

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

FORM 10-K

(MARK ONE)

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

For the fiscal year ended December 31, 2014

or

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

For the transition period from to

Commission File Number 001-34856

The Howard Hughes Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
13355 Noel Road, 22nd Floor, Dallas, Texas
(Address of principal executive offices)

36-4673192
(I.R.S. Employer
Identification Number)
75240
(Zip Code)

(214) 741-7744

(Registrant's telephone number, including area code)

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

Title of Each Class:

Common Stock, \$0.01 par value

Name of Each Exchange on Which Registered:

New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

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

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

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

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

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

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

Large accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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

As of June 30, 2014, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$6.3 billion based on the closing sale price as reported on the New York Stock Exchange.

As of February 24, 2015, there were 39,638,094 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to its 2015 Annual Meeting of Stockholders are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K. The registrant intends to file its Proxy Statement with the Securities and Exchange Commission within 120 days of the end of the fiscal year to which this Annual Report on Form 10-K relates.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

- our inability to obtain operating and development capital, including our inability to obtain debt capital from lenders and the capital markets;
- slower growth in the national economy and adverse economic conditions in the homebuilding, condominium development and retail sectors;
- continued lower oil prices compared to average oil prices during 2011 through 2014, which may have a significant negative impact on future economic growth of, and demand for our properties in, certain regions where we have asset concentrations, such as the Houston, Texas region;
- our inability to obtain rents sufficient to justify developing our properties and/or the inability of our tenants to pay their contractual rents;
- our directors may be involved or have interests in other businesses, including real estate activities and investments, which may compete with us;
- our inability to control certain of our properties due to the joint ownership of such property and our inability to successfully attract desirable strategic partners; and
- the other risks described in "Item 1A. Risk Factors."

PART I

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

ITEM 1. BUSINESS

OVERVIEW

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

Unlike most publicly traded real estate companies which are limited in their activities because they have elected to be taxed as a real estate investment trust, we, except for Victoria Ward, Limited, one of our subsidiaries which is a captive REIT, have no restrictions on our operating activities or the types of services that we can offer. We believe our structure provides the greatest flexibility for maximizing the value of our real estate portfolio. As of December 31, 2014, our consolidated mortgage, notes and loans payable equaled approximately 38.9% of our total assets, and we had \$560.5 million of cash on hand.

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

We were incorporated in Delaware in 2010. Through our predecessors, we have been in business for several decades. We operate our business in three segments: Master Planned Communities ("MPC"), Operating Assets and Strategic Developments. Financial information about each of our segments is presented in Note 17 – *Segments* of our audited financial statements on pages F-4 7 to F-51

Recent Significant Transactions

Discovery Land Joint Venture. On June 23, 2014, we announced an agreement to form a joint venture with Discovery Land Company ("Discovery Land"), a leading developer of private clubs and luxury communities, to develop an exclusive luxury community on approximately 555 acres of undeveloped land within our Summerlin master planned community. The community will have approximately 270 homes, an 18-hole Tom Fazio-designed golf course and other amenities for residents. Lot prices are expected to range from \$2 million to \$8 million. The joint venture is expected to be formed and we will contribute our undeveloped land to the joint venture at the agreed upon value of \$226,000 per acre, or \$125.4 million in the first quarter of 2015. Discovery Land is the manager of the project and is responsible for funding development costs. The project will accelerate infrastructure improvements that will benefit our adjacent land, and accelerates monetization of land significantly ahead of our prior development plans. We expect development to begin in the second quarter 2015 with the first lot and home sales expected to begin closing in early 2016. Please refer to Note 5 – *Investment in Real Estate and Other Affiliates* for a more complete description of the economics of this joint venture.

Seaport District Assemblage. On December 29, 2014, in two separate transactions, we acquired a 48,000 square foot commercial building on a 15,744 square foot lot and certain air rights with total residential and commercial development rights of 621,651 square feet for \$136.7 million. As of December 31, 2014, we were under contract to purchase another 58,000 square foot commercial building and air rights attributable to three additional parcels during the first half of 2015. Together, these acquisitions will ultimately create a 42,694 square foot lot entitled for 817,784 square feet of mixed-use development. The properties are collectively referred to as the Seaport District Assemblage in our Strategic Developments segment and are located in close proximity to our South Street Seaport property.

Tax Indemnity Settlement and Columbia Acquisition. On December 12, 2014, as part of our settlement with General Growth Properties, Inc. ("GGP") for a release of GGP's obligation for reimbursement of taxes related to certain MPC assets (Please refer to Note 9 – *Income Taxes*), we received \$138.0 million in cash and six office buildings consisting of 699,884 square feet located in downtown Columbia, Maryland valued at \$130.0 million. The office buildings, referred to as 10-60 Columbia Corporate Center, are included in our Operating Assets segment.

On December 15, 2014, we made a payment totaling \$203.3 million to the IRS in satisfaction of a judgment entered by the Tax Court in favor of the IRS with respect to these taxes. We now control the litigation and on December 15, 2014 we filed an appeal of the Tax Court's decision to the Fifth Circuit Court of Appeals and expect the appeal to be heard by the appellate court in 2015.

Conroe, TX. During the second half of 2014, in three separate transactions, we purchased 2,055 acres of undeveloped land located in Conroe, Texas, approximately 13 miles north of The Woodlands, for \$98.5 million. We have preliminarily planned for 1,452 acres of residential and 161 acres of commercial development on the combined sites and currently estimate that the residential acres will yield approximately 4,800 lots. The first lots are expected to be delivered in 2016 with lot sales closing in the first quarter 2017. This land will be developed by The Woodlands management team and is included in our Master Planned Communities segment.

Issuance of Senior Notes. On October 2, 2013, we issued \$750.0 million aggregate principal amount of our 6.875% Senior Notes due 2021 (the "Senior Notes") and received net cash proceeds of \$739.6 million. We have and will continue to use the net proceeds for development, acquisitions and other general corporate purposes. Interest is payable semiannually, on April 1 and October 1 of each year. The Senior Notes contain customary terms and covenants and have no maintenance covenants.

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

Overview of Business Segments

The following describes our three business segments and provides a general description of each of the assets comprising these segments. This section should be referred to when reading "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations" which contains financial and performance information for many of these assets. We have attempted to reduce duplication of asset information by cross-referencing between these sections.

Master Planned Communities. Our Master Planned Communities segment consists of the development and sale of residential and commercial land, primarily in large-scale projects. We own five master planned communities. Listed according to total acreage encompassing each of these communities are: The Woodlands, Summerlin, Maryland, Bridgeland and Conroe.

Our master planned communities include over 13,000 acres of land remaining to be developed or sold. Residential sales, which are made primarily to homebuilders, include standard and custom parcels designated for detached and attached single- and multi-family homes, ranging from entry-level to luxury homes. Commercial sales include land parcels designated for retail, office, resort, high density residential projects (e.g., condominiums and apartments), services and other for-profit activities, as well as those parcels designated for use by government, schools and other not-for-profit entities.

Operating Assets. Our Operating Assets segment contains 44 properties, investments and other assets that generate revenue, consisting primarily of retail, office and multi-family properties. This segment includes 11 retail properties, 20 office properties, two multi-family apartment buildings, a resort and conference center, a 36-hole golf and country club and nine other operating assets and investments. We believe that there are opportunities to redevelop or reposition many of these assets, primarily several of the retail properties and Columbia office properties, to increase operating performance. These opportunities will require new capital investment and vary in complexity and scale. The redevelopment opportunities range from minimal disruption to the property to the partial or full demolition of existing structures for new construction.

Strategic Developments. Our Strategic Developments segment consists of 30 near, medium and long-term development projects. We believe most of these assets will require substantial future development to achieve their highest and best use. We are in various stages of creating or executing strategic plans for many of these assets based on market conditions and availability of capital. As of December 31, 2014, we had approximately \$1.9 billion of properties in their construction phase (which in addition to Strategic Development properties also includes one Operating Asset that is undergoing redevelopment and two multi-family properties being developed in joint ventures). In addition to the permitting and approval process attendant to almost all large-scale real estate developments of this nature, we generally obtain construction financing to fund a majority of the costs associated with developing these assets.

The chart below presents our assets by reportable segment at December 31, 2014.

Master Planned Communities		Operating Assets		Strategic Developments	
		Retail	Office	Under Construction	Other
• Bridgeland	• Columbia Regional Building	• 10-60 Columbia Corporate Center	• 70 Columbia Corporate Center	• ONE Ala Moana (b)	• Alameda Plaza
• Conroe	• Cottonwood Square	• Columbia Office Properties	• One Hughes Landing	• Anaha Condominiums	• AllenTowne
• Maryland	• Downtown Summerlin (a)	• Two Hughes Landing (a)	• 2201 Lake Woodlands Drive	• Creekside Village Green	• Bridges at Mint Hill
• Summerlin	• 1701 Lake Robbins	• 9303 New Trails	• 110 N. Wacker	• Three Hughes Landing	• Century Plaza Mall
• The Woodlands	• Landmark Mall	• 3831 Technology Forest Drive (a)	• 3 Waterway Square	• 1725-35 Hughes Landing Boulevard	• Circle T Ranch and Power Center (c)
	• Outlet Collection at Riverwalk	• 4 Waterway Square	• 2025 Waterway Avenue	• Hughes Landing Hotel (Embassy Suites)	• Cottonwood Mall
	• Park West	• 1400 Woodloch Forest	• Waterway Garage Retail	• One Lake's Edge	• Elk Grove Promenade
	• South Street Seaport (under construction)			• The Metropolitan Downtown Columbia Project (c)	• 80% Interest in Fashion Show Air Rights
	• Ward Village			• Waiea Condominiums	• Kendall Town Center
	• 2025 Waterway Avenue			• Waterway Square Hotel (Westin)	• Lakeland Village Center
	• Waterway Garage Retail				• Lakemoor (Volo) Land
		Other			• Maui Ranch Land
	• Golf Courses at TPC Summerlin and TPC Las Vegas (participation interest)	• Stewart Title of Montgomery County, TX (c)			• Parcel C (c)
	• Kewalo Basin Harbor	• Summerlin Hospital Medical Center (c)			• Seaport District Assemblage
	• Merrweather Post Pavilion	• Summerlin Las Vegas Baseball Club (c)			• Summerlin Apartments, LLC (c)
	• Millennium Waterway Apartments	• The Club at Carlton Woods			• Ward Block M
	• Millennium Woodlands	• The Woodlands Resort & Conference Center			• Ward Gateway Towers
	• Phase II, LLC (a) / (c)	• The Woodlands Parking Garages			• Ward Workforce Housing
	• 85 South Street	• Woodlands Sarofim #1 (c)			• West Windsor

(a) Asset was placed in service and moved from the Strategic Developments segment to the Operating Assets segment during 2014.

(b) Asset consists of two equity method investments.

(c) A non-consolidated investment.

Master Planned Communities

The development of master planned communities requires expertise in large-scale and long-range land use planning, residential and commercial real estate development, sales and other special skills. The development of our large scale master planned communities requires decades of investment and continual focus on the changing market dynamics surrounding these communities. We believe that the long-term value of our master planned communities remains strong because of their competitive and dominant positioning in their respective markets, our expertise and flexibility in land use planning and the fact that we have substantially completed the entitlement process within our communities.

Our Master Planned Communities segment consists of the development and sale of residential land and the development of commercial land to hold, develop or sell. Our master planned communities are located in and around Houston, Texas; Las Vegas, Nevada and Columbia, Maryland. Residential revenues are generated primarily from the sale of finished lots and undeveloped superpads to residential homebuilders and developers. We also occasionally sell or lease land for commercial development. Superpad sites are generally 20 to 25 acre parcels of unimproved land where we develop and construct the major utilities (water, sewer and drainage) and roads to the borders of the parcel and the homebuilder completes the on-site utilities, roads and finished lots. Revenue is also generated through profit participation with homebuilders. Revenues and net income are affected by factors such as: (1) the availability of construction and permanent mortgage financing to purchasers at acceptable interest rates; (2) consumer and business confidence; (3) regional economic conditions in the areas surrounding the projects, which includes levels of employment and homebuilder inventory; (4) availability of saleable land for particular uses; (5) our decisions to sell, develop or retain land; and (6) other factors generally affecting the homebuilder business and sales of residential properties.

The following table summarizes our master planned communities, all of which are wholly owned, as of December 31, 2014:

Community	Location	Total Gross Acres (a)	Approx. No. People Living in Community	Remaining Saleable and Developable Acres			Remaining Saleable Residential Lots (d)	Projected Community Sell-Out Date
				Residential (b)	Commercial (c)	Total		
Bridgeland	Houston, TX	11,400	7,400	3,445	1,453	4,898	17,280	2036
Conroe	Conroe, TX	2,055	-	1,452	161	1,613	4,787	2028
Maryland	Columbia, MD	16,450	106,000	-	207	207	-	2022 (e)
Summerlin	Las Vegas, NV	22,500	105,400	4,621	851	5,472	41,000 (f)	2039
The Woodlands	Houston, TX	28,475	109,700	478	773	1,251	1,483	2022
Total		80,880	328,500	9,996	3,445	13,441	64,550	

- (a) Encompasses all of the land located within the borders of the master planned community, including parcels already sold, saleable parcels and non-saleable areas, such as roads, parks and recreation and conservation areas and parcels acquired during the year.
- (b) Includes standard, custom and high density residential land parcels. Standard residential lots are designed for detached and attached single and multi-family homes, consisting of a broad range, from entry-level to luxury homes. At Summerlin and The Woodlands, we have designated certain residential parcels as custom lots as their premium price reflects their larger size and other distinguishing features - such as being located within a gated community, having golf course access or being located at higher elevations. High density residential includes townhomes and condominiums.
- (c) Designated for retail, office, resort, services and other for-profit activities, as well as those parcels allocated for use by government, schools, houses of worship and other not-for-profit entities.
- (d) Includes only parcels that are intended for sale or joint venture. The mix of intended use, as well as the amount of remaining saleable acres, are primarily based on assumptions regarding entitlements and zoning of the remaining project and are likely to change over time as the master plan is refined. Remaining saleable lots are estimates.
- (e) We currently intend to develop the land surrounding Downtown Columbia. The date represents our estimated redevelopment completion date.
- (f) Amount represents remaining entitlements, not necessarily the number of lots that will ultimately be developed and sold.

Bridgeland (Houston, Texas)

Bridgeland is located near Houston, Texas and consists of approximately 11,400 acres. It was voted "GHBA Event of the Year" in 2014 and "Master Planned Community of the Year" in 2013 by Greater Houston Builders Association. It was also voted by The National Association of Home Builders as the "Master Planned Community of the Year" in 2009. The first residents moved into their homes in June 2006. There were approximately 2,100 homes occupied by approximately 7,400 residents as of December 31, 2014. When fully developed, we expect Bridgeland will contain more than 3,000 acres of waterways, lakes, trails, parks and open spaces, as well as an expansive Town Center that will provide employment and land for retail, educational and entertainment facilities. The MPC is being developed to eventually accommodate approximately 20,000 homes and 65,000 residents. We further believe that it is poised to be one of the top master planned communities in the nation.

The Woodlands senior management team, which averages over 25 years each of experience developing master planned communities, is leading the development and marketing of Bridgeland. Bridgeland land sales were adversely affected in 2013 compared to prior years due to a pending wetlands permit application from the U.S. Army Corps of Engineers. We obtained the permit in February 2014 and began developing the 806 acres covered by the permit immediately thereafter.

Bridgeland's conceptual plan was revised in 2012 and includes four villages – Lakeland Village, Parkland Village, Prairieland Village and Creekland Village. The conceptual plan also includes an 800-acre Town Center mixed-use district and a carefully designed network of trails totaling over 60 miles that will provide pedestrian connectivity to distinct residential villages and neighborhoods and access to recreational, educational, cultural, employment, retail, religious and other offerings.

The conceptual plan also contemplates that the Town Center will be located adjacent to the expansion of State Highway 99 (the "Grand Parkway"), which is a 180-mile circumferential highway traversing seven counties and encircling the Greater Houston region. Segment E of the Grand Parkway is a 15-mile four-lane controlled access toll road with intermittent frontage roads from Interstate 10 to Highway 290 through Harris County. Segment E, which has four interchanges serving Bridgeland, provides direct access to the portion of Bridgeland designated for the Town Center and to future residential sections of Bridgeland allowing for enhanced access to the master planned development. Construction on Segment E began in October

2011 and was officially opened for traffic on December 21, 2013. Additional segments are scheduled for completion in 2015 that will connect Bridgeland to The Woodlands, the new ExxonMobil Campus and Houston's George Bush Intercontinental Airport.

Bridgeland's first five neighborhoods are located in Lakeland Village, which has many home sites that have views of the water, buried power lines to maximize the views of open space, fiber-optic technology, brick-lined terrace walkways and brick, stone and timber architecture. The prices of the homes range from approximately \$200,000 to more than \$1.0 million. Lakeland Village is approximately 80% complete and is anchored by a 6,000 square foot community center that features a water park with three swimming pools, two lighted tennis courts and a state-of-the-art fitness room. A grand promenade wrapping around Lake Bridgeland offers a boat dock, canoes, kayaks, sailboats and paddleboats.

Conroe (Conroe, Texas)

We acquired 2,055 acres located 13 miles north of The Woodlands during 2014 to create a new master planned community. Our plan provides for 1,452 acres of residential and 161 acres of commercial development and current estimates show a yield of approximately 4,800 lots. The first lots are expected to be delivered in 2016 with home sales starting in the Spring 2017.

Many of Houston's prominent master-planned communities are approaching build out with limited new communities to replace them. As such, we believe that there is a significant opportunity to introduce another master-planned community in the Far North Houston submarket.

The demand for this site was validated by research/demand studies from Robert Charles Lesser and Co. and MetroStudy. Since early 2010, home builders have been unable to meet the growing demand for new single family houses. Houston has built 189,575 apartment and single family homes while adding 446,000 jobs from early 2010 through the end of 2014. The cumulative demand for 2014 was over 70,000 single family homes and only approximately 30,000 were delivered to the metro.

The new master planned community is being positioned to take advantage of its superior location, and is well within the path of future development along I-45 north of The Woodlands, Anadarko and ExxonMobil. The location also boasts favorable commute times to employment nodes over competitors. The newly constructed ExxonMobil Campus is approximately 28 minutes away. In addition, the new master planned community benefits from several east-west thoroughfares such as League Line Road and Seven Coves Road that provide convenient access to local and regional destinations such as Lake Conroe.

The new master planned community is expected to deliver an amenity package to improve "quality family time". The amenities will include a "Big Park", village center(s), pathways and social gathering nodes. The clubhouse will open in 2017 and serve as a marketing tool to the community. Commercial developments will be incorporated over time similar to Creekside Village Park in The Woodlands. The school district will be Willis ISD, which is attractive to young families. The terrain features rolling hills and dense tree cover, appropriate for utilizing the reputation and brand of The Woodlands.

Maryland (Howard County, Maryland)

The Maryland community has no more remaining residential saleable acres and represents primarily a commercial real estate development opportunity. It consists of four distinct communities known as Columbia, Gateway, Emerson and Fairwood. Columbia is by far the largest community and also where the greatest commercial real estate development potential exists.

Columbia

Columbia, located in Howard County, Maryland, is an internationally recognized model of a successful master planned community that began development in the 1960's. As of December 31, 2014, Columbia was home to approximately 106,000 people.

Situated between Baltimore and Washington, D.C., and encompassing 14,200 acres of land, Columbia offers a wide variety of living, business and recreational opportunities. The master planned community's full range of housing options is located in nine distinct, self-contained villages and a Town Center. Columbia has an estimated 5,500 businesses, which occupy approximately 26 million square feet of space and provide more than 63,000 jobs. There is a wide variety of retail options encompassing approximately 4.8 million square feet of retail space in more than 500 stores.

As a result of the 2005 Base Realignment and Closure Commission, additional government agencies have been relocated to Fort George G. Meade, just 11 miles from Downtown Columbia. The overall workforce on the base is projected to be 56,000 people due to its role in cyber security and protecting the nation's information technology assets from foreign threats. An economic engine for the region, Fort Meade directly or indirectly supports approximately 170,000 local jobs and growth projections indicate that there will be future demand for office space and housing for highly paid personnel.

The Downtown Columbia market contains 2.1 million square feet of office space, of which we own 1.1 million square feet, located close to shopping, restaurants and entertainment venues. We believe that there is a significant opportunity to redevelop this area in the future. During 2010, we received entitlements to develop up to 5,500 new residential units, 4.3 million square feet of commercial office space, 1.3 million square feet of retail space and 640 hotel rooms. These entitlements have no expiration date under Maryland law.

In November 2010, we entered into a development agreement with GGP whereby we have a preferred residential and office development covenant that provides us the right of first offer for new development densities of residential and office within the Columbia Mall Ring Road. This covenant expires in 2030. The development agreement contains the key terms, conditions, responsibilities and obligations with respect to future development of this area within the greater Downtown Columbia Redevelopment District.

We also own approximately 35 acres, net of road and related infrastructure improvements, on the land around Merriweather Post Pavilion, an outdoor amphitheater and concert venue, located south of the Columbia Mall. The acreage currently consists of raw land and subdivided land parcels readily available for new development. We held the initial public meeting called for in the county's Final Development Plan ("FDP") process and submitted an application for FDP approval in September 2014. Formal approval by the planning board is anticipated in the first quarter 2015, allowing us to proceed with road construction and individual building plans. Preliminary plans call for at least four million square feet of development activity, with high-rise buildings encompassing the Central Park-like setting afforded by the Pavilion and its surrounding property.

Gateway/Emerson/Fairwood

The remaining three communities (Gateway, Emerson and Fairwood) consist of 2,250 acres with 2,410 homes occupied by 6,000 residents. Gateway offers quality office space in a campus setting with approximately 63 commercial acres remaining to be sold as of December 31, 2014. Emerson has 34 commercial acres remaining to be developed and this land is fully entitled for build-out subject to meeting local requirements for subdivision and land development permits. Fairwood has 11 commercial acres available for sale as of December 31, 2014, and in addition to the commercial acres remaining to be sold, we own a few undedicated open space parcels, and 24 acres of unsubdivided land which cannot be developed as long as the nearby airport is operating.

Summerlin (Las Vegas, Nevada)

Spanning the western rim of the Las Vegas Valley and located approximately nine miles from downtown Las Vegas, our 22,500 acre Summerlin Master Planned Community is comprised of planned and developed villages and offers suburban living with accessibility to the Las Vegas Strip. For much of its 25-year history, Summerlin has consistently ranked in the Robert Charles Lesser annual poll of Top-Selling Master Planned Communities in the nation, ranking 15th in 2014. With 22 public and private schools (K-12), four institutions of higher learning, nine golf courses, cultural facilities and health and medical centers, Summerlin is a fully integrated community. The first residents moved into their homes in 1991. As of December 31, 2014, there were approximately 41,500 homes occupied by an estimated 105,000 residents. Summerlin's population upon completion of the project is expected to exceed 200,000 residents. The Las Vegas, Nevada market is continuing to recover and Summerlin has experienced significant improvement in 2014 and 2013 land sales compared to 2012 and 2011.

Summerlin is comprised of hundreds of neighborhoods located in 19 developed villages, out of 30 currently planned, with nearly 150 neighborhood and village parks that are all connected by a 150-mile long trail system. Summerlin is located adjacent to the Red Rock Canyon National Conservation Area, a landmark in southern Nevada, which has become a world-class hiking and rock climbing destination and attracts more than a million visitors annually. The heart of this MPC contains approximately 400 acres designated for residential and commercial development called Downtown Summerlin. We own approximately 300 acres of this land with the remaining acreage anchored by The Red Rock Casino, Resort & Spa and Life Time Fitness. On October 9, 2014, we opened the retail and fine dining component of a mixed-use development we built on 106 acres of this

site. The development contains 1.4 million square feet of developed retail, restaurant, entertainment and office space, and has a pad site for a 200,000 square foot anchor tenant. We believe that the opening of this project will significantly increase the value of our surrounding land due to the addition of retail, office, restaurant and entertainment amenities. Please refer to Downtown Summerlin under "Operating Assets" for a more complete description of this development. Summerlin contains approximately 2.1 million square feet of developed retail space and 3.3 million square feet of developed office space, in addition to the approximately 1.4 million square feet of retail and office space comprising Downtown Summerlin. In addition, there are three hotel properties owned by third parties containing approximately 1,400 hotel rooms within the MPC.

Summerlin is divided into three separate regions known as Summerlin North, Summerlin South and Summerlin West. Summerlin North is fully developed and sold out. In Summerlin South, we are entitled to develop 740 acres of commercial property with no square footage restrictions, 489 of such acres, including our 106 acre Downtown Summerlin project, are either developed or committed to commercial development. The remaining 251 acres are under our control for future commercial development. We also have entitlements for an additional 17,000 residential units yet to be developed in Summerlin South. In Summerlin West, we are entitled to develop 5.85 million square feet of commercial space on up to 508 acres of which 100,000 square feet has already been developed through the construction of a grocery store anchored shopping center. We are also entitled to develop 30,000 residential units in Summerlin West, approximately 24,000 of which remain to be developed. The remaining 41,000 saleable residential lots represent Summerlin's total entitlements, and utilization of these entitlements will be based on current and forecasted economic conditions.

The Woodlands (Houston, Texas)

The Woodlands is a 28,475 acre mixed-use self-contained master planned community approximately 1.5 times the size of Manhattan, New York, situated 27 miles north of Houston. The Woodlands provides an exceptional lifestyle and integrates recreational amenities, residential neighborhoods, commercial office space, retail shops and entertainment venues. Approximately 28% of The Woodlands is dedicated to green space, including parks, pathways, open spaces, golf courses and forest preserves. The Woodlands includes a waterway, outdoor art and an open-air performance pavilion, a resort and conference center, a luxury hotel and convention center, educational opportunities for all ages, hospitals and health care facilities. The Fountains at Waterway Square located on The Woodlands Waterway connects all of the amenities of the community via a water taxi system serving The Woodlands Town Center area and will eventually connect with Hughes Landing.

The Woodlands has consistently ranked as one of the top master planned communities in the nation and Texas with regard to annual home sales. During its 40-year history, The Woodlands has won numerous awards, with the most recent being the Urban Land Institute's 2014 "Vision Award for Exemplary Leadership." According to Robert Charles Lesser & Co., The Woodlands was ranked 11th nationally and was also ranked 3rd in the Houston area in 2014 for the number of home sales. Past awards include the "Master Planned Community of the Year" presented by the Greater Houston Builders Association in 2010 for overall planning and design.

Home site sales began in 1974. To maximize long term values, the development started with residential activity with land reserved for the eventual development of a town center containing office, retail, multi-family and hotel properties to serve the residents. Over time, the residential success created demand for commercial development. In recent years, the commercial and residential components have achieved significant appreciation in values and acceleration of development. Additionally, by virtue of the fact that we own most of the undeveloped available land in The Woodlands, we have substantial influence over the market and our competitors.

As of December 31, 2014, there were approximately 41,200 homes occupied by approximately 109,700 residents and more than 1,900 businesses providing employment for approximately 58,400 people. The population is projected to increase to approximately 130,800 by 2022. We estimate that The Woodlands has a jobs to home ratio of approximately 1.42 to 1.00. This ratio implies that many residents also work within The Woodlands, making it a more attractive place to live compared to purely residential communities by improving quality of life through short commute times. Since its inception, The Woodlands has sought to maintain a wide array of home choices and marketed that information to the realtor community as it is critical in providing guidance to the corporate relocation homebuyer. As a result of this effort, over the last ten years, The Woodlands has achieved an average of approximately 41% of new home sales attributable to "Outside of Houston Area" residents.

As of December 31, 2014, The Woodlands had 773 acres of land designated for commercial use remaining to be sold or developed. The Woodlands is well positioned to dominate the commercial market for the next several years because we have the largest inventory of vacant commercial land available in the area and we offer virtually every product type being sought after by our customers. The mix of acreage designated for development versus sale may change over time based on market conditions, projected demand, our view of the economic benefits of developing or selling and other factors.

The Woodlands has full or partial ownership interests in commercial properties totaling approximately 2.1 million square feet of office space (of which 1.1 million square feet are complete and nearly 1.0 million square feet are under construction), 398,682 square feet of retail and service space (of which 201,330 square feet are complete and 197,352 square feet are under construction) and 1,097 rental apartment units (of which 707 units are complete and 390 units are under construction). We also own and operate a 406-room resort and conference center facility, with an additional two hotels containing a total of 507 rooms under construction, and a 36-hole golf course with a country club facility. These commercial properties are more fully described under "Operating Assets".

The ExxonMobil corporate campus that is located on a 385-acre site south of The Woodlands is expected to include approximately 20 buildings, consisting of three million square feet of space. ExxonMobil began relocating employees into this new location in 2014 and expects to complete the relocation by the end of 2015. We believe that the direct and indirect jobs related to this relocation will have a significant positive impact on The Woodlands and Bridgeland due to increased housing demand, as well as commercial space needs for companies servicing ExxonMobil.

We believe the construction of The Grand Parkway linking The Woodlands and Bridgeland to the new ExxonMobil campus and the rest of the greater Houston area will be viewed positively by potential residents of our Houston master planned communities. Construction of the segments of The Grand Parkway that will serve The Woodlands and Bridgeland is expected to be completed in 2015.

Operating Assets

We own 11 retail properties, 20 office properties, two multi-family apartment buildings, a resort and conference center, a 36-hole golf course and country club and nine other operating assets and investments that generate revenue. Based on a variety of factors, we believe that there are opportunities to redevelop or reposition many of these assets, primarily several of the retail properties and Columbia office properties, to improve their operating performance. These factors include, but are not limited to, the following: (1) existing and forecasted demographics surrounding the property; (2) competition related to existing and/or alternative uses; (3) existing entitlements of the property and our ability to change them; (4) compatibility of the physical site with proposed uses; and (5) environmental considerations, traffic patterns and access to the properties. We believe that, subject to obtaining all necessary consents and approvals, these assets have the potential for future growth by means of an improved tenant mix, additional gross leasable area ("GLA"), or repositioning of the asset for alternative use. Redevelopment plans for these assets may include office, retail or residential space, shopping centers, movie theaters, parking complexes and open space. Any future redevelopment may require that we obtain permits, licenses, consents and/or waivers from various parties. Our retail and office properties include approximately 5.8 million square feet of GLA of which 3.3 million square feet is retail and 2.5 million square feet is office.

This section contains a general description of each of the assets contained in our Operating Assets segment. For a detailed discussion of the financial performance of our Operating Assets please refer to "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations."

Retail

Columbia Regional Building (Maryland, Columbia)

The Columbia Regional Building, designed by Frank Gehry, was restored and redeveloped in 2014. The 88,556 square foot building re-opened with Columbia's first Whole Foods Market. We believe that the redeveloped building will serve as a catalyst for future development in downtown Columbia.

Cottonwood Square (Salt Lake City, Utah)

Cottonwood Square is a 77,079 square foot community retail center situated in a high traffic area. This site is across from our Cottonwood Mall property, one of our Strategic Developments, which provides an opportunity for development synergies. For more information regarding our development activities, please refer to our Strategic Developments segment.

Downtown Summerlin (Las Vegas, Nevada)

Downtown Summerlin, formerly known as “Shops at Summerlin”, is a retail, office and fine dining development comprised of approximately 1.6 million square feet and was substantially completed by us and opened in October 2014. We believe this is the largest development of its kind to open in the U.S. since the economic downturn. It consists of a Fashion Center having two department store anchor tenants and a pad for a third, small-shop retail and restaurants and an approximately 280,000 square foot marketplace consisting of big box and junior anchor retail space and an approximately 235,000 square foot office building, One Summerlin. The development is located on approximately 106 acres within the 400-acre Downtown Summerlin area.

1701 Lake Robbins (The Woodlands, Texas)

1701 Lake Robbins is a 12,376 square foot retail building that we acquired for \$5.7 million on July 18, 2014.

Landmark Mall (Alexandria, Virginia)

Anchored by Macy's and Sears, Landmark Mall is an 879,262 square foot shopping mall located just nine miles southwest of Washington, D.C. The mall is located within one mile of public rail service on D.C.'s metro blue line. In 2013, we received unanimous rezoning approval from the City of Alexandria for Phase I of the redevelopment, which includes converting 11 acres of our 22-acre site, located within the center of the property between Macy's and Sears, from a traditional enclosed mall to a vibrant outdoor mixed-use environment with street retail shops and restaurants and high density residential housing. Within Phase I we are developing plans for approximately 270,000 square feet of new retail space, including an upscale dine-in movie theater and up to 400 residential units. Prior to the commencement of construction, we must finalize a development program, achieve internal pre-leasing targets, obtain a development permit application from the City of Alexandria, and consents from Macy's and Sears.

Outlet Collection at Riverwalk (New Orleans, Louisiana)

The Outlet Collection at Riverwalk, formerly known as “Riverwalk Marketplace”, is an urban upscale outlet center located along the Mississippi River in downtown New Orleans adjacent to the New Orleans Memorial Convention Center and the Audubon Aquarium of the Americas. We believe this is the nation's first upscale outlet center located downtown in a major city. We completed redevelopment of the center, comprising 246,221 square feet, and reopened it in May 2014.

Park West (Peoria, Arizona)

Park West is a 249,173 square foot open-air shopping, dining and entertainment destination, which is approximately one mile northwest of the Arizona Cardinals' football stadium and the Phoenix Coyote's hockey arena. Park West has an additional 100,000 square feet of available development rights as permitted for retail, restaurant and hotel uses. Additionally, we own four parcels of land adjacent to our Park West property consisting of approximately 18 acres.

The Seaport District (New York, New York)

The Seaport District includes the entire South Street Seaport, encompasses the historic waterfront along the East River, and is bounded by the Brooklyn Bridge on the north, Wall Street on the south and Water Street on the west. The South Street Seaport is currently comprised of land and buildings located in an area we call the historic area and Pier 17. We lease a significant portion of the property and it is subject to ground leases that expire in 2072. The historic area (which is west of the FDR Drive) includes retail space in 5 buildings. Pier 17 is located east of FDR Drive and is under construction. Upon completion of the Pier 17 Renovation Project, as described below, South Street Seaport will have approximately 362,000 square feet of leasable space, substantially all of which will be retail. The South Street Seaport is being rebranded to include the larger Seaport District as the company begins to reintroduce The Seaport District to New York City as the city's Oldest New Neighborhood.

On June 27, 2013, the City of New York executed the amended and restated ground lease for South Street Seaport and we provided a completion guarantee to New York City for the Renovation Project (as defined below). The execution of the amended and restated ground lease was the final step necessary for the commencement of the renovation and reconstruction of the existing pier and building ("Renovation Project"). Construction began in September 2013 and is expected to conclude in 2017. The Renovation Project features a newly constructed pier and building and is designed to include a vibrant open rooftop encompassing approximately 1.5 acres, upscale retail and outdoor entertainment venues. Additionally, we will reposition a significant portion of the 180,000 square feet of retail space in the historic area.

