contracts or agreements which obligate or propose to obligate HHMC, Seaport Hospitality or any of their affiliates, in any manner, to any third party must be signed and approved by a duly authorized officer of HHMC, Howard Hughes Management Co., LLC or the applicable affiliate, as the case may be.

Please contact me if there is anything further I can do to assist you or if you have any questions.

Sincerely,

/s/ Paul Layne

Paul Layne
Chief Executive Officer

/s/ Saul Scherl

(Saul Scherl Signature)

AGREED AND ACCEPTED ON THIS12TH DAY OF FEBRUARY, 2020

Paul Layne | Chief Executive Officer
T 281.719.6104 | M 713.598.8822
Paul.layne@howardhughes.com

The Howard Hughes Corporation | Corporate HQ
13355 Noel Rd.
22nd Floor
Dallas, TX 75240

(Back To Top)

Section 7: EX-10.6 (EXHIBIT 10.6)

EXHIBIT 10.6

THE HOWARD HUGHES CORPORATION

RESTRICTED STOCK AGREEMENT

WHEREAS, Saul Adam Scherl (the "Grantee") is an employee of The Howard Hughes Corporation (and its successors, the "Company");

WHEREAS, the grant of Restricted Stock was authorized by the Compensation Committee of the Board of Directors of the Company (the "Compensation Committee") on February 12, 2020;

WHEREAS, the date of grant is February 12, 2020 ("Date of Grant"); and

WHEREAS, pursuant to The Howard Hughes Corporation Amended and Restated 2010 Incentive Plan (the "Plan"), and subject to the terms and conditions thereof and the terms and conditions of this agreement (this "Agreement"), the Company has granted to Grantee as of the Date of Grant the right to receive 2,390 shares of common stock of the Company (the "Restricted Shares").

NOW, THEREFORE, the Company and Grantee hereby agree as follows:

1. Rights of Grantee. The Restricted Shares subject to this grant shall be fully paid and nonassessable and shall be either: (i) represented by certificates held in custody by the Company until all restrictions thereon have lapsed, together with a stock power or powers executed by Grantee in whose name such certificates are registered, endorsed in blank and covering such Restricted Shares; or (ii) held at the Company's transfer agent in book entry form with appropriate restrictions relating to the transfer of such Restricted Shares, and endorsed with an appropriate legend referring to the restrictions hereinafter set forth. Grantee shall have the right to vote the Restricted Shares. Upon vesting of the Restricted Shares hereunder, the Grantee: (x) shall receive cash dividends or cash distributions, if any, paid or made by the Company with respect to common shares after the Date of Grant and prior to the vesting of the Restricted Stock; and (y) shall receive any additional Restricted Shares that Grantee may become entitled to receive by virtue of a Restricted Share dividend, a merger or reorganization in which the Company is the surviving corporation or any other change in the capital structure of the Company.

2. Restrictions on Transfer of Restricted Shares. The Restricted Shares subject to this grant may not be assigned, exchanged, pledged, sold, transferred or otherwise disposed of by Grantee, except to the Company, until the Restricted Shares have become nonforfeitable in accordance with Sections 3, 4 and 5 hereof. The Grantee's rights with respect to such purported transfer in violation of the provisions of this Section 2 of this Agreement shall be null and void, and the purported transferee shall obtain no rights with respect to such Restricted Shares.

3. Vesting of Restricted Shares. Subject to the terms and conditions of Sections 4 and 5 of this Agreement, the Restricted Shares covered by this Agreement shall vest ratably over a two-year period (the "Time-based Vesting Component"), with 50% of the Time-based Vesting Component vesting on each of December 31, 2020; and December 31, 2021.

4. Forfeiture of Awards. The Grantee's rights to receive the unvested Restricted Shares covered by this Agreement shall be forfeited automatically and without further notice on the date that Grantee ceases to be an employee of the Company or a Subsidiary.

5. Death or Disability. Notwithstanding Sections 3 and 4 of this Agreement, if the Grantee dies or suffers a Permanently Disability (as defined below) prior to the vesting of the entire Time-based Vesting Component, then the entire Time-based Vesting Component shall vest and become nonforfeitable. "Permanent Disability" means, unless otherwise provided by the Compensation Committee (talking into account the requirements of Section 409A of the Code, if applicable), the inability of an employee to perform the material duties of his or her employment by reason of a medically determinable physical or mental impairment that can be expected to result in death or that has lasted or is expected to last for a continuous period of at least twelve (12) months, as determined by a duly licensed physician selected by the Committee.

6. Compliance with Law. The Company shall make reasonable efforts to comply with all applicable federal and state securities laws; provided, however, that notwithstanding any other provision of this Agreement, the Company shall not be obligated to issue any of the Restricted Shares covered by this Agreement if the issuance thereof would result in violation of any such law.