On November 20, 2013, we announced plans for further redevelopment of the Seaport District, which includes approximately 700,000 square feet of additional space. The plans are subject to a Uniform Land Use Review Procedure ("ULURP") that requires approval by the New York City Council, the New York City Landmarks Preservation Commission and various other government agencies. After participating in a comprehensive neighborhood planning process with community stakeholders and elected public officials over the past year, we presented our revised plans to the Landmark Preservation Committee on December 10, 2014. Our current proposal includes the complete restoration of the historic Tin Building, which will include a dynamic food market, greater pedestrian access to the waterfront via East River Esplanade improvements and a new marina. It will also include a reconfigured South Street Seaport Museum space within Schermerhorn Row, as well as a potential building addition on the adjacent John Street lot, the replacement of wooden platform piers adjacent to Pier 17, and a newly constructed mixed-use building which may include a new public middle school and community recreation space.

Ward Village (Honolulu, Hawaii)

The operating properties of Ward Village, formerly known as "Ward Centers", are situated along Ala Moana Beach Park and are within one mile of Waikiki and downtown Honolulu. They currently include a 678,000 square foot shopping district containing seven specialty centers, approximately 146 shops, and restaurants and an entertainment center which includes a 16-screen movie theater. In 2012, Ward Village Shops consisting of approximately 67,000 square feet of retail, and in 2013, Auahi Shops consisting of 57,000 square feet of retail were completed.

Ward Village will be a vibrant neighborhood that offers unique retail experiences and exceptional residences set among dynamic public open spaces and walkable streets. For more information regarding our master planned development activities, please refer to our Strategic Developments segment.

20 & 25 Waterway Avenue (The Woodlands, Texas)

20 & 25 Waterway Avenue are two retail properties located in the Waterway Square commercial district in The Woodlands Town Center. The properties total 50,022 square feet.

Waterway Garage Retail (The Woodlands, Texas)

Waterway Garage Retail is attached to the Waterway Square Garage located within The Woodlands Town Center. The 21,513 square foot retail portion of the garage was completed in 2011.

Office

Columbia, Maryland

10-60 Columbia Corporate Center

10-60 Columbia Corporate Center is comprised of six adjacent office buildings totaling 699,884 square feet. We received the six office buildings, with a fair value of approximately \$130.0 million, as part of our Tax Indemnity Settlement with GGP. Located in Downtown Columbia, Maryland, 14 miles from the Baltimore Beltway and 17 miles from the Washington Beltway, the buildings are currently unencumbered. As a result of this acquisition, we believe that we own approximately 50% of the total Downtown Columbia office market.

70 Columbia Corporate Center

70 Columbia Corporate Center is a 170,741 square foot office building located adjacent to 10-60 Columbia Corporate Center in Downtown Columbia, Maryland. We acquired the building in August 2012.

Columbia Office Properties

We own three office buildings, and are a master tenant of a fourth office building (in addition to 10-70 Columbia Corporate Center described above), located in the heart of Downtown Columbia, Maryland. The master ground lease under the fourth office building has a 2020 initial expiration and a 2060 final expiration date, including market renewal options. The buildings, which comprise 220,420 square feet, include: (1) the Columbia Association Building; (2) the Columbia Exhibit Building; (3) the Ridgley Building; and (4) American City Building (master tenant).

The Woodlands, Texas

Hughes Landing

Hughes Landing is a 66-acre mixed-use development on Lake Woodlands. The development is envisioned at full build-out to contain up to two million square feet of office space in 11 office buildings, approximately 200,000 square feet of retail and entertainment venues, 1,500 multi-family units and a 205-room hotel. To date, two office buildings have been completed and are further described below.

One Hughes Landing - One Hughes Landing is a 197,719 square foot Class A office building set on 2.7 acres, including a 1,200 space parking garage shared with Two Hughes Landing. The building was opened in the third quarter 2013.

Two Hughes Landing - Two Hughes Landing is a 197,714 square foot Class A office building set on 3.6 acres, including a 1,200 space parking garage shared with One Hughes Landing. The project was substantially completed and placed in service during 2014.

2201 Lake Woodlands Drive

2201 Lake Woodlands Drive is a two-story Class C office building located in the East Shore commercial district of The Woodlands. The property totals 24,119 square feet.

9303 New Trails

9303 New Trails is a four-story Class B office building located within the Research Forest district of The Woodlands. The property totals 97,553 square feet.

3831 Technology Forest Drive

Kiewit Energy Group is the tenant occupying this 95,078 square foot office building completed and opened by us in December 2014. Kiewit Energy Group has executed a ten-year lease to occupy all of the building. The building is located on a 5.7-acre land parcel at 3831 Technology Forest Drive.

3 Waterway Square

The building was opened in June 2013. It is a 232,021 square foot Class A office building located in The Woodlands Town Center.

4 Waterway Square

4 Waterway Square is a 218,551 square foot Class A office building located in The Woodlands Town Center.

1400 Woodloch Forest Drive

1400 Woodloch Forest Drive is a 95,667 square foot Class B office building located at the entrance to The Woodlands Town Center.

Chicago, Illinois

110 N. Wacker

The property is a 226,000 square foot office building located at 110 N. Wacker Drive in downtown Chicago. We own a 100% interest in the operating profits and, upon a capital event, are entitled to an 11.0% preferred return on, and a return of, our invested capital, after which any excess cash flow is evenly split with our partner. In 2014, we purchased the fee simple interest in the land underlying the office building for \$12.3 million.

Multi-family

Millennium Waterway Apartments (The Woodlands, Texas)

Millennium Waterway Apartments is a 393-unit Class A apartment building located within The Woodlands Town Center.

85 South Street (New York, New York)

On October 22, 2014, we acquired a 21-unit fully leased multi-family apartment building for \$20.1 million. The building also contains approximately 13,000 square feet of ground floor retail space. The property is located near our South Street Seaport property.

Resort and Conference Center and Country Club

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

The Woodlands Resort & Conference Center ("WRCC") located approximately two miles south of The Woodlands Town Center and consists of 406 hotel rooms and 90,000 square feet of meeting space, including the 30,000 square feet currently leased by ExxonMobil.

In 2013, we began a redevelopment and expansion of WRCC and completed the project in 2014. The project included renovating 222 existing guest rooms, and construction of a new wing of 184 guest rooms and suites that replaced 218 rooms that were taken out of service and will eventually be demolished. The development also included construction of a 1,000 foot lazy river, a new lobby, the revitalization of 60,000 square feet of meeting and event facilities, and a new restaurant, Robard's Steakhouse, which is a 130-seat restaurant located across the street from WRCC on the 18th hole of the Panther Trail Golf Course and will be operated by the hotel management.

The Club at Carlton Woods (The Woodlands, Texas)

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

Other Operating Assets and Investments

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

The TPC Summerlin is an 18-hole private championship course designed by golf course architect Bobby Weed with player consultant Fuzzy Zoeller. TPC Las Vegas is an 18-hole public championship course designed by Bobby Weed with player

consultant Raymond Floyd. These courses represent the only two golf courses in Nevada that are owned and operated by the Professional Golfers' Association of America (the "PGA").

We are entitled to receive residual payments from the PGA with respect to the two golf courses through October 31, 2021, the termination date of the sales agreement with the PGA. We receive 75% of the net operating profits and 90% of all profits from membership sales at TPC Summerlin until such time as the original investment in the courses of \$23.5 million has been recouped, which is projected to occur no sooner than 2018. Once we have received payments from the PGA totaling \$23.5 million, we are entitled to receive 20% of all net operating profits from the two courses through the termination date of the agreement. As of December 31, 2014, the remaining balance of our investment is approximately \$4.5 million, approximately \$4.4 million greater than our \$0.1 million book value.

Kewalo Basin Harbor (Honolulu, Hawaii)

Kewalo Basin Harbor is a harbor that leases slips for charter, commercial fishing and recreational vessels. It is located in the heart of Honolulu across Ala Moana Boulevard from Ward Village. In August 2014, we entered into a 35-year lease with a 10-year extension option with the Hawaii Community Development Authority ("HCDA") to make improvements, manage, and serve as the operator of Kewalo Basin Harbor. Our capital improvement activities will begin in late 2015 and will be phased in over multiple years.

Merriweather Post Pavilion (Columbia, Maryland)

Designed by the renowned architect Frank Gehry, Merriweather Post Pavilion and its parking area sit on approximately 40 acres in the heart of Downtown Columbia, Maryland. The facility, which was opened in 1967, has a capacity of more than 15,000 people. In 2013, Rolling Stone magazine named Merriweather Post Pavilion the 4th best amphitheater in America.

Millennium Woodlands Phase II, LLC (The Woodlands, Texas)

We are an 81.43% partner in a joint venture with The Dinerstein Companies to develop and operate Millennium Woodlands Phase II, a 314-unit Class A multi-family complex in The Woodlands Town Center. During the third quarter 2014, the joint venture completed construction and placed the project into service.

Stewart Title of Montgomery County, TX (The Woodlands, Texas)

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

Summerlin Hospital Medical Center (Las Vegas, Nevada)

We have an indirect ownership interest of approximately 5.0% in the Summerlin Hospital Medical Center. Our ownership interest entitles us to a pro rata share of the cumulative undistributed profit in the hospital and we typically receive a distribution one time per year during the first quarter. This medical center is a 454-bed hospital located on a 41-acre medical campus in our Summerlin MPC with 307,820 square feet of medical office space and a 1,247-space parking garage.

Summerlin Las Vegas Baseball Club (Las Vegas, NV)

We are a 50% partner in a joint venture, Summerlin Las Vegas Baseball Club, LLC, which owns the Las Vegas 51s, a Triple-A baseball team affiliated with the New York Mets. The team is a member of the Pacific Coast League and has been based in Las Vegas for 30 years. Our strategy in acquiring an ownership interest is to pursue a relocation of the team to a stadium which we would then build in our Summerlin MPC. There can be no assurance that such a stadium will ultimately be built.

The Woodlands Parking Garages (The Woodlands, Texas)

The Woodlands Parking Garages comprise nearly 3,000 parking spaces in two separate parking structures. The Waterway Square Garage has 1,933 spaces and is located in The Woodlands Town Center. The Waterway Square Garage has excess

parking capacity for future commercial development, including the Westin Hotel which is under construction. Woodloch Forest garage has approximately 1,000 total spaces with 300 spaces available for future adjacent office development.

Woodlands Sarofim #1 Limited (The Woodlands, Texas)

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

Strategic Developments

Our Strategic Developments segment is made up of near, medium and long-term real estate development properties and active development projects. We continue to advance the development plans for most of these assets based on market conditions and availability of capital. As we begin to undertake our development plans we obtain the proper permits and approvals, and often seek project-level construction financing.

This section contains a general description of each of the assets contained in our Strategic Developments segment. For a detailed discussion of Strategic Developments that are under construction, including estimated total development costs, completion to date, financing, pre-leasing, pre-sales and other relevant information, please refer to "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations."

We continue to execute our strategic plans for developing several of these assets with construction either under way or pending. The remainder of these assets will require substantial future development to achieve their highest and best use.

The Woodlands (The Woodlands, Texas)

Creekside Village Green

Creekside Village Green is a 74,500 square foot retail center consisting of retail, restaurant and professional office space across two main buildings and a centrally located restaurant building substantially completed and opened in January 2015. Creekside Village Green is located within Creekside Village Center, a 100-acre mixed-use commercial development that is anchored by an H-E-B grocery store. Creekside Village Center will ultimately include 400,000 square feet of retail and office space, 800 units of multi-family, 200 units of senior living facility and an 85,000 square foot campus within the Lone Star College System.

Three Hughes Landing

Three Hughes Landing will be a 324,000 square foot, 12-story Class A office building with an adjacent parking garage containing approximately 1,062 spaces in Hughes Landing situated on four acres of land. We began construction during the third quarter 2014 and anticipate completion of the project during the fourth quarter 2015.

1725-35 Hughes Landing Boulevard

1725-35 will be two adjacent Class A office buildings. The building located at 1725 Hughes Landing Boulevard (West Building) will be 12 stories and approximately 318,000 leasable square feet, and the building located at 1735 Hughes Landing Boulevard (East Building) will be 13 stories and 329,000 leasable square feet. A 2,617 space parking garage will also be located on the 4.3 acre site and will be exclusive to these buildings. We began construction during the fourth quarter 2013 and anticipate completion of the project by the fourth quarter 2015. ExxonMobil Corporation has executed leases to occupy the entire West Building for twelve years, and it has executed leases for 160,000 square feet in the East Building for eight years, with an option to lease the remaining space before the building opens.

Hughes Landing Hotel (Embassy Suites)

Hughes Landing Hotel will be a nine-story, 205-room, full-service Embassy Suites by Hilton hotel located in Hughes Landing that we will own and manage. The 172,000 square foot hotel will have 3,350 square feet of meeting and event space, a business center, a full service bar and restaurant, a rooftop that overlooks Lake Woodlands and a 24-hour fitness center. We began construction during the fourth quarter 2014 and expect completion of the hotel by the end of 2015.

Hughes Landing Retail

Hughes Landing Retail will be a 123,000 square foot retail component of Hughes Landing. The project consists of Whole Foods, an anchor tenant with 40,000 square feet of space, 32,900 square feet of retail and a 50,100 square foot restaurant row. We began construction during the fourth quarter 2013 and the project is expected to be completed in the first quarter 2015.

One Lake's Edge

One Lake's Edge will be an eight-story, Class A, multi-family project within Hughes Landing comprised of 390 multi-family units (averaging 984 square feet per unit), 22,289 square feet of retail and an approximately 750 space parking garage, all situated on three acres of land. Additionally, the project will feature an amenity deck on the third floor that will feature a pool, courtyard and other amenities overlooking Lake Woodlands. Construction began during the fourth quarter 2013 and completion is expected in the second quarter 2015.

Waterway Square Hotel (Westin)

The Waterway Square Hotel will be a 302-room Westin-branded hotel that we will own and manage. The hotel will contain more than 15,000 square feet of meeting space, an outdoor pool, WestinWORKOUT® studio, business center and all the brand's signature amenities overlooking The Woodlands Waterway in Waterway Square. It will also feature a 150-seat restaurant, a lobby bar and a second level pool deck and bar, with direct access to The Fountains at Waterway Square. We began construction during the second quarter 2014 and expect completion of the project by the end of 2015.

Ward Village (Honolulu, Hawaii)

Ward Village will be a globally recognized urban master planned community offering unique retail experiences, exceptional residences and workforce housing set among dynamic open spaces and pedestrian friendly streets. Our master plan development agreement with the HCDA allows for up to 9.3 million square feet, including up to 7.6 million square feet of residential (approximately 4,000 condominium units which are initially estimated to average approximately 1,500 square feet per unit), and approximately 1.7 million square feet of retail, office, commercial and other uses. Full build-out is estimated to occur over 12-15 years, but will ultimately depend on market absorption and many other factors that are difficult to estimate. Ward Village has received LEED Neighborhood Development (LEED-ND) Platinum certification, making the master plan the nation's largest LEED-ND Platinum certified project, and the only LEED-ND Platinum project in the state of Hawaii. The LEED rating system is the foremost program for buildings, homes, and communities that are designed, constructed, maintained and operated for improved environmental and human health performance. LEED certification is important to many buyers and users of such facilities because it is a third party certification regarding the facility's water efficiency, energy saving capability, indoor environmental quality, carbon dioxide emissions and resource preservation.

Phase One of the development consists of four components on four separate blocks: the renovation of the IBM building, which primarily serves as the information center and sales gallery for Ward Village, two mixed-use market rate residential towers and one workforce housing tower. Development permit applications and detailed plans were approved by the HCDA in the third quarter 2013 and condominium documents were approved by the Hawaii Real Estate Commission for two market rate towers.

The renovation of the IBM Building was completed in first quarter 2014, and serves as a world class information center and sales gallery for the entire Ward Village Master Plan development. The sales center dedicates a section to telling the story of the history of the land, while another section showcases our vision for Ward Village.

The first of the two market rate towers, Waiea, meaning "water of life" in Hawaiian, is being developed on Ala Moana Boulevard and will consist of approximately 171 market rate condominium units for sale, six levels of parking and approximately 8,000 square feet of new retail space. The condominiums will consist of one, two and three bedroom units, villas and penthouses ranging from approximately 1,100 to 17,500 square feet. Construction commenced in second quarter 2014 with projected completion by the end of 2016.

The second market rate tower, Anaha, meaning "reflection of light," is planned for Auahi Street and will consist of approximately 311 market rate condominium units for sale, six levels of parking and approximately 17,000 square feet of new

retail space. The condominiums will consist of studios, one, two and three-bedroom units, townhomes and penthouses ranging from approximately 450 to 6,500 square feet. Construction commenced in November of 2014 with projected completion in early 2017.

The workforce residential tower is planned for a site on Ward Avenue and will consist of 424 residential units, 375 of which will be offered at prices lower than the market rate towers. It will also include six levels of parking and 23,000 square feet of new retail space. We continue to finalize plans for this tower.

During the fourth quarter 2014, we received approval from the HCDA for the Ward Gateway Towers project, the first residential and commercial development in Phase Two that will be located on Ala Moana Boulevard. Ward Gateway Towers will consist of two mixed-use towers with approximately 236 total units, 20,000 square feet of total retail and a one-acre park that will serve as the start of a four-acre village green that will open up a pedestrian connection from the heart of Ward Village to the center of Kewalo Basin Harbor. In February 2015, we received approval from the HCDA for the Ward Block M project, a mixed-use residential tower in Phase Two that will be located behind the Ward Entertainment Center at the corner of Queen Street and Kamake'e Street. Ward Block M will include approximately 466 residential units, a flagship 50,000 square foot Whole Foods Market, plus approximately 10,000 square feet of additional retail and more than 700 parking spaces. The Whole Foods Market lease was executed in the second quarter 2014 with a 20-year lease term and includes four, five-year extension options. We expect to begin construction of the Whole Foods Market in 2015 with completion scheduled for 2017, and continue to finalize pre-development activities and the project budget. We anticipate launching pre-sales in 2015.

ONE Ala Moana Tower Condominiums

In October 2011, we and an entity jointly owned by two local developers, Kobayashi Group and The MacNaughton Group, formed a 50/50 joint venture to develop a luxury condominium tower above an existing parking structure at Ala Moana Center. Construction of the 23-story, 206-unit tower consisting of one, two and three-bedroom units ranging from 760 to 4,100 square feet commenced in April 2013 and was completed with final closing on substantially all units in December 2014.

The Metropolitan Downtown Columbia Project (Columbia, Maryland)

In October 2011, we entered into a joint venture with a local multi-family developer, Kettler, Inc., ("Kettler") to construct a 380-unit Class A apartment building with approximately 14,000 square feet of ground floor retail space in downtown Columbia, Maryland. Our partner is responsible for providing construction and property management services, including the funding and oversight of development activities. We contributed a 4.2-acre site valued at \$20.3 million and having a \$3.0 million book value, in exchange for a 50% interest in the venture and our partner contributed cash for its interest. The joint venture began construction of The Metropolitan Downtown Columbia Project in February 2013 and anticipates substantial completion by the end of the first quarter 2015.

Other Development Projects

Alameda Plaza (Pocatello, Idaho)

Alameda Plaza is located in Pocatello, Idaho at the intersection of Yellowstone Park Highway and Alameda Road. The 6.9-acre site contains 65,292 square feet of vacant retail space.

AllenTowne (Allen, Texas)

AllenTowne consists of 238 acres located at the high-traffic intersection of Highway 121 and U.S. Highway 75 in Allen, Texas, 27 miles northeast of downtown Dallas. As market conditions evolve and opportunities develop, we will further evaluate how to best position the property.

Bridges at Mint Hill (Charlotte, North Carolina)

We own a 90.5% interest in a joint venture to develop a shopping center on property located southeast of Charlotte, North Carolina. The parcel is approximately 210 acres consisting of 120 developable acres and is zoned for approximately 1.3 million

square feet of retail, hotel and commercial development. Development will require expansion of roads and an installation of a sewer utility which we expect to begin in 2015.

Century Plaza (Birmingham, Alabama)

Century Plaza is located on the southeastern side of Birmingham, Alabama, on U.S. Route 78 (Crestwood Blvd.) near Interstate 20. The site consists of approximately 59 acres with approximately 740,000 square feet of vacant GLA.

Circle T Ranch and Circle T Power Center (Westlake, Texas)

We are a 50% partner in a joint venture with Hillwood Properties, a local developer. The property is located at the intersection of Texas highways 114 and 170, which is 20 miles north of downtown Fort Worth, in Westlake, Texas. The Circle T Ranch parcel contains 128 acres while the Circle T Power Center parcel contains 151 acres.

Cottonwood Mall (Holladay, Utah)

Located 7.5 miles from downtown Salt Lake City, in the city of Holladay, Utah, Cottonwood Mall is a unique infill redevelopment opportunity that is a demolished mall. This redevelopment site is 54 acres and consists of a stand-alone Macy's department store. The project is entitled for 575,000 square feet of retail, 195,000 square feet of office and 614 residential units.

Elk Grove Promenade (Elk Grove, California)

Elk Grove Promenade was originally planned as a 1.1 million leasable square foot outdoor shopping center on approximately 100 acres. Located approximately 17 miles southeast of Sacramento, the location affords easy access and visibility from State Highway 99 at Grant Line Road. In October of 2014, we received unanimous approval from the Elk Grove City Council for the development of The Outlet Collection at Elk Grove. The Outlet Collection at Elk Grove will be an upscale complex constructed on approximately 60 acres with more than 100 stores as well as numerous dining options, a 14-screen movie theater and public gathering spaces with best in class amenities. The first phase consists of reconfiguring the existing site and buildings to allow for up to 689,000 square feet of dining, shopping and entertainment. Commencement of construction is dependent on meeting internal pre-leasing hurdles for the project. Future phases will be constructed on the remaining 40 acres with a total potential development density that is now to up 1.3 million square feet, inclusive of the 689,000 square feet contemplated in the first phase.

Fashion Show Air Rights (Las Vegas, Nevada)

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

Kendall Town Center (Kendall, Florida)

We own 70 acres that are entitled for 621,300 square feet of retail, 60,000 square feet of office space and a 50,000 square foot community center located within Kendall Town Center. Kendall Town Center is a 141-acre mixed-use site located at the intersection of North Kendall Drive and SW 158th, approximately 20 miles southwest of downtown Miami. Also included within Kendall Town Center are a 31-acre parcel owned by Baptist Hospital, which contains a 282,000 square foot hospital and a 62,000 square foot medical office building, and a future 120-room hotel with ancillary office and retail space and a senior housing development on a 23-acre site. Land totaling 14 acres has also been deeded to the property owners association and three acres have been deeded to Miami-Dade County. We are developing a mixed-use program and site plan and expect to submit a rezoning application to permit residential development in 2015.

Lakeland Village Center (Bridgeland, Texas)

Lakeland Village will be an 83,400 square foot traditional neighborhood retail/office center situated on eight acres within our Bridgeland master planned community. It will be the community's first village center. In October 2014, we executed a 25-year 15,300 square foot ground lease with CVS Pharmacy that includes four, five-year extension options. CVS Pharmacy will serve as the anchor tenant and the center will consist of ground-level retail, restaurant and professional office space organized within nine buildings, all totaling approximately 68,900 square feet. We expect to begin construction in the first half of 2015 with a scheduled early 2016 completion date.

Lakemoor (Volo) Land (Lakemoor, Illinois)

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

Maui Ranch Land (Maui, Hawaii)

This site has nominal value and consists of two, non-adjacent, ten-acre undeveloped land-locked parcels located near the Kula Forest Preserve on the island of Maui, Hawaii. The land currently is zoned for native vegetation. There is no ground right of way access to the land and there currently is no infrastructure or utilities in the surrounding area.

Parcel C (Columbia, Maryland)

On October 4, 2013, we entered into a joint venture agreement with Kettler to construct a 437-unit, Class A apartment building with 31,000 square feet of ground floor retail. We contributed approximately five acres of land valued at \$23.4 million and having an estimated book value of \$4.0 million in exchange for a 50% interest in the joint venture.

Seaport District Assemblage (New York, New York)

The Seaport District Assemblage is comprised of a 48,000 square foot commercial building on a 15,744 square foot lot with certain air rights with total residential and commercial development rights of 621,651 square feet. As of December 31, 2014, we were under contract to purchase another 58,000 square foot commercial building and air rights attributable to three additional parcels during the first half of 2015, that will ultimately create a 42,694 square foot lot entitled for 817,784 square feet of mixed use development. These properties are collectively referred to as the Seaport District Assemblage and are located in close proximity to our South Street Seaport property. Please refer to " - Recent Significant Transactions" for more information on the Assemblage.

Summerlin Apartments, LLC (Las Vegas, Nevada)

On January 24, 2014, we entered into a joint venture with a national multi-family real estate developer, The Calida Group ("Calida"), to construct, own and operate a 124-unit gated luxury apartment complex to be called The Constellation located just east of Downtown Summerlin, which we believe will be the first of its kind in the Las Vegas Valley. We contributed a 4.5-acre parcel of land with an agreed value of \$3.2 million in exchange for a 50% interest in the venture in February 2015 and our partner contributed cash for their 50% interest. Construction commenced in February 2015 with completion expected during the second quarter 2016.

West Windsor (West Windsor, New Jersey)

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

Competition

The nature and extent of our competition depends on the type of property involved. With respect to our master planned communities segment, we compete with other landholders and residential and commercial property developers in the development of properties within Las Vegas, Nevada; Houston, Texas and the Baltimore/Washington, D.C. markets. Significant factors which we believe allow us to compete effectively in this business include:

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

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

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

Environmental Matters

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

Substantially all of our properties have been subject to Phase I environmental assessments, which are intended to evaluate the environmental condition of the surveyed and surrounding properties. As of December 31, 2014, the assessments have not revealed any known environmental liability that we believe would have a material adverse effect on our overall business, financial condition or results of operations. Nevertheless, it is possible that these assessments do not reveal all environmental liabilities or that the conditions have changed since the assessments were prepared (typically at the time the property was purchased or encumbered with debt). Moreover, no assurances can be given that future laws, ordinances or regulations will not impose any material environmental liability on us, or the current environmental condition of our properties will not be adversely affected by tenants and occupants of the properties, by the condition of properties in the vicinity of our properties (such as the presence on such properties of underground storage tanks) or by third parties unrelated to us.

Future development opportunities may require additional capital and other expenditures to comply with federal, state and local statutes and regulations relating to the protection of the environment. In addition, there is a risk when redeveloping sites, that we might encounter previously unknown issues that require remediation or residual contamination warranting special handling or disposal, which could affect the speed of redevelopment. Where redevelopment involves renovating or demolishing existing facilities, we may be required to undertake abatement and/or the removal and disposal of building materials or other remediation or cleanup activities that contain hazardous materials. We cannot predict with any certainty the magnitude of any such expenditures or the long-range effect, if any, on our operations. Compliance with such laws has not had a material adverse effect on our current or past operating results or competitive position, but could have such an effect on our operating results or competitive position in the future.

Employees

As of December 31, 2014, we had approximately 1,100 employees.

Available Information

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

ITEM 1A. RISK FACTORS

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

Risks Related to our Business

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

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

- downturns in the economic conditions at the national, regional or local levels, particularly a decline in one or more of our primary markets;
- competition from other master planned communities, retail properties, office properties or other commercial space;
- our ability to obtain substantial amounts of operating and development capital;
- increases in interest rates;
- the availability of financing, including refinancing or extensions of existing mortgage debt, on acceptable terms, or at all;
- increased operating costs, including insurance expense, utilities, real estate taxes, state and local taxes and heightened security costs;
- fluctuating condominium prices and absorption rates;
- ability to re-let space as leases expire on similar or more favorable terms than the terms of the expiring lease;
- vacancies and changes in rental rates;
- declines in the financial condition of our tenants and our ability to collect rents from our tenants;
- declines in consumer confidence and spending that adversely affect our revenue from our retail properties;
- decrease in traffic to our retail properties due to the convenience of other retailing options such as the internet;
- natural disasters or terrorist acts which may result in uninsured or underinsured losses;
- adoption of more restrictive laws and government regulations, including more restrictive zoning, land use or environmental regulations and an increase in real estate taxes; and
- opposition from local community or political groups with respect to the development, construction or operations at a particular site.

Continued lower oil prices compared to average oil prices over the past several years may have a significant negative effect on the future economic growth of, and demand for our properties in, certain regions where we have asset concentrations that are highly dependent on the energy sector.

In addition to general, regional and national economic conditions, our operating results are impacted by the economic conditions of the specific markets in which we have concentrations of properties. In certain regions where we have asset concentrations, such as the Houston, Texas region (home to a large number of energy companies), economic activity, growth and employment opportunities depend in part on the energy sector.

A decline in the energy sector, a sustained period of substantially lower oil prices or the perception of a sustained period of substantially lower energy prices in the future, could have a significant negative effect on the performance of energy companies and may lead to layoffs, a significant decrease in economic activity or slower economic growth in these regions. Such a downturn, or the perception of such a downturn, may lead to decreased demand for housing and commercial space in our communities and developments that are located in or near these regions, including The Woodlands, Bridgeland and Conroe MPCs. If we are unable to sell or lease our residential and commercial property in or near these regions, or if we are unable to recover or replace revenue from a tenant that is no longer a going-concern, it could materially and adversely impact our business, financial condition and results of operations.

We are dependent on certain housing markets.

The housing market and the demand from builders for lots vary depending on location. The success of our master planned communities business is heavily dependent on local housing markets in Las Vegas, Nevada; Houston, Texas; and Baltimore, Maryland/Washington, D.C., which in turn are dependent on the health and growth of the economies and availability of credit in these regions.

We may be unable to develop and expand our properties.

Our business objective includes the development and redevelopment of our properties, which we may be unable to do if we do not have or cannot obtain sufficient capital to proceed with planned development, redevelopment or expansion activities. We may be unable to obtain anchor store, mortgage lender and property partner approvals that are required for any such development, redevelopment or expansion. We may abandon redevelopment or expansion activities already under way that we are unable to complete, which may result in charge-offs of costs previously capitalized. In addition, if redevelopment, expansion or reinvestment projects are unsuccessful, the investment in such projects may not be fully recoverable from future operations or sale resulting in impairment charges.

We may not be able to obtain permits required for development of our properties.

In the ordinary course of business, we are required to seek governmental permits for the development of our properties. Obtaining the necessary governmental permits is a complex and time-consuming process involving numerous jurisdictions and often involving public hearings and costly undertakings. Specifically, our future development plans for Bridgeland require us to obtain permits to develop areas that include wetlands. Although this may not affect us for many years, our inability to obtain such permits would make it more difficult to develop and sell residential or commercial lots at Bridgeland.

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

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

- increased construction costs for a project that exceeded our original estimates due to increases in materials, labor or other costs, which could make completion of the project less profitable because market rents may not increase sufficiently to compensate for the increased construction costs;
- construction delays or cost overruns, which may increase project development costs;
- claims for construction defects after a property has been developed;
- poor performance or nonperformance by any of our joint venture partners or other third parties on whom we rely;
- health and safety incidents and site accidents;

- compliance with building codes and other local regulations; and
- an inability to secure tenants necessary to support commercial projects or obtain construction financing for the development or redevelopment of our properties.

Development of properties entails a lengthy, uncertain and costly entitlement process.

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

Our development, construction and sale of condominiums are subject to state regulations and may be subject to claims from the condominium owners association at each project.

A portion of our business is dedicated to the formation and sale of condominiums. Condominiums are generally regulated by an agency of the state in which they are located or where the condominiums are marketed to be sold. In connection with our development of condominiums and offering of condominium units for sale, we must submit regulatory filings to various state agencies and engage in an entitlement process by which real property owned under one title is converted into individual units. Any responses or comments on our condominium filings may delay our ability to sell condominiums in certain states and other jurisdictions. Further, we will be required to transfer control of a condominium association's board of directors once we trigger one of several statutory thresholds, with the most likely triggers being tied to the sale of not less than a majority of units to third-party owners. Transfer of control can result in claims with respect to deficiencies in operating funds and reserves, construction defects and other condominium-related matters by the condominium association and/or third-party condominium unit owners. Any material claims in these areas could negatively affect our reputation in condominium development and ultimately have a material adverse effect on our operations as a whole.

Purchasers may default on their obligations to purchase condominiums.

We enter into contracts for the sale of condominium units that generally provide for the payment of a substantial portion of the sales price at closing when a condominium unit is ready to be delivered and occupied. A significant amount of time may pass between the execution of a contract for the purchase of a condominium unit and the closing thereof. Defaults by purchasers to pay any remaining portions of the sales prices for condominium units under contract may have an adverse effect on our financial condition and results of operations.

Our Master Planned Communities segment is highly dependent on homebuilders.

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

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

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

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

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

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

Our substantial indebtedness could adversely affect our business, prospects, financial condition or results of operations and prevent us from fulfilling our obligations under the notes.

We have a significant amount of indebtedness. On October 2, 2013, we issued \$750.0 million aggregate principal amount of our 6.875% Senior Notes due 2021 (the "Senior Notes") and received net cash proceeds of \$739.6 million. As of December 31, 2014, our total consolidated debt was approximately \$2.0 billion (excluding an undrawn balance of \$103.3 million under our revolving facilities) of which \$880.8 million was recourse to the Company. In addition, we have \$37.6 million of recourse guarantees associated with undrawn construction financing commitments as of December 31, 2014. As of December 31, 2014, our share of the debt of our Real Estate and Other Affiliates was \$54.6 million based upon our economic ownership. All of the debt of our Real Estate and Other Affiliates is non-recourse to us.

Subject to the limits contained in the indenture governing the Senior Notes and any limits under our other debt agreements, we may be able to incur substantial additional indebtedness from time to time, including project indebtedness at our subsidiaries. If we do so, the risks related to our level of indebtedness could intensify. Specifically, a high level of indebtedness could have important consequences to holders of the notes and equity holders, including:

- making it more difficult for us to satisfy our obligations with respect to the Senior Notes and our other debt;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, debt service requirements, execution of our business strategy or other general corporate requirements, or requiring us to make non-strategic divestitures, particularly when the availability of financing in the capital markets is limited;
- requiring a substantial portion of our cash flow to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flow available for working capital, capital expenditures, acquisitions, dividends and other general corporate purposes;
- increasing our vulnerability to general adverse economic and industry conditions, including increases in interest rates, particularly given that certain indebtedness bears interest at variable rates;
- limiting our ability to capitalize on business opportunities, reinvest in and develop properties, and to react to competitive pressures and adverse changes in government regulations;
- placing us at a disadvantage compared to other, less leveraged competitors;
- limiting our ability, or increasing the costs, to refinance indebtedness; and
- resulting in an event of default if we fail to satisfy our obligations under the Senior Notes or our other debt or fail to comply with the financial and other restrictive covenants contained in the indenture governing the Senior Notes or our other debt, which event of default could result in the Senior Notes and all of our debt becoming immediately due and payable and, in the case of our secured debt, could permit the lenders to foreclose on our assets securing such debt.

The indenture governing our Senior Notes contains, and our other debt agreements contain, restrictions which may limit our ability to operate our business.

The indenture governing our Senior Notes contains, and some of our other debt agreements contain, certain restrictions. These restrictions limit our ability or the ability of certain of our subsidiaries to, among other things:

- pay dividends on, redeem or repurchase capital stock or make other restricted payments;
- make investments;
- incur indebtedness or issue certain equity;
- create certain liens;
- incur obligations that restrict the ability of our subsidiaries to make dividend or other payments to us;
- consolidate, merge or transfer all or substantially all of our assets;

- enter into transactions with our affiliates; and
- create or designate unrestricted subsidiaries.

Additionally, certain of our debt agreements also contain various restrictive covenants, including minimum net worth requirements, maximum payout ratios on distributions, minimum debt yield ratios, minimum fixed charge coverage ratios, minimum interest coverage ratio and maximum leverage ratios.

The restrictions under the indenture and or other debt agreements could limit our ability to finance our future operations or capital needs, make acquisitions or pursue available business opportunities.

We may be required to take action to reduce our debt or act in a manner contrary to our business objectives to meet such ratios and satisfy the covenants in our debt agreements. Events beyond our control, including changes in economic and business conditions in the markets in which we operate, may affect our ability to do so. We may not be able to meet the ratios or satisfy the covenants in our debt agreements, and we cannot assure you that our lenders will waive any failure to do so. A breach of any of the covenants in, or our inability to maintain the required financial ratios under, our debt agreements could result in a default under such debt agreements, which could lead to that debt becoming immediately due and payable and, if such debt is secured, foreclosure on our assets that secure such debt. A breach of any of the covenants in, or our inability to maintain the required financial ratios under, our debt agreements also would prevent us from borrowing additional money under such agreements that include revolving lending facilities. A default under any of our debt agreements could, in turn, result in defaults under other obligations and result in other creditors accelerating the payment of other obligations and foreclosing on assets securing such obligations, if any.

Any such defaults could materially impair our financial condition and liquidity. In addition, if the lenders under any of our debt agreements or other obligations accelerate the maturity of those obligations, we cannot assure you that we will have sufficient assets to satisfy our obligations under the notes or our other debt.

Significant competition could have an adverse effect on our business.

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

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

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

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

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

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

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

We may not realize the value of our tax assets.

Certain provisions of the Internal Revenue Code could limit our ability to fully utilize the tax assets if we were to experience a "change of control". If such an event were to occur, the cash flow benefits we might otherwise have received would be eliminated. We currently have approximately \$109.1 million of federal net operating loss carryforwards, none of which are subject to the separate return year limitation rules. A change of control could limit our ability to use our net operating losses prior to their expiration.

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

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

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

A number of our properties are located in areas which are subject to natural or other disasters, including hurricanes, floods, earthquakes and oil spills. Some of our properties, including Ward Centers, South Street Seaport and the Outlet Collection at Riverwalk are located in coastal regions, and could therefore be affected by increases in sea levels, the frequency or severity of hurricanes and tropical storms, or environmental disasters, whether such events are caused by global climate changes or other factors.

Some potential losses are not insured.

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

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

Future terrorist attacks in the United States or other acts of violence may result in declining economic activity, which could harm the demand for goods and services offered by tenants and the value of our properties and might adversely affect the value of an investment in our securities. Such a resulting decrease in retail demand could make it difficult to renew or re-lease properties at lease rates equal to or above historical rates. Terrorist activities or violence also could directly affect the value of our properties through damage, destruction or loss, and the availability of insurance for such acts, or of insurance generally, might be lower or cost more, which could increase our operating expenses and adversely affect our financial condition and results of operations. To the extent that tenants are affected by future attacks, their businesses similarly could be adversely affected, including their ability to continue to meet obligations under their existing leases. These acts might erode business and consumer confidence and spending and might result in increased volatility in national and international financial markets and economies. Any one of these events might decrease demand for real estate, decrease or delay the occupancy of new or redeveloped properties, and limit access to capital or increase the cost of capital.

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

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

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

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

Pershing Square Capital Management, L.P. ("Pershing Square") beneficially owns 9.0% of our outstanding common stock (excluding shares issuable upon the exercise of warrants) as of December 31, 2014. Under the terms of our stockholder agreements, Pershing Square currently has the ability to designate three members of our board of directors.

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

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

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

Risks Related to Our Common Stock

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

Our certificate of incorporation and bylaws contain the following limitations:

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

We have also implemented a so-called poison pill by adopting our stockholders rights agreement. The poison pill assists in the preservation of our valuable tax attributes by significantly increasing the costs that would be incurred by an unwanted third party acquirer if such party owns or announces its intent to commence a tender offer for the Threshold Percentage or more of our securities. Subject to stockholder approval, the Board of Directors of the Company has extended the term of the stockholders rights agreement to March 14, 2018. All of these provisions could limit the price that investors might be willing to pay in the future for shares of our common stock.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

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

The following table summarizes certain metrics of the retail properties within our Operating Assets segment as of December 31, 2014.

Retail Property	Location	Existing Gross Leasable Area	Size (Acres)	Year Ended December 31, 2014			Year Built / Acquired / Last Renovated
				Average Annual Tenant Sales per Square Foot (a)	Average Sum of Rent and Recoverable Common Area Costs per Square Foot (b)	Occupancy Cost (c)	
Columbia Regional Building	Columbia, MD	88,556	8	\$ —(d)	—	—	2014
Cottonwood Square	Salt Lake City, UT	77,079 (e)	7 (f)	—(g)	—	—	2002
Downtown Summerlin	Las Vegas, NV	776,901 (h)	106	—(d)	—	—	2014
1701 Lake Robbins	The Woodlands, TX	12,376	—	—(d)	—	—	2014
Landmark Mall	Alexandria, VA	440,325 (i)	22	176	11.83	6.7 %	2004
Outlet Collection at Riverwalk	New Orleans, LA	246,221 (j)	11	876 (k)	68.40	7.8 %	2014
Park West	Peoria, AZ	249,173	66	453	31.39	6.9 %	2006
South Street Seaport	New York, NY	79,275 (l)	9	543	111.81	20.6 %	2004
Ward Village	Honolulu, HI	1,273,845	60	572	58.12	10.2 %	2002
20/25 Waterway Avenue	The Woodlands, TX	50,022	1	480	54.79	11.4 %	2007 / 2009
Waterway Garage Retail	The Woodlands, TX	21,513	—(m)	318	46.81	14.7 %	2011
Total		3,315,286	290				

- (a) Average Annual Tenant Sales per Square Foot is calculated by the sum of all comparable sales for the year ended December 31, 2014 for tenants that are contractually obligated to report sales data, divided by the comparable square feet for the same period. When calculating comparable sales and comparable square feet, we include all tenants that have operated for the entire year and occupy less than 30,000 square feet. For the year ended December 31, 2014, tenant recoveries represented approximately 24% of total revenue for the above mentioned retail properties only. The impact of concessions, such as free rent and new tenant inducements, are not significant to our business.
- (b) Average Sum of Rent and Recoverable Common Area Costs per Square Foot is calculated as the sum of total rent and tenant recoveries for the year ended December 31, 2014 for the tenant base used to calculate (a), divided by the total square feet occupied by the above mentioned tenant base.
- (c) Occupancy Cost is calculated by dividing (b) Average Sum of Rent and Recoverable Common Area Costs per Square Foot by (a) Average Annual Tenant Sales per Square Foot.
- (d) Twelve months of sales are not available for tenants at Columbia Regional Building, Downtown Summerlin and 1701 Lake Robbins due to building opening or being acquired in 2014.
- (e) 41,612 square feet of the Existing Gross Leasable Area is part of a ground lease where we are the ground lessee. The ground lease payments are paid by the current tenant directly to the ground lessor.
- (f) Includes seven acres; three acres of which we are a ground lessee, and four acres of which we own fee-simple.
- (g) Cottonwood Square tenants are not required to report sales.
- (h) Excludes 387,000 square feet of anchors, 165,567 square feet of pad sites, and 235,179 square feet of office.
- (i) Excludes 438,937 square feet that is owned and occupied by Sears and Macy's.
- (j) All of the project is on a ground lease where we are the ground lessee.
- (k) The center opened in May 2014 and is 100% leased. Only two tenants totaling 6,235 total square feet operated for the entire year.
- (l) Reflects square feet in service as of December 31, 2014. Upon completion of the redevelopment, South Street Seaport will be approximately 362,000 square feet.
- (m) Ground floor retail space attached to the Waterway Square Garage.

The following table summarizes certain metrics of our office assets within our Operating Assets Segment as of December 31, 2014:

Office Asset	Existing Gross Leasable Area	Average Effective Annual Rent per Square Foot (a)	Year Built / Acquired
10-60 Columbia Corporate Center (b)	699,884	\$ — (c)	2014
70 Columbia Corporate Center	170,741	21.17	2012
Columbia Office Properties (d)	220,420	25.71	1969 / 1972
One Hughes Landing	197,719	39.71	2013
Two Hughes Landing	197,714	— (e)	2014
2201 Lake Woodlands Drive (f)	24,119	23.68	1994
9303 New Trails	97,553	31.90	2008
110 N. Wacker (Chicago, IL) (g)	226,000	27.08	1957
3831 Technology Forest Drive	95,078	— (c)	2014
3 Waterway Square	232,021	41.11	2013
4 Waterway Square	218,551	40.96	2010
1400 Woodloch Forest	95,667	26.21	1981
Total	<u>2,475,467</u>		

- (a) Average Effective Annual Rent per Square Foot is equal to the sum of base minimum rent and tenant reimbursements divided by the average occupied square feet. For the year ended December 31, 2014, tenant reimbursements represented approximately 23.0% of total revenue.
- (b) % Leased is computed based on the weighted average square feet of each office building. At December 31, 2014 the occupancies of each building were as follows: 10 Columbia Corporate Center – 80.8%; 20 Columbia Corporate Center – 98.7%; 30 Columbia Corporate Center – 91.5%; 40 Columbia Corporate Center – 96.9%; 50 Columbia Corporate Center – 95.4%; 60 Columbia Corporate Center – 92.2%
- (c) 10 – 60 Columbia Corporate Center was acquired in December 2014 and 3831 Technology Forest Drive opened in December 2014; therefore, Average Effective Annual Rent per Square Foot data is not meaningful.
- (d) % Leased is computed based on the weighted average square feet of each office building. At December 31, 2014 the occupancies of each building were as follows: American City Building - 15.1%; Columbia Association Building - 75.2%; Columbia Exhibit Building - 100.0%; Ridgely Building - 69.4%.
- (e) Two Hughes Landing opened in the third quarter 2014 therefore, Average Effective Annual Rent per Square Foot data is not meaningful.
- (f) Building used as temporary space for tenants relocating to new developments.
- (g) We have a 99.0% economic ownership in 110 N. Wacker.

The following table summarizes certain metrics of our other Operating Assets (exclusive of owned retail and office properties) as of December 31, 2014:

Other than Owned Retail and Office Operating	Economic Ownership %	Asset Type	Square Feet / Keys / Other	% Leased	Year Built / Acquired
Golf Courses at TPC Summerlin and TPC Las Vegas	Participation	Golf	—	—	—
Kewalo Basin Harbor	Lease	Marina	55 acres	—	—
Merrifweather Post Pavilion	100 %	Amphitheatre	—	—	1967
Millennium Waterway Apartments	100 %	Multi-family	393 units	91.4 %	2010
Millennium Woodlands Phase II, LLC	81.43 %	Multi-family	314 units	27.0 %	2014
85 South Street	100 %	Multi-family	21 units/13,000 retail	100.0 %	2014
Stewart Title of Montgomery County, TX	50 %	Title Company	—	—	—
Summerlin Hospital Medical Center	7 %	Hospital	—	—	1997
Summerlin Las Vegas Baseball Club	50 %	Minor League Team	—	—	—
The Club at Carlton Woods	100 %	Country Club	36 holes	—	2001
The Woodlands Resort & Conference Center	100 %	Hotel	406 rooms	—	2014 (a)
Woodlands Parking Garages (b)	100 %	Garage	2,988	—	2008/2009
Woodlands Sarofim #1	20 %	Industrial	129,790	97.6 %	late 1980s

- (a) The Woodlands Resort & Conference Center was built in 1974, expanded in 2002, and renovated in 2014.
- (b) The Woodlands Parking Garages consist of two garages: Woodloch Forest Garage built in 2008, and Waterway Square Garage built in 2009.

The following table summarizes our retail and office lease expirations:

Year	Number of Expiring Leases	Total Square Feet Expiring	Total Annualized Base Rent Expiring (Thousands)	% of Total Annual Gross Rent Expiring
2015 (a)	241	613,271	\$ 13,614	10.2%
2016	85	319,023	11,839	8.8%
2017	76	310,570	9,592	7.2%
2018	60	264,524	7,137	5.3%
2019	71	550,900	14,730	11.0%
2020	61	252,364	8,958	6.7%
2021	18	209,849	4,920	3.7%
2022	19	208,752	7,661	5.7%
2023	15	171,234	8,593	6.4%
2024	36	383,384	13,411	10.0%
2025+	159	963,688	33,380	25.0%
	<u>841</u>	<u>4,247,559</u>	<u>\$ 133,835</u>	<u>100.0%</u>

(a) Includes 133 specialty leases which expire in less than 365 days.

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

	At December 31, 2014		Annual Weighted Average Occupancy Rates (b)				
	% Leased (a)	Occupancy	2014	2013	2012	2011	2010
Retail:							
Columbia Regional Building (c)	77.4 %	77.4 %	53.4 %	—	—	—	—
Cottonwood Square	95.7 %	95.7 %	94.4 %	86.5 %	74.1 %	73.8 %	78.2 %
Downtown Summerlin (c) (d) (e)	69.2 %	60.5 %	56.7 %	—	—	—	—
1701 Lake Robbins (f)	100.0 %	100.0 %	100.0 %	—	—	—	—
Landmark Mall (g)	57.9 %	51.9 %	61.7 %	79.2 %	75.0 %	73.7 %	76.0 %
Outlet Collection at Riverwalk	100.0 %	91.5 %	90.1 %	56.2 %	92.2 %	89.9 %	87.9 %
Park West	73.3 %	71.5 %	74.4 %	72.1 %	65.1 %	64.6 %	62.5 %
South Street Seaport	66.3 %	66.3 %	54.6 % (h)	46.5 (h)	92.1 %	89.7 %	89.7 %
Ward Village	89.8 %	89.8 %	90.4 %	90.8 %	89.5 %	90.1 %	90.0 %
20/25 Waterway Avenue	100.0 %	100.0 %	99.4 %	94.2 %	95.6 %	91.7 %	64.2 %
Waterway Garage Retail	100.0 %	80.9 %	91.6 %	68.4 %	24.8 %	19.3 (i)	—
Office:							
10-60 Columbia Corporate Center (e) (f) (j)	93.0 %	93.0 %	93.0 %	—	—	—	—
70 Columbia Corporate Center (k)	97.9 %	97.9 %	96.8 %	96.8 %	—	—	—
Columbia Office Properties (j)	44.5 %	44.5 %	44.4 %	63.2 %	76.6 %	89.3 %	89.9 %
One Hughes Landing (l)	100.0 %	99.2 %	87.3 %	36.1 %	—	—	—
Two Hughes Landing (c)	84.8 %	20.6 %	13.2 %	—	—	—	—
2201 Lake Woodlands Drive (m)	0.0 %	0.0 %	50.0 %	66.7 %	83.4 %	100.0 %	100.0 %
9303 New Trails	93.9 %	93.6 %	94.6 %	94.3 %	99.0 %	78.8 %	73.8 %
110 N. Wacker	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
3831 Technology Forest Drive (c)	100.0 %	100.0 %	100.0 %	—	—	—	—
3 Waterway Square (n)	100.0 %	98.4 %	98.2 %	84.9 %	—	—	—
4 Waterway Square	100.0 %	100.0 %	100.0 %	100.0 %	99.3 %	59.8 %	25.7 %
1400 Woodloch Forest	92.2 %	91.7 %	83.0 %	85.7 %	100.0 %	78.3 %	94.2 %

(a) Percentage leased includes all leases in effect as of the period end date, some of which have commencement dates in the future.

(b) The differences between leased and occupied are primarily attributable to new tenants having pre-leased space but not yet moved in. Annual Weighted Average Occupancy Rates represent the weighted average square feet occupied during the year divided by total gross leasable area ("GLA").

(c) Columbia Regional Building and Two Hughes Landing opened in the third quarter 2014, Downtown Summerlin and 3831 Technology Forest Drive opened in the fourth quarter 2014.

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- (d) Excludes 387,000 square feet of anchors, 165,567 square feet of pad sites, and 235,179 square feet of office.
- (e) The annual weighted average occupancy rates for both Downtown Summerlin and for 10-60 Columbia Corporate Center are calculated as of their acquisition date or the date in which the asset was opened and placed into service. The specific dates are as follows: Downtown Summerlin – October 2014; 10-60 Columbia Corporate Center – December 2014.
- (f) 1701 Lake Robbins was acquired in the third quarter 2014 and 10-60 Columbia Corporate Center was acquired in the fourth quarter 2014.
- (g) Occupancy rates exclude 438,937 square feet that is owned and occupied by Sears and Macy's.
- (h) Occupancy rates in 2014 and 2013 reflect the impact of Superstorm Sandy. Additionally, occupancy rates in 2014 reflect the impact of redevelopment efforts.
- (i) Waterway Garage Retail opened in the third quarter 2011.
- (j) Annual Weighted Average Occupancy Rates are computed based on the weighted average square feet of each office building.
- (k) 70 Columbia Corporate Center was acquired during the third quarter of 2012.
- (l) One Hughes Landing was placed in service during the third quarter 2014.
- (m) Building is used as a temporary space for tenants relocating to new developments.
- (n) 3 Waterway Square was placed in service during the second quarter 2013.

The following table summarizes our Strategic Development projects:

	Location	Size / GLA	Size (Acres)	Acquisition Year
Strategic Developments Under Construction:				
Anaha Condominiums	Honolulu, HI	311 units / 17,000 retail	2	—
Creekside Village Green	The Woodlands, TX	74,352	6	—
1725-35 Hughes Landing Boulevard	The Woodlands, TX	647,000	4	—
Hughes Landing Hotel	The Woodlands, TX	205 keys	2	—
Hughes Landing Retail	The Woodlands, TX	123,000	9	—
The Metropolitan Downtown Columbia Project	Columbia, MD	380 units / 14,000 retail	4	—
Three Hughes Landing	The Woodlands, TX	324,000	4	—
ONE Ala Moana	Honolulu, HI	206 units	—	—
One Lake's Edge	The Woodlands, TX	390 units / 22,289 retail	3	—
Waiea Condominiums	Honolulu, HI	171 units / 8,000 retail	2	—
Waterway Square Hotel	The Woodlands, TX	302 keys	1	—
Other Strategic Developments:				
Alameda Plaza	Pocatello, ID	65,292 (a)	7	2002
AllenTowne	Allen, TX	—	238	2006
Bridges at Mint Hill	Charlotte, NC	—	210	2007
Century Plaza	Birmingham, AL	740,000 (b)	59	1997
Circle T Ranch and Power Center	Dallas / Ft. Worth, TX	—	279	2005
Commercial Land (c)	The Woodlands, TX	—	4	—
Cottonwood Mall	Holladay, UT	196,975	54	2002
Elk Grove Promenade	Elk Grove, CA	—	100	2003
Fashion Show Air Rights	Las Vegas, NV	—	—	2004
Kendall Town Center	Kendall, FL	—	70	2004
Lakeland Village Center	Bridgeland, TX	83,400	8	—
Lakemoor (Volo) Land	Lakemoor, IL	—	40	1995
Maui Ranch Land	Maui, HI	—	20 (d)	2002
Parcel C	Columbia, MD	437 units / 31,000 retail	5	2004
Seaport District Assemblage	New York, NY	621,651	0	2014
Summerlin Apartments, LLC	Las Vegas, NV	124 units	5	—
Ward Block M	Honolulu, HI	466 units / 78,000 retail	3	—
Ward Village Gateway Towers	Honolulu, HI	236 units / 20,000 retail	4	—
Ward Workforce Housing	Honolulu, HI	424 units / 23,000 retail	1	—
West Windsor	West Windsor, NJ	—	658	2004
Total			1,802	

(a) Alameda Plaza square feet represents GLA for two buildings, which are vacant.

(b) Century Plaza square feet represents GLA for entire mall, which is vacant.

(c) Represents MPC land transferred to the Strategic Developments segment for future development at The Woodlands.

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

ITEM 3. LEGAL PROCEEDINGS

We, as part of our normal business activities, are a party to a number of legal proceedings. Management periodically assesses our liabilities and contingencies in connection with these matters based upon the latest information available. We disclose material pending legal proceedings pursuant to Securities and Exchange Commission rules and other pending matters as we may determine to be appropriate.

For more information on our legal proceedings, please refer to "Note 10 – Commitments and Contingencies" within our Audited Consolidated Financial Statements.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

PART II

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

Market Information

The Company's common stock is traded on the New York Stock Exchange (the "NYSE") under the symbol "HHC". The following table shows the high and low sales prices of the our common stock on NYSE, as reported in the consolidated transaction reporting system for each quarter of fiscal 2014 and 2013.

	Common Stock	
	Price Range	
	High	Low
Year Ended December 31, 2014		
Fourth Quarter	\$ 151.86	\$ 119.30
Third Quarter	\$ 160.62	\$ 143.77
Second Quarter	\$ 158.11	\$ 136.73
First Quarter	\$ 147.72	\$ 116.22
Year Ended December 31, 2013		
Fourth Quarter	\$ 121.68	\$ 105.51
Third Quarter	\$ 118.86	\$ 100.35
Second Quarter	\$ 113.79	\$ 82.72
First Quarter	\$ 84.42	\$ 70.74

No dividends have been declared or paid in 2014 or 2013. Any future determination related to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including future earnings, capital requirements, restrictions under debt agreements, financial condition and future prospects and other factors the board of directors may deem relevant.

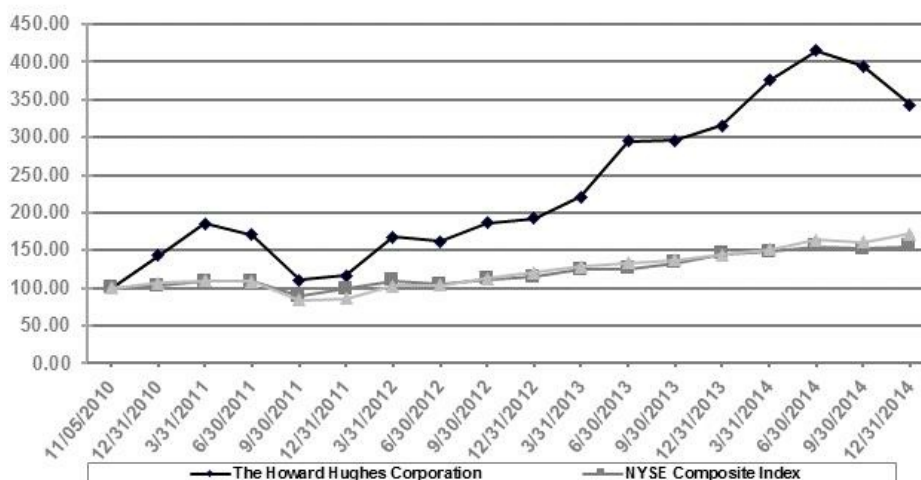
Number of Holders of Record

As of February 24, 2015, there were 2,324 stockholders of record of the Company's common stock.

Performance Graph

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

- Dividends have been reinvested subsequent to the initial investment.



ITEM 6. SELECTED FINANCIAL DATA

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

Our selected historical data for 2014, 2013 and 2012, which is presented in accordance with GAAP is not comparable to 2011 and 2010 due to the acquisition of our partner’s 47.5% economic interest in The Woodlands on July 1, 2011. As of the acquisition date, we consolidated The Woodlands’ financial results. Prior to the acquisition, we accounted for our investment in The Woodlands using the equity method.

The selected historical financial data as of December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013, and 2012 has been derived from our audited Consolidated Financial Statements, which are included in this Annual Report as referenced in the index on page F-1.

The selected historical financial data as of December 31, 2012 and 2011 and for the year ended December 31, 2011 has been derived from our audited Consolidated Financial Statements which are not included in this Annual Report.

The selected historical combined financial data as of and for the year ended December 31, 2010 has been derived from our audited Consolidated and Combined Financial Statements which are not included in this Annual Report.

Our spin-off in 2010 did not change the carrying value of our assets and liabilities. Operations for 2010 are presented as the aggregation of the combined results from January 1, 2010 to November 9, 2010 and the consolidated results from November 10, 2010 to December 31, 2010.

Prior to the spin-off, effective November 10, 2010, our combined financial statements were carved out from the financial books and records of GGP at a carrying value reflective of historical cost in GGP's records. Our historical financial results for these periods reflect allocations for certain corporate costs, and we believe such allocations are reasonable. Such results do not reflect what our expenses would have been had we been operating as a separate, stand-alone publicly traded company. The historical combined financial information presented for periods prior to our separation from GGP are not indicative of the results of operations, financial position or cash flows that would have been obtained if we had been an independent, stand-alone entity during such period.

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

	Year Ended December 31,				
	2014	2013	2012	2011	2010
(In thousands, except per share amounts)					
Operating Data:					
Revenues	\$ 634,565	\$ 469,418	\$ 376,886	\$ 275,689	\$ 142,718
Depreciation and amortization	(55,958)	(33,845)	(24,429)	(16,782)	(16,563)
Provisions for impairment	-	-	-	-	(503,356)
Other operating expenses	(411,885)	(324,359)	(279,992)	(231,442)	(134,666)
Interest income/(expense), net	(16,093)	(6,574)	8,473	9,876	(2,053)
Reorganization items	-	-	-	-	(57,282)
Warrant liability gain (loss)	(60,520)	(181,987)	(185,017)	101,584	(140,900)
Increase (reduction) in tax indemnity receivable	90	(1,206)	(20,260)	-	-
Loss on settlement of tax indemnity receivable	(74,095)	-	-	-	-
Equity in earnings from Real Estate and Other Affiliates	23,336	14,428	3,683	8,578	9,413
Provision for income taxes	(62,960)	(9,570)	(6,887)	18,325	633,459
Investment in real estate affiliate basis adjustment	-	-	-	(6,053)	-
Early extinguishment of debt	-	-	-	(11,305)	-
Net income (loss)	(23,520)	(73,695)	(127,543)	148,470	(69,230)
Net income attributable to noncontrolling interests	(11)	(95)	(745)	(1,290)	(201)
Net income (loss) attributable to common stockholders	\$ (23,531)	\$ (73,790)	\$ (128,288)	\$ 147,180	\$ (69,431)
Basic earnings (loss) per share:	\$ (0.60)	\$ (1.87)	\$ (3.36)	\$ 3.88	\$ (1.84)
Diluted earnings (loss) per share:	\$ (0.60)	\$ (1.87)	\$ (3.36)	\$ 1.17	\$ (1.84)

	Year Ended December 31,				
	2014	2013	2012	2011	2010
(In thousands)					
Cash Flow Data:					
Operating activities	\$ (58,315)	\$ 129,332	\$ 153,064	\$ 86,508	\$ (67,899)
Investing activities	(746,456)	(294,325)	(81,349)	(39,680)	(111,829)
Financing activities	470,274	830,744	(70,084)	(103,944)	461,206

	As of December 31,				
	2014	2013	2012	2011	2010
(In thousands)					
Balance Sheet Data:					
Investments in real estate - cost	\$ 4,170,242	\$ 3,085,854	\$ 2,778,775	\$ 2,648,520	\$ 2,311,520
Total assets	5,119,931	4,567,868	3,503,042	3,399,593	3,022,707
Total debt	1,993,470	1,514,623	688,312	606,477	318,660
Total equity	2,227,506	2,245,146	2,310,997	2,329,599	2,179,107

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

The following discussion should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this Annual Report. This discussion contains forward-looking statements that involve risks, uncertainties, assumptions and other factors, including those described in Part I, "Item 1A. Risk Factors" and elsewhere in this Annual Report. These factors could cause our actual results in 2015 and beyond to differ materially from those expressed in, or implied by, those forward-looking statements. You are cautioned not to place undue reliance on this information which speaks only as of the date of this report. We are not obligated to update this information, whether as a result of new information, future events or otherwise, except as may be required by law.

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

Overview

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

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

We believe many of our operating and strategic development assets require repositioning or redevelopment to maximize their value. We have commenced construction on certain key assets, and we are continuing to develop plans for other strategic development assets for which no formal plans had been previously established.

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

Please refer to "Item 1 – Business" for a general description of each of the assets contained in our three business segments.

The following highlights significant milestones achieved by The Howard Hughes Corporation during 2014. Each of these items is more fully described hereinafter:

- Increased operating income and equity in earnings from real estate affiliates by \$64.5 million, or 51.4%, to \$190.1 million in 2014, compared to \$125.6 million in 2013.
- Generated \$325.1 million in land sales revenue for 2014, a 29.4% increase compared to 2013.
- Net operating income from income-producing Operating Assets increased \$9.7 million, or 15.1%, to \$74.1 million in 2014 compared to \$64.4 million in 2013.

We completed the following development or redevelopment projects in 2014:

- Downtown Summerlin, a mixed-use development encompassing 1.6 million square feet opened in October 2014. The retail portion of the project is 72.5% leased and the office building is 27.6% pre-leased, including our management office which has leased 12.4%, as of February 1, 2015.
- The Woodlands Resort and Conference Center completed redevelopment in December 2014. The property remained open during its redevelopment.
- The Outlet Collection at Riverwalk, located in New Orleans, Louisiana, the nation's first outlet center located in a downtown setting, re-opened in May 2014. The property is 100% leased as of February 1, 2015.
- The Columbia Regional Building, an 88,556 square foot Whole Foods-anchored mixed use building, re-opened in August 2014. The building is 77.4% leased as of February 1, 2015.
- Two Hughes Landing, a 197,714 square foot office building in The Woodlands, opened in September 2014. The building is 86.2% leased as of February 1, 2015.
- 3831 Technology Forest Drive, a 95,078 square foot build-to-suit office building that is 100% leased to Kiewit Energy Group opened in December 2014.
- Millennium Phase II, a 314-unit apartment building in The Woodlands and being developed in a joint venture, opened in September 2014. 44.3% of the units are leased as of February 1, 2015.
- ONE Ala Moana, a 206-unit luxury condominium tower development located in Honolulu, Hawaii and being developed in a joint venture, closed on the sale of 201 of its units in the fourth quarter 2014.

We continued development on the following projects begun in 2013 and which will open in 2015:

- Two office buildings totaling 647,000 square feet substantially pre-leased to ExxonMobil.
- Creekside Village Green, a 74,352 square foot mixed use project located in The Woodlands that is 59.3% pre-leased as of February 1, 2015.
- The Metropolitan, a 380-unit apartment building in Columbia, Maryland that is 16.1% pre-leased as of February 1, 2015.
- Hughes Landing Retail, a 123,000 square foot Whole Foods-anchored retail project that is 78.2% pre-leased as of February 1, 2015.
- One Lakes Edge, a 390-unit apartment building in The Woodlands that is 8.7% pre-leased as of February 1, 2015.

We began construction on the following projects in 2014:

- Three Hughes Landing, a 324,000 square foot Class A office building in The Woodlands expected to be completed in 2015.
- A 302-key Westin Hotel and a 205- key Embassy Suites hotel in The Woodlands.
- Launched public pre-sales and began construction of our two market rate residential condominium towers, Waiea and Anaha, at Ward Village. Waiea Condominiums, containing 171 units, that we expect to complete by the end of 2016, and Anaha Condominiums, containing 311 units, that we expect to be complete in 2017. 87.7% of the Waiea and 78.1% of the Anaha units are under contract as of February 1, 2015.

We acquired the following properties during 2014:

- Seaport District Assemblage, consisting of a 48,000 square foot commercial building on a 15,744 square foot lot and certain air rights with total residential and commercial development rights of 621,651 square feet at South Street Seaport, was purchased for \$136.7 million. Property and air rights representing an additional 196,133 square feet of development rights were under contract as of December 31, 2014. If these acquisitions close, we will own commercial development rights on the assemblage totaling 817,784 square feet.
- A new MPC located in Conroe, Texas, consisting of 2,055 acres of undeveloped land located 13 miles north of The Woodlands, was acquired for \$98.5 million. We have preliminarily planned for 1,452 acres of residential and 161 acres of commercial development on the combined sites, and currently estimate that the residential acres will yield approximately 4,800 lots. The first lots are expected to be completed in 2016 and sold in 2017.
- Six office buildings in downtown Columbia, Maryland adjacent to our developable commercial land as partial satisfaction of GGP's obligation to indemnify us for certain taxes under the Tax Matters Agreement, were conveyed at their fair market value of \$130.0 million.

- 85 South Street, an eight story 60,000 square foot multi-family property located two blocks south of Pier 17 and within the Seaport District, was acquired for \$20.1 million.
- 1701 Lake Robbins, a 12,376 square feet retail building located in The Woodlands for \$5.7 million.
- 100% of the fee simple interest in the land underlying the office building located at 110 N. Wacker Drive in downtown Chicago, was acquired for \$12.3 million.

During 2014, HHC also:

- Announced the development of Lakeland Village Center, an 83,400 square foot mixed-use commercial project at our Bridgeland MPC. CVS Pharmacy has entered into a ground lease and will construct a 15,300 square foot store on the site to anchor the project. We expect to begin construction in the first half of 2015 with completion expected in early 2016.
- Entered into a joint venture with a national multi-family real estate developer to construct, own and operate a 124-unit gated luxury apartment development in Downtown Summerlin.
- Entered into a 20-year lease with Whole Foods Market within our Ward Village community in the heart of Honolulu.
- Announced an agreement to form a joint venture with Discovery Land Company, the world's leading developer of private clubs and luxury communities, to develop an exclusive luxury community on approximately 555 acres of our land within the Summerlin MPC.
- Sold the Redlands Promenade and Redlands Mall properties, located in Redlands, California for \$12.4 million of pre-tax proceeds.
- Closed on \$1.3 billion of financings.

Real Estate Property Earnings Before Taxes

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

REP EBT, as it relates to our business, is defined as net income (loss) excluding general and administrative expenses, corporate other income, corporate interest income, corporate interest and depreciation expense, provision for income taxes, warrant liability gain (loss) and the increase (reduction) in tax indemnity receivable. We present REP EBT because we use this measure, among others, internally to assess the core operating performance of our assets. We also present this measure because we believe certain investors use it as a measure of a company's historical operating performance and its ability to service and incur debt. We believe that the inclusion of certain adjustments to net income (loss) to calculate REP EBT is appropriate to provide additional information to investors. A reconciliation of REP EBT to consolidated net income (loss) as computed in accordance with GAAP has been presented in Note 17 – *Segments*.

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

- 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;
- limitations on, or costs related to, transferring earnings from our Real Estate Affiliates to us.