7. Compliance with Section 409A of the Code. To the extent applicable, it is intended that this Agreement and the Plan comply with the provisions of Section 409A of the Code, so that the income inclusion provisions of Section 409A(a)(1) of the Code do not apply to Grantee. This Agreement and the Plan shall be administered in a manner consistent with this intent. Reference to Section 409A of the Code is to Section 409A of the Internal Revenue Code of 1986, as amended, and will also include any proposed, temporary or final regulations, or any other guidance promulgated with respect to such Section by the U.S. Department of

the Treasury or the Internal Revenue Service.

8. Amendments. Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto; provided, however, that no amendment shall adversely affect the rights of Grantee under this Agreement without Grantee's consent; further, provided, that Grantee's consent shall not be required to an amendment that is deemed necessary by the Company to ensure compliance with Section 409A of the Code or the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 or any regulations promulgated thereunder, including as a result of the implementation of any recoupment policy the Company adopts to comply with the requirements set forth in the Dodd-Frank Act.

9. Severability. In the event that one or more of the provisions of this Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

10. Relation to Plan. This Agreement is subject to the terms and conditions of the Plan. In the event of any inconsistency between the provisions of this Agreement and the Plan, the Plan shall govern. Capitalized terms used herein without definition shall have the meanings assigned to them in the Plan. The Compensation Committee acting pursuant to the Plan, as constituted from time to time, shall, except as expressly provided otherwise herein or in the plan, have the right to determine any questions which arise in connection with the grant of Restricted Shares.

11. Successors and Assigns. Without limiting Section 2 hereof, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors, administrators, heirs, legal representatives and assigns of Grantee, and the successors and assigns of the Company.

12. Governing Law. This Agreement is made under, and shall be construed in accordance with, the internal substantive laws of the State of Delaware without giving effect to the principles of conflict of laws thereof.

[Remainder of Page Intentionally Left Blank, Signature Page to Follow]

Executed in the name and on behalf of the Company, as of the 12th day of February, 2020.

THE HOWARD HUGHES CORPORATION

By: /s/ Paul Layne

Name: Paul Layne

Title: Chief Executive Officer

The undersigned Grantee hereby acknowledges receipt of an executed original of this Agreement and accepts the right to receive the Restricted Shares or other securities covered hereby, subject to the terms and conditions of the Plan and the terms and conditions herein above set forth.

/s/ Saul Adam Scherl (Grantee)

Date: March 8, 2020

(Back To Top)

Section 8: EX-10.7 (EXHIBIT 10.7)

EXHIBIT 10.7

THE HOWARD HUGHES CORPORATION

RESTRICTED STOCK AGREEMENT

WHEREAS, Saul Adam Scherl (the "Grantee") is an employee of The Howard Hughes Corporation (and its subsidiaries, the "Company");

WHEREAS, the grant of Restricted Stock was authorized by the Compensation Committee of the Board of Directors of the Company (the "Compensation Committee") on February 12, 2020;

WHEREAS, the date of grant is February 12, 2020 ("Date of Grant"); and

WHEREAS, pursuant to The Howard Hughes Corporation Amended and Restated 2010 Incentive Plan (the "Plan"), and subject to the terms and conditions thereof and the terms and conditions of this agreement (this "Agreement"), the Company has granted to Grantee as of the Date of Grant the right to receive 2,390 shares of common stock of the Company (the "Restricted Shares").

NOW, THEREFORE, the Company and Grantee hereby agree as follows:

1. Rights of Grantee. The Restricted Shares subject to this grant shall be fully paid and nonassessable and shall be either: (i) represented by certificates held in custody by the Company until all restrictions thereon have lapsed, together with a stock power or powers executed by Grantee in whose name such certificates are registered, endorsed in blank and covering such Restricted Shares; or (ii) held at the Company's transfer agent in book entry form with appropriate restrictions relating to the transfer of such Restricted Shares, and endorsed with an appropriate legend referring to the restrictions hereinafter set forth. Grantee shall have the right to vote the Restricted Shares. Upon vesting of the Restricted Shares hereunder, the Grantee: (x) shall receive cash dividends or cash distributions, if any, paid or made by the Company with respect to common shares after the Date of Grant and prior to the vesting of the Restricted Stock; and (y) shall receive any additional Restricted Shares that Grantee may become entitled to receive by virtue of a Restricted Share dividend, a merger or reorganization in which the Company is the surviving corporation or any other change in the capital structure of the Company.

2. Restrictions on Transfer of Restricted Shares. The Restricted Shares subject to this grant may not be assigned, exchanged, pledged, sold, transferred or otherwise disposed of by Grantee, except to the Company, until the Restricted Shares have become nonforfeitable in accordance with Sections 3, 4 and 5 hereof. The Grantee's rights with respect to such purported transfer in violation of the provisions of this Section 2 of this Agreement shall be null and void, and the purported transferee shall obtain no rights with respect to such Restricted Shares.