Operating Assets Net Operating Income

We believe that net operating income ("NOI") is a useful supplemental measure of the performance of our Operating Assets because it provides a performance measure that, when compared year over year, reflects the revenues and expenses directly associated with owning and operating real estate properties and the impact on operations from trends in rental and occupancy rates and operating costs. We define NOI as revenues (rental income, tenant recoveries and other revenue) less 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, ground rent amortization, demolition costs, amortization, depreciation, development-related marketing costs and equity in earnings from Real Estate Affiliates. We use NOI to evaluate our operating performance on a property-by-property basis because NOI allows us to evaluate the impact that factors such as lease structure, lease rates and tenant base, which vary by property, have on our operating results, gross margins and investment returns.

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

Results of Operations

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

The following table reflects our results of operations for the years ended December 31, 2014, 2013 and 2012, respectively:

	Year Ended December 31,			2014-2013 Change	2013-2012 Change
	2014	2013	2012		
(In thousands, except per share amounts)					
MPC segment revenues	\$ 363,295	\$ 274,770	\$ 207,039	\$ 88,525	\$ 67,731
Operating Assets segment revenues	186,290	160,586	165,091	25,704	(4,505)
Strategic Developments segment revenues	84,980	34,062	4,756	50,918	29,306
Total segment revenues	634,565	469,418	376,886	165,147	92,532
MPC segment REP EBT	221,181	130,978	91,937	90,203	39,041
Operating Assets segment REP EBT	(13,801)	(2,551)	19,468	(11,250)	(22,019)
Strategic Developments segment REP EBT	48,458	26,010	(1,700)	22,448	27,710
Total segment REP EBT	255,838	154,437	109,705	101,401	44,732
General and administrative	(73,569)	(48,466)	(36,548)	(25,103)	(11,918)
Corporate interest income/(expense), net	(30,819)	(10,575)	10,153	(20,244)	(20,728)
Warrant liability loss	(60,520)	(181,987)	(185,017)	121,467	3,030
Increase (reduction) in tax indemnity receivable	90	(1,206)	(20,260)	1,296	19,054
Loss on settlement of tax indemnity receivable	(74,095)	-	-	(74,095)	-
Corporate other income, net	27,098	25,869	2,125	1,229	23,744
Corporate depreciation and amortization	(4,583)	(2,197)	(814)	(2,386)	(1,383)
Provision for income taxes	(62,960)	(9,570)	(6,887)	(53,390)	(2,683)
Net loss	(23,520)	(73,695)	(127,543)	50,175	53,848
Net income attributable to noncontrolling interests	(11)	(95)	(745)	84	650
Net loss attributable to common stockholders	\$ (23,531)	\$ (73,790)	\$ (128,288)	\$ 50,259	\$ 54,498
Basic and diluted loss per share	\$ (0.60)	\$ (1.87)	\$ (3.36)	\$ 1.27	\$ 1.49

Consolidated revenues for the year ended December 31, 2014 increased compared to the same period in 2013 primarily due to higher revenues in our MPC, Operating Assets and Strategic Developments segments. MPC segment revenue increased due to higher commercial land sales in The Woodlands and higher residential land sales in Bridgeland and Summerlin. Operating

Assets segment revenue increased primarily due to the re-opening of the Outlet Collection at Riverwalk, the opening of Downtown Summerlin, increased leasing at Park West and Waterway Garage Retail, and 3 Waterway Square and One Hughes Landing having a full year of operations in 2014. Strategic Developments segment revenue increased primarily due to recognition of revenue related to beginning construction on our Waiea Condominium project.

Consolidated revenues for the year ended December 31, 2013 increased compared to the same period in 2012 primarily due to higher revenues in our MPC and Strategic Developments segments. MPC segment revenues increased primarily due to strong homebuilder demand for superpad sites at Summerlin and finished lots in The Woodlands. Strategic Developments segment revenues increased primarily due to the recognition of revenue related to our initial sale of the air rights for ONE Ala Moana condominium project into a joint venture and the portion of the deferred sale relating to our ongoing 50% interest in the condominium rights, recognized on a percentage of completion basis.

General and administrative expenses for the year ended December 31, 2014 increased compared to the same period in 2013. The increase is primarily due to \$11.4 million of increased headcount and compensation costs, which includes a \$2.4 million increase in amortization of non-cash stock based compensation, \$4.7 million of higher travel costs, \$4.0 million of higher legal fees and settlements, \$1.6 million of increased information technology costs due to system implementations and upgrades, \$1.2 million of increased advertising and marketing costs, \$0.8 million of additional consulting and professional fees and \$1.4 million of other items.

General and administrative expenses for the year ended December 31, 2013 increased compared to the same period in 2012 primarily due to \$9.2 million of additional compensation costs due to increased headcount, which includes a \$1.8 million increase in amortization of non-cash stock based compensation, higher professional fees of \$2.3 million and \$0.4 million of other items.

The increase in the provision for income taxes for the year ended December 31, 2014 compared to 2013 is attributable to increases in operating income as compared to 2013, interest expense on the uncertain tax position, and other permanent items. The increase in provision for income taxes for the year ended December 31, 2013 compared to 2012 is attributable to increases in operating income as compared to 2012, the recording of a \$53.9 million deferred tax liability in our captive REIT, and other permanent items, partially offset by an \$88.8 million tax benefit from the release of valuation allowances.

We have significant permanent differences, primarily from warrant liability gains and losses, interest income on the tax indemnity receivable, and changes in valuation allowances that cause our effective tax rate to deviate greatly from statutory rates. The effective tax rates based upon actual operating results were 159.7% for the year ended December 31, 2014 compared to (14.9%) for the year ended December 31, 2013. The changes in the tax rate were primarily attributable to the changes in the warrant liability, valuation allowance, unrecognized tax benefits and loss on settlement of tax indemnity receivable as well as other permanent items. If changes in the warrant liability, valuation allowance, unrecognized tax benefits, tax on Victoria Ward, loss on settlement of tax indemnity receivable and other material discrete adjustments to deferred tax liabilities were excluded from the effective tax rate computation, the effective tax rates would have been 36.3% and 37.8% for the years ended December 31, 2014 and 2013, respectively.

The improvement in Net loss attributable to common stockholders for the year ended December 31, 2014 compared to the same period in 2013 is primarily due to a lower warrant liability loss and higher earnings in our MPC and Strategic Developments segments. These improvements were partially offset by lower earnings in our Operating Assets segment, the loss on the settlement of the tax indemnity receivable, higher provision for income taxes, higher general and administrative expenses, and higher interest expense resulting from the \$750.0 million principal balance on our 6.875% Senior Notes issued on October 2, 2013. The higher interest expense was partially offset by an increase in interest income related to our tax indemnity receivable due to the outcome of the Tax Court decision discussed in Note 9 – *Income Taxes*. The loss on settlement of tax indemnity receivable for the year ended December 31, 2014 is due to HHC and GGP agreeing to a settlement of the tax indemnity agreement on December 12, 2014. In consideration for the full release of the liability under the agreement, GGP agreed to pay HHC \$138.0 million and also convey six office buildings in Columbia, MD with a fair market value of \$130.0 million.

The improvement in Net loss attributable to common stockholders for the year ended December 31, 2013 compared to the same period in 2012 is primarily due to higher earnings in our MPC and Strategic Developments segments, an increase in the tax indemnity receivable relating to the utilization of tax assets and higher other income. Other income for the year ended December 31, 2013 includes a \$12.2 million pre-tax gain recognized on insurance proceeds received relating to South Street Seaport, an \$8.5 million pre-tax gain recognized on the sale of our Head Acquisition, LP interest, a \$4.5 million favorable legal settlement relating to the British Petroleum oil spill in the Gulf of Mexico in 2010 and a \$0.6 million gain from the sale of Rio West Mall. These favorable items were partially offset by lower earnings in our Operating Assets segment, higher general and

administrative expenses and higher net interest expense in 2013 primarily attributable to the Senior Notes.
Please refer to the individual segment operations sections that follow for explanations of the segment variances.

Master Planned Communities

Master Planned Communities Revenues and Expenses (*)
For the years ended December 31,
(In thousands, except %)

	Bridgeland			Maryland			Summerlin			The Woodlands			Total MPC		
	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012
Land sales	\$38,330	\$13,610	\$21,875	\$ -	\$13,000	\$ 9,456	\$118,815	\$116,928	\$ 34,796	\$167,954	\$107,679	\$116,516	\$325,099	\$251,217	\$182,643
Builder price participation	695	1,162	1,278	-	787	179	13,871	5,462	3,567	6,342	1,945	723	20,908	9,356	5,747
Minimum rents	-	-	-	-	2	-	818	779	576	-	-	-	818	781	576
Other land sale revenues	295	330	399	773	703	2,337	6,167	6,795	6,281	9,235	5,588	9,056	16,470	13,416	18,073
Total revenues	39,320	15,102	23,552	773	14,492	11,972	139,671	129,964	45,220	183,531	115,212	126,295	363,295	274,770	207,039
Cost of sales - land	13,108	4,413	6,956	-	8,103	5,229	70,597	69,764	23,680	35,967	41,760	53,433	119,672	124,040	89,298
Land sales operations	3,702	3,947	5,258	736	1,146	1,049	10,062	9,729	8,929	17,432	16,004	17,581	31,932	30,826	32,817
Land sales real estate and business taxes	819	(19)	195	710	650	807	3,924	3,388	3,043	4,409	3,569	3,513	9,862	7,588	7,558
Provision (recovery) for doubtful accounts	-	-	-	-	-	-	(11)	-	-	-	-	-	(11)	-	-
Depreciation and amortization	128	-	-	31	6	3	118	20	62	120	6	7	397	32	72
Total expenses	17,757	8,341	12,409	1,477	9,905	7,088	84,690	82,901	35,714	57,928	61,339	74,534	161,852	162,486	129,745
Operating income	21,563	6,761	11,143	(704)	4,587	4,884	54,981	47,063	9,506	125,603	53,873	51,761	201,443	112,284	77,294
Interest expense, net (a)	(8,906)	(6,890)	(5,596)	(86)	(1,664)	(1,727)	(15,077)	(16,180)	(13,348)	4,331	6,040	6,028	(19,738)	(18,694)	(14,643)
MPC REP EBT	\$30,469	\$13,651	\$16,739	\$ (618)(c)	\$ 6,251	\$ 6,611	\$ 70,058	\$ 63,243	\$ 22,854	\$121,272	\$ 47,833	\$ 45,733	\$221,181	\$130,978	\$ 91,937
Gross Margin % (b)	66.4 %	70.1 %	70.0 %	0.0 %	41.2 %	45.7 %	46.8 %	43.0 %	38.3 %	79.4 %	61.9 %	54.4 %	65.4 %	52.4 %	52.6 %

(*) For a reconciliation of MPC REP EBT to consolidated income (loss) before taxes, refer to Note 17 – Segments.

(a) Negative interest expense amounts relate to interest capitalized on debt assigned to our Operating Assets segment and corporate debt.

(b) Gross margin % is the ratio of Land sales plus Builder price participation less Cost of salesland, divided by Land sales plus Builder price participation.

(c) The negative MPC REP EBT in Maryland is due to no land sales in 2014 however, certain costs such as real estate taxes and administrative expenses continue to be incurred.

MPC revenues vary between periods based on economic conditions and several factors such as, but not limited to, location, availability of land for sale, development density and residential or commercial use. Although our business does not involve the sale or resale of homes, we believe that net new home sales are an important indicator of future demand for our superpad sites and lots; therefore, we use this statistic in the discussion of our MPC operating results. Net new home sales reflect home sales made by homebuilders, less cancellations. Cancellations occur when a home buyer signs a contract to purchase a home, but later fails to qualify for a home mortgage or is unable to provide an adequate down payment to complete the home sale. Reported results may differ significantly from actual cash flows generated principally because cost of sales for GAAP purposes is derived from margins calculated using carrying values, projected future improvements and other capitalized project costs in relation to projected future land sale revenues. Carrying values, generally, represent acquisition and development costs reduced by any previous impairment charges. Development expenditures are capitalized and generally not reflected in the Consolidated Statements of Operations in the current year.

Builder price participation generally represents the amount collected in excess of the base lot price. The excess amount is calculated based on the actual home price multiplied by an agreed upon percentage stipulated in the land sales contract, less the base lot price.

Cost of land sales is based on cost ratios which are determined as a specified percentage of land sales revenues for each master planned community project. The cost ratios are based on actual costs incurred and estimates of development costs and sales revenues for completion of each project.

Interest expense, net reflects the amount of interest that is capitalized at the project level.

MPC Sales Summary

(\$ In thousands)	Land Sales			Acres Sold			Number of Lots/Units			Price per acre			Price per lot		
	Year Ending December 31,														
	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012	2014	2013	2012
Bridgeland															
Residential															
Single family - detached	\$ 38,330	\$ 10,974	\$ 21,875	84.6	33.2	80.5	401	143	389	\$ 453	\$ 331	272	\$ 96	\$ 77	\$ 56
Commercial															
Apartments	-	2,636	-	-	16.6	-	-	-	-	-	159	-	-	-	-
Total	38,330	13,610	21,875	84.6	49.8	80.5	401	143	389	453	273	272	96	77	56
\$ Change	24,720	(8,265)	-	34.8	(30.7)	-	258	(246)	-	180	1	-	19	21	-
% Change	181.6%	-37.8%	-	69.9%	-38.1%	-	180.4%	-63.2%	-	65.9%	0.4%	-	24.7%	37.5%	-
Maryland Communities															
Residential															
Townhomes	-	-	4,156	-	-	1.2	-	-	28	-	-	3,463	-	-	148
Commercial															
Office and other	-	13,000	-	-	56.2	-	-	-	-	-	231	-	-	-	-
Apartments	-	-	5,300	-	-	18.7	-	-	-	-	-	283	-	-	-
Total	-	13,000	9,456	-	56.2	19.9	-	-	28	-	231	475	-	-	148
\$ Change	(13,000)	3,544	-	(56.2)	36.3	-	-	(28)	-	(231)	(244)	-	-	(148)	-
% Change	NM	37.5%	-	NM	182.4%	-	-	NM	-	NM	-51.4%	-	-	NM	-
Summerlin															
Residential															
Superpad sites	115,447	83,191	12,505	241.7	257.3	55.3	1,148	1,164	232	478	323	226	101	71	54
Single family - detached	14,434	18,038	14,394	17.9	23.4	20.7	77	157	158	806	771	695	187	115	91
Custom lots	12,276	4,813	4,141	9.5	5.3	5.3	20	12	10	1,292	908	781	614	401	414
Commercial															
Office and other	-	4,526	-	-	7.3	-	-	-	-	-	620	-	-	-	-
Retail	650	-	784	0.7	-	1.0	-	-	-	929	-	784	-	-	-
Not-for-profit	-	1,334	-	-	5.9	-	-	-	-	-	226	-	-	-	-
Other	2,250	575	-	10.0	17.2	-	-	-	-	225	33	-	-	-	-
Total	145,057	112,477	31,824	279.8	316.4	82.3	1,245	1,333	400	518	355	387	114	80	78
\$ Change	32,580	80,653	-	(36.6)	234.1	-	(88)	933	-	163	(32)	-	34	2	-
% Change	29.0%	253.4%	-	-11.6%	284.4%	-	-6.6%	233.3%	-	45.9%	-8.3%	-	42.5%	2.6%	-
The Woodlands															
Residential															
Single family - detached	73,669	100,142	100,235	99.9	162.8	241.6	393	589	979	737	615	415	187	170	102
Single family - attached	4,202	3,897	-	6.0	7.1	-	73	80	-	700	549	-	58	49	-
Commercial															
Medical	70,550	-	-	58.9	-	-	-	-	-	1,198	-	-	-	-	-
Office and other	2,131	1,500	9,069	3.3	2.1	14.2	-	-	-	646	714	639	-	-	-
Retail	17,401	1,261	7,904	30.3	1.6	18.4	-	-	-	574	788	430	-	-	-
Other	-	135	50	-	0.7	0.8	-	-	-	-	193	63	-	-	-
Total	167,953	106,935	117,258	198.4	174.3	275.0	466	669	979	847	614	426	167	156	102
\$ Change	61,018	(10,323)	-	24.1	(100.7)	-	(203)	(310)	-	233	188	-	11	54	-
% Change	57.1%	-8.8%	-	13.8%	-36.6%	-	-30.3%	-31.7%	-	37.9%	44.1%	-	7.1%	52.9%	-
Total acreage sales revenue	351,340	246,022	180,413	562.8	596.7	457.7	2,112	2,145	1,796	-	-	-	-	-	-
Deferred revenue	(37,173)	(12,451)	(2,092)	-	-	-	-	-	-	-	-	-	-	-	-
Special Improvement District revenue *	10,932	17,646	4,322	-	-	-	-	-	-	-	-	-	-	-	-
Total segment land sales revenue - GAAP basis	\$ 325,099	\$ 251,217	\$ 182,643	-	-	-	-	-	-	-	-	-	-	-	-

* - Applicable exclusively to Summerlin.
 NM - Not meaningful.

For large MPCs such as ours, sales prices on a per lot basis and per acre basis generally increase as the size of the developed lot grows. This is because smaller lots are more commodity-like and larger lots may have more unique features. Additionally, the average homebuyer finds more competition for new and resale homes on the lower end of the price range in the broader residential market. As lot sizes and prices increase, the number of potential customers and developers decreases. Barring a softening in market conditions, when an MPC reaches the level whereby land is scarce, pricing begins to escalate on a per lot and per acre basis due to a scarcity premium resulting from the market's realization that new home site inventory will be depleted.

Bridgeland

The increase for the year ended December 31, 2014 compared to 2013 in Bridgeland land sales primarily relates to the receipt of a wetlands permit in February 2014 from the U.S. Army Corps of Engineers, that allowed for new lot development. In addition, lot sales pricing increased as a result of strong demand for new homes. For the year ended December 31, 2014, Bridgeland sold 84.6 residential acres compared to 33.2 acres in 2013, and the average price per residential acre (single-family – detached) increased \$122,000, or 36.9% to \$453,000 for the year ended December 31, 2014 compared to \$331,000 in 2013. For the year ended December 31, 2013, Bridgeland sold 33.2 acres compared to 80.5 acres in 2012, and the average price per residential acre (single-family – detached) increased \$59,000, or 21.7% to \$331,000 for the year ended December 31, 2013 compared to \$272,000 in 2012. The decrease in Bridgeland land sales for the year ended December 31, 2013 compared to 2012 was due to lack of lot inventory during 2013.

As of December 31, 2014, Bridgeland had 118 residential lots under contract, all of which are scheduled to close in the first quarter 2015 for \$5.3 million.

Builder price participation decreased for the year ended December 31, 2014 compared to 2013 at Bridgeland due to fewer home sales during 2014. Development of lots and model homes needed to be built in new sections while awaiting receipt of the wetlands permit.

Cost of sales – land for the year ended December 31, 2014 compared to 2013 at Bridgeland increased due to higher land sales.

Interest expense, net reflects the amount of interest that is capitalized at the project level. Interest expense, net increased for the year ended December 31, 2014 compared to 2013 at Bridgeland due to higher interest capitalization as a result of the increased level of development expenditures after receipt of the wetlands permit. Interest expense, net increased for the year ended December 31, 2013 compared to 2012 at Bridgeland due to higher consolidated company debt levels which resulted in increased capitalized interest.

The construction of the Grand Parkway is connecting our Bridgeland and The Woodlands communities to ExxonMobil's new campus. The Grand Parkway is an approximate 180-mile circumferential highway traversing seven counties and encircling the Greater Houston region. The segment of the Grand Parkway that runs through our Bridgeland property has already been completed, and we believe that the completion of construction of the entire Grand Parkway will positively impact the surrounding areas. The new 385-acre ExxonMobil campus is located just south of The Woodlands and is in close proximity to the Grand Parkway. The segment connecting Bridgeland to I-45 near the ExxonMobil campus is expected to be completed by late 2015. The ExxonMobil campus is expected to include approximately three million square feet of space, and we believe it is one of the largest construction projects currently under way in the United States. ExxonMobil began relocating employees to its new location in March 2014. ExxonMobil currently has approximately 2,200 employees working at the new facility and will continue with relocations into 2015. Upon completion of the relocation, in the latter part of 2015, ExxonMobil expects approximately 10,000 people will be employed at the new campus. The direct and indirect jobs related to this relocation are positively impacting The Woodlands and Bridgeland due to increased housing demand, as well as commercial space needs for companies servicing ExxonMobil.

Conroe

In 2014, we purchased 2,055 acres of undeveloped land located in Conroe, Texas for \$98.5 million. We have preliminarily planned for 1,452 acres of residential and 161 acres of commercial development on the combined sites, and currently estimate that the residential acres will yield approximately 4,800 lots. We have a contract to purchase an additional 61 adjacent acres before June 30, 2015 for \$2.5 million which are planned for 36 acres of residential that we estimate will yield approximately

120 lots. The first lots are expected to be delivered in 2016 with lot sales starting in the first quarter 2017. This land acquisition will be developed by The Woodlands management team.

Maryland

There were no land sales for the year ended December 31, 2014 at Maryland. All of the residential land inventory was depleted by the end of 2013 and there were no commercial land sales in 2014.

Summerlin

The increase in Summerlin's land sales for the year ended December 31, 2014 compared to 2013 was primarily due to higher pricing for our custom lots and superpad sites, partially offset by lower superpad acreage sold compared to the same period in 2013. Homebuilder demand for land in Summerlin continues to remain strong and Summerlin's strategy is to manage the development and delivery of residential parcels for sale in order to increase the long-term value of the project. The increase for the year ended December 31, 2013 compared to 2012 was primarily due to increasing new home demand and low new home sales inventory, resulting in significantly higher sales of superpad sites to homebuilders in terms of volume and price per acre. Superpad sites are generally 20 to 25 acre parcels of unimproved land where we develop and construct the major utilities (water, sewer and drainage) and roads to the borders of the parcel and the homebuilder completes the on-site utilities, roads and finished lots. The average price per superpad acre increased \$155,000, or 48.0% to \$478,000 for the year ended December 31, 2014, compared to \$323,000 for the year ended December 31, 2013. The average price per superpad acre increased \$97,000, or 42.9% to \$323,000 for the year ended December 31, 2013, compared to \$226,000 for the year ended December 31, 2012. The increase for the years ended December 31, 2014 and 2013 in average price per acre is primarily due to a scarcity of attractive developable residential land in the Las Vegas market and the continued recovery of the local housing market.

Summerlin had 437 new home sales for the year ended December 31, 2014, representing a 22.8% and 7.2% decrease compared to 566 and 471 new home sales for the same periods in 2013 and 2012, respectively. The median new home price in Summerlin, however, increased 49.6% to \$513,000 for 2014 compared to a median new home price of \$343,000 for the same period in 2013.

Gross margin increased for the year ended December 31, 2014 compared to 2013 at Summerlin due to increased builder price participation revenue as a result of home sales price appreciation. Gross margin increased for the year ended December 31, 2013 compared to 2012 at Summerlin due to increased builder price participation revenue as a result of home sales price appreciation and increased land sales revenue.

Builder price participation increased for the year ended December 31, 2014 compared to 2013 at Summerlin due to home closings at higher prices.

During the second quarter 2014, we announced a joint venture with Discovery Land Company ("Discovery Land"), a leading developer of private clubs and luxury communities, to develop an exclusive luxury community on approximately 555 acres of land within the Summerlin MPC. We expect to contribute our land to the joint venture at the agreed upon value of \$226,000 per acre, or \$125.4 million in the first quarter of 2015. Discovery Land's capital contribution funding requirement consists of the initial development costs and total project costs up to a maximum of \$30.0 million and we have no further capital obligations. We are entitled to all cash distributed by the joint venture until our equity contribution plus a 5% preferred return on our contributed capital has been repaid. After receipt of our capital contribution and preferred return, Discovery Land is entitled to all remaining cash distributed by the joint venture until two times its equity contribution has been repaid. Any further cash distributions are shared 50/50. Discovery Land is the manager on the project, and development is expected to begin in the second quarter 2015 with the first lot and home sales expected to begin in early 2016.

The Woodlands

The increase in The Woodlands land sales for the year ended December 31, 2014 compared to 2013 was primarily due to a \$70.6 million commercial land sale to a hospital, representing a price of \$1.2 million per acre, and four other retail commercial sites totaling \$19.5 million. The decrease for the year ended December 31, 2013 compared to 2012 was primarily due to lower commercial land sales. In 2013, we began emphasizing holding land for development rather than selling. This decrease was partially offset by an approximately \$3.8 million increase in total residential land sales. For the year ended December 31, 2014,

The Woodlands sold 105.9 residential acres compared to 169.9 acres and 241.6 acres in 2013 and 2012, respectively, but average price per residential acre (single-family – detached) increased \$122,000, or 19.8% to \$737,000 compared to \$615,000 and \$415,000 in 2013 and 2012, respectively.

Gross margin increased for the year ended December 31, 2014 compared to 2013 at The Woodlands due to the commercial land sales in 2014 which have a higher profit margin. Gross margin increased for the year ended December 31, 2013 compared to 2012 at The Woodlands due to higher lot prices in 2013 compared to 2012 which resulted in higher profit margins and increased builder price participation revenue as a result of home sales price appreciation and increased land sales revenue.

Builder price participation increased for the year ended December 31, 2014 compared to 2013 at The Woodlands due to home sales price appreciation since initial lot closing.

Other land revenues increased for the year ended December 31, 2014 compared to 2013 due to a trade name contract entered into with a homebuilder to use The Woodlands name. Other land revenues decreased for the year ended December 31, 2013 compared to 2012 due to the land use modification fees collected in 2012 that were not repeated in 2013 and the termination of a contract in June 2012 that provided easement fee revenues to The Woodlands during the first half of 2012.

Land sales operations expenses increased for the year ended December 31, 2014 compared to 2013 due to higher commission and closing costs at The Woodlands for commercial land sales. Land sales operations expense decreased for the year ended December 31, 2013 compared to 2012 at The Woodlands due to reduced advertising and marketing costs, commissions and closing costs, sales incentives and real estate taxes.

Houston is known as the energy capital of the world and is home to more than 5,000 energy related firms. With crude oil prices dropping by over 50% since mid-2014, the Houston area is widely expected to experience a slowdown in economic growth. The opening of the new ExxonMobil campus located four miles south of The Woodlands with 10,000 employees may well lessen the impact of an oil price-driven slowdown on home sales in The Woodlands region.

MPC Net Contribution

In addition to REP EBT for the MPCs, 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 REP EBT, plus MPC cost of sales and depreciation and amortization reduced by MPC development and acquisition expenditures. Although MPC Net Contribution can be computed from GAAP elements of income and cash flows, it is not a GAAP-based operational metric and should not be used to measure operating performance of the MPC assets as a substitute for GAAP measures of such performance. A reconciliation of REP EBT to consolidated net income (loss) as computed in accordance with GAAP is presented in Note 17 - *Segments*.

The following table sets forth the MPC Net Contribution for the years ended December 31, 2014, 2013 and 2012.

	MPC Net Contribution			2014-2013 Change	2013-2012 Change
	Year Ended December 31,				
	2014	2013	2012		
	(In thousands)				
MPC REP EBT (*)	\$ 221,181	\$ 130,978	\$ 91,937	\$ 90,203	\$ 39,041
Plus:					
Cost of sales - land	119,672	124,040	89,298	(4,368)	34,742
Depreciation and amortization	397	32	72	365	(40)
Less:					
MPC development expenditures	(140,735)	(133,590)	(107,144)	(7,145)	(26,446)
MPC land acquisitions (**)	(118,319)	(5,667)	-	(112,652)	(5,667)
MPC Net Contribution	<u>\$ 82,196</u>	<u>\$ 115,793</u>	<u>\$ 74,163</u>	<u>\$ (33,597)</u>	<u>\$ 41,630</u>

(*) For a detailed breakdown of our Master Planned Communities segment EBT, refer to Note 17 - *Segments*.

(**) The year ended December 31, 2014 includes \$17.4 million non-monetary consideration relating to land sales of approximately 26 acres of commercial land in The Woodlands.

MPC Net Contribution decreased for the year ended December 31, 2014 compared to 2013 primarily due to land acquisitions in the Conroe, Texas area, offset by increased MPC land sales and builder price participation revenues. MPC Net Contribution increased for the year ended December 31, 2013 compared to 2012 due to increased land sales.

The following table sets forth MPC land inventory activity for the years ended December 31, 2014, 2013 and 2012.

	MPC Land Inventory Activity (In thousands)					
	Bridgeland	Conroe	Maryland	Summerlin	The Woodlands	Total MPC
Balance December 31, 2012	\$ 392,007	\$ -	\$ 67,524	\$ 897,391	\$ 206,200	\$ 1,563,122
Acquisitions	-	-	-	3,261	2,406	5,667
Development expenditures (*)	38,629	-	4,103	45,084	45,774	133,590
MPC Cost of Sales	(4,413)	-	(8,103)	(69,764)	(41,760)	(124,040)
MUD reimbursable costs (**)	(22,505)	-	-	-	(13,745)	(36,250)
Other	(744)	-	(4,215)	1,954	(1,326)	(4,331)
Balance December 31, 2013	402,974	-	59,309	877,926	197,549	1,537,758
Acquisitions	-	98,513	-	-	19,806	118,319
Development expenditures (*)	48,070	764	2,040	54,164	35,697	140,735
MPC Cost of Sales	(13,108)	-	-	(70,597)	(35,967)	(119,672)
MUD reimbursable costs (**)	(29,679)	-	-	-	(7,769)	(37,448)
Other	6,536	7	(2,984)	166	(2,354)	1,371
Balance December 31, 2014	\$ 414,793	\$ 99,284	\$ 58,365	\$ 861,659	\$ 206,962	\$ 1,641,063

(*) Development expenditures are inclusive of capitalized interest and property taxes.

(**) MUD reimbursable costs represent land development expenditures transferred to MUD Receivables.

Operating Assets

Operating assets typically generate rental revenues sufficient to cover their operating costs except when a substantial portion, or all, of the property is being redeveloped or vacated for development. Variances between years in NOI typically result from changes in rental rates, occupancy, tenant mix and operating expenses. We view NOI as an important measure of the operating performance of our Operating Assets.

Total revenues and expenses for the Operating Assets segment are summarized as follows:

Operating Assets Revenues and Expenses (*)

	Year Ended December 31,			2014 - 2013 Change	2013 - 2012 Change
	2014	2013	2012		
(In thousands)					
Minimum rents	\$ 95,807	\$ 80,124	\$ 81,140	\$ 15,683	\$ (1,016)
Tenant recoveries	28,133	20,901	23,210	7,232	(2,309)
Resort and conference center revenues	37,921	39,201	39,782	(1,280)	(581)
Other rental and property revenues	24,429	20,360	20,959	4,069	(599)
Total revenues	186,290	160,586	165,091	25,704	(4,505)
Other property operating costs	62,752	61,146	60,072	1,606	1,074
Rental property real estate taxes	14,860	12,065	11,292	2,795	773
Rental property maintenance costs	8,592	7,552	8,073	1,040	(521)
Resort and conference center operations	31,829	29,454	29,112	2,375	342
Provisions for doubtful accounts	1,399	835	1,335	564	(500)
Demolition costs	6,712	2,078	-	4,634	2,078
Development-related marketing costs	9,770	3,462	-	6,308	3,462
Depreciation and amortization	49,272	31,427	23,318	17,845	8,109
Total expenses	185,186	148,019	133,202	37,167	14,817
Operating income	1,104	12,567	31,889	(11,463)	(19,322)
Interest expense, net	16,930	19,011	16,104	(2,081)	2,907
Equity in Earnings from Real Estate and Other Affiliates	(2,025)	(3,893)	(3,683)	1,868	(210)
Operating Assets REP EBT	\$ (13,801)	\$ (2,551)	\$ 19,468	\$ (11,250)	\$ (22,019)

(*) For a reconciliation of Operating Assets REP EBT to consolidated income (loss) before taxes, refer to Note 17 - *Segments*.

Minimum rents for the year ended December 31, 2014 increased \$15.7 million compared to 2013 primarily due to the strong growth in our retail and office properties of \$5.3 million and \$10.1 million, respectively. The growth in our retail properties was primarily due to the openings in 2014 of Downtown Summerlin, the Outlet Collection at Riverwalk and the Columbia Regional Building. The growth in our office properties was primarily due to higher occupancy and a full year of operations in 2014 for 3 Waterway Square and One Hughes Landing, both of which opened in 2013, and the acquisition of 10-60 Columbia Corporate Center in December 2014. These increases were partially offset by lower minimum rents at retail properties of \$2.8 million related to the sale of Rio West in 2013 and the closing of Pier 17 at South Street Seaport for redevelopment. Minimum rents for the year ended December 31, 2013 decreased \$1.0 million compared to 2012 primarily due to lower rents of \$10.8 million resulting from the impact of Superstorm Sandy on South Street Seaport and vacating tenants at the Outlet Collection at Riverwalk for its redevelopment. These decreases were partially offset by \$6.8 million of increased rents in The Woodlands related to the opening of our 3 Waterway Square and One Hughes Landing office properties and the acquisition of our partner's interest in Millennium Waterway Apartments. Additionally, minimum rents increased by \$2.5 million at Ward Village primarily related to the increase in square footage and higher occupancy.

Tenant recoveries for the year ended December 31, 2014 increased \$7.2 million compared to 2013, primarily related to \$4.4 million from a full year of occupancy in 2014 at our 3 Waterway Square and One Hughes Landing office properties which opened in 2013 and \$2.8 million related to the retail property openings of Downtown Summerlin and the Outlet Collection at Riverwalk in 2014. The decrease in recoveries in 2013 of \$2.3 million compared to 2012 were primarily due to \$3.5 million of lower tenant recoveries at South Street Seaport due to the impact of Superstorm Sandy and vacating tenants at the Outlet Collection at Riverwalk as a result of its redevelopment. These lower tenant recoveries were offset by \$0.4 million of higher tenant recoveries at Ward Village due to the increase in square footage and higher occupancy.

Other rental and property revenues consists primarily of membership revenues at The Club at Carlton Woods, and other rental and special event revenue, percentage rents and lease termination fees at our rental properties. Revenues for The Club at Carlton Woods were \$15.0 million, \$14.3 million and \$12.3 million for the years ended 2014, 2013 and 2012, respectively. Other rental property revenues for our retail properties were \$5.4 million, \$5.0 million and \$5.0 million for the years ended 2014, 2013, and 2012, respectively. In 2012, Other rental and property revenues also included \$1.4 million of franchise fee revenue at The Woodlands.

Other property operating costs increased \$1.6 million for the year ended December 31, 2014 compared to 2013. Higher property operating costs from full year operations at our 3 Waterway Square and One Hughes Landing office properties and from the openings of the Outlet Collection at Riverwalk and Downtown Summerlin retail properties were offset by lower property operating costs at South Street Seaport due to the property being under redevelopment and the sale of Rio West. Other property operating costs increased \$1.1 million for the year ended December 31, 2013 compared to 2012 primarily due to 3 Waterway Square and One Hughes Landing being placed in service in 2013 and increases at Club at Carlton Woods, partially offset by a decrease at South Street Seaport due to the closing of Pier 17. Other property operating costs generally include recoverable and non-recoverable costs such as utilities and property management expenses relating to our operating assets, with the exception of real estate taxes and maintenance which are shown separately.

Rental property real estate taxes increased \$2.8 million for the year ended December 31, 2014 compared to 2013. The increase is primarily due to increased higher tax value assessments for The Woodlands office properties.

Rental property maintenance costs increased \$1.0 million for the year ended December 31, 2014 compared to 2013 primarily due to the openings of the Outlet Collection at Riverwalk, Downtown Summerlin and full year operation at 3 Waterway Square and One Hughes Landing.

Demolition costs for the year ended December 31, 2014 primarily relate to the demolition of the Pier 17 building and pier at South Street Seaport which is being redeveloped. The demolition costs for the year ended December 31, 2013 related to demolition costs at our South Street Seaport, the Outlet Collection at Riverwalk and Columbia Regional Building which were being redeveloped.

Development-related marketing costs for the year ended December 31, 2014 primarily relate to higher SEE/CHANGE programming costs at South Street Seaport and the opening of Downtown Summerlin and the Outlet Collection at Riverwalk. The development-related marketing costs for the year ended December 31, 2013 relate primarily to the SEE/CHANGE program at South Street Seaport.

Depreciation and amortization expense increased \$17.8 million for the year ended December 31, 2014 compared to 2013 primarily due to the change in the estimated useful life of the buildings subject to demolition once redevelopment begins at Ward Village and Landmark Mall. Additionally, depreciation and amortization expense increased \$9.3 million due to placing One Hughes Landing, 3 Waterway Square, Downtown Summerlin and the Outlet Collection at Riverwalk into service. Depreciation and amortization increased \$8.1 million for the year ended December 31, 2013 compared to 2012 primarily due to the change in the estimated useful life of Landmark Mall in the fourth quarter of 2013 due to its pending redevelopment and the change in useful life of certain buildings at Ward Village due to the pending condominium development. Depreciation and amortization expense for 2013 also included \$1.5 million related to the 3 Waterway Square and One Hughes Landing office buildings being placed in service during the year.

The \$2.1 million decrease in interest, net for the year ended December 31, 2014 compared to 2013 is primarily due to the refinancing of the 70 Columbia Corporate Center mortgage which settled the participation right contained in the refinanced mortgage. The value of the lender's participation right was settled for less than its estimated value recorded in our financials resulting in a \$3.4 million reduction of interest expense, partially offset by higher interest expense from mortgages at 3 Waterway Square and One Hughes Landing which were placed in service in 2013. The \$2.9 million increase for the year ended December 31, 2013 compared to 2012 is mostly due to an increase of \$1.4 million related to 70 Columbia Corporate Center lender's participation right in the property and higher average debt balances in 2013.

Equity in earnings from Real Estate and Other Affiliates decreased \$1.9 million for the year ended December 31, 2014 compared to the same period in 2013 is primarily due to a lower cash distribution from our investment in the Summerlin Hospital Medical Center and our share of losses at Millennium Woodlands Phase II as a result of start-up activities. The lower distribution resulted from the hospital's revenue declining as a result of a higher mix of uninsured patients.

Operating Assets NOI and REP EBT

	Year Ended December 31,			2014 - 2013 Change	2013 - 2012 Change
	2014	2013	2012		
(In thousands)					
Retail					
Columbia Regional Building (a)	\$ 268	\$ -	\$ -	\$ 268	\$ -
Cottonwood Square	647	451	432	196	19
Downtown Summerlin (a)	810	(62)	-	872	(62)
1701 Lake Robbins (b)	185	-	-	185	-
Landmark Mall (a)	953	491	923	462	(432)
Outlet Collection at Riverwalk (a)	528	(618)	221	1,146	(839)
Park West (c)	2,058	1,608	830	450	778
Ward Village (d)	24,255	24,144	22,045	111	2,099
20/25 Waterway Avenue	1,505	1,640	1,582	(135)	58
Waterway Garage Retail	809	370	97	439	273
Total Retail	32,018	28,024	26,130	3,994	1,894
Office					
10-60 Columbia Corporate Center (e)	635	-	-	635	-
70 Columbia Corporate Center (f)	1,716	757	140	959	617
Columbia Office Properties (g)	496	465	1,413	31	(948)
One Hughes Landing (h)	4,443	(139)	-	4,582	(139)
Two Hughes Landing (a)	157	-	-	157	-
2201 Lake Woodlands Drive	141	(167)	53	308	(220)
9303 New Trails	1,860	1,679	1,819	181	(140)
110 N. Wacker	6,077	6,023	6,073	54	(50)
3831 Technology Forest Drive (i)	(1)	-	-	(1)	-
3 Waterway Square (h)	6,181	2,059	-	4,122	2,059
4 Waterway Square	5,756	5,886	5,544	(130)	342
1400 Woodloch Forest (j)	1,191	1,160	1,995	31	(835)
Total Office	28,652	17,723	17,037	10,929	686
85 South Street (a)	(188)	-	-	(188)	-
Millennium Waterway Apartments (k)	4,386	4,457	2,589	(71)	1,868
The Woodlands Resort & Conference Center (a)	6,092	10,167	10,670	(4,075)	(503)
Total Retail, Office, Multi-family, Resort & Conference Center	70,960	60,371	56,426	10,589	3,945
The Club at Carlton Woods (a)	(4,410)	(5,241)	(4,242)	831	(999)
The Woodlands Ground leases	458	444	404	14	40
The Woodlands Parking Garages	(598)	(749)	(1,128)	151	379
Other Properties (l)	2,116	708	2,640	1,408	(1,932)
Total Other	(2,434)	(4,838)	(2,326)	2,404	(2,512)
Operating Assets NOI - Consolidated and Owned as of December 31, 2014	68,526	55,533	54,100	12,993	1,433
Redevelopments					
South Street Seaport (a)	1,234	(5,665)	639	6,899	(6,304)
Total Operating Asset Redevelopments	1,234	(5,665)	639	6,899	(6,304)
Dispositions					
Rio West Mall (m)	77	790	1,250	(713)	(460)
Head Acquisition (n)	-	-	(46)	-	46
Total Operating Asset Dispositions	77	790	1,204	(713)	(414)
Total Operating Assets NOI- Consolidated	69,837	50,658	55,943	19,179	(5,285)
Straight-line lease amortization (o)	(763)	1,759	(736)	(2,522)	2,495
Demolition costs	(6,712)	(2,078)	-	(4,634)	(2,078)
Development-related marketing costs	(9,770)	(3,462)	-	(6,308)	(3,462)
Other income	-	-	-	-	-
Depreciation and amortization	(49,272)	(31,427)	(23,318)	(17,845)	(8,109)
Write-off of lease intangibles and other (p)	(2,216)	(2,883)	-	667	(2,883)
Equity in earnings from Real Estate Affiliates	2,025	3,893	3,683	(1,868)	210
Interest, net	(16,930)	(19,011)	(16,104)	2,081	(2,907)
Total Operating Assets REP EBT (q)	\$ (13,801)	\$ (2,551)	\$ 19,468	\$ (11,250)	\$ (22,019)

	Year Ended December 31,			2014 - 2013	2013 - 2012
	2014	2013	2012	Change	Change
(In thousands)					
Operating Assets NOI - Equity and Cost Method Investments					
Millennium Waterway Apartments (k)	\$ -	\$ -	\$ 1,768	\$ -	\$ (1,768)
Millennium Woodlands Phase II	(84)	(74)	-	(10)	(74)
Stewart Title (title company)	2,659	2,514	1,876	145	638
Summerlin Baseball Club Member, LLC	(153)	(13)	-	(140)	(13)
Woodlands Sarofim # 1	1,516	1,417	621	99	796
Operating Assets NOI - equity investees	3,938	3,844	4,265	94	(421)
Operating Asset Dispositions					
Forest View/Timbermill Apartments (r)	-	-	487	-	(487)
Total Operating Asset Dispositions NOI - equity investees	-	-	487	-	(487)
Total NOI - equity investees	3,938	3,844	4,752	94	(908)
Adjustments to NOI (s)	(1,112)	(77)	(1,476)	(1,035)	1,399
Equity Method Investments REP EBT	2,826	3,767	3,276	(941)	491
Less: Joint Venture Partner's Share of REP EBT	(2,450)	(2,377)	(1,969)	(73)	(408)
Equity in earnings from Real Estate Affiliates	376	1,390	1,307	(1,014)	83
Distributions from Summerlin Hospital Investment	1,649	2,503	2,376	(854)	127
Segment equity in earnings from Real Estate Affiliates	\$ 2,025	\$ 3,893	\$ 3,683	\$ (1,868)	\$ 210
Company's Share of Equity Method Investments NOI					
Millennium Waterway Apartments (k)	\$ -	\$ -	\$ 1,477	\$ -	\$ (1,477)
Millennium Woodlands Phase II	(68)	-	-	(68)	0
Stewart Title (title company)	1,330	1,257	938	73	319
Summerlin Baseball Club Member, LLC	(77)	(7)	-	(70)	(7)
Woodlands Sarofim # 1	303	283	124	20	159
	1,488	1,533	2,539	(45)	(1,006)
Operating Assets Sold During Periods Presented					
Forest View/Timbermill Apartments (r)	-	-	244	-	(244)
Total Operating Assets Sold During Periods Presented	-	-	244	-	(244)
Total NOI - equity investees	\$ 1,488	\$ 1,533	\$ 2,783	\$ (45)	\$ (1,250)

	Economic Ownership	December 31, 2014	
		Debt	Cash
(In thousands)			
Millennium Woodlands Phase II	81.43%	\$ 37,345	\$ 47
Stewart Title(title company)	50.00%	-	211
Summerlin Las Vegas Baseball Club	50.00%	-	742
Woodlands Sarofim #1	20.00%	6,242	669

- (a) Please refer to discussion in the following section regarding this property.
(b) 1701 Lake Robbins was acquired in July 2014. Annual NOI is expected to be \$0.4 million.
(c) The NOI increase for the year ended December 31, 2014 compared to 2013 is due to a full year of occupancy in 2014 of tenants who took possession after the first quarter of 2013.

- (d) NOI increased \$2.1 million for the year ended December 31, 2013 compared to 2012 due to the completion of Ward Village Shops and TJ Maxx occupancy in May 2012. In 2012, Ward Village Shops was completed consisting of approximately 67,000 square feet of retail at a cost of \$32.1 million. In 2013, construction for Auahi Shops consisting of 57,000 square feet of retail was completed at a cost of \$24.1 million.
- (e) Acquired on December 15, 2014.
- (f) The \$1.0 million increase for the year ended December 31, 2014 compared to 2013 was due to increased occupancy.
- (g) The decrease in NOI for the year ended December 31, 2014 compared to 2013, and 2013 compared to 2012, is primarily due to the relocation of tenants to 70 Columbia Corporate Center during the second quarter of 2013.
- (h) Property was completed and placed into service in 2013. NOI increase is due to a full year of revenue in 2014. Total development costs were \$45.4 million.
- (i) 3831 Technology Forest Drive's sole tenant, which occupies 100% of the building, took possession on December 24, 2014. Stabilized annual NOI is expected to be \$2.1 million in the first quarter 2015.
- (j) The NOI decrease for 1400 Woodloch Forest for the year ended December 31, 2013 compared to 2012 was primarily related to the planned relocation of a 22,459 square foot tenant to 3 Waterway Square in June 2013.
- (k) On May 31, 2012, we acquired our partner's interest in Millennium Waterway Apartments at a negotiated \$72.0 million valuation for the property and consolidated the asset after the purchase. The NOI increase of \$1.9 million for the year ended December 31, 2013 compared to 2012 is primarily due to increased rental income offset by higher property taxes, due to a higher assessed value, and an increase in operating costs due to a full year of operations.
- (l) The NOI increase for the year ended December 31, 2014 compared to 2013 is primarily due to lower property management fees. The NOI decrease for the year ended December 31, 2013 compared to 2012 is due to lower easement fee revenues in The Woodlands. The contract that provided easement fees expired June 2012.
- (m) Rio West Mall was sold on September 30, 2013.
- (n) Head Acquisition was sold in 2013.
- (o) The change in straight-line lease amortization for the year ended December 31, 2014 compared to 2013 is primarily due to the amended ground lease at South Street Seaport which occurred in the third quarter of 2013.
- (p) The write-off of lease intangibles and other for the year ended December 31, 2013 is primarily related to the write off of tenant improvements and lease commissions for a terminated tenant at 20/25 Waterway.
- (q) For a detailed breakdown of our Operating Asset segment REP EBT, please refer to Note 17 - Segments in the Consolidated Financial Statements.
- (r) Forest/View Timbermill was sold in 2012.
- (s) Adjustments to NOI include straight-line rent and market lease amortization, demolition costs, depreciation and amortization and non-real estate taxes.

Reconciliation of Operating Assets Segment Equity in Earnings

(In thousands)	December 31,		
	2014	2013	2012
Equity Method investments	376	1,390	1,307
Cost basis investments and dividends	1,649	2,503	2,376
Operating Assets segment Equity in Earnings from Real Estate Affiliates	2,025	3,893	3,683
Strategic Developments segment Equity in Earnings from Real Estate Affiliates	21,311	10,535	-
Equity in Earnings from Real Estate Affiliates	\$ 23,336	\$ 14,428	\$ 3,683

Retail Properties

Retail NOI for the year ended December 31, 2014 increased \$4.0 compared to 2013 primarily due to the re-opening of the Outlet Collection at Riverwalk and the opening of Downtown Summerlin in 2014, and increased leasing at Park West and Waterway Garage Retail in 2014.

The following table summarizes the leases we executed at our retail properties during the year ended December 31, 2014:

Retail Properties (a)	Total Executed	Avg. Lease Term (Months)	Total Leased Square Footage	Per Square Foot			Annual (thousands)		
				Avg. Starting Rents per Annum	Total Tenant Improvements	Total Leasing Commissions	Avg. Starting Rents	Tenant Improvements	Leasing Commissions
Pre-leased (b)	116	110	546,116	\$ 36.95	\$ 101.38	\$ 13.08	\$20,182	\$ 40,258	\$ 4,694
Comparable - Renewal (c)	28	40	69,290	25.14	10.10	7.96	1,674	64	20
Comparable - New (d)	10	56	31,523	26.86	20.74	4.68	847	445	68
Non-comparable (e)	20	71	36,932	28.37	55.56	8.81	1,048	1,093	190
Total			683,861				\$23,751	\$ 41,860	\$ 4,972

- (a) Excludes executed leases with a term of 12 months or less.
- (b) Pre-leased information is associated with projects under development at December 31, 2014. Includes eight leases for 11,042 square feet at the Outlet Collection at Riverwalk signed prior to the opening in May 2014 and 87 leases for 350,016 square feet at Downtown Summerlin signed prior to the opening in October 2014.

- (c) Comparable - Renewal information is associated with stabilized assets whereby the square footage was occupied by the same tenant within 12 months prior to the renewal. These leases represent expiring cash rents averaging \$24.15 per square foot and renewing at an average of \$24.17 per square foot, or 0.1% over previous rents.
- (d) Comparable - New information is associated with stabilized assets whereby the square footage was occupied by a different tenant within 12 months prior to the executed agreement. These leases represent an increase in expiring cash rents averaging \$26.23 per square foot and releasing at an average of \$26.86 per square foot, or 2.2% over previous rents.
- (e) Non-comparable information is associated with stabilized assets whereby the square footage was previously vacant for more than 12 months or has never been occupied.

Columbia Regional Building

During the third quarter 2014, we substantially completed its restoration and redevelopment with the opening of Columbia's first Whole Foods Market occupying 41,000 square feet. We believe this will serve as a catalyst for future development in downtown Columbia, and we commenced plans to further develop our 35 acres located in close proximity to the Whole Foods Market. We expect to reach stabilized annual NOI of \$2.1 million by the end of the fourth quarter of 2015. Total development costs, excluding overhead and capitalized corporate interest are expected to be \$24.6 million, and we have incurred \$23.9 million as of December 31, 2014. The remaining costs to be incurred are primarily for tenant improvements. The project is financed by a \$23.0 million construction loan bearing interest at one-month LIBOR plus 2.00% with an initial maturity of March 15, 2016, with two, one-year extension options.

Downtown Summerlin

Downtown Summerlin opened on October 9, 2014 and generated \$0.8 million of NOI from its opening through December 31, 2014. Revenues include minimum rents of \$2.9 million, and tenant recoveries of \$1.1 million, partially offset by operating costs of \$3.2 million. The retail portion of the project is 72.5% leased and the office building is 27.6% pre-leased, of which our management office has leased 12.4%, as of February 1, 2015. Tenants include two major department store anchors, Macy's and Dillard's, and approximately 113 other national and local tenants. Included in this line up of retailers is Nordstrom Rack, Michael Kors, American Eagle, Forever 21, Guess, Regal Cinemas, Victoria Secret, Wolfgang Puck Grill, Sur La Table, Crave, Elizabeth Blau Andiron Steak and Sea and many others. Stabilized annual NOI is expected to be \$37.2 million by the end of 2017 based on current market rents and a lease-up of the property to 97.0% by 2017. Total estimated development costs are approximately \$418 million, of which we have incurred \$364.6 million as of December 31, 2014. The remaining costs to be incurred are primarily for tenant improvements and leasing. The project is financed by a \$311.8 million construction loan. The loan has an initial rate of one-month LIBOR plus 2.25% with an initial maturity date of July 15, 2017, and with two, one-year extension options.

Landmark Mall

NOI increased \$0.5 million for the year ended December 31, 2014 as compared to \$ 0.5 million and \$1.0 million for the years ended December 31, 2013 and 2012, respectively, due to special event revenue and a favorable property tax settlement with the City of Alexandria for \$0.7 million, which was partially offset by lower occupancy and rental rates in 2014. Leasing is becoming more difficult due to the likelihood that the asset will be redeveloped in the near future. Prior to the commencement of construction, we must obtain finalization of a development program, including pre-leasing, obtaining a development permit application from the City of Alexandria, and consents from Macy's and Sears.

We have incurred \$14.7 million of development costs on this project as of December 31, 2014.

Outlet Collection at Riverwalk

We reopened the Outlet Collection at Riverwalk during the second quarter 2014. The property was 100.0% leased as of February 1, 2015. The center includes approximately 75 national and local retailers, including Neiman Marcus Last Call Studio, Coach, Forever 21, Gap and many others. NOI for the year ended December 31, 2014 increased by \$1.1 million to \$0.5 million as compared to (\$0.6) million for the same period in 2013. The NOI loss in 2013 was attributable to vacating tenants in mid-2013 due to the redevelopment. The increase in minimum rents of \$3.6 million and tenant recoveries of \$1.8 million are due to the reopening of the center, offset by an \$3.0 million increase in operating costs which included a \$1.1 million lease termination fee in the second quarter 2014. The NOI decrease of \$0.8 million for the year ended December 31, 2013 compared to 2012 is due to the closure of the center for redevelopment in June 2013. The project is expected to reach annual NOI of \$7.8 million by early 2017 based on leases in place at December 31, 2014.

Total development costs are expected to be \$85.7 million, of which we have incurred \$84.6 million as of December 31, 2014. The remaining costs to be incurred primarily represent tenant improvements. During 2013, we received \$4.5 million due to a favorable legal settlement and it was recorded to other income. The project was financed by a \$64.4 million partial recourse construction loan bearing interest at one-month LIBOR plus 2.75% with an initial maturity date of October 24, 2016, with two, one year extension options.

Office Properties

All of the office properties listed in the Operating Assets NOI and REP EBT table, except for 110 N. Wacker, are located in Columbia Maryland and in The Woodlands. Leases related to our office properties, except those located in Columbia, Maryland, are generally triple net leases. Triple net leases typically require tenants to pay their pro-rata share of the majority of property operating costs, such as real estate taxes, utilities and insurance, as well as their own direct space maintenance.

Office property NOI increased \$10.9 million to \$28.7 million for the year ended December 31, 2014, as compared to \$17.7 million in 2013. The increase is due primarily to 3 Waterway Square and One Hughes Landing having a full year of operations in 2014.

The following table summarizes our executed office property leases during the year ended December 31, 2014:

Office Properties (a)	Total Executed	Avg. Lease Term (Months)	Total Leased Square Footage	Per Square Foot			Annual (thousands)		
				Avg. Starting Rents per Annum	Total Tenant Improvements	Total Leasing Commissions	Avg. Starting Rents	Tenant Improvements	Leasing Commissions
Pre-leased (b)	12	94	131,305	\$ 25.93	\$ 52.88	\$ 20.40	\$ 3,405	\$ 6,903	\$ 2,339
Comparable - Renewal (c)	8	42	41,379	20.17	4.84	3.98	834	107	110
Comparable - New (d)	5	60	57,200	30.52	11.02	10.75	1,746	630	615
Non-comparable (e)	18	83	177,332	28.02	48.74	16.47	4,969	7,935	2,804
Total			407,216				\$ 10,954	\$ 15,575	\$ 5,868

- (a) Excludes executed leases with a term of 12 months or less.
- (b) Pre-leased information is associated with projects under development at December 31, 2014. Includes six leases for 36,188 square feet at Two Hughes Landing that were signed prior to the opening in June 2014 and one lease for 70,561 square feet at 3831 Technology Forest Drive that were signed prior to the opening in December 2014.
- (c) Comparable - Renewal information is associated with stabilized assets whereby the square footage was occupied by the same tenant within 12 months prior to the executed agreement. These leases represent an increase in expiring cash rents averaging \$18.05 per square foot and renewing at an average of \$20.17 per square foot, or 11.7% over previous rents.
- (d) Comparable - New information is associated with stabilized assets whereby the square footage was occupied by a different tenant within 12 months prior to the executed agreement. These leases represent an increase in expiring cash rents averaging \$25.06 per square foot and releasing at an average of \$30.52 per square foot, or 21.8% over previous rents.
- (e) Non-comparable information is associated with stabilized assets whereby the square footage was previously vacant for more than 12 months or has never been occupied.

Two Hughes Landing

During the third quarter 2014, we completed and placed in service Two Hughes Landing. The building is 86.2% leased as of February 1, 2015. We expect stabilized NOI to be \$5.2 million by the third quarter 2015. Total development costs are expected to be \$49 million, of which we have incurred \$38.8 million as of December 31, 2014. The remaining costs to be incurred are primarily for tenant improvements. The project is financed by a \$41.2 million non-recourse construction loan bearing interest at one-month LIBOR plus 2.65% with an initial maturity date of September 11, 2016, with two, one-year extension options.

Multi-family

85 South Street

On October 22, 2014, we acquired a 21-unit multi-family apartment building with approximately 13,000 square feet of ground floor retail space for \$20.1 million. The property is a rent-stabilized multi-family property located near our South Street Seaport property. The NOI loss of \$0.2 million for the year ended December 31, 2014 is primarily due to a tenant lease buyout. The property is 100% occupied as of December 31, 2014. NOI is expected to be approximately \$0.7 million in 2015 before the impact of any buyouts of rent-stabilized tenants.

The Woodlands Resort & Conference Center

The Woodlands Resort & Conference Center's NOI of \$6.1 million for the year ended December 31, 2014, decreased \$4.1 million compared to \$10.2 million for the year ended December 31, 2013 primarily due to 7.3% lower occupied group room nights and lower banquet and catering revenue resulting from the ongoing renovation project which has negatively impacted group business during the highest intensity period of the redevelopment. Construction was completed during the fourth quarter of 2014. We expect the renovation will have a significant positive impact on NOI due to the higher revenue per available room ("RevPAR") resulting from the new and upgraded rooms. RevPAR is calculated based on dividing total room revenues by total occupied rooms for the period. Construction costs are expected to be \$77 million, of which we have incurred \$72.6 million as of December 31, 2014. Remaining costs are for final project close out. This project is financed by a \$95.0 million non-recourse mortgage bearing interest at one-month LIBOR plus 3.50% and has an initial maturity date of February 8, 2016 with three, one-year extension options. As of December 31, 2014, \$76.0 million has been drawn on this facility. NOI of \$10.2 million in 2013 decreased \$0.5 million as compared to 2012 primarily due to lower banquet and catering revenues caused by the renovation project.

Other

The Club at Carlton Woods (the "Club") has 737 total members as of December 31, 2014 consisting of 603 golf memberships and 134 sports memberships. The Club sold 64 new golf memberships during the year ended December 31, 2014. We estimate the Club requires approximately 800 golf members to achieve break-even NOI, and therefore we expect to continue to incur NOI losses for the foreseeable future. The increase in NOI of \$0.8 million as of December 31, 2014 compared to 2013 is due primarily to increase in revenue of \$0.8 million as memberships continue to grow, as well as decrease in overall operating expenses. NOI decrease of \$1.0 million for the year ended December 31, 2013 compared to 2012 is primarily due to increased payroll and related costs. A significant portion of membership deposits are not recognized as revenue when collected, but are recognized over the estimated 12-year life of a membership. Prior to 2013, membership deposits were refundable and therefore no revenue was recognized. As of December 31, 2014, 2013 and 2012, cash membership deposits collected but not recognized in revenue or included in NOI were \$3.9 million, \$4.3 million and \$5.5 million, respectively.

The properties that are included in our Other Properties description in our NOI table above include the Golf Courses at TPC Summerlin and TPC Las Vegas, Kewalo Basin Harbor, Merriweather Post Pavilion, as well as our share of any NOI related to our equity investments. Total development costs for Kewalo Basin Harbor are expected to be approximately \$15 million, of which we have incurred \$0.5 million of development costs as of December 31, 2014. Furthermore, Merriweather Post Pavilion is about to undergo a \$22 million renovation.

Redevelopments

South Street Seaport

NOI for the year ended December 31, 2014 increased by \$6.9 million to \$1.2 million as compared to (\$5.7) million for the same period in 2013 primarily due to higher occupancy during 2014 of temporary tenants in the historic area and non-recurring lease termination costs incurred in 2013 totaling approximately \$1.2 million. The improvement in NOI was also due to the closure of Pier 17 for redevelopment because it was operating at a loss since Superstorm Sandy. NOI for 2013 includes \$15.2 million of negative impact from the closure of a majority of the property due to Superstorm Sandy in October 2012. Revenues for the approximately 76,000 square feet of space that have reopened since Superstorm Sandy and which are not planned for renovation were \$5.6 million for the year ended December 31, 2014.

On October 29, 2012, as a result of Superstorm Sandy, the historic area of South Street Seaport (area west of the FDR Drive) suffered significant damage due to flooding. During 2013, we filed a claim with our insurance carriers for property damages, lost income and other expenses resulting from the storm and we believe insurance will cover substantially all of these losses. We have collected \$47.6 million in insurance proceeds through February 16, 2015, and the claim is in litigation. Insurance recoveries to date exceeded the book value of the buildings and equipment at the date of the storm. Consequently, for the years ended December 31, 2014 and 2013, we have recorded \$24.6 million and \$12.2 million, respectively, in Other income from insurance recoveries, which is excluded from NOI.

During the first half of 2013, we established the SEE/ CHANGE program in an effort to revitalize the South Street Seaport following the damage caused by Superstorm Sandy. SEE/CHANGE is an innovative seasonal program developed by us to re-energize and re-activate the Seaport area and to create a gathering place for the community that did not exist in the aftermath of the storm. The program includes bringing to the South Street Seaport for each season an array of new retail, culinary and cultural events to attract local residents and tourists, and an intensive social media campaign to advertise the events. During the years ended December 31, 2014 and 2013, SEE/CHANGE-related expenses were approximately \$4.4 million and \$3.8 million, respectively, and are included in Development-related marketing costs.

As more fully described in Note 10 – *Commitments and Contingencies*, on June 27, 2013, the City of New York executed the amended and restated ground lease for South Street Seaport and we provided a completion status guarantee to New York City for the Renovation Project (as defined below). The execution of the amended and restated ground lease was the final step necessary for the commencement of the renovation and reconstruction of the existing Pier 17 Building (“Renovation Project”). Construction began during third quarter 2013 and is expected to conclude in 2017. The Renovation Project will increase the leasable area of Pier 17 to approximately 182,000 square feet, features a newly constructed pier and building and is designed to include a vibrant open rooftop, upscale retail and outdoor entertainment venues. Additionally, we will reposition a significant portion of the 180,000 square feet of retail space in the historic area. The estimated costs for the Renovation Project and repositioning of the historic area are approximately \$425 million, which includes \$10.7 million of Pier 17 demolition costs, which is expensed as incurred. We are in the process of replacing the pier structure that will support the new Pier 17 building. We have executed a 20-year anchor lease with iPic Entertainment for 46,000 square feet in the Fulton Market Building located in the historic area. iPic Theatres will serve as an anchor attraction for residents, workers and tourists, and we expect the historic area to be substantially repositioned by the second quarter of 2016. We have incurred \$96.3 million of development costs on this project as of December 31, 2014, which includes \$7.2 million of demolition costs and \$5.0 million of development-related marketing costs.

During the fourth quarter of 2013, we announced plans for further redevelopment of the South Street Seaport district which includes approximately 700,000 square feet of additional space. The plans are subject to a Uniform Land Use Review Procedure (“ULURP”) that requires approval by the New York City Council, the New York City Landmarks Preservation Commission and various other government agencies. After participating in a comprehensive neighborhood planning process with community stakeholders and elected public officials over the past year, we presented our revised plans and began the formal public approval process on December 10, 2014 and expect approval in 2016. Our current proposal includes the complete restoration of the historic Tin Building, which will include a food market; greater pedestrian access to the waterfront via East River Esplanade improvements and a new marina; reconfigured South Street Seaport Museum space within Schermerhorn Row as well as a potential building addition on the adjacent John Street lot; the replacement of wooden platform piers adjacent to Pier 17 and a newly constructed mixed use building which may include a new public middle school and community recreation space. Total development costs were \$7.3 million as of December 31, 2014, which includes \$0.8 million of development-related marketing costs. As of December 31, 2014, no demolition costs have been incurred.

Partially Owned

Millennium Woodlands Phase II was substantially completed and put into service during the third quarter 2014. As of February 1, 2015, 44.3% of the units have been leased. We expect the apartments to reach stabilized annual NOI of \$4.9 million in the third quarter of 2015, of which our share would be \$4.0 million. On July 5, 2012, Millennium Phase II was capitalized by our contribution of 4.8 acres of land valued at \$15.5 million (compared to \$2.2 million book value), our partner's contribution of \$3.0 million in cash and a non-recourse construction loan maturing in July 2016, with one, one-year extension option in the amount of \$37.7 million, which is guaranteed by our partner. Total development costs are expected to be \$38 million, of which the venture has incurred \$36.5 million as of December 31, 2014.

Strategic Developments

Our Strategic Development assets generally require substantial future development to achieve their highest and best use. For our development projects, the total estimated costs of a project including the construction costs are exclusive of our land value, unless otherwise noted, because we typically own all of the land underlying our Strategic Developments. Most of the properties and projects in this segment generate no revenues with the exception of our condominium projects for which we use percentage of completion accounting to recognize revenues during the construction phase. Our expenses relating to these assets are primarily related to marketing costs associated with our strategic developments, operational costs associated with the IBM building in Hawaii, carrying costs, such as property taxes and insurance, and other ongoing costs relating to maintaining the assets in their current condition. If we decide to redevelop or develop a Strategic Development asset, we would expect that, upon completion of development, the asset would either be sold or reclassified to the Operating Assets segment and NOI would become an important measure of its operating performance.

Total revenue and expenses for the Strategic Development segment are summarized as follows:

Strategic Developments Revenues and Expenses (*)

	Year Ended December 31,			2014 - 2013 Change	2013 - 2012 Change
	2014	2013	2012		
	(In thousands)				
Minimum rents	\$ 609	\$ 763	\$ 905	\$ (154)	\$ (142)
Condominium rights and unit sales	83,565	32,969	267	50,596	32,702
Other land, rental and property revenues	806	330	3,584	476	(3,254)
Total revenues	84,980	34,062	4,756	50,918	29,306
Condominium rights and unit cost of sales	49,995	16,572	96	33,423	16,476
Rental and other property operations	7,372	8,304	6,027	(932)	2,277
Provision for (recovery of) doubtful accounts	16	-	(111)	16	111
Demolition costs	22	-	-	22	-
Development-related marketing costs	13,013	1,449	-	11,564	1,449
Other income, net	(2,373)	(3,609)	-	1,236	(3,609)
Depreciation and amortization	1,706	189	225	1,517	(36)
Total expenses	69,751	22,905	6,237	46,846	16,668
Operating income	15,229	11,157	(1,481)	4,072	12,638
Interest (income) expense, net (a)	(11,918)	(4,318)	219	(7,600)	(4,537)
Equity in Earnings from Real Estate and Other Affiliates	(21,311)	(10,535)	-	(10,776)	(10,535)
Strategic Developments REP EBT	\$ 48,458	\$ 26,010	\$ (1,700)	\$ 22,448	\$ 27,710

(*) For a reconciliation of Strategic Developments EBT to consolidated income (loss) before taxes, please refer to Note 17 - Segments.

(a) Negative interest expense amounts are due to interest capitalized in our Strategic Developments segment related to Operating Assets segment debt and the Senior Notes.

The increase in condominium rights and unit sales in 2014 is primarily due to recognition of \$ 69.4 million of revenue related to beginning construction on our Waiea Condominium project. This increase is offset by \$18.8 million of lower deferred revenue on our ONE Ala Moana condominium project. ONE Ala Moana was completed in the fourth quarter 2014, and 201 of the 206 available units for sale were sold and closed as of December 31, 2014. The increase in revenues in 2013 is primarily due to the May 2013 sale of our condominium rights related to this project. The condominium rights and unit sales for the year ended December 31, 2013 represents partial recognition of the gain relating to the sale of the condominium rights to the joint venture, in which we have a 50% interest, and the portion of the deferred sale relating to our ongoing interest in the

condominium rights. Condominium rights and unit costs of sales represent allocated costs on our Waiea Condominium sales and ONE Ala Moana Condominium project.

The increase in development-related marketing costs in 2014 is primarily caused by increased marketing efforts at Strategic Development projects at Ward Village (\$6.1 million), Downtown Summerlin (\$3.8 million), South Street Seaport (\$1.0 million) and Metropolitan Downtown Columbia Project (\$0.7 million).

Other income primarily consists of the sale of land parcels (at our various projects) to joint ventures in which we are a partner or to third parties. Revenues vary year to year depending on the number of parcels sold and the selling price.

Depreciation and amortization increased for the year ended December 31, 2014 as compared to prior periods primarily as a result of beginning depreciation on the IBM Building renovations, which were placed in service during the first quarter 2014.

Net interest (income) expense increased for the year ended December 31, 2014 as compared to prior periods due to higher capitalized interest from more projects being under construction than in prior periods. In addition, the Equity in Earnings from Real Estate Affiliates includes our share of the profit from the ONE Ala Moana condominium venture. The higher equity in earnings during 2014 as compared to prior years relates to sales and construction progress of ONE Ala Moana.