Vesting of Restricted Shares. Subject to the terms and conditions of Sections 4 and 5 of this Agreement, the Restricted Shares covered by this Agreement shall vest in accordance with the vesting schedule based on the total shareholder return as set forth on Exhibit A (the "Performance-based Vesting Component"). Notwithstanding anything to the contrary set forth in this Agreement, in the event that Grantee's employment relationship with the Company or a Subsidiary is involuntarily terminated by the Company or a Subsidiary for any reason, except for cause, then a percentage of the Performance-based Vesting Component shall become nonforfeitable on December 31, 2021 based on the total shareholder return from the Date of Grant to the date of termination in accordance with the schedule set forth on Exhibit A.

3. Forfeiture of Awards. Except to the extent Grantee's rights to receive the Restricted Shares (and any dividends declared thereunder) covered by this Agreement have become nonforfeitable pursuant to Section 3 of this Agreement, Grantee's rights to receive the Restricted Shares covered by this Agreement shall be forfeited automatically and without further notice on the date that Grantee ceases to be an employee of the Company or a Subsidiary.

4. Death or Disability. Notwithstanding Sections 3 and 4 of this Agreement, if the Grantee dies or suffers a Permanently Disability (as defined below) before the vesting of the Performance-based Vesting Component, then 100% of the Performance-based Vesting Component shall vest and become nonforfeitable. "Permanent Disability" means, unless otherwise provided by the Compensation Committee (talking into account the requirements of Section 409A of the Code, if applicable), the inability of an employee to perform the material duties of his or her employment by reason of a medically determinable physical or mental impairment that can be expected to result in death or that has lasted or is expected to last for a continuous period of at least twelve (12) months, as determined by a duly licensed physician selected by the Committee.

5. Compliance with Law. The Company shall make reasonable efforts to comply with all applicable federal and state securities laws; provided, however, that notwithstanding any other provision of this Agreement, the Company shall not be obligated to issue any of the Restricted Shares covered by this Agreement if the issuance thereof would result in violation of any such law.

6. Compliance with Section 409A of the Code. To the extent applicable, it is intended that this Agreement and the Plan comply with the provisions of Section 409A of the Code, so that the income inclusion provisions of Section 409A(a)(1) of the Code do not apply to Grantee. This Agreement and the Plan shall be administered in a manner consistent with this intent. Reference to Section 409A of the Code is to Section 409A of the Internal Revenue Code of 1986, as amended, and will also include any proposed, temporary or final regulations, or any other guidance promulgated with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service.

7. Amendments. Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto; provided, however, that no amendment shall adversely affect the rights of Grantee under this Agreement without Grantee's consent; further, provided, that Grantee's consent shall not be required to an amendment that is deemed necessary by the Company to ensure compliance with Section 409A of the Code or the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 or any regulations promulgated thereunder, including as a result of the implementation of any recoupment policy the Company adopts to comply with the requirements set forth in the Dodd-Frank Act.

8. Severability. In the event that one or more of the provisions of this Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

9. Relation to Plan. This Agreement is subject to the terms and conditions of the Plan. In the event of any inconsistency between the provisions of this Agreement and the Plan, the Plan shall govern. Capitalized terms used herein without definition shall have the meanings assigned to them in the Plan. The Compensation Committee acting pursuant to the Plan, as constituted from time to time, shall, except as expressly provided otherwise herein or in the plan, have the right to determine any questions which arise in connection with the grant of Restricted Shares.

10. Successors and Assigns. Without limiting Section 2 hereof, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors, administrators, heirs, legal representatives and assigns of Grantee, and the successors and assigns of the Company.

11. Governing Law. This Agreement is made under, and shall be construed in accordance with, the internal substantive laws of the State of Delaware without giving effect to the principles of conflict of laws thereof.

[Remainder of Page Intentionally Left Blank, Signature Page to Follow]

Executed in the name and on behalf of the Company, as of the 12th day of February, 2020.

ARTICLE I THE HOWARD HUGHES CORPORATION

By: /s/ Paul Layne

Name: Paul Layne

Title: Chief Executive Officer

The undersigned Grantee hereby acknowledges receipt of an executed original of this Agreement and accepts the right to receive the Restricted Shares or other securities covered hereby, subject to the terms and conditions of the Plan and the terms and conditions herein above set forth.

/s/ Saul Adam Scherl (Grantee)

Date: March 23, 2020

EXHIBIT A

PERFORMANCE-BASED VESTING SCHEDULE

Cumulative Compounded Annual Total Shareholder Return	Stock Price End	Vesting %
0.00% to 10.99%	$141.63 or below	0%
11.00% to 11.99%	$141.64	30%
12.00% to 12.99%	$144.20	60%
13.00% to 13.99%	$146.79	90%
14.00% to 14.99%	$149.39	120%
+	+	150%