The following describes the status of our active Strategic Development projects as of December 31, 2014:

The Woodlands

Creekside Village Green

During the fourth quarter 2013, we began construction of Creekside Village Green, which was opened in January 2015. Total development costs are expected to be approximately \$19 million, of which we have incurred \$14.1 million as of December 31, 2014. As of February 1, 2015 approximately 59.3% of the project has been pre-leased. We expect stabilized NOI, to be \$2.2 million by the second quarter 2015.

Hughes Landing

Construction has been completed for two of the office buildings, One Hughes Landing and Two Hughes Landing, and they are reported in our Operating Assets segment.

Three Hughes Landing - During the third quarter 2014, we began construction of Three Hughes Landing, a Class A office building. The project is expected to be completed by the end of the fourth quarter 2015. Total estimated development costs are approximately \$90 million, of which we have incurred \$11.0 million as of December 31, 2014. The project is financed by a \$65.5 million non-recourse construction loan bearing interest at one-month LIBOR plus 2.35% with an initial maturity date of December 5, 2017, with two, one-year extension options.

1725-35 Hughes Landing Boulevard - Construction began during the fourth quarter 2013 and is expected to be completed by the end of 2015. Total development costs are expected to be approximately \$171 million, which includes \$19 million of tenant costs that will be reimbursed by ExxonMobil. We have incurred \$87.4 million of development costs as of December 31, 2014. ExxonMobil has pre-leased the entire West Building for 12 years, and 160,000 square feet in the East Building for eight years with an option to lease the remaining space before the building opens. We expect to reach stabilized annual NOI, based on ExxonMobil's current 478,000 square foot commitment, of approximately \$10.7 million in 2018. If ExxonMobil exercises its option for the remaining space, stabilized annual NOI will increase to approximately \$14.5 million. The project is financed by a \$143.0 million non-recourse construction loan bearing interest at one-month LIBOR plus 1.90% with an initial maturity date of June 30, 2018 with a one-year extension option. The interest rate will be reduced to LIBOR plus 1.65% when ExxonMobil takes occupancy.

Hughes Landing Hotel (Embassy Suites) - In fourth quarter 2014, we began construction of an Embassy Suites by Hilton in Hughes Landing, a nine-story, 205-room, full-service hotel that we will own and manage. The hotel is expected to be completed by the end of 2015. Total development costs are expected to be approximately \$46 million, of which we have incurred \$5.4

million as of December 31, 2014. On October 2, 2014, we closed on a \$37.1 million non-recourse construction loan bearing interest at one-month LIBOR plus 2.50% with an initial maturity date of October 2, 2018, with two, one-year extension options.

Hughes Landing Retail - During the fourth quarter 2013, we began construction of Hughes Landing Retail, a 123,000 square foot retail component of Hughes Landing. The project is expected to be completed in the first quarter 2015. Total development costs are expected to be approximately \$36 million, of which we have incurred \$22.2 million as of December 31, 2014. The project is financed by a \$36.6 million non-recourse construction loan bearing interest at one-month LIBOR plus 1.95% with an initial maturity date of December 20, 2016, with two, one-year extension options. As of February 1, 2015 approximately 78.2% of the project has been pre-leased.

One Lake's Edge - During the fourth quarter 2013, we began construction of One Lake's Edge and anticipate completion of construction in the second quarter 2015. Total development costs are expected to be approximately \$88 million, of which we have incurred \$64.7 million as of December 31, 2014. The project is financed by a \$73.5 million non-recourse construction loan bearing interest at one-month LIBOR plus 2.50% with an initial maturity date of November 25, 2016, with two, one-year extension options.

Waterway Square Hotel (Westin) - In the second quarter 2014, we began construction of the Waterway Square Hotel, a 302-room Westin-branded hotel that will be owned and managed by us. The hotel is expected to be completed by the end of 2015. Total development costs are expected to be approximately \$97 million, of which we have incurred \$21.3 million as of December 31, 2014. The project is financed by a \$69.3 million construction loan bearing interest at one-month LIBOR plus 2.65% with an initial maturity date of August 6, 2018, with a one-year extension option.

Ward Village

Ward Village Master Plan

In the fourth quarter 2012, we announced plans to transform the property formerly known as Ward Centers into Ward Village, a vibrant neighborhood offering unique retail experiences, dining and entertainment, along with exceptional residences and workforce housing set among open public spaces and pedestrian-friendly streets.

The first phase of the master plan includes the renovation of the IBM Building, the development of condominium units in two mixed-use market rate residential towers and the development of a workforce residential tower. Additionally, the first phase will include approximately 48,000 square feet of new retail. We began public presales for the two mixed-use market rate residential towers in February 2014. Sales contracts are subject to a 30-day rescission period, and the buyers are required to make a deposit equal to 5% of the purchase price at signing and an additional 5% deposit 30 days later at which point their total deposit of 10% of the purchase price becomes non-refundable. Buyers are then required to make an additional 10% deposit within approximately 90 days of our receipt of the second deposit.

IBM Building - We completed the renovation of the IBM Building in the first quarter 2014, and total development costs were \$24.7 million.

Waiea Condominiums - In the second quarter 2014, we began construction on Waiea, the first of the market rate towers and anticipate completion by the end of 2016. As of February 1, 2015, we had received \$10.24 million of buyer deposits, representing \$55.08 million of contracted gross sales revenue. As of February 1, 2015, approximately 86.5% of the 171 total units have been contracted and passed their 30-day rescission period for which the buyers have made non-refundable deposits. Total development costs are expected to be approximately \$403 million, which includes \$5.0 million of development-related marketing costs which are expensed as incurred, and as of December 31, 2014, we have incurred \$59.9 million of development costs of which \$3.8 million is development-related marketing costs. During the fourth quarter 2014, we met all the necessary requirements to begin recognizing revenue on the percentage of completion basis. As of December 31, 2014, the project was approximately 14.4% complete, and for the year then ended our profit recognized was \$26.5 million.

Anaha Condominiums - In November 2014 we began construction of Anaha, the second market rate tower. Completion is expected by the second quarter 2017. As of February 1, 2015, we had received \$53.4 million of buyer deposits, representing \$303.6 million of contracted gross sales revenue. As of February 1, 2015, approximately 75.6% of the 311 total units have been contracted and passed their 30-day rescission period for which the buyers have made non-refundable deposits. Total

development costs are expected to be approximately \$401 million, which includes \$4.0 million of development-related marketing costs which are expensed as incurred, and as of December 31, 2014, we have incurred \$28.0 million of development costs of which \$2.8 million is development-related marketing costs.

On November 6, 2014 we closed on a \$600.0 million non-recourse construction loan cross-collateralized by Waiea and Anaha bearing interest at one-month LIBOR plus 6.75% with an initial maturity date of November 6, 2017, with two, one-year extension options. As of December 31, 2014, we have not yet drawn on this facility.

Ward Workforce Housing - We continue to finalize plans for this tower. As of December 31, 2014 we have incurred \$5.4 million of development costs on this project.

In connection with Phase Two of the master plan, which is being finalized, we have received approval from the HCDA for the development of the Ward Block M project and Ward Village Gateway.

Ward Block M - We expect to begin construction of the Whole Foods Market, located within Ward Block M, in 2015 with completion scheduled in 2017. We continue to finalize pre-development activities and the project budget. Condominium documents will be submitted to the Hawaii Real Estate Commission in 2015 and we anticipate the Real Estate Commission's approval in order to launch pre-sales in 2015. We have incurred \$4.9 million of development costs on this project as of December 31, 2014.

Ward Gateway Towers - Condominium documents will be submitted to the Hawaii Real Estate Commission and we anticipate that we will receive approval in 2015. We continue to finalize plans for these towers. We have incurred \$13.0 million of pre-development costs on this project as of December 31, 2014.

ONE Ala Moana Tower Condominium Project

The joint venture completed construction of a luxury 23-story, 206-unit condominium tower in the fourth quarter 2014. Of the available units for sale, 203 have been sold and closed as of February 1, 2015 at an average price of \$1.6 million, or approximately \$1,170 per square foot. During the fourth quarter 2014, after all construction and mezzanine financing was repaid, we received \$38.7 million in cash distributions of which \$9.4 million represents a return of our initial investment of our condominium rights. Since its inception and the sale of our air rights to the joint venture, we have received cumulative distributions totaling \$75.5 million as of February 1, 2015, compared to our original \$22.8 million book basis. For the years ended December 31, 2014 and 2013, our share of the earnings were \$19.5 million and \$9.9 million, respectively.

Summerlin Apartments, LLC

We and our partner, The Calida Group ("Calida"), each own 50% of the venture, and unanimous consent of the partners is required for all major decisions. Calida acts as the development manager, funded all pre-development activities, obtained construction financing and provided all guarantees required by the lender. The venture commenced construction in February of 2015 with a projected second quarter 2016 opening. Total estimated costs are \$24 million, including land value, of which the venture had incurred \$0.6 million as of December 31, 2014. In February of 2015, the venture closed on a \$15.8 million construction loan. The loan bears interest at one month LIBOR plus 2.50% and matures in February of 2018, with two, one year extension options. Upon a sale of the property, we are entitled to our 50% share of proceeds and 100% of the proceeds in excess of an amount determined by applying a 7.0% capitalization rate to NOI.

The Metropolitan Downtown Columbia Project

On April 12, 2012, Columbia Parcel D venture, in which we are a 50% partner with Kettler, Inc. received approval of the final development plan component of the entitlement process for the first phase. The joint venture began construction of The Metropolitan Downtown Columbia Project in February 2013, which will be completed by the end of the first quarter 2015. Total development costs are expected to be \$97 million, including land value, of which the venture had incurred \$62.9 million as of December 31, 2014. In 2013, we contributed land to the venture valued at \$20.3 million and received a net cash distribution of \$3.9 million. The joint venture obtained a \$64.1 million construction loan which is non-recourse to us. The loan bears interest at one-month LIBOR plus 2.40% and matures in July 2020.

Parcel C

The venture continues to finalize pre-development activities and the project budget. Our partner will provide construction and property management services, including the funding and oversight of development activities, as well as obtaining construction financing. Closing on the construction loan and commencement of construction is anticipated in 2015. Our total investment in this project was \$4.7 million as of December 31, 2014.

Bridgeland

Lakeland Village Center

We expect to begin construction in the first half of 2015 with an estimated second quarter 2016 completion date. Total development costs are expected to be approximately \$16 million, and we have incurred \$0.3 million as of December 31, 2014.

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The following table summarizes our projects under construction, and related debt, for Operating Assets and Strategic Developments as of December 31, 2014. Additionally, we are documenting construction financing for 3831 Technology Forest and Lakeland Village Center.

(\$ in thousands)

Announced Project	Total Estimated Costs (a)	Costs Paid Through December 31, 2014	Estimated Remaining to be Spent	Buyer Deposits/ Tenant Reimbursements	Buyer	Remaining	Committed/ Allocated Debt (b)	Amount Drawn Through December 31, 2014	Remaining Debt to be Drawn	Estimated Costs Remaining in Excess of Remaining Financing to be Drawn (c)	Estimated Completion Date
					Deposits/ Tenant Reimbursements	Buyer Deposits/Tenant Reimbursements to be Drawn					
	(A)	(B)	(A) - (B) = (C)	(D)	(E)	(D) - (E) = (F)	(G)	(H)	(G) - (H) = (I)	(C) - (F) - (I) = (J)	
Operating Assets											
Columbia Regional Building	\$ 24,116	\$ 22,716	\$ 1,400	\$ -	\$ -	\$ -	23,008	\$ 20,513	\$ 2,495	(1,095)(d)	Complete
Outlet Collection at Riverwalk	85,687	74,017	11,670	-	-	-	60,000	47,118	12,882	(1,212)(e)	Complete
South Street Seaport	424,880	81,000	343,880	-	-	-	-	-	-	343,880 (f)	2017
Downtown Summerlin	418,304	321,138	97,166	-	-	-	311,800	229,153	82,647	14,519 (g)	Complete
The Woodlands Resort & Conference Center	76,714	67,048	9,666	-	-	-	48,900	39,927	8,973	693 (h)	Complete
3831 Technology Forest	19,980	12,731	7,249	-	-	-	-	-	-	7,249 (i)	Complete
Two Hughes Landing	48,603	34,138	14,465	203	-	203	38,730	19,992	18,738	(4,476)(j)	Complete
Total Operating Assets	1,098,284	612,788	485,496	203		203	482,438	356,703	125,735	359,558	
Strategic Developments											
Creekside Village Green	18,536	12,273	6,263	-	-	-	-	-	-	6,263 (k)	Q1 2015
1725-35 Hughes Landing Boulevard	171,489	68,232	103,257	19,125	-	19,125	132,474	47,513	84,961	(829)(l)	Q4 2015
Hughes Landing Retail	36,207	18,531	17,676	-	-	-	36,575	17,424	19,151	(1,475)	Q1 2015
One Lake's Edge Waterway Square Hotel (Westin)	88,494	55,907	32,587	-	-	-	73,525	40,787	32,738	(151)	Q2 2015
Hughes Landing Hotel (Embassy Suites)	97,380	16,427	80,953	-	-	-	69,334	-	69,334	11,619 (m)	Q4 2015
Three Hughes Landing	46,363	3,427	42,936	-	-	-	34,447	10	34,437	8,499 (n)	Q4 2015
Lakeland Village Center	90,162	6,665	83,497	-	-	-	65,455	-	65,455	18,042 (o)	Q4 2015
Waiea Condominiums	16,274	274	16,000	-	-	-	-	-	-	16,000	Q2 2016
Anaha Condominiums	403,440	48,354	355,086	99,531	-	99,531	266,144	-	266,144	(10,589)(p)	Q4 2016
Total Strategic Developments	1,369,659	253,677	1,115,982	170,717		170,717	1,011,810	105,734	906,076	39,189	
Combined Total at December 31, 2014	\$ 2,467,943	\$ 866,465	\$ 1,601,478	\$ 170,920		\$ -	\$ 170,920	\$ 1,494,248	\$ 462,437	\$ 1,031,811	\$ 398,747
											3831 Technology Forest (in documentation) (23,000)
											Lakeland Village Center (in documentation) (13,979)
											Estimated costs to be funded net of financing assuming closing on pending financing \$ 361,768

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- (a) Total Estimated Costs represent all costs to be incurred on the project which includes construction costs, demolition costs, marketing costs, leasing and deferred financing costs, and excludes land costs and capitalized corporate interest allocated to the project. Excluded from Waiea Condominiums' and Anaha Condominiums' Total Estimated Costs are Master Plan infrastructure and amenity cost allocations related to Ward Village.
- (b) Committed Debt details:
- Outlet Collection at Riverwalk - total commitment of \$64,400, which includes \$60,000 for construction and a \$4,400 earn out which is available after completion and the achievement of operational covenants.
 - The Woodlands Resort & Conference Center - total commitment of \$95,000, which includes \$48,900 for construction, a \$10,000 earn out and \$36,100 which refinanced prior mortgage debt.
 - Two Hughes Landing - total commitment of \$41,230, which includes \$38,730 for construction and \$2,500 for additional leasing commissions and tenant improvement allowances on One Hughes Landing.
 - 1725-35 Hughes Landing Boulevard - total commitment of \$143,000, which includes \$132,474 for construction, \$5,158 for operating reserve and \$5,368 for interest reserve after asset is placed in service.
 - Hughes Landing Hotel - total commitment of \$37,097, which includes \$34,447 for construction and \$2,650 earn out commitment to complete garage expansion not currently included in the project.
- (c) Negative balances represent cash to be received in excess of Estimated Remaining to be Spent. The items are primarily related to December costs that were paid by us but not yet reimbursed by the lender. We expect to receive funds from our lenders for these costs in the future.
- (d) Columbia Regional Building was placed in service during August 2014.
- (e) Outlet Collection at Riverwalk was placed in service during May 2014.
- (f) We anticipate seeking financing for this project in the future.
- (g) Downtown Summerlin's Estimated Costs Remaining in Excess of Remaining Financing represents financing proceeds received in December for costs not yet paid as of December 31, 2014. The project was placed in service during the fourth quarter 2014.
- (h) The Woodlands Resort & Conference Center was substantially completed in November 2014.
- (i) 3831 Technology Forest was placed in service during December 2014. We are currently documenting permanent financing for this project.
- (j) Two Hughes Landing was placed in service during September 2014.
- (k) Creekside Village has no debt financing.
- (l) 1725-35 Hughes Landing Boulevard Total Estimated Costs include approximately \$19 million of tenant improvements that will be reimbursed directly by ExxonMobil. These Tenant Reimbursements are shown above, in column D, as an additional source of funds for project costs.
- (m) Waterway Square Hotel's Estimated Costs Remaining in Excess of Financing is the remaining cash equity portion of the capital structure.
- (n) Hughes Landing Hotel's Estimated Costs Remaining in Excess of Financing is the remaining cash equity portion of the capital structure.
- (o) Three Hughes Landing's Estimated Costs Remaining in Excess of Financing is the remaining cash equity portion of the capital structure.
- (p) Both Waiea Condominiums and Anaha Condominiums currently have nonrefundable Buyer Deposits that are required to be utilized to fund project costs prior to drawing on the loan. When additional Buyer Deposits are received from additional unit sales, those deposits are also required to be used for project costs. If all the remaining condominium units are sold, we currently estimate a total of approximately \$87 million of additional buyer deposits that could be available to fund project costs thereby reducing the total amount needed to be drawn from the committed construction loan.

The following table represents our capitalized internal costs by segment for the years ended December 31, 2014 and 2013:

	Capitalized internal costs			Capitalized internal costs related to compensation costs		
	Year Ended December 31,			Year Ended December 31,		
	2014	2013	2012	2014	2013	2012
	(In millions)			(In millions)		
MPC segment	\$ 7.1	\$ 8.9	\$ 7.7	\$ 4.5	\$ 5.6	\$ 5.0
Operating Assets segment	9.3	5.1	3.5	7.5	4.3	2.6
Strategic Developments segment	15.1	4.4	2.7	12.1	3.7	2.1

Capitalized internal costs (which include compensation costs) have decreased with respect to our MPC segment due to higher staff allocations to the Strategic Development segment. Capitalized internal costs have increased with respect to our properties undergoing redevelopment in our Operating Assets segment and our Strategic Developments segment as we have increased staffing and related costs from 2013 to correspond with our increase in development activities.

Impairments

We evaluate our real estate assets for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Recoverability in this context means that the expected cumulative undiscounted future cash flows of an asset are less than its carrying value. The recoverability analysis, as an accounting concept, considers hold periods, but ignores when the future cash flows are expected to be received within that hold period and whether we currently expect to receive an above or below market rate of return over our anticipated holding period. If expected cumulative undiscounted cash flows are less than the carrying value, then we are required to record the asset at the lower of its carrying value or fair value. The process for deriving fair value involves discounting the expected future cash flows at a rate of return that we believe an investor would require based on the risk profile of the cash flows and returns available in the market for other investments having similar risk. We may also use other inputs such as appraisals and recent transactions for comparable properties, if appropriate. Book value for assets that have been recently impaired from an accounting perspective may more likely reflect market value than book values of assets that have not been impaired; consequently, unimpaired assets may be expected to generate above or below market returns relative to their respective book values. The lower book basis resulting from an impairment charge increases reported profitability from the asset in future periods, but has no impact on cash flow. For the years ended December 31, 2014, 2013 and 2012, we evaluated whether impairment indicators existed at all of our assets. In most instances, we concluded no impairment indicators were present. When indicators of impairment were present, we reconsidered expected cash flows and concluded that there were no impairments.

Liquidity and Capital Resources

Our primary sources of cash include cash flows from land sales in our MPC segment, cash generated from our operating assets inclusive of deposits from condo sales, first mortgage financings secured by our assets and the corporate bond markets. Our primary uses of cash include working capital, overhead, debt service, property improvements, acquisitions and development costs. 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 twelve months. The development and redevelopment opportunities in our Operating Assets and Strategic Developments segments are capital intensive and will require significant additional funding. In addition, we typically must provide completion guarantees to lenders in connection with their providing financing for our developments. We also provided a completion guarantee to the City of New York for the Pier 17 renovation project. We currently intend to raise additional funding 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.

Total outstanding debt was \$2.0 billion as of December 31, 2014. Our share of the debt of our Real Estate Affiliates totaled \$54.6 million. Please refer to Note 8 – *Mortgages, Notes and Loans Payable* to our Consolidated Financial Statements for a table showing our debt maturity dates.

The following table summarizes our net debt on a segment basis as of December 31, 2014. Net debt is defined as our share of mortgages, notes and loans payable, at our ownership share, reduced by short-term liquidity sources to satisfy such obligations such as our ownership share of cash and cash equivalents and Special Improvement District ("SID") and Municipal Utility District ("MUD") receivables. Although net debt is not a recognized GAAP financial measure, it is readily computable from existing GAAP information and we believe, as with our other non-GAAP measures, that such information is useful to our investors and other users of our financial statements.

Segment Basis (a)	Master Planned Communities	Operating Assets	Strategic Developments	Segment Totals	Non- Segment Amounts	Total December 31, 2014
(In thousands)						
Mortgages, notes and loans payable	\$ 211,195	\$ 945,930 (b)	\$ 128,631 (c)	\$ 1,285,756	\$ 769,968	\$ 2,055,724 (d)
Less: Cash and cash equivalents	(59,600)	(85,763)(e)	(47,393)(f)	(192,756)	(374,699)	(567,455)
Special Improvement District receivables	(33,318)	-	-	(33,318)	-	(33,318)
Municipal Utility District receivables	(104,394)	-	-	(104,394)	-	(104,394)
Net debt	\$ 13,883	\$ 860,167	\$ 81,238	\$ 955,288	\$ 395,269	\$ 1,350,557

(a) Please refer to Note 17 - *Segments*.

(b) Includes our \$31.7 million share of debt of our Real Estate and Other Affiliates in Operating Assets segment (Woodlands Sarofim #1 and Millennium Woodlands Phase II, LLC).

(c) Includes our \$22.9 million share of debt of our Real Estate and Other Affiliates in Strategic Developments segment (The Metropolitan Downtown Columbia Project).

(d) Represents the gross amount of mortgages, notes and loans payable and is not net of the \$7.7 million of unamortized underwriting fees.

(e) Includes our \$0.6 million share of cash and cash equivalents of our Real Estate and Other Affiliates in Operating Assets segment (Woodlands Sarofim, Summerlin Las Vegas Baseball Club, LLC, Millennium Phase II and Stewart Title).

(f) Includes our \$6.3 million share of cash and cash equivalents of our Real Estate and Other Affiliates in Strategic Developments segment (KR Holdings, LLC, HHMK Development, LLC, Parcel C and The Metropolitan Downtown Columbia Project).

Cash Flows

Operating Activities

Master Planned Community development has a significant impact on our business. The cash flows and earnings from the business can be much more variable 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.

Net cash used in operating activities was \$58.3 million for the year ended December 31, 2014, compared to net cash provided by operating activities of \$129.3 million for the year ended December 31, 2013, and \$153.1 million for the year ended December 31, 2012. The most significant uses of cash compared to the prior years were the Conroe, TX MPC and other MPC land purchases totaling \$100.9 million. Condominium development costs are also considered an operating activity because, like MPCs, the product being developed is intended for sale. Condominium development costs totaled \$76.0 million in 2014.

The \$187.6 million decrease in cash provided by operating activities for the year ended December 31, 2014 compared to the same period in 2013 was primarily due to higher MPC land acquisitions of \$106.6 million, higher interest, leasing, development-related marketing and general and administrative expenses of \$110.7 million and higher MPC development and condominium expenditures of \$61.9 million. The increased expenditures were partially offset by \$56.5 million of higher MPC land sales, \$54.5 million of higher MUD collections and \$28.1 million of increased distributions from our Real Estate Affiliates for the year ended December 31, 2014 compared to the same period in 2013. In addition, the year ended December 31, 2013 also includes \$47.5 million of cash proceeds from the sale of our ONE Ala Moana condominium air rights into a joint venture.

The \$23.7 million decrease in cash provided by operating activities for the year ended December 31, 2013 compared to the same period in 2012 was primarily the result of increased MPC development and condominium expenditures of \$47.7 million and \$5.7 million of land acquisition costs, higher leasing commissions at our projects under development of \$15.0 million, higher compensation and benefit costs of \$6.9 million as well as lower MUD collections of \$33.0 million and lower Operating Assets segment earnings of \$8.7 million. These decreases were partially offset by the collection of \$47.5 million related to the sale of our condominium rights to KR Holdings, \$36.0 million increase in MPC segment earnings due to higher land sales and \$20.5 million in proceeds received through December 31, 2013 from our insurance carriers related to the Superstorm Sandy claim at South Street Seaport of which \$3.3 million is included in net operating property improvements within the investing sections in 2013 and \$5.0 million was received in 2012.

Investing Activities

Net cash used in investing activities was \$746.5 million, \$294.3 million and \$81.3 million for the years ended December 31, 2014, 2013 and 2012, respectively. Cash used for development of real estate and property expenditures was \$773.8 million, \$270.1 million and \$74.4 million for the years ended December 31, 2014, 2013 and 2012, respectively. The increased development expenditures in 2014 compared to 2013 and 2012 relate primarily to the construction of Downtown Summerlin, Hughes Landing office and retail properties, 3 Waterway Square, Ward Village, South Street Seaport, Columbia Office Properties, and the Outlet Collection at Riverwalk.

Financing Activities

Net cash provided by financing activities was \$470.3 million for the year ended December 31, 2014. Cash provided by financing activities for 2014 includes loan proceeds of \$597.6 million from the issuance of mortgages, notes and loans payable. The proceeds partially funded development activity at the Bridgeland MPC, 3 Waterway Square, Two Hughes Landing, One Lake's Edge, 1725-35 Hughes Landing Boulevard, and Downtown Summerlin, and refinanced existing debt to extend maturities and to take advantage of lower interest rates. Comparatively, for the year ended December 31, 2013, we received loan proceeds of \$380.5 million from the issuance of mortgages, notes and loans payable, and \$739.6 million from issuance of our Senior Notes. The proceeds partially funded development activity at the Bridgeland MPC, 3 Waterway Square, One Hughes Landing and Downtown Summerlin, and refinanced existing debt to extend maturities and to take advantage of lower interest rates. For the year ended December 31, 2012, we received loan proceeds of \$68.4 million and made a net payment of \$80.5 million, to retire Sponsors Warrants to purchase 6,083,333 shares of our common stock.

Principal payments on mortgages, notes and loans payable were \$120.2 million, \$279.7 million and \$55.8 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Contractual Cash Obligations and Commitments

The following table aggregates our contractual cash obligations and commitments as of December 31, 2014:

	<u>Less than 1 year</u>	<u>1-3 Years</u>	<u>3-5 Years</u>	<u>More than 5 Years</u>	<u>Total</u>
	<i>In thousands</i>				
Mortgages, notes and loans payable (a)	\$ 7,970	\$ 261,428	\$ 743,290	\$ 980,782	\$ 1,993,470
Interest payments (b)	93,037	174,662	148,639	152,017	568,355
Ground lease and other leasing commitments	8,151	18,995	15,650	329,233	372,029
Total	<u>\$ 109,158</u>	<u>\$ 455,085</u>	<u>\$ 907,579</u>	<u>\$ 1,462,032</u>	<u>\$ 2,933,854</u>

(a) Based on final maturity, inclusive of extension options.

(b) Interest is based on the borrowings that are presently outstanding and current floating interest rates.

We lease land or buildings at certain properties from third parties. Rental payments are expensed as incurred and have been, to the extent applicable, straight-lined over the term of the lease. Contractual rental expense, including participation

rent, was \$7.3 million, \$6.3 million and \$5.4 million for 2014, 2013 and 2012, respectively. The amortization of above and below-market ground leases and straight-line rents included in the contractual rent amount were not significant.

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 \$89.4 million as of December 31, 2014.

REIT Requirements

In order for Victoria Ward to remain qualified as a REIT for federal income tax purposes, Victoria Ward must meet a number of organizational and operational requirements, including a requirement that it distribute or pay tax on 100% of its capital gains and distribute at least 90% of its ordinary taxable income to its stockholders, including us. We have revoked Victoria Ward's REIT status effective January 1, 2015. We do not expect revocation of the REIT election to have a material impact on us. Please refer to Note 9 – *Income Taxes* for more detail on Victoria Ward.

Seasonality

Generally, revenues from our Operating Assets segment, Master Planned Communities segment and Strategic Developments segment are not subject to seasonal variations; however, rental revenues for certain retail tenants are subject to overage rent terms, which are based on tenant sales. These retail tenants are generally subject to seasonal variations, with a significant portion of their sales and earnings occurring during the last two months of the year. As such, our rental income is typically higher in the fourth quarter of each year.

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. Our critical accounting policies are those applicable to the following:

Acquisitions of Properties

We account for the acquisition of real estate properties constituting a business in accordance with ASC 805 ("ASC 805) Business Combinations. This methodology requires that assets acquired and liabilities assumed be recorded at their fair values on the date of acquisition.

The fair-value of tangible assets of an acquired property (which includes land, buildings, and improvements) is determined by valuing the property as if it were vacant, and the "as-if-vacant" value is then allocated to land, buildings and improvements based on management's determination of the fair-value of these assets. The "as-if-vacant" values are derived from several sources which primarily include a discounted cash flow analysis using discount and capitalization rates based on recent comparable market transactions, where available.

The value of acquired intangible assets consisting of in-place and above-market and below-market leases is recorded based on a variety of considerations. In-place lease considerations include, but are not necessarily limited to: (1) the value associated with avoiding the cost of originating the acquired in-place leases (i.e. the market cost to execute a lease, including leasing commissions and tenant improvements); (2) the value associated with lost revenue related to tenant reimbursable operating costs incurred during the assumed lease-up period (i.e. real estate taxes, insurance and certain other operating expenses); and (3) the value associated with lost rental revenue from existing leases during the assumed lease-up period. Above-market and below-market leases are valued at the present value (using a discount rate that reflects the risks associated with the leases acquired) of the difference between (1) the contractual amounts to be paid pursuant to the in-place lease; and (2) management's estimate of current market lease rates, measured over the remaining non-cancelable lease term, including any below market renewal option periods.

Impairment – Properties, Developments and Master Planned Communities Assets

We review our real estate assets, including Operating Assets, land held for development and sale and developments in progress, for potential impairment indicators whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment indicators for our Master Planned Communities segment are assessed separately for each community and in certain circumstances, regions or projects within the community, and include, but are not limited to, significant decreases in sales pace and decreasing average selling prices. We also monitor local economic conditions and other factors that may relieve demand expectation.

Impairment indicators for development costs incurred during the beginning stages of a potential development and developments in progress are assessed by project and include, but are not limited to, significant changes in projected completion dates, revenues or cash flows, development costs, market factors and feasibility.

Impairment indicators for our Operating Assets segment are assessed separately for each property and include, but are not limited to, significant decreases in net operating income, significant decreases in occupancy or low occupancy and significant net operating losses.

Impairment indicators for our Strategic Developments segment are assessed separately for each property and include, but are not limited to, significant decreases in comparable property sale prices.

If an indicator of potential impairment exists, the asset is tested for recoverability by comparing its carrying amount to the estimated future undiscounted cash flow. Significant assumptions used in the estimation of future undiscounted cash flow include, for the master planned communities, estimates of future lot sales, costs to complete and sales pace, and for properties in our Operating Assets segment and Strategic Developments segment, future market rents, renewals and capital expenditures. Historical experience in such matters and future economic projections were used to establish these assumptions. These significant assumptions are estimates and are subject to uncertainty. Actual results could differ from these estimates. A real estate asset is considered to be impaired when its carrying amount cannot be recovered through estimated future undiscounted cash flows and the carrying value is less than the fair value. To the extent an impairment provision is necessary, the excess of the carrying amount of the asset over its estimated fair value is charged to operations. In addition, the impairment is allocated proportionately to adjust the carrying amount of the asset. The adjusted carrying amount for operating assets, which represents the new cost basis of the asset, is depreciated over the remaining useful life of the asset. The adjusted carrying amount for master planned communities is recovered through future land sales.

Deferred Taxes and Tax Contingencies

As of December 31, 2014 and 2013, we had gross deferred tax assets totaling \$335.7 million and \$336.6 million, and gross deferred tax liabilities of \$379.7 million and \$413.4 million, respectively. We have established a valuation allowance in the amount of \$18.2 million and \$12.6 million as of December 31, 2014 and 2013, respectively, against certain deferred tax assets for which it is more likely than not that such deferred tax assets will not be realized.

The deferred tax liability associated with the master planned communities is largely attributable to the difference between the basis and value determined as of the date of the acquisition by our predecessors of The Rouse Company (“TRC”) in 2004 adjusted for sales that have occurred since that time. The cash cost related to this deferred tax liability is dependent upon the sales price of future land sales and the method of accounting used for income tax purposes. The deferred tax liability related to deferred income is the difference between the income tax method of accounting and the financial statement method of accounting for prior sales of land in our master planned communities.

One of our consolidated entities, Victoria Ward, Limited, elected to be taxed as a REIT and intended to continue to operate so as to qualify as a REIT going forward. Consequently, deferred taxes were not recorded on book and tax basis differences of Victoria Ward, Limited as it was believed these differences would ultimately be realized at a zero percent tax rate. In connection with the planned condominium development of Victoria Ward that was approved by the Hawaii Real Estate

Commission during the fourth quarter of 2013, the Company planned to revoke its REIT election at a then future date. The book and tax basis differences in the land and buildings of Victoria Ward, Limited would be realized after the REIT status is revoked and will be taxed at the applicable corporate tax rates. As a result of these events, deferred tax liabilities of \$48.0 million were recorded in 2013 due to the excess book over tax basis relating to land and buildings and reduced to \$46.9 million as of December 31, 2014. We revoked our REIT election effective January 1, 2015.

Two of our subsidiaries are involved in a dispute with the IRS relating to years in which those subsidiaries were owned by GGP. On May 6, 2011, GGP filed Tax Court petitions on behalf of these former taxable REIT subsidiaries seeking a redetermination of federal income tax for the years 2007 and 2008. The petitions seek to overturn determinations by the IRS that the taxpayers were liable for combined deficiencies totaling \$144.1 million. On October 20, 2011, GGP filed a motion in the United States Tax Court to consolidate the cases of the two former taxable REIT subsidiaries of GGP subject to litigation with the Internal Revenue Service due to the common nature of the cases' facts and circumstances and the issues being litigated. The United States Tax Court granted the motion to consolidate. The case was heard by The United States Tax Court in November of 2012 and an unfavorable ruling was issued on June 2, 2014.

In connection with the deferred gain that is the subject of the aforementioned litigation, GGP had provided us with an indemnity against certain potential tax liabilities. Pursuant to the Tax Matters Agreement, GGP had indemnified us from and against 93.75% of any and all losses, claims, damages, liabilities and reasonable expenses to which we become subject (the "Tax Indemnity"), in each case solely to the extent directly attributable to certain taxes related to sales of certain assets in our Master Planned Communities segment prior to March 31, 2010 ("MPC Taxes"), in an amount up to \$303.8 million. Under certain circumstances, GGP had also agreed to be responsible for interest or penalties attributable to such MPC Taxes in excess of the \$303.8 million ("Indemnity Cap") to the extent assessed by the IRS.