The Performance-based Vesting Component of the Award shall vest on December 31, 2021, according to the schedule above; provided, that the Company achieves the corresponding cumulative compounded annual total shareholder return ("TSR") target. $114.95, the volume weighted average share price of the Company for the last 30 trading days of 2019, shall be used as the beginning price for the purpose of calculating TSR. The ending price for the purpose of calculating TSR shall be the volume weighted average share price of the Company for the last 30 trading days of 2021. A TSR target is deemed satisfied if the TSR (calculated as described above) meets or exceeds such target. If the "Stock Price End" amount is higher than the threshold "Stock Price End" amount, but less than the "Stock Price End" amount for the next highest threshold, then, in this instance, the percentage of the award that vests shall be interpolated between the two thresholds. For example, if your award was for 1,000 shares and on December 31, 2021 the "Stock Price End" was $150.71 (i.e. mid-way between $149.39 and $152.03), then, in this instance, you would be entitled to 1,350 fully vested shares of HHC Common Stock (135% of 1,000 shares). Share price shall be based on the daily closing price of the Company's common stock as reported in the consolidated transaction reporting system and shall be rounded to the nearest whole cent.

The Compensation Committee may make adjustments to the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events, including without limitation, stock splits, stock dividends, spinoffs or other similar events, or as a result of changes in applicable laws, regulations or accounting principles, to prevent dilution or enlargement of the benefits or increase in intended benefits or potential intended benefits provided by an Award; provided, that such adjustments shall be consistent with the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code") with regard to Awards subject to Section 162(m) of the Code.

The term "Award" shall have the meaning set forth in The Howard Hughes Corporation 2010 Amended and Restated Incentive Plan. All other capitalized terms used herein without definition shall have the meanings assigned to them in the Restricted Stock Agreement to which this Exhibit A is attached.

(Back To Top)

Section 9: EX-10.8 (EXHIBIT 10.8)

EXHIBIT 10.8

THE HOWARD HUGHES CORPORATION

AMENDMENT NO. 1 TO NONQUALIFIED EMPLOYEE STOCK OPTION AGREEMENT

THIS AMENDMENT TO NO. 1 NONQUALIFIED EMPLOYEE STOCK OPTION AGREEMENT (this "Amendment"), dated as of February 12, 2020, is entered into by and between The Howard Hughes Corporation, a Delaware corporation (the "Company"), and **Saul Scherl** ("Optionee").

RECITALS

WHEREAS, the Company and Optionee entered into that certain Nonqualified Employee Stock Option Agreement dated as of January 25, 2016 (the "Agreement"); and

WHEREAS, the Company and Optionee desire to amend the terms of the Agreement to provide Optionee with the right to exercise the Option Shares up to or on the Date of Expiration, regardless of Optionee's employment status with the Company.

NOW, THEREFORE, in consideration of good and valuable consideration, the receipt of which is hereby acknowledged, the Company and Optionee hereby agree as follows:

1. Capitalized Terms. Capitalized terms not otherwise defined herein shall have the same meanings as in the Agreement or The Howard Hughes Corporation Amended and Restated 2010 Incentive Plan (the "Plan"), as applicable.

2. Amendment. Section 7 of the Agreement shall be deleted in its entirety and replaced with the following:

"Section 7. Termination. Notwithstanding anything else to the contrary set forth in the Agreement, the Option shall terminate only upon the earlier of the Date of Expiration and the date that the Option is terminated under the circumstances described in Section 13.2 of the Plan. The Optionee may exercise all or any portion of the Option Shares any time after December 15, 2020 and on or before the termination of the Option even if the Optionee is no longer employed by the Company for any reason."

3. No Other Changes. Except as provided in this Amendment, the Agreement remains in full force and effect.

4. Interpretation. The interpretation and construction of this Amendment by the Committee shall be final and conclusive. No member of the Committee shall be liable for any such action or determination made in good faith.

5. No Other Changes. Except as provided in this Amendment, the Agreement remains in full force and effect.

6. Interpretation. The interpretation and construction of this Amendment by the Committee shall be final and conclusive. No member of the Committee shall be liable for any such action or determination made in good faith.

7. Governing Law. This Amendment is made under, and shall be construed in accordance with, the laws of the State of Delaware.

8. Counterparts. This Amendment may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

Remainder of Page Intentionally Left Blank; Signature Page Follow

Executed in the name and on behalf of the Company, as of the date first written above.

THE HOWARD HUGHES CORPORATION

By: /s/ Paul Layne
Name: Paul Layne
Title: Chief Financial Officer

The undersigned Optionee hereby acknowledges receipt of an executed original of this Amendment and accepts the right to receive the Option subject to the terms and conditions of the Plan and the terms and conditions herein above set forth.

/s/ Saul Scherl
Saul Scherl (Optionee)

Date: February 12, 2020

(Back To Top)

Section 10: EX-10.10 (EXHIBIT 10.10)

EXHIBIT 10.10

EMPLOYMENT SEPARATION
AGREEMENT AND RELEASE

This EMPLOYMENT SEPARATION AGREEMENT AND RELEASE ("Agreement") is made and entered into by and between SIMON TREACY ("Employee") and Howard Hughes Management Company, LLC ("Employer"). Subject to the right of revocation provided to Employee in Paragraph 9 of this Agreement, this Agreement is effective on the eighth day after the Employee signs this Agreement and has not revoked it (the "Effective Date"). Employer, its parents, subsidiaries and current and former affiliates, including The Howard Hughes Corporation, are referred to collectively hereinafter as the "Company". This Agreement sets forth the mutual rights and obligations of the parties arising from Employee's employment with Employer and the end of Employee's employment with Employer.