In December 2014, we entered into a Settlement of Tax Indemnity and Mutual Release agreement with GGP (the "Settlement Agreement") pursuant to which, in consideration of the full satisfaction of GGP's obligation for reimbursement of taxes related to GGP's tax indemnity obligations under the Tax Matters Agreement, GGP (i) made a cash payment to us in the amount of \$138.0 million and (ii) conveyed to us fee simple interest in six office properties and related parking garages located in Columbia, Maryland, known as 10 – 60 Columbia Corporate Center, for an agreed upon aggregate value of \$130.0 million. Under the Settlement Agreement, the Company now controls the Tax Matter, including the right to decide whether to appeal the Decision. On December 15, 2014, the Company paid the MPC Taxes and filed an appeal of the Decision to the Fifth Circuit Court of Appeals. The appeal seeks to overturn the Decision and allow the Company to continue to use its current method of tax accounting for the sale of assets in the Company's Master Planned Communities Segment. If the Decision stands, we may be required to change our method of tax accounting for certain transactions, which could affect the timing of our future tax payments and impact our results of operations. We expect the appeal to be heard by the appellate court in 2015.

As a result of the settlement, we recorded a net \$74.0 million non-cash charge representing the difference between the \$268.0 million value of the consideration received from GGP and the receivable recorded on our books. When we were spun-off from GGP in 2010, we recognized a receivable from GGP equal to the amount of the indemnity cap. However, the Tax Matters Agreement stipulated that a certain tax asset on our books related to deferred interest deductions be used to reduce GGP's indemnity obligation to us, when permitted by statute. As a result, we had reduced the indemnity receivable as we utilized the tax asset. Going forward, we now will get 100% of the benefit of the tax asset, which totaled \$85.1 million gross, at December 31, 2014. We also could recover approximately \$60 million of cash interest paid to the U.S. Government if we prevail on appeal.

Capitalization of development and leasing costs

We capitalize costs related to our development and leasing activities. Development costs, like planning, engineering, design and construction that are directly related to a development project are capitalized. Capitalization commences when the development activities begin and ceases when a project is completed, put on hold or we decide to not move forward with a project. Capitalized costs related to a project where we have determined not to move forward are expensed. Additionally, certain internal costs like payroll are capitalized and allocated to projects based on the amount of time employees spend on a project. We also will capitalize real estate taxes and allocated interest costs associated with development once construction commences. Leasing costs like commissions or tenant improvements are capitalized and allocated over the life of the lease or average life of a group of leases if appropriate. We do not capitalize any internal leasing costs.

Revenue Recognition and Related Matters

Land Sales Revenue

Revenues from land sales are recognized using the full accrual method at closing, when title has passed to the buyer, adequate consideration for the land has been received and we have no continuing involvement with the property. Revenue that is not recognized under the full accrual method is deferred and recognized when the required obligations are met or using the installment or cost recovery methods. Revenue related to builder price participation rights is recognized as the underlying homes are sold by homebuilders .

We determine the cost of real estate sold using the relative sales value method. When we sell real estate, the cost of real estate sales includes both costs incurred and estimates of future development costs benefiting the property through completion. Estimates of future revenues and development costs are re-evaluated throughout the year, with adjustments being allocated prospectively to the remaining parcels available for sale. For certain parcels of land, however, the specific identification method is used to determine the cost of sales, including acquired parcels that we do not intend to develop or for which development was complete at the date of acquisition.

Rental Revenue

Revenue associated with our operating assets includes minimum rent, percentage rent in lieu of fixed minimum rent, tenant recoveries and overage rent.

Minimum rent revenues are recognized on a straight-line basis over the terms of the related leases. Percentage rent in lieu of fixed minimum rent is recognized as sales are reported from tenants. Minimum rent revenues also include amortization related to above and below-market tenant leases on acquired properties.

Recoveries from tenants are stipulated in the leases and are generally computed based upon a formula related to real estate taxes, insurance and other real estate operating expenses and are generally recognized as revenues in the period the related costs are incurred.

Overage rent is recognized on an accrual basis once tenant sales exceed contractual thresholds contained in the lease and is calculated by multiplying the tenant sales in excess of the minimum amount by a percentage defined in the lease.

Condominium Rights and Unit Sales

Revenue recognition for contracted individual units in a condominium project are accounted for under the percentage of completion method when the following criteria are met: a) construction is beyond a preliminary stage; b) buyer is unable to require a refund of its deposit, except for non-delivery of the unit; c) sufficient units are sold to assure that it will not revert to a rental property; d) sales prices are collectible; and e) aggregate sales proceeds and costs can be reasonably estimated. Those units that do not meet the criteria use the full accrual method or deposit method which defers revenue recognition until the unit is closed.

Revenue recognized on the percentage-of-completion method is based upon the ratio of project costs incurred to date compared to total estimated project cost. Total estimated project costs include direct costs such as the carrying value of our land, site planning, architectural, construction costs, financing costs and indirect cost allocations for certain infrastructure and amenity costs which benefit the project based upon the relative fair value of the land prior to development. Changes in estimated project costs , impact the amount of revenue and profit recognized on a percentage of completion basis during the period in which they are determined and future periods.

Recently Issued Accounting Pronouncements and Developments

Please refer to Note 2 - *Summary of Significant Accounting Policies* for additional information about new accounting pronouncements.

Inflation

Revenue from our Operating Assets may be impacted by inflation. In addition, materials and labor costs relating to our development activities may significantly increase in an inflationary environment. Finally, inflation poses a risk to us due to the possibility of future increases in interest rates in the context of loan refinancings.

ITEM 7A. 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. Increases in interest rates could make it more difficult to refinance our floating and fixed rate debt when due. As of December 31, 2014, we had \$962.9 million of variable rate debt outstanding of which \$172.0 million has been swapped to a fixed-rate. Approximately \$176.7 million of the \$786.2 million of total variable rate debt that has not been swapped to a fixed rate is represented by the Master Credit Facility at The Woodlands. Due to the revolving nature of this type of debt, it is generally inefficient to use interest rate swaps as a hedging instrument; rather, we have purchased an interest rate cap having a \$100.0 million notional amount for this facility to mitigate our exposure to rising interest rates. We also did not swap to a fixed rate \$95.7 million of the outstanding balance on the Victoria Ward financing because it is structured to permit partial repayments to release collateral for redevelopment. Due to the uncertain timing of such partial repayments, hedging this portion of the outstanding balance is inefficient. As of December 31, 2014, annual interest costs would increase approximately \$7.9 million for every 1.00% increase in floating interest rates. Generally, a significant portion of our interest costs are capitalized due to the level of assets we currently have under development; therefore, the impact of a change in our interest rate on our Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income (Loss) is expected to be minimal, but we would incur higher payments. 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 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations", Note 2 – Summary of Significant Accounting Policies to our Consolidated Financial Statements, Note 8 – Mortgages, Notes and Loans Payable and Note 13 – Derivative Instruments and Hedging Activities. We intend to manage a portion of our variable interest rate exposure by using interest rate swaps and caps.

The following table summarizes principal cash flows on our debt obligations and related weighted-average interest rates by expected maturity dates as of December 31, 2014:

	Contractual Maturity Date						Total
	2015	2016	2017	2018	2019	Thereafter	
(In thousands)							
Mortgages, notes and loans payable	\$ 7,970	\$ 247,655	\$ 13,773	\$ 348,294	\$ 394,996	\$ 980,782	\$ 1,993,470
Weighted - average interest rate	4.61 %	4.79 %	4.61 %	4.99 %	5.07 %	6.27 %	

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information with respect to this Item is set forth beginning on page F-1. See "Item 15 – Exhibits and Financial Schedule" below.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 December 31, 2014, 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 December 31, 2014.

Internal Controls over Financial Reporting

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

We implemented a new version of our Enterprise Resource Planning ("ERP") system on February 24, 2014. This new system changed certain of our business processes and internal controls impacting financial reporting. We believe that the new version of our ERP system and related changes to internal controls will further enhance our internal control over financial reporting. We have taken the necessary steps to monitor and maintain appropriate internal control over financial reporting during this period of system change.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining a system of internal control over financial reporting designed to provide reasonable assurance that transactions are executed in accordance with management authorization and that such transactions are properly recorded and reported in the financial statements, and that records are maintained so as to permit preparation of the financial statements in accordance with U.S. generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of the Company's internal control over financial reporting utilizing the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework (2013 Framework). Management concluded, based on its assessment, that The Howard Hughes Corporation's internal control over financial reporting was effective as of December 31, 2014. Ernst & Young, LLP, an independent registered public accounting firm, has audited the Company's internal control over financial reporting as of December 31, 2014, as stated in their report which is included in this Annual Report on Form 10-K.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
The Howard Hughes Corporation

We have audited The Howard Hughes Corporation's (the Company) internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). The Howard Hughes Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, The Howard Hughes Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Howard Hughes Corporation as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), equity and cash flows for each of the two years in the period ended December 31, 2014 of The Howard Hughes Corporation and our report dated March 2, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Dallas, TX
March 2, 2015

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is incorporated by reference to the relevant information included in our proxy statement for our 2015 Annual Meeting of Stockholders.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference to the relevant information included in our proxy statement for our 2015 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 is incorporated by reference to the relevant information included in our proxy statement for our 2015 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated by reference to the relevant information included in our proxy statement for our 2015 Annual Meeting of Stockholders.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 is incorporated by reference to the relevant information included in our proxy statement for our 2015 Annual Meeting of Stockholders.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE

- (a) Financial Statements and Financial Statement Schedule.

The Consolidated Financial Statements and Schedule listed in the accompanying Index to Consolidated Financial Statements and Financial Statement Schedule are filed as part of this Annual Report. No additional financial statement schedules are presented since the required information is not present or not present in amounts sufficient to require submission of the schedule or because the information required is enclosed in the Consolidated Financial Statements and notes thereto.

- (a) Exhibits.

- (b) Separate financial statements.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

/s/ David R. Weinreb
David R. Weinreb
Chief Executive Officer
March 2, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
* William Ackman	Chairman of the Board and Director	March 2, 2015
<u>/s/ David R. Weinreb</u> David R. Weinreb	Director and Chief Executive Officer (Principal Executive Officer)	March 2, 2015
<u>/s/ Andrew C. Richardson</u> Andrew C. Richardson	Chief Financial Officer (Principal Financial and Accounting Officer)	March 2, 2015
* Adam Flatto	Director	March 2, 2015
* Jeffrey Furber	Director	March 2, 2015
* Gary Krow	Director	March 2, 2015
* Allen Model	Director	March 2, 2015
* R. Scot Sellers	Director	March 2, 2015
* Steven Shepsman	Director	March 2, 2015
* Burton M. Tansky	Director	March 2, 2015
* Mary Ann Tighe	Director	March 2, 2015
<u>*s/ David R. Weinreb</u> David R. Weinreb Attorney-in-fact		

THE HOWARD HUGHES CORPORATION
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
The Howard Hughes Corporation

We have audited the accompanying consolidated balance sheets of The Howard Hughes Corporation (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), equity and cash flows for each of the two years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15(a) as it relates to information included therein as of December 31, 2014 and 2013 and for each of the two years in the period ended December 31, 2014. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Howard Hughes Corporation at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the information presented in the related financial statement schedule as of December 31, 2014 and 2013 and for each of the two years in the period ended December 31, 2014, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 2, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Dallas, TX
March 2, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
The Howard Hughes Corporation

We have audited the accompanying consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows of The Howard Hughes Corporation and subsidiaries (the "Company") for the year ended December 31, 2012. Our audit also included the financial statement schedule listed in the Index at Item 15 as it relates to information included therein as of and for the year ended December 31, 2012. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of The Howard Hughes Corporation and subsidiaries for the year ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule as it relates to information included therein as of and for the year ended December 31, 2012, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Deloitte & Touche LLP

Dallas, Texas
February 28, 2013

THE HOWARD HUGHES CORPORATION

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2014	2013
(In thousands, except share amounts)		
Assets:		
Investment in real estate:		
Master Planned Community assets	\$ 1,641,063	\$ 1,537,758
Land	317,211	244,041
Buildings and equipment	1,243,979	754,878
Less: accumulated depreciation	(157,182)	(111,728)
Developments	914,303	488,156
Net property and equipment	3,959,374	2,913,105
Investment in Real Estate and Other Affiliates	53,686	61,021
Net investment in real estate	4,013,060	2,974,126
Cash and cash equivalents	560,451	894,948
Accounts receivable, net	28,190	21,409
Municipal Utility District receivables, net	104,394	125,830
Notes receivable, net	28,630	20,554
Tax indemnity receivable, including interest	-	320,494
Deferred expenses, net	75,070	36,567
Prepaid expenses and other assets, net	310,136	173,940
Total assets	<u>\$ 5,119,931</u>	<u>\$ 4,567,868</u>
Liabilities:		
Mortgages, notes and loans payable	\$ 1,993,470	\$ 1,514,623
Deferred tax liabilities	62,205	89,365
Warrant liabilities	366,080	305,560
Uncertain tax position liability	4,653	129,183
Accounts payable and accrued expenses	466,017	283,991
Total liabilities	<u>2,892,425</u>	<u>2,322,722</u>
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, 39,638,094 shares issued and outstanding as of December 31, 2014 and 39,576,344 shares issued and outstanding as of December 31, 2013	396	396
Additional paid-in capital	2,838,013	2,829,813
Accumulated deficit	(606,934)	(583,403)
Accumulated other comprehensive loss	(7,712)	(8,222)
Total stockholders' equity	2,223,763	2,238,584
Noncontrolling interests	3,743	6,562
Total equity	<u>2,227,506</u>	<u>2,245,146</u>
Total liabilities and equity	<u>\$ 5,119,931</u>	<u>\$ 4,567,868</u>

See Notes to Consolidated Financial Statements.

THE HOWARD HUGHES CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2014	2013	2012
	(In thousands, except share amounts)		
Revenues:			
Master Planned Community land sales	\$ 325,099	\$ 251,217	\$ 182,643
Builder price participation	20,908	9,356	5,747
Minimum rents	97,234	81,668	82,621
Tenant recoveries	28,353	21,068	23,351
Condominium rights and unit sales	83,565	32,969	267
Resort and conference center revenues	37,921	39,201	39,782
Other land revenues	16,503	13,416	18,073
Other rental and property revenues	24,982	20,523	24,402
Total revenues	<u>634,565</u>	<u>469,418</u>	<u>376,886</u>
Expenses:			
Master Planned Community cost of sales	119,672	124,040	89,298
Master Planned Community operations	41,794	38,414	40,506
Other property operating costs	67,034	65,723	63,035
Rental property real estate taxes	17,407	14,291	13,643
Rental property maintenance costs	9,135	8,083	8,655
Condominium rights and unit cost of sales	49,995	16,572	96
Resort and conference center operations	31,829	29,454	29,112
Provision for doubtful accounts	1,404	836	1,224
Demolition costs	6,734	2,078	-
General and administrative	73,569	48,466	36,548
Development-related marketing costs	22,783	5,880	-
Other income, net	(29,471)	(29,478)	(2,125)
Depreciation and amortization	55,958	33,845	24,429
Total expenses	<u>467,843</u>	<u>358,204</u>	<u>304,421</u>
Operating income	166,722	111,214	72,465
Interest income	22,531	3,185	9,437
Interest expense	(38,624)	(9,759)	(964)
Warrant liability loss	(60,520)	(181,987)	(185,017)
Increase (reduction) in tax indemnity receivable	90	(1,206)	(20,260)
Loss on settlement of tax indemnity receivable	(74,095)	-	-
Equity in earnings from Real Estate and Other Affiliates	23,336	14,428	3,683
Income (loss) before taxes	39,440	(64,125)	(120,656)
Provision for income taxes	62,960	9,570	6,887
Net loss	(23,520)	(73,695)	(127,543)
Net income attributable to noncontrolling interests	(11)	(95)	(745)
Net loss attributable to common stockholders	<u>\$ (23,531)</u>	<u>\$ (73,790)</u>	<u>\$ (128,288)</u>
Basic loss per share:	<u>\$ (0.60)</u>	<u>\$ (1.87)</u>	<u>\$ (3.36)</u>
Diluted loss per share:	<u>\$ (0.60)</u>	<u>\$ (1.87)</u>	<u>\$ (3.36)</u>

See Notes to Consolidated Financial Statements.

THE HOWARD HUGHES CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Comprehensive loss, net of tax:			
Net loss	\$ (23,520)	\$ (73,695)	\$ (127,543)
Other comprehensive income (loss):			
Interest rate swaps (a)	1,003	2,542	(2,770)
Capitalized swap interest (b)	(493)	(1,189)	(1,227)
Other comprehensive income (loss)	510	1,353	(3,997)
Comprehensive loss	(23,010)	(72,342)	(131,540)
Comprehensive income attributable to noncontrolling interests	(11)	(95)	(745)
Comprehensive loss attributable to common stockholders	\$ (23,021)	\$ (72,437)	\$ (132,285)

- (a) Net of deferred tax expense of \$0.2 million and \$0.5 million, and deferred tax benefit of \$0.1 million for the years ended December 31, 2014, 2013 and 2012, respectively.
- (b) Net of deferred tax benefit of \$0.2 million, \$0.6 million, and \$0.7 million for the years ended December 31, 2014, 2013 and 2012, respectively.

See Notes to Consolidated Financial Statements.

THE HOWARD HUGHES CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY

(In thousands, except shares)	Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
Balance January 1, 2012	37,945,707	\$ 379	\$ 2,711,109	\$ (381,325)	\$ (5,578)	\$ 5,014	\$ 2,329,599
Net income (loss)		-	-	(128,288)	-	745	(127,543)
Interest rate swaps, net of tax \$55		-	-	-	(2,770)	-	(2,770)
Capitalized swap interest, net of tax \$724		-	-	-	(1,227)	-	(1,227)
Warrants exercised	1,525,272	15	108,645	-	-	-	108,660
Stock plan activity	27,933	1	4,277	-	-	-	4,278
Balance, December 31, 2012	39,498,912	\$ 395	\$ 2,824,031	\$ (509,613)	\$ (9,575)	\$ 5,759	\$ 2,310,997
Net income (loss)		-	-	(73,790)	-	95	(73,695)
Adjustment to noncontrolling interest		-	-	-	-	720	720
Preferred dividend payment on behalf of subsidiary		-	-	-	-	(12)	(12)
Interest rate swaps, net of tax (\$486)		-	-	-	2,542	-	2,542
Capitalized swap interest, net of tax \$635		-	-	-	(1,189)	-	(1,189)
Stock plan activity	77,432	1	5,782	-	-	-	5,783
Balance, December 31, 2013	39,576,344	\$ 396	\$ 2,829,813	\$ (583,403)	\$ (8,222)	\$ 6,562	\$ 2,245,146
Net income (loss)		-	-	(23,531)	-	11	(23,520)
Distribution to noncontrolling interest		-	-	-	-	(2,818)	(2,818)
Preferred dividend payment on behalf of subsidiary		-	-	-	-	(12)	(12)
Interest rate swaps, net of tax \$184		-	-	-	1,003	-	1,003
Capitalized swap interest, net of tax \$199		-	-	-	(493)	-	(493)
Stock plan activity	61,750	-	8,200	-	-	-	8,200
Balance, December 31, 2014	39,638,094	\$ 396	\$ 2,838,013	\$ (606,934)	\$ (7,712)	\$ 3,743	\$ 2,227,506

See Notes to Consolidated Financial Statements.

THE HOWARD HUGHES CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2014	2013	2012
	(In thousands)		
Cash Flows from Operating Activities:			
Net loss	\$ (23,520)	\$ (73,695)	\$ (127,543)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:			
Depreciation	50,683	29,637	19,455
Amortization	5,275	4,208	4,974
Amortization of deferred financing costs	4,378	2,952	1,418
Amortization of intangibles other than in-place leases	668	213	96
Straight-line rent amortization	-	(3,652)	(757)
Deferred income taxes	65,010	8,352	4,448
Gain on disposition of assets	(2,373)	(8,483)	-
Restricted stock and stock option amortization	8,200	5,782	4,277
Warrant liability loss	60,520	181,987	185,017
Reduction (increase) in tax indemnity receivable	(90)	1,206	20,260
Interest income related to tax indemnity	(21,510)	(2,078)	(8,111)
Loss on settlement of tax indemnity receivable	74,095	-	-
Equity in earnings from Real Estate and Other Affiliates, net of distributions	11,222	(7,121)	(35)
Provision for doubtful accounts	1,404	836	1,224
Master Planned Community land acquisitions	(100,913)	(5,667)	-
Master Planned Community development expenditures	(140,735)	(133,590)	(107,144)
Master Planned Community cost of sales	110,885	112,695	87,499
Condominium development expenditures	(75,990)	(21,213)	-
Condominium and other cost of sales	49,995	16,572	96
Proceeds from sale of condominium rights	-	47,500	-
Percentage of completion revenue recognition from sale of condominium rights and units	(83,565)	(32,969)	-
Non-monetary consideration relating to land transactions	(17,406)	-	-
Proceeds received on settlement of tax indemnity receivable	138,000	-	-
IRS payment for tax court decision	(203,298)	-	-
Net changes:			
Accounts and notes receivable	45,209	5,935	51,571
Prepaid expenses and other assets	(6,311)	(1,591)	4,110
Condominium deposits received	139,187	-	-
Deferred expenses	(36,641)	(19,364)	(1,995)
Accounts payable and accrued expenses	37,213	20,333	15,112
Condominium deposits held in escrow	(139,187)	-	-
Other, net	(8,720)	547	(908)
Cash provided by (used in) operating activities	(58,315)	129,332	153,064
Cash Flows from Investing Activities:			
Property and equipment expenditures	(8,521)	(31,768)	(1,226)
Operating property improvements	(6,299)	(17,231)	(14,201)
Property developments and redevelopments	(759,003)	(221,071)	(58,940)
Proceeds from insurance claims	12,901	-	-
Proceeds from dispositions	11,953	10,814	-
Acquisition of 1701 Lake Robbins	(1,484)	-	-
Acquisition of 85 South Street	(20,071)	-	-
Consideration paid to acquire Millennium Waterway Apartments, net of cash acquired	-	-	(2,721)
Distribution from Millennium Waterway Apartments	-	-	6,876
Proceeds from sales of investment in Real Estate Affiliates	-	13,270	8,579
Investment in Summerlin Las Vegas Baseball Club, LLC	-	(10,350)	-
Distributions from (investment in) KR Holdings, LLC	9,386	(16,750)	-
Investment in Real Estate and Other Affiliates, net	(6,248)	(4,035)	(4,552)
Change in restricted cash	20,930	(17,204)	(15,164)
Cash used in investing activities	(746,456)	(294,325)	(81,349)
Cash Flows from Financing Activities:			
Proceeds from issuance of mortgages, notes and loans payable	597,553	1,120,102	68,410
Principal payments on mortgages, notes and loans payable	(120,182)	(279,721)	(55,832)
Deferred financing costs	(7,085)	(6,594)	(2,114)
Preferred dividend payment on behalf of REIT subsidiary	(12)	(12)	-
Distributions to noncontrolling interests	-	(3,031)	-
Purchase of Sponsors Warrants	-	-	(80,548)
Cash provided by (used in) financing activities	470,274	830,744	(70,084)
Net change in cash and cash equivalents	(34,497)	665,751	1,631
Cash and cash equivalents at beginning of year	894,948	229,197	227,566
Cash and cash equivalents at end of year	\$ 560,451	\$ 894,948	\$ 229,197

THE HOWARD HUGHES CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2014	2013	2012
(In thousands)			
Supplemental Disclosure of Cash Flow Information:			
Interest paid	\$ 84,497	\$ 30,600	\$ 28,857
Interest capitalized	46,513	37,470	27,571
Income taxes paid	204,898	2,268	1,202
Non-Cash Transactions:			
Special Improvement District bond transfers associated with land sales	8,786	14,376	(3,033)
Property developments and redevelopments	38,567	85,609	8,384
Acquisition of 1701 Lake Robbins:			
Land	(1,663)	-	-
Building	(3,725)	-	-
Other assets	(848)	-	-
Mortgages, notes and loans payable	4,600	-	-
Other liabilities	152	-	-
Acquisition of 10-60 Columbia Corporate Center:			
Land	(23,404)	-	-
Building	(79,247)	-	-
Other assets	(28,997)	-	-
Other liabilities	1,648	-	-
Acquisition of 85 South Street:			
Building	(3,979)	-	-
Below market lease obligation	3,979	-	-
Accrued interest on construction loan borrowing	4,785	-	-
Distribution of land to noncontrolling interests	2,818	-	-
Retirement of Sponsors Warrants and issuance of 1,525,272 shares of common stock	-	-	(76,264)
Acquisition of Millennium Waterway Apartments:			
Land	-	-	(15,917)
Building and equipment	-	-	(56,002)
Other assets	-	-	(2,670)
Mortgages, notes and loans payable	-	-	55,584
Other liabilities	-	-	755
Reduction in investments in Real Estate Affiliates due to the Millennium Waterway Apartments acquisition	-	-	22,405
Acquisition of 70 Columbia Corporate Center:			
Land	-	-	(1,281)
Building	-	-	(13,089)
Other assets	-	-	(2,957)
Mortgages, notes and loans payable	-	-	16,037
Other liabilities	-	-	1,290
MPC Land contributed to Real Estate Affiliate	-	-	2,190
Purchase of land from GGP	-	-	(1,315)
Non-cash increase in property due to consolidation of real estate affiliate	-	3,750	-
Transfer of condominium buyer deposits to real estate affiliate	-	34,220	-

See Notes to Consolidated Financial Statements

THE HOWARD HUGHES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION

General

The Howard Hughes Corporation's ("HHC" or the "Company") mission is to be the preeminent developer and operator of Master Planned Communities and mixed-use properties. We specialize in the development of master planned communities and the ownership, management and development or repositioning of real estate assets currently generating revenues, also called operating assets, as well as other strategic real estate opportunities in the form of entitled and unentitled land and other development rights, also called strategic developments. We are a Delaware corporation that was formed on July 1, 2010. Unless the context otherwise requires, references to "we," "us" and "our" refer to HHC and its subsidiaries.

Management has evaluated all material events occurring subsequent to the date of the Consolidated Financial Statements up to the date and time this Annual Report is filed.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

The accompanying Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), with all intercompany balances eliminated. The presentation includes the accounts of the Company, and those entities in which we have a controlling financial interest. The noncontrolling equity holders' share of the assets, liabilities and operations are reflected in noncontrolling interests within permanent equity. The company also consolidates certain variable interest entities ("VIEs") in accordance with Accounting Standards Codification ("ASC") 810 ("ASC 810") Consolidation (see "Real Estate and Other Affiliates" below). Certain amounts in 2012 and 2013 have been reclassified to conform to 2014 presentation.

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 and 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. Estimates and assumptions have been made with respect to revenue recognition accounted for under the percentage of completion method, capitalization of development costs, provision for income taxes, recoverable amounts of receivables and deferred tax assets, initial valuations of tangible and intangible assets 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, the fair value of warrants, debt and options granted. Actual results could differ from these and other estimates.

From time to time, we may reassess the strategies for certain buildings and improvements which subsequently cause a reassessment of useful lives. As a result, we recognized an additional \$10.8 million, or \$0.27 per diluted share, and \$1.2 million, or \$0.03 per diluted share, in depreciation during the years ended December 31, 2014 and 2013, respectively, due to the change in useful lives of these buildings and improvements.

THE HOWARD HUGHES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Investment in Real Estate*Master Planned Community Assets, Land, Buildings and Equipment*

Real estate assets are stated at cost less any provisions for impairments. Tenant improvements relating to our operating assets, are capitalized and depreciated over the shorter of their economic lives or the lease term. Maintenance and repair costs are charged to expense when incurred. Expenditures for significant improvements are capitalized.

We periodically review the estimated useful lives of properties. Depreciation or amortization expense is computed using the straight -line method based upon the following estimated useful lives:

Asset Type	Years
Buildings and improvements	10 - 45
Equipment, tenant improvements and fixtures	5 - 10
Computer hardware and software, and vehicles	3 - 5

Developments

Development costs, which generally include legal and professional fees and other directly -related third-party costs associated with specific development properties, are capitalized as part of the property being developed. In the event that management no longer has the ability or intent to complete a development, the costs previously capitalized are expensed.

Construction and improvement costs incurred in connection with the development of new properties or the redevelopment of existing properties are capitalized. Real estate taxes, interest and insurance costs incurred during construction periods are also capitalized. Capitalized interest costs are based on qualified expenditures and interest rates in place during the construction period. Demolition costs associated with these redevelopments are expensed as incurred.

Our Developments are made up of the following categories:

	December 31,	
	2014	2013
	(In thousands)	
Land & improvements	\$ 164,280	\$ 194,282
Development costs	667,228	293,874
Condominium	82,795	-
Total Developments	<u>\$ 914,303</u>	<u>\$ 488,156</u>

Real Estate and Other Affiliates

In the ordinary course of business, we enter into partnerships or joint ventures primarily for the development and operation of real estate assets which are referred to as "Real Estate Affiliates". These partnerships or joint ventures are typically characterized by a non-controlling ownership interest with decision making and distribution of expected gains and losses being generally proportionate to the ownership interest. We evaluate these partnerships and joint ventures for consolidation in accordance with ASC 810 Consolidations.

THE HOWARD HUGHES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In accordance with ASC 810, we assess our joint ventures at inception to determine if any meet the qualifications of a variable interest entity ("VIE"). We consider a partnership or joint venture a VIE if: (a) the total equity investment is not sufficient to permit the entity to finance its activities without additional subordinated financial support; (b) characteristics of a controlling financial interest are missing (either the ability to make decisions through voting or other rights, the obligation to absorb the expected losses of the entity or the right to receive the expected residual returns of the entity); or (c) the voting rights of the equity holders are not proportional to their obligations to absorb the expected losses of the entity and/or their rights to receive the expected residual returns of the entity, and substantially all of the entity's activities either involve or are conducted on behalf of an investor that has disproportionately few voting rights. Upon the occurrence of certain events outlined in ASC 810, we reassess our initial determination of whether the partnership or joint venture is a VIE.

We also perform a qualitative assessment of each VIE to determine if we are the primary beneficiary, as required by ASC 810. Under ASC 810, a company concludes that it is the primary beneficiary and consolidates the VIE if the company has both (a) the power to direct the economically significant activities of the entity and (b) the obligation to absorb losses of, or the right to receive benefits from, the entity that could potentially be significant to the VIE. The company considers the contractual agreements that define the ownership structure, distribution of profits and losses, risks, responsibilities, indebtedness, voting rights and board representation of the respective parties in determining if the company is the primary beneficiary. As required by ASC 810, management's assessment of whether the company is the primary beneficiary of a VIE is continuously performed.

We account for VIEs for which we are not considered to be the primary beneficiary, but have significant influence, using the equity method and investments in VIEs where we do not have significant influence on the joint venture's operating and financial policies using the cost method.

We account for investments in joint ventures where we own a non-controlling interest using the equity method, and investments in joint ventures where we have virtually no influence on the joint venture's operating and financial policies, on the cost method. Under the equity method, the cost of our investment is adjusted for our share of the equity in earnings or losses of such Real Estate Affiliates from the date of investment and reduced by distributions received. Generally, the operating agreements with respect to our Real Estate Affiliates provide that assets, liabilities and funding obligations are shared in accordance with our ownership percentages. We generally also share in the profit and losses, cash flows and other matters relating to our Real Estate Affiliates in accordance with our respective ownership percentages. For cost method investments, we recognize earnings to the extent of distributions received from such investments.

Acquisitions of Properties

We account for the acquisition of real estate properties constituting a business in accordance with ASC 805 ("ASC 805) Business Combinations. This methodology requires that assets acquired and liabilities assumed be recorded at their fair values on the date of acquisition.

The fair-value of tangible assets of an acquired property (which includes land, buildings, and improvements) is determined by valuing the property as if it were vacant, and the "as-if-vacant" value is then allocated to land, buildings and improvements based on management's determination of the fair-value of these assets. The "as-if-vacant" values are derived from several sources which primarily include a discounted cash flow analysis using discount and capitalization rates based on recent comparable market transactions, where available.

The value of acquired intangible assets consisting of in-place and above-market and below-market leases is recorded based on a variety of considerations. In-place lease considerations include, but are not necessarily limited to: (1) the value associated with avoiding the cost of originating the acquired in-place leases (i.e. the market cost to execute a lease,

THE HOWARD HUGHES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

including leasing commissions and tenant improvements); (2) the value associated with lost revenue related to tenant reimbursable operating costs incurred during the assumed lease-up period (i.e. real estate taxes, insurance and certain other operating expenses); and (3) the value associated with lost rental revenue from existing leases during the assumed lease-up period. Above-market and below-market leases are valued at the present value, using a discount rate that reflects the risks associated with the leases acquired, of the difference between (1) the contractual amounts to be paid pursuant to the in-place lease; and (2) management's estimate of current market lease rates, measured over the remaining non-cancelable lease term, including any below market renewal option periods.

Impairment

We review our real estate assets (including those held by our Real Estate Affiliates), operating assets, land held for development and sale and developments for potential impairment indicators whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. GAAP related to the impairment or disposal of long-lived assets requires that if impairment indicators exist and that expected undiscounted cash flows generated by the asset are less than its carrying amount, an impairment provision should be recorded. If impaired, the carrying amount of the asset is written down to its fair value. The impairment analysis does not consider the timing of future cash flows and whether the asset is expected to earn an above or below market rate of return.

Impairment indicators for our assets or projects within our Master Planned Communities segment are assessed separately and include, but are not limited to, significant decreases in sales pace or average selling prices, significant increases in expected land development and construction costs or cancellation rates, and projected losses on expected future sales. Master Planned Community assets have extended life cycles that may last 20 to 40 years and have few long-term contractual cash flows. Further, Master Planned Community assets generally have minimal to no residual values because of their liquidating characteristics. Master Planned Community development periods often occur through several economic cycles. Subjective factors such as the expected timing of property development and sales, optimal development density and sales strategy impact the timing and amount of expected future cash flows and fair value.

Impairment indicators for our Operating Assets segment are assessed separately for each property and include, but are not limited to, significant decreases in net operating income, significant decreases in occupancy, or low occupancy and significant net operating losses.

Impairment indicators for development costs in our Strategic Developments segment, which are typically costs incurred during the beginning stages of a potential development, and developments in progress are assessed by project and include, but are not limited to, significant changes in projected completion dates, projected revenues or cash flows, development costs, market factors, significant decreases in comparable property sale prices and feasibility.