1. **Separation of Employment**. Employee and Employer acknowledge and affirm that Employee's employment with Employer has ended or will end on FEBRUARY 5, 2020 (the "Separation Date"). Employee understands and agrees that Employee will not perform any work or take any actions on Employer's behalf after the Separation Date. The Separation Date chosen will allow Employee to vest in accordance with the terms of the Howard Hughes Corporation 2010 Incentive Plan, as amended and restated.

a. Health care benefits will continue to be provided by Employer through FEBRUARY 29, 2020, regardless of whether or not Employee signs this Agreement. After the Separation Date, Employee's eligibility for continuation of coverage under the Company's group medical, dental and vision insurance plans will be governed exclusively by the continuation coverage provisions of the Company's group medical, dental and vision insurance plans and the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA").

b. Regardless of whether or not the Employee signs this Agreement, the Employee will be paid all salary earned through the separation date and will be paid accrued, unused Paid Time Off ("PTO"), up to a maximum of eighty (80) hours, provided Employee has completed a minimum of twelve (12) months continuous, active service pursuant to the Employer's applicable policy.

c. Except as is otherwise stated in this Agreement, Employee will not receive, earn, or be entitled to any salary, employee benefits or other compensation from Employer after the Separation Date.

2. **<u>Payments</u>**.

a. <u>Severance Payment</u>. If Employee executes, delivers, and does not revoke this Agreement as provided in Paragraph 9 below, Employer agrees to pay Employee, less applicable withholding, ONE HUNDRED AND NINETY TWO THOUSAND, THREE HUNDRED AND SEVEN DOLLARS AND 69/100 ($192,307.69) (the "<u>Severance Payment</u>") within the later to occur of (i) thirty (30) days following the Separation Date, or (ii) a reasonable period of time following the Effective Date of this Agreement pursuant to the Separation Benefits Plan of Employer with an effective date of August 11, 2017 (as amended and restated as of such date, and as further amended as of July 24, 2018, collectively the "<u>Plan</u>"). Employee hereby acknowledges and confirms that he/she has received a copy of the Plan, that he/she has been given the opportunity to review the Plan with an attorney prior to signing this Agreement, and that after his/her review of the Plan, as acknowledged and confirmed by Employee's signature below, Employee acknowledges and agrees that the Severance Payment is calculated correctly under the Plan and that h/she is not entitled to receive any other separation benefits under the Plan, except as otherwise provided by this Agreement. By signing this Agreement, Employee hereby waives any claims to additional benefits and/or severance payments under the Plan, except as otherwise provided by this Agreement.

b. <u>Discretionary Bonus Payment</u>. If Employee executes, delivers and does not revoke this Agreement as provided in Paragraph 9 below, Employer agrees to pay Employee, less applicable withholding, FOUR HUNDRED AND FIFTY THOUSAND DOLLARS AND 00/100 ($450,000.00**)** (the "Bonus Payment") within thirty (30) days following the Separation Date.

c. Employee acknowledges that the Severance Payment and Bonus Payment offered in this Paragraph 2 is not owed to Employee unless, pursuant to the Plan, Employee executes and does not revoke this Agreement as provided in Paragraph 9 below. Accordingly, the Severance Payment, Bonus Payment and all other terms of this Agreement of benefit to Employee are offered by Employer in exchange for Employee's execution of this Agreement and compliance with the terms of this Agreement, including the confidentiality, release and non-disparagement terms in Paragraphs 4, 5 and 7 of this Agreement. Employee agrees that the consideration offered in this Agreement, including the Severance Payment and Bonus Payment, has value and is a sufficient exchange for the promises Employee is making, the rights Employee is giving up, and all of the other terms of this Agreement.

3. **<u>The Company's Property</u>**. By the Separation Date, Employee agrees and/or affirms that Employee has returned or will immediately surrender and deliver to the Company all hard copy and electronic documents and other Company property that Employee has in his/her possession, including, but not limited to, files, notes, drawings, records, business plans and forecasts,

financial information, computer-recorded information (including email), and tangible property (laptop computer, cell phone, PDA, etc., except to the extent the Company specifically authorizes Employee to retain any such tangible property), credit cards, security cards, identification badges, keys and entry cards, and any materials of any kind that contain or embody any proprietary or confidential information of the Company and its affiliates (and all copies or reproductions thereof and of any of the foregoing, except to the extent such copies or reproductions are otherwise expressly authorized in writing by the Company to be retained by Employee). If Employee discovers after the Separation Date that he/she has retained any Company property, including confidential materials or information, Employee agrees, immediately upon discovery, to contact the Company and to make arrangements for returning such materials and information. The Severance Payment and Bonus Payment under this Agreement will not be paid until all Company property has been returned to the Company.

4. **Confidentiality**. Subject to Paragraph 5(e) below, Employee promises not to make, orally or in writing, any negative comments about the Company or any other statements that could damage the Company's reputation or business. Employee agrees to keep the Severance Payment and Bonus Payment as set forth in this Agreement, and the other terms of this Agreement, forever secret, except as required by a law or a court order. Employee will not seek such a court order without notifying Employer in writing first. Employee may discuss this Agreement with Employee's attorney, accountant and spouse, but only if Employee first obtains the agreement of such person to keep the terms of this Agreement secret and not disclose it to others. Employee guarantees to Employer that Employee's spouse, attorney and accountant will not disclose such confidential information to anybody.

Employee agrees that Employer would be harmed if information were ever disclosed in violation of this Paragraph 4, but it may be difficult for Employer to measure or prove such harm. Employee therefore agrees that, if Employee or Employee's spouse, attorney or accountant ever violates this Paragraph 4, then Employer can get an order or "injunction" enforced by a court of law without having to post a bond, prove harm, or prove harm that cannot be compensated by money. Employee agrees the injunction may order Employee to stop any threatened or further violations, and may also order Employee to perform whatever acts may be appropriate to undo the violations Employee has done or to prevent the violations from causing further harm to Employer. Any injunction obtained by Employer shall be in addition to all other remedies that Employer may have against Employee.

5. **Waiver and Release of All Claims.**

a. Employee, on Employee's own behalf and on behalf of anyone who could claim by or through Employee, including but not limited to his/her heirs, executors, administrators, agents, distributees, beneficiaries, successors in interest and assignees (collectively, the "Releasing Party"), hereby voluntarily, irrevocably, and unconditionally releases, waives, acquits, satisfies and forever discharges the Company and its respective past, present and future predecessors and successors in interest, assignees, parents, subsidiaries, divisions, related companies and entities, shareholders, officers, directors, agents, partners, attorneys, employees, managers and representatives, in their individual and official capacities, and their heirs, legal representatives, predecessors, successors in interest and assigns (collectively, the "<u>Released Parties</u>"), from any and all claims, complaints, demands, liabilities, or causes of action of whatever kind or character, whether known or unknown, whether in law or in equity, which Releasing Party now has or has ever had against any of the Released Parties, in their individual, corporate or official capacities, from any event, act or omission which occurred, in whole or in part, prior to the Effective Date of this Agreement, including but not limited to:

i. rights or claims arising under any local, state or federal anti-discrimination statute or law including, but not limited to, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1866, the Americans with Disabilities Act of 1990, the Equal Pay Act of 1963, Rehabilitation Act of 1973, the Genetic Information Nondiscrimination Act of 2008, the Age Discrimination in Employment Act of 1967 (ADEA), as amended, 29 U.S.C. §621 et seq. (including, but not limited to, the inclusion by amendment of the provisions of the Older Worker Benefit Protection Act), the Worker Adjustment and Retraining Notification Act, the Employee Retirement Income Security Act of 1974 (ERISA), the National Labor Relations Act, the Railway Labor Act, the Family and Medical Leave Act of 1993, the Occupational Safety and Health Act, the Fair Labor Standards Act of 1938, and any claims that could be brought under any other federal, state, county, or municipal statute or ordinance dealing with discrimination in employment on the basis of sex, race, national origin, religion, disability, age, marital status, sexual orientation or other unlawful reason, as well as any claims for retaliation under any of the foregoing laws;

ii. rights or claims arising under or relating to any contract, tort, or the common law including, but not limited to, any claim for or based upon infliction of emotional distress, personal injury, fraud, breach of fiduciary duty, misrepresentation, negligence, gross negligence, wrongful termination, statutory or common law whistleblower claim, invasion of privacy, false imprisonment, conversion, retaliation, unjust enrichment, *quantum meruit* (a claim seeking the reasonable value of services rendered), breach of contract, a broken promise, or interference with a contract or a business relationship; and

iii. rights or claims for unpaid wages, bonuses or benefits.

b. Employee further agrees to release and discharge the Company and the other Released Parties not only from any and all claims which Employee could make on his/her own behalf, but also specifically waives any right to become, and promises not to become, a member of any class in any proceedings or case in which a claim or claims against the Company or any of the other Released Parties may arise, in whole or in part, from any event which occurred prior to the Effective Date of this Agreement.

c. Employee guarantees to Employer that Employee owns and holds all of the Released Claims and has not voluntarily or involuntarily transferred the Released Claims to anyone. Employee understands that Employee is releasing claims that Employee knows about, and also any claims that Employee may not know about. Employee understands the significance of releasing all claims, whether known or unknown.

d. Subject to Paragraph 5(e) below, Employee represents that no charges, complaints or actions of any kind have been filed by him/her or on Employee's behalf against the Company or against any of the other Released Parties with any federal, state or local court or agency. Employee agrees to the fullest extent permitted by law that he/she will not file with any court a complaint at any time which relates in any way to the rights or claims released in this Agreement, including any claim which relates in any way to any employment relationship that he/she now has or ever had with the Company and with any of the other Released Parties and/or the termination of any such employment relationship, except as such claim relates to a violation or illegality of any provision of this Agreement.

e. Employee understands that nothing contained in this Agreement limits Employee's ability to file a charge or complaint with the Equal Employment Opportunity Commission, the National Labor Relations Board, the Occupational Safety and Health Administration, the Securities and Exchange Commission or any other federal, state or local governmental agency or commission ("Government Agencies"). Employee further understands that this Agreement does not limit Employee's ability to communicate with any Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by any Government Agencies, including providing documents or other information, without notice to the Employer.

6. **Certain Rights Not Affected**. Nothing in this Agreement adversely affects any right Employee may have to: (i) base wages earned by him/her through the Separation Date, and Employee shall be paid all such wages regardless of whether he/she signs this Agreement; (ii) accrued, unused PTO, up to a maximum of 80 hours, provided Employee has completed twelve (12) months continuous, active service pursuant to the Employer's applicable policy which will be paid by the Company within a reasonable time period following the Separation Date; (iii) reimbursement for pre-approved business expenses incurred by him/her through the Separation Date for which he/she has not been reimbursed; (iv) continuation of insurance coverage if provided pursuant

to the terms of Company-provided insurance plans or applicable law; (v) vested retirement benefits to which he/she is entitled as of the Separation Date pursuant to the terms of any Company retirement benefit plan(s) or applicable laws; or (vi) rights to unemployment compensation.

7. **Non-Disparagement.**

a. Subject to Paragraph 5(e) of this Agreement, Employee agrees not to make any statements, written or verbal, or cause or encourage others to make any statements, written or verbal, that defame, disparage or in any way criticize the reputation, practices or conduct of the Company, its predecessors and successors in interest, assignees, parents, subsidiaries, divisions and related companies and entities, their past, present and future shareholders, officers, directors, agents, attorneys, employees, managers and representatives in their individual and official capacities, and their heirs, and legal representatives and predecessors and successors in interest and assigns. Employee acknowledges and agrees that this non-disparagement prohibition extends to statements, written or verbal, made to anyone, including but not limited to, the news media, investors, potential investors, board of directors, industry analysts, competitors, strategic partners, vendors, and past and present employees of Employer.

b. Employee understands and agrees that this Paragraph 7 is a material term of this Agreement, that any breach of this Paragraph 7 shall be a material breach of this Agreement and that Employer would be irreparably harmed by such breach. Employee therefore agrees that if Employee violates this Paragraph 7, then Employer is entitled to obtain an order from a court of competent jurisdiction, without posting a bond, enjoining Employee from violation of this Paragraph 7 without the necessity of proving Employer has no adequate remedy at law. These remedies are in addition to all other remedies that Employer may have against Employee for breach of this Paragraph.

8. **Other Representations by Employee**.

a. Employee acknowledges that the Company and the other Released Parties have no obligation to employ or to hire or rehire Employee or to consider Employee for hire at any location, office, or place of business with regard to future employment or potential employment. Accordingly, in order to prevent the occurrence of any future dispute, Employee hereby agrees: (i) that he/she will not ever apply for or otherwise seek employment by the Company or any of the other Released Parties at any time in the future, at any location, office, or place of business unless specifically requested to do so in writing by the Company, and (ii) that his/her forbearance to seek future employment as just stated is purely contractual and is in no way involuntary, discriminatory, or retaliatory.

b. Employee acknowledges that Employee has not suffered any job-related illness or injuries that might give Employee a right to compensation or relief, such as a work injury or work-related illness or exposure for which Employee could get a workers' compensation award. Employee also guarantees to Employer that Employee has been paid for all hours worked as of the Effective Date of this Agreement. Employee understands that Employer will be relying on these guarantees in paying the Severance Payment and Bonus Payment offered in this Agreement.

9. **Voluntary Agreement; Consideration Period; Revocation Period; Consultation with Attorney**. This Agreement is voluntary. Employee understands that he/she has twenty-one (21) days to consider this Agreement before signing it, and that Employee may revoke this Agreement at any time within seven (7) days after signing this Agreement by delivering written notice of revocation to Employer in compliance with Paragraph 10 below. This Agreement will not become effective until that 7-day period has expired without Employee revoking this Agreement. By signing this Agreement, and by not revoking it during the 7-day revocation period, Employee guarantees to Employer that Employee has carefully read and fully understands all of the provisions of this Agreement. Employee is advised to consult with an attorney, at Employee's cost, if Employee desires to do so before signing this Agreement. The parties agree that any changes or modifications to this Agreement that may be agreed to in writing by both the Employee and Employer will not change or restart the twenty-one (21) day period. In the event Employee does not sign and return this Agreement to the Company within the specified period, Employee will not receive the Severance Payment or Bonus Payment and this offer shall be automatically rescinded without further notice.

10. **Notices**. All notices required or permitted under this Agreement shall be made in writing to Employer, via U.S. Mail, postage prepaid, and via fax, addressed as follows:

The Howard Hughes Corporation
Attention: Legal Department
13355 Noel Rd., Ste. 2200
Dallas, Texas 75240
FAX: (972) 841-3021

and to Employee via U.S. Mail, postage prepaid, at Employee's last known address. Employee must keep Employer informed of any change of address and other contact information.

11. **No Admission**. Employee agrees that Employer's decision to offer this Agreement, and its willingness to pay the Severance Payment and Bonus Payment offered under this Agreement, does not mean that Employer is admitting any wrongdoing, fault, liability or damages. Employee acknowledges and agrees that Employer would not agree to pay the Severance Payment and Bonus Payment set forth in this Agreement if it were not for Employee's agreement that Employer is not making any admission.

12. **Interpretation**. The parties agree that this Agreement will be interpreted as a whole, according to its plain language,

and not strictly for or against either of the parties. Employee signed this Agreement after an opportunity to read it, consult an attorney, ask questions, and make comments. Employee agrees that Employee will not and cannot later say that the Agreement should be interpreted against the Employer as the one who drafted it. The captions are for convenience only and will not be used to help interpret any term.

13. **No Tax Advice**. Employee agrees that Employee has not received from the Company any advice or statement about taxes or whether taxes are due for any payment set forth in this Agreement. Employee will not rely on the Company, but will turn to independent professionals if Employee has any doubts or questions, or needs any assistance regarding Employee's taxes. All taxes due for any of the payments made under this Agreement are solely the responsibility of Employee. The Company is not liable to reimburse Employee for any portion of his/her taxes, any penalties or interest Employee may have to pay, or any attorneys' fees, costs or other expenses associated with any such tax.

14. **Applicable Law**. This Agreement is made in the State of HAWAII, and must in all respects be enforced and interpreted under the laws of the State of HAWAII.

15. **Severability of Terms**. Any term or provision of this Agreement other than paragraph 5 that is held to be illegal, invalid or unenforceable for any reason will not make the entire Agreement void or unenforceable. Instead, any such term or provision will be severed or "cut out" of the Agreement, and the rest of the Agreement will be interpreted and enforced as if the illegal, invalid or unenforceable provision had never been contained in the Agreement.

16. **Effect of Offer**. Neither this Agreement, nor any offer contained in this Agreement, nor any statement made in connection with this Agreement, can be admitted as evidence to prove liability or damages in any legal proceeding. Employee promises not to do so.

17. **Entire Agreement**. Employee acknowledges that, in signing this Agreement, Employee does not rely and has not relied on any statement made by the Company or its agents that is not stated in this Agreement. This Agreement contains the entire agreement between Employer and Employee, and supersedes all prior agreements or understandings relating to Employee's employment or separation from employment with Employer. Unless revoked in accordance with Paragraph 9, this Agreement will be effective on the eighth day after Employee executes this Agreement and that will be the "Effective Date."

TAKE THIS RELEASE HOME. READ IT, AND CAREFULLY CONSIDER ALL OF ITS PROVISIONS BEFORE SIGNING IT. THIS EMPLOYMENT SEPARATION AND RELEASE AGREEMENT INCLUDES A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS YOU MAY HAVE. IF YOU WISH, YOU SHOULD TAKE ADVANTAGE OF THE CONSIDERATION PERIOD AFFORDED BY PARAGRAPH 9 AND CONSULT WITH AN ATTORNEY.

The undersigned acknowledges that he/she (a) has read and fully understands all the terms and conditions of this Agreement, (b) has had sufficient time to consider this Agreement and to consult about it with an attorney, and (c) is signing it knowingly, voluntarily and willingly. This Agreement can be executed in multiple identical counterparts and via email and fax.

Date: February 8, 2020 /s/ Simon Treacy

SIMON TREACY

HOWARD HUGHES MANAGEMENT COMPANY, LLC

/s/ Dara Engle
By: Dara Engle
Title: Chief People Officer

(Back To Top)

Section 11: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13a — 14(a) ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Paul H. Layne, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Howard Hughes Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

By: /s/ Paul H. Layne

Paul H. Layne
Chief Executive Officer (principal executive officer)
May 11, 2020

(Back To Top)

Section 12: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13a — 14(a) ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David O'Reilly, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Howard Hughes Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

By: /s/ David R. O’Reilly

David R. O’Reilly

Chief Financial Officer

May 11, 2020

(Back To Top)

Section 13: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. 1350 ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of The Howard Hughes Corporation (the “Company”) for the period ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers, in their capacity as officers of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to such officer’s knowledge:

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

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

By: /s/ Paul H. Layne

Paul H. Layne

Chief Executive Officer (principal executive officer)

May 11, 2020

By: /s/ David O'Reilly

David O'Reilly

Chief Financial Officer

May 11, 2020

(Back To Top)