The cash flow estimates used both for determining recoverability and estimating fair value are inherently judgmental and reflect current and projected trends in rental, occupancy, pricing, development costs, sales pace and capitalization rates, and estimated holding periods for the applicable assets. Although the estimated fair value of certain assets may be exceeded by the carrying amount, a real estate asset is only considered to be impaired when its carrying amount is not expected to be recovered through estimated future undiscounted cash flows. To the extent an impairment provision is necessary, the excess of the carrying amount of the asset over its estimated fair value is expensed to operations. In addition, the impairment provision is allocated proportionately to adjust the carrying amount of the asset. The adjusted carrying amount, which represents the new cost basis of the asset, is depreciated over the remaining useful life of the asset or, for Master Planned Communities, is expensed as a cost of sales when land is sold. Assets that have been impaired will in the future have lower depreciation and cost of sale expenses. The impairment will have no impact on cash flow.

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With respect to our investment in Real Estate 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 Affiliate is evaluated periodically and as deemed necessary for recoverability and valuation declines that are other-than-temporary. If the decrease in value of our investment in a Real Estate Affiliate is deemed to be other-than-temporary, our investment in such Real Estate Affiliate is reduced to its estimated fair value. In addition to the property-specific impairment analysis that we perform on the underlying assets of the Real Estate Affiliates' land held for development and sale and developments owned by such Real Estate Affiliates, we also consider the ownership and distribution preferences and limitations and rights to sell and repurchase our ownership interests.

Cash and Cash Equivalents

Cash and marketable securities consist of highly-liquid investments with maturities at date of purchase of three months or less and are deposited with major banks throughout the United States. Such deposits are in excess of FDIC limits and are placed with high quality institutions in order to minimize concentration of counterparty credit risk.

Revenue Recognition and Related Matters

Land Sales Revenue

Revenues from land sales are recognized using the full accrual method at closing, when title has passed to the buyer, adequate consideration for the land has been received and we have no continuing involvement with the property. Revenue that is not recognized under the full accrual method is deferred and recognized when the required obligations are met or using the installment or cost recovery methods. Revenue related to builder price participation rights is recognized as the underlying homes are sold by homebuilders.

We determine the cost of real estate sold using the relative sales value method. When we sell real estate, the cost of real estate sales includes both costs incurred and estimates of future development costs benefiting the property through completion. Estimates of future revenues and development costs are re-evaluated throughout the year, with adjustments being allocated prospectively to the remaining parcels available for sale. For certain parcels of land, however, the specific identification method is used to determine the cost of sales, including acquired parcels that we do not intend to develop or for which development was complete at the date of acquisition.

Rental Revenue

Revenue associated with our operating assets includes minimum rent, percentage rent in lieu of fixed minimum rent, tenant recoveries and overage rent.

Minimum rent revenues are recognized on a straight-line basis over the terms of the related leases. Percentage rent in lieu of fixed minimum rent is recognized as sales are reported from tenants. Minimum rent revenues also include amortization related to above and below-market tenant leases on acquired properties.

Recoveries from tenants are stipulated in the leases and are generally computed based upon a formula related to real estate taxes, insurance and other real estate operating expenses and are generally recognized as revenues in the period the related costs are incurred.

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Overage rent is recognized on an accrual basis once tenant sales exceed contractual thresholds contained in the lease and is calculated by multiplying the tenant sales in excess of the minimum amount by a percentage defined in the lease.

Condominium Rights and Unit Sales

Revenue recognition for contracted individual units in a condominium project are accounted for under the percentage of completion method when the following criteria are met: a) construction is beyond a preliminary stage; b) buyer is unable to require a refund of its deposit, except for non-delivery of the unit; c) sufficient units are sold to assure that it will not revert to a rental property; d) sales prices are collectible; and e) aggregate sales proceeds and costs can be reasonably estimated. Those units that do not meet the criteria use the full accrual method or deposit method which defers revenue recognition until the unit is closed.

Revenue recognized on the percentage-of-completion method is based upon the ratio of project costs incurred to date compared to total estimated project cost. Total estimated project costs include direct costs such as the carrying value of our land, site planning, architectural, construction costs, financing costs and indirect cost allocations for certain infrastructure and amenity costs which benefit the project based upon the relative fair value of the land prior to development. Changes in estimated project costs, impact the amount of revenue and profit recognized on a percentage of completion basis during the period in which they are determined and future periods.

Resort and Conference Center Revenue

Revenue for the resort and conference center is recognized as services are performed and primarily represents room rentals and food and beverage sales.

Other Income

Other income for the year ended December 31, 2014 primarily relates to a \$27.0 million gain on insurance recoveries related to casualty losses at South Street Seaport from Superstorm Sandy and \$2.4 million related to the sale of the Redlands Promenade property.

Other income for the year ended December 31, 2013 includes a \$12.2 million gain on insurance recoveries relating to South Street Seaport, an \$8.5 million gain recognized on the sale of our Head Acquisition, LP interest, a \$4.5 million favorable legal settlement relating to the British Petroleum oil spill in the Gulf of Mexico in 2010, a \$1.0 million gain from the sale of Alameda Plaza, a \$0.7 million gain on the sale of Parcel D into a joint venture and a \$0.6 million gain from the sale of Rio West Mall.

Marketing and advertising

Our Strategic Development, Operating Assets and Master Planned Community segments incur various marketing and advertising costs as part of their development, branding, leasing or sales initiatives. These costs include special events, broadcasts, direct mail and online digital and social media programs, and they are expensed as incurred.

Accounts Receivable

Accounts receivable includes tenants, tenant recoveries, and other receivables, and straight -line rent receivables.

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Straight-line rent receivables represent rental revenues recognized in excess of amounts currently due under lease agreements. Such amounts totaling \$13.5 million as of December 31, 2014 and \$10.2 million as of December 31, 2013, are included in Accounts receivable, net in our Consolidated Balance Sheets.

We record allowances against our receivables that we consider uncollectible. These allowances are reviewed periodically and are adjusted based on management's estimate of receivables that will not be realized in subsequent periods. We also maintain an allowance for receivables arising from the straight-lining of rents. Management exercises judgment in establishing these allowances and considers payment history, current credit status and if the tenant is currently occupying the space in developing these estimates. The allowance against our straight-line rent receivable is based on historical experience with early lease terminations, as well as specific review of significant tenants and tenants that are having known financial difficulties.

The following table summarizes the changes in allowance for doubtful accounts against our accounts receivables:

	2014	2013	2012
	(In thousands)		
Balance as of January 1	\$ 7,390	\$ 8,914	\$ 8,496
Change in provision	1,404	836	1,224
Write-offs	(1,175)	(2,360)	(806)
Balance as of December 31	<u>\$ 7,619</u>	<u>\$ 7,390</u>	<u>\$ 8,914</u>

Municipal Utility District receivables

In Houston, Texas, certain development costs are reimbursable through the creation of Municipal Utility District ("MUDs", also known as Water Control and Improvement Districts) receivables, which are separate political subdivisions authorized by Article 16, Section 59 of the Texas Constitution and governed by the Texas Commission on Environmental Quality ("TCEQ"). MUDs are formed to provide municipal water, waste water, drainage services, recreational facilities and roads to those areas where they are currently unavailable through the regular city services. Typically, the developer advances funds for the creation of the facilities, which must be designed, bid and constructed in accordance with the City of Houston's and TCEQ requirements.

The developer initiates the MUD process by filing the applications for the formation of the MUD, and once the applications have been approved, a board of directors is elected for the MUD and given the authority to issue ad valorem tax bonds and the authority to tax residents. The MUD Board authorizes and approves all MUD development contracts and pay requests. MUD bond sale proceeds are used to reimburse the developer for its construction costs, including interest. MUD taxes are used to pay the debt service on the bonds and the operating expenses of the MUD. The Company estimates the costs it believes will be eligible for reimbursement as MUD receivables. Our MUD receivables are pledged as security to creditors under the Bridgeland and TWL facilities. MUD receivables are shown net of an allowance of \$5.8 and \$5.3 million for the years ending December 31, 2014 and 2013, respectively, in the accompanying Consolidated Balance Sheets.

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Notes Receivable

Notes receivable include amounts due from builders, primarily at our Summerlin Master Planned Community and a note from General Growth Partners ("GGP"). The GGP note had a balance of \$6.7 million and \$13.2 million as of December 31, 2014 and 2013, respectively. The GGP note is fully amortizing, carries an interest rate of 4.41%, and cash payments under the note are approximately \$6.9 million per year through the end of 2015. Our Summerlin Master Planned Community holds a \$20.2 million note from a national homebuilder relating to a 2014 land sale, maturing on November 20, 2015, and bearing interest at 0.39%.

Also included in Notes receivable are notes receivable from various tenants, net of an allowance for uncollectible notes receivable, of \$0.5 million as of December 31, 2014 and \$0.4 million as of December 31, 2013.

We estimate the allowance for uncollectible notes receivable based on our assessment of expected receipts of future cash flows with consideration given to any collateral securing the respective note.

Income Taxes

Deferred income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax basis of assets and liabilities using enacted tax rates currently in effect. Deferred income taxes also reflect the impact of operating loss and tax credit carryforwards.

A valuation allowance is provided if we believe it is more likely than not that all or some portion of the deferred tax asset will not be realized. An increase or decrease in the valuation allowance that results from a change in circumstances, and which causes a change in our judgment about the realizability of the related deferred tax asset, is included in the deferred tax provision. There are events or circumstances that could occur in the future that could limit the benefit of deferred tax assets. In addition, we recognize and report interest and penalties, if necessary, related to uncertain tax positions within our provision for income tax expense.

In two of our Master Planned Communities, gains with respect to sales of land for commercial use are reported for tax purposes on the percentage of completion method. Under the percentage of completion method, a gain is recognized for tax purposes as costs are incurred in satisfaction of contractual obligations. The method used for determining the percentage complete for income tax purposes is different than that used for financial statement purposes. In addition, the same two Master Planned Communities report gains with respect to sales of land for single family residences using the completed contract method. Under the completed contract method, a gain is recognized for tax purposes when 95% of the costs of our contractual obligations are incurred or the contractual obligation is transferred.

Tax Indemnity Receivable

As further described in Note 9 - *Income Taxes*, GGP had indemnified us from and against a portion of taxes related to sales of certain assets in our Master Planned Communities segment as well as any interest or penalties assessed by the Internal Revenue Service that are attributable to those taxes. We recognized a tax indemnity receivable prior to the settlement date, for an amount equal to the indemnified liability we had recorded, including interest and penalties, reduced for our cumulative utilization of certain of our tax assets that contractually limits the amount we can receive pursuant to the Tax Matters Agreement. Interest income related to the tax indemnity receivable was recognized as interest income in

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our Consolidated Statements of Operations. Reductions to the tax indemnity receivable attributable to a corresponding indemnified liability or recognition of contractual limitations incurred were recorded as Reduction in tax indemnity receivable in our Consolidated Statements of Operations prior to the settlement.

Deferred Expenses

Deferred expenses consist principally of financing fees and leasing costs. Deferred financing fees 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). Deferred leasing costs are amortized to amortization expense using the straight-line method over periods that approximate the related lease terms. Deferred expenses in our Consolidated Balance Sheets are shown net of accumulated amortization of \$13.2 million and \$7.2 million as of December 31, 2014 and 2013, respectively.

Stock Plans

We apply the provisions of ASC 718 ("ASC 718") Stock Compensation in our accounting and reporting for stock -based compensation. ASC 718 requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. All unvested options outstanding under our option plans have grant prices equal to the market price of the Company's stock on the dates of grant. Compensation cost for restricted stock is determined based on the fair market value of the Company's stock at the date of grant.

Earnings Per Share

Basic earnings (loss) per share ("EPS") is computed by dividing net income (loss) 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 nonvested stock issued under stock-based compensation plans is computed using the "treasury stock" method. The dilutive effect of the Sponsors Warrants and Management Warrants is computed using the if-converted method. Gains associated with the changes in the fair value of the Sponsors Warrants and Management Warrants are excluded from the numerator in computing diluted earnings per share because inclusion of such gains in the computation would be anti-dilutive.

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Information related to our EPS calculations is summarized as follows:

	Year ended December 31,		
	2014	2013	2012
(In thousands, except share amounts)			
Basic EPS:			
Numerator:			
Net loss	\$ (23,520)	\$ (73,695)	\$ (127,543)
Net income attributable to noncontrolling interests	(11)	(95)	(745)
Net loss attributable to common stockholders	<u>\$ (23,531)</u>	<u>\$ (73,790)</u>	<u>\$ (128,288)</u>
Denominator:			
Weighted average number of common shares outstanding	<u>39,464</u>	<u>39,449</u>	<u>38,127</u>
Diluted EPS:			
Numerator:			
Net loss attributable to common stockholders	\$ (23,531)	\$ (73,790)	\$ (128,288)
Less: Warrant liability gain	-	-	-
Adjusted net income (loss) available to common stockholders	<u>\$ (23,531)</u>	<u>\$ (73,790)</u>	<u>\$ (128,288)</u>
Denominator:			
Weighted average number of common shares outstanding	39,464	39,449	38,127
Warrants	-	-	-
Weighted average diluted common shares outstanding	<u>39,464</u>	<u>39,449</u>	<u>38,127</u>
Basic loss per share	\$ (0.60)	\$ (1.87)	\$ (3.36)
Diluted loss per share	\$ (0.60)	\$ (1.87)	\$ (3.36)

The diluted EPS computations as of December 31, 2014 exclude 1,046,940 stock options, 172,690 shares of restricted stock, 1,916,667 shares of common stock underlying the Sponsor Warrants and 2,862,687 shares of common stock underlying the Management Warrants because their inclusion would have been anti-dilutive.

The diluted EPS computations as of December 31, 2013 exclude 965,440 stock options, 122,334 shares of restricted stock, 1,916,667 shares of common stock underlying the Sponsor Warrants and 2,862,687 shares of common stock underlying the Management Warrants because their inclusion would have been anti-dilutive.

The diluted EPS computations as of December 31, 2012 exclude 861,940 stock options, 57,933 shares of restricted stock, 1,916,667 shares of common stock underlying the Sponsor Warrants, and 2,862,687 shares of common stock underlying the Management Warrants because their inclusion would have been anti-dilutive.

Recently Issued Accounting Pronouncements

In August, 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-15, " *Presentation of Financial Statements — Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern.*"

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Before the issuance of this ASU, there was no guidance in U.S. GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related footnote disclosures. This guidance is expected to reduce the diversity in the timing and content of footnote disclosures. This ASU requires management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards as specified in the guidance. This ASU becomes effective for the annual period ending after December 15, 2016 and for annual and interim periods thereafter. Early adoption is permitted. The Company does not expect the adoption of this ASU to have an impact on the Company's Consolidated Financial Statements.

In May 2014, the FASB issued ASU 2014-09, " *Revenue from Contracts with Customers*." This ASU states that entities should recognize revenue to properly depict the transfer of negotiated goods or services to customers in an amount that properly reflects the agreed upon consideration which the entity expects to be exchanged. The standard is effective for interim and annual periods beginning after December 15, 2016 and permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. The Company is evaluating the impact of the adoption of this ASU on the Company's Consolidated Financial Statements.

In April 2014, the FASB issued ASU 2014-08, " *Presentation of Financial Statements and Property, Plant, and Equipment: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*." The amendments in the ASU change the criteria for reporting discontinued operations while enhancing disclosures in this area. The new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The new guidance also requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. The amendments in the ASU are effective in the first quarter of 2015 for public organizations with calendar year ends. Early adoption is permitted. The Company has adopted this guidance and there has been no impact from the adoption on the Company's historical Consolidated Financial Statements because the Company has not had any discontinued operations.

NOTE 3 SPONSORS AND MANAGEMENT WARRANTS

On November 9, 2010, we issued warrants to purchase 8.0 million shares of our common stock to certain of our sponsors (the "Sponsors Warrants") with an estimated initial value of approximately \$69.5 million. The initial exercise price for the warrants of \$50.00 per share and the number of shares of common stock underlying each warrant are subject to adjustment for future stock dividends, splits or reverse splits of our common stock or certain other events. In 2012, a sponsor exercised 1,525,272 shares, and we purchased 4,558,061 Sponsor Warrants from certain sponsors for a net cash amount of \$80.5 million. As a result of these transactions, \$108.6 million of additional paid-in-capital was recorded in our financial statements in the year ended December 31, 2012. The Sponsors Warrants expire on November 9, 2017.

In November 2010 and February 2011, we entered into certain agreements (the "Management Warrants") with David R. Weinreb, our Chief Executive Officer, Grant Herlitz, our President, and Andrew C. Richardson, our Chief Financial Officer, in each case prior to his appointment to such position to purchase shares of our common stock. The Management Warrants represent 2,862,687 underlying shares, which may be adjusted pursuant to a net settlement option, were issued pursuant to such agreements at fair value in exchange for a combined total of approximately \$19.0 million in cash from such executives at the commencement of their respective employment. Mr. Weinreb and Mr. Herlitz's warrants have exercise prices of \$42.23 per share and Mr. Richardson's warrants have an exercise price of \$54.50 per share. Generally, the Management Warrants become exercisable in November 2016 and expire in February 2018.

As of December 31, 2014, the estimated \$157.1 million fair value for the Sponsors Warrants representing warrants to

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purchase 1,916,667 shares and the estimated \$209.0 million fair value for the Management Warrants representing warrants to purchase 2,862,687 shares have been recorded as liabilities because the holders of these warrants could require us to settle such warrants in cash upon a change of control. The estimated fair values for the outstanding Sponsors Warrants and Management Warrants were \$141.8 million and \$163.8 million, respectively, as of December 31, 2013. The fair values were estimated using an option pricing model and Level 3 inputs due to the unavailability of comparable market data, as further discussed in Note 7 – *Fair Value of Financial Instruments*. Decreases and increases in the fair value of the Sponsors Warrants and the Management Warrants are recognized as either warrant liability gains or losses, respectively, in the Consolidated Statements of Operations.

NOTE 4 ACQUISITIONS AND DISPOSITIONS

In December 2014, we acquired the Seaport District Assemblage, consisting of a 48,000 square foot commercial building on a 15,744 square foot lot and certain air rights with total residential and commercial development rights of 621,651 square feet at South Street Seaport for \$136.7 million. As of December 31, 2014, we have certain property and air rights representing an additional 196,133 square feet of development rights under contract. If these acquisitions close, we will own commercial development rights on the assemblage totaling 817,784 square feet.

On December 12, 2014, as part of the settlement with GGP relating to the Tax Matters Agreement, we acquired from GGP six unencumbered office buildings consisting of 699,884 square feet of space located in downtown Columbia, Maryland valued at \$130.0 million. The fair value approximated the agreed upon value and was allocated \$79.2 million to buildings, \$23.4 million to land, and \$27.4 million to intangible lease assets consisting of \$25.2 million for in-place leases, \$3.8 million for above-market leases and \$1.6 million for below-market leases. We incurred \$1.5 million in acquisition costs, and these costs are included in other property operating costs. The office buildings, titled 10-60 Columbia Corporate Center, are included in our Operating Assets segment.

During 2014, we acquired 2,055 acres of undeveloped land located in Conroe, Texas for \$98.5 million.

In October 2014, we acquired 85 South Street, an eight story 60,000 square foot multi-family property located two blocks south of Pier 17 and within the Seaport District for \$20.1 million. The purchase price approximated fair value and was allocated \$8.1 million to the building, \$15.9 million to the land, and \$3.9 million for below-market leases. This multi-family apartment building is included in our Operating Assets segment.

During July 2014, we acquired 1701 Lake Robbins, a 12,376 square foot retail building located in The Woodlands for \$5.7 million. The purchase price included the assumption of a mortgage of \$4.6 million. The purchase price approximated fair value and was allocated \$3.7 million to the building, \$1.7 million to the land, and \$0.2 million of intangible lease assets consisting of \$0.3 million for in-place leases and \$0.1 million for below-market leases. This retail building is included in our Operating Assets segment.

In July 2014, we acquired 100% of the fee simple interest in the land underlying our 110 N. Wacker office building located in downtown Chicago, Illinois for \$12.3 million.

On September 30, 2013, we sold the Rio West Mall, a 521,194 square foot shopping center on 50 acres of land, located in Gallup, New Mexico for \$12.0 million. The sale includes our ground lease interest, all buildings, structures and improvements, machinery, equipment and furnishings, and all leases and security deposits. The pre-tax gain recognized on the sale was \$0.6 million.

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On August 15, 2012, we acquired 70 Columbia Corporate Center ("70 CCC"), a 169,590 square foot Class A office building located in the Columbia, Maryland Town Center by assuming a mortgage note from its lender, which encumbered the property and provided a participation right to the lender for 30% of the appreciation in the market value of the property after our preferred return. This mortgage was subsequently paid in full in May 2014. The acquisition was recorded at fair value of \$17.5 million and the fair value of the liabilities assumed was determined using a discounted cash flow analysis. 70 CCC is included in Columbia Office Properties in our Operating Assets segment.

On May 31, 2012, we acquired our partner's interest in the 393 -unit Millennium Waterway Apartments for \$6.9 million, following the funding of a \$55.6 million ten-year non-recourse mortgage bearing interest of 3.75% and we now own 100% of this property. Total assets of \$78.6 million and liabilities of \$56.4 million, including the funded loan, were consolidated into our financial statements at fair value as of the acquisition date, and no gain or loss was recognized. Prior to the acquisition, we accounted for our investment in Millennium Waterway Apartments under the equity method. Included in the Consolidated Statements of Operations are revenues of \$4.4 million and net loss of \$1.3 million since the acquisition date, for the year ended December 31, 2012.

NOTE 5 REAL ESTATE AND OTHER AFFILIATES

Our investment in real estate and other affiliates which are reported on the equity and cost methods are as follows:

	Economic/ Legal Ownership		Carrying Value		Share of Earnings/Dividends		
	December 31,		December 31,		December 31,		
	2014	2013	2014	2013	2014	2013	2012
	(In percentages)				(In thousands)		
Equity Method Investments:							
Circle T Ranch and Power Center (a)	50.00 %	50.00 %	\$ 9,004	\$ 9,004	\$ -	\$ -	\$ -
Discovery Land (a)	-	-	-	-	-	-	-
Forest View/Timbermill Apartments (b) (c)	-	-	-	-	-	-	4
HHMK Development, LLC (a) (d)	50.00 %	50.00 %	10	13	2,120	732	-
KR Holdings, LLC (a) (d)	50.00 %	50.00 %	9,183	19,764	19,470	9,877	-
Millennium Waterway Apartments (c) (e)	100.00 %	100.00 %	-	-	-	-	407
Millennium Woodlands Phase II, LLC (c) (f)	81.43 %	81.43 %	1,023	2,174	(1,291)	(74)	-
Parcel C (a) (d)	50.00 %	50.00 %	8,737	5,801	-	-	-
The Metropolitan Downtown Columbia (a)	50.00 %	50.00 %	4,800	3,461	-	-	-
Stewart Title (c)	50.00 %	50.00 %	3,869	3,843	1,301	1,223	902
Summerlin Apartments, LLC (a) (d)	50.00 %	50.00 %	-	-	-	-	-
Summerlin Las Vegas Baseball Club (c) (d)	50.00 %	50.00 %	10,548	10,636	(88)	(13)	-
Woodlands Sarofim #1 (c)	20.00 %	20.00 %	2,595	2,579	175	180	(6)
			49,769	57,275	21,687	11,925	1,307
Cost basis investments			3,917	3,746	1,649	2,503	2,376
Investment in Real Estate and Other Affiliates			\$ 53,686	\$ 61,021	\$ 23,336	\$ 14,428	\$ 3,683

- (a) Investment included in Strategic Developments segment.
- (b) On April 19, 2012, the joint ventures owning the Forest View and Timbermill Apartments completed their sale to a third party. Our share of the distributable cash, after repayment of debt and transaction expenses, was \$8.6 million.
- (c) Investment included in Operating Assets segment.
- (d) Equity method variable interest entities.
- (e) On May 31, 2012, we acquired our partner's interest for \$6.9 million and consolidated this property.
- (f) Millennium Woodlands Phase II, LLC was placed into service in the beginning of the third quarter of 2014.

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We are not the primary beneficiary of any of the VIEs listed above because we do not have the power to direct activities that most significantly impact the economic performance of such joint ventures and therefore we report our interests on the equity method. Our maximum exposure to loss as a result of these investments is limited to the aggregate carrying value of the investment as we have not provided any guarantees or otherwise made firm commitments to fund amounts on behalf of these VIEs. The aggregate carrying value of the unconsolidated VIEs was \$29.5 million and \$38.4 million as of December 31, 2014 and 2013, respectively, and was classified as Investments in Real Estate and Other Affiliates in the Consolidated Balance Sheets. As of December 31, 2014, approximately \$89.4 million of indebtedness was secured by the properties owned by our Real Estate and Other Affiliates of which our share was approximately \$54.6 million based upon our economic ownership. All of this indebtedness is without recourse to us.

The Company is the primary beneficiary of one VIE which is consolidated in the financial statements. The creditors of the consolidated VIE do not have recourse to the Company. As of December 31, 2014, the carrying values of the assets and liabilities associated with the operations of the consolidated VIE were \$21.1 million and \$0.6 million, respectively. As of December 31, 2013, the carrying values of the assets and liabilities associated with operations of the consolidated VIE were \$31.7 million and \$0.8 million, respectively. The assets of the VIE are restricted for use only by the particular VIE and are not available for our general operations.

Our recent and more significant investments in Real Estate Affiliates and the related accounting considerations are described below.

Discovery Land

During the second quarter 2014, we announced an agreement to enter into a joint venture with Discovery Land Company ("Discovery Land") which had not yet been formed as of December 31, 2014. We will contribute our land to the joint venture at the agreed upon value of \$226,000 per acre or \$125.4 million in 2015. Discovery Land's capital contribution funding requirement consists of all initial development costs and total project costs up to a maximum of \$30.0 million. Discovery Land is the manager of the project.

ONE Ala Moana Condominium Project

On October 11, 2011, we and an entity jointly owned by two local development partners formed a joint venture called HHMK Development, LLC ("HHMK Development") to explore the development of a luxury condominium tower at the Ala Moana Center in Honolulu, Hawaii. On June 14, 2012, we formed another 50/50 joint venture, KR Holdings, with the same partner. We own 50% of each venture and our partners jointly own the remaining 50%.

On September 17, 2012, KR Holdings closed on two \$20.0 million non-recourse mezzanine loan commitments with List Island Properties, LLC and A & B Properties, Inc. These loans have a blended interest rate of 12.00%, were drawn in full on May 15, 2013 and mature on April 30, 2018 with the option to extend for one year. In addition to the mezzanine loans, A & B Properties and List Island Properties both have profit interests in KR Holdings, which entitles them to receive a share of the profits, after a return of our capital plus a 13% preferred return on our capital. A & B Properties' participation is capped at \$3.0 million.

KR Holdings closed on a \$132.0 million first mortgage construction loan on May 15, 2013. Upon the loan closing and under the terms of the venture agreement, we sold to KR Holdings our interest in the condominium rights for net cash proceeds of \$30.8 million and a 50% equity interest in KR Holdings. Our partner contributed \$16.8 million of cash for their 50% equity interest.

In the fourth quarter 2014, the venture substantially completed construction of a luxury 23-story, 206-unit condominium tower consisting of one, two and three-bedroom units ranging from 760 to 4,100 square feet. As of December 31, 2014,

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201 of the 206 units had closed. The venture paid in full the two \$20.0 million mezzanine loans and the \$132.0 million first mortgage construction loan. We received cash distributions totaling \$38.7 million in December 2014.

Summarized financial information for KR Holdings as of December 31, 2014 includes total assets of \$37.5 million, total liabilities of \$18.7 million, gross sales of \$201.0 million and net income of \$43.0 million. Summarized financial information for K.R. Holdings as of December 31, 2013 includes total assets of \$189.0 million, total liabilities of \$135.7 million revenues of \$131.2 million and net income of \$19.7 million. The venture uses the percentage of completion method to recognize earnings, and we recorded \$21.5 million and \$9.9 million in Equity in earnings from Real Estate and Other Affiliates related to KR Holdings in the Consolidated Statement of Operations for the years ended December 31, 2014 and 2013 respectively. Our investment balance includes deferred profit of \$0.2 million which is being recognized on the same percentage of completion basis as KR Holdings.

Millennium Woodlands Phase II, LLC

On May 14, 2012, we entered into a joint venture, Millennium Woodlands Phase II, LLC ("Millennium Phase II"), with The Dinerstein Companies, for the construction of a new 314-unit Class A multi-family complex in The Woodlands Town Center. Our partner is the managing member of Millennium Phase II. As the managing member, our partner controls, directs, manages and administers the affairs of Millennium Phase II. On July 5, 2012, Millennium Phase II was capitalized by our contribution of 4.8 acres of land valued at \$15.5 million, our partner's contribution of \$3.0 million in cash and a construction loan in the amount of \$37.7 million which is guaranteed by our partner. The development of Millennium Phase II further expands our multi-family portfolio in The Woodlands Town Center. During the third quarter 2014, the joint venture completed construction and leasing commenced.

Parcel C

On October 4, 2013, we entered into a joint venture agreement with a local developer, Kettler, Inc. ("Kettler"), to construct a 437-unit, Class A apartment building with 31,000 square feet of ground floor retail on Parcel C in downtown Columbia, MD. We contributed approximately five acres of land having an approximate book value of \$4.0 million to the joint venture. Our land was valued at \$23.4 million or \$53,500 per constructed unit. When the venture closes on the construction loan and upon completion of certain other conditions, including obtaining completed site development and construction plans and an approved project budget, our partner will be required to contribute cash to the venture.

Summerlin Apartments, LLC

On January 24, 2014, we entered into a joint venture with a national multi-family real estate developer, The Calida Group ("Calida"), to construct, own and operate a 124-unit gated luxury apartment development. We and our partner each own 50% of the venture, and unanimous consent of the partners is required for all major decisions. This project represents the first residential development in Summerlin's 400-acre downtown. We will contribute a 4.5-acre parcel of land with an agreed value of \$3.2 million in exchange for a 50% interest in the venture when construction financing closes. Our partner will contribute cash for their 50% interest, act as the development manager, fund all pre-development activities, obtain construction financing and provide any guarantees required by the lender. Upon a sale of the property, we are entitled to 50% of the proceeds up to, and 100% of the proceeds in excess of an amount determined by applying a 7.0% capitalization rate to net operating income ("NOI"). The venture is expected to begin construction in first half 2015 with the first units available for rent by second quarter 2016.

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Summerlin Las Vegas Baseball Club, LLC

On August 6, 2012, we entered into a joint venture for the purpose of acquiring 100% of the operating assets of the Las Vegas 51s, a Triple-A baseball team which is a member of the Pacific Coast League. We own 50% of the venture and our partners jointly own the remaining 50%. Unanimous consent of the partners is required for all major decisions. As of the date the joint venture acquired the baseball team, we had funded our capital contribution of \$10.5 million. Our strategy in owning an interest is to pursue a potential relocation of the team to a to-be-built stadium in our Summerlin master planned community. Efforts to relocate the team are ongoing and there can be no assurance that such a stadium will ultimately be built.

The Metropolitan Downtown Columbia Project

On October 27, 2011, we entered into a joint venture, Parcel D Development, LLC ("Parcel D"), with Kettler to construct a 380-unit Class A apartment building with ground floor retail space in downtown Columbia, Maryland. We and our partner each own 50% of the venture, and unanimous consent of the partners is required for all major decisions. On July 11, 2013, the joint venture closed a \$64.1 million construction loan which is non-recourse to us and \$45.8 million is outstanding as of December 31, 2014. The loan bears interest at one-month LIBOR plus 2.40% and matures in July 2020. At loan closing, our land contribution was valued at \$53,500 per unit, or \$20.3 million, and Kettler contributed \$13.3 million in cash, of which \$7.0 million was distributed to us. Both we and Kettler made additional contributions of \$3.1 million to the joint venture in accordance with the loan agreement, thus increasing our total capital account to \$16.4 million. This transaction was accounted for as a partial sale of the land for which we recognized a net profit of \$0.7 million. We expect the project to be substantially completed by the first quarter of 2015.

NOTE 6 IMPAIRMENT

There were no impairment charges for the years ended December 31, 2014, 2013 and 2012. We frequently evaluate our strategic alternatives with respect to each of our properties and may revise our strategy from time to time, including our intent to hold the asset on a long-term basis or the timing of potential asset dispositions. For example, we may decide to sell property that is held for use and the sale price may be less than the carrying amount. As a result, changes in strategy could result in impairment charges in future periods.

NOTE 7 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents, for each of the fair value hierarchy levels required under ASC 820 ("ASC 820") Fair Value Measurement, our assets and liabilities that are measured at fair value on a recurring basis.

	December 31, 2014			December 31, 2013			
	Fair Value Measurements Using			Fair Value Measurements Using			
	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)
	(In thousands)				(In thousands)		
Assets:							
Cash equivalents	\$ 75,027	\$ 75,027	\$ -	\$ -	\$ -	\$ -	\$ -
Liabilities:							
Warrants	366,080	-	366,080	305,560	-	-	305,560
Interest rate swaps	3,144	-	3,144	4,164	-	4,164	-

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Cash equivalents consist primarily of two registered money market mutual funds which invest in United States treasury securities that are valued at the net asset value of the underlying shares in the funds as of the close of business at the end of each period.

The valuation of warrants is based on an option pricing valuation model. The inputs to the model include the fair value of stock related to the warrants, exercise price and term of the warrants, expected volatility, risk-free interest rate and dividend yield and, with respect to the Management Warrants, a discount for lack of marketability.

The fair values of interest rate swaps 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 following table presents a reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3) which are our Sponsors and Management Warrants:

	December 31,		
	2014	2013	2012
	(In thousands)		
Beginning of year	\$ 305,560	\$ 123,573	\$ 127,764
Warrant liability loss (a)	60,520	181,987	185,017
Settlements (b)	-	-	(189,208)
End of year	<u>\$ 366,080</u>	<u>\$ 305,560</u>	<u>\$ 123,573</u>

(a) All losses during 2014 and 2013, and \$73.8 million of the loss during 2012, were unrealized.

(b) Settlements were for \$80.5 million in cash and 1,525,272 shares of our common stock. Please refer to Note 3 – *Sponsors and Management Warrants*.

The fair values were estimated using an option pricing model and Level 3 inputs due to the unavailability of comparable market data. Changes in the fair value of the Sponsors Warrants and the Management Warrants are recognized in earnings as a warrant liability gain or loss.

The significant unobservable inputs used in the fair value measurement of our warrants designated as Level 3 as of December 31, 2014 are as follows:

	Fair Value (In thousands)	Valuation Technique	Unobservable Inputs	
			Expected Volatility (a)	Marketability Discount (b)
Warrants	\$ 366,080	Option Pricing Valuation Model	24.5%	18.0%-20.0%

(a) Based on our implied equity volatility.

(b) Represents the discount rate for lack of marketability of the Management Warrants. The discount rates ranged from 29.0%-30.0% at December 31, 2013.

The expected volatility and marketability discount in the table above are significant unobservable inputs used to estimate the fair value of our warrant liabilities. An increase in expected volatility would increase the fair value of the liability,

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while a decrease in expected volatility would decrease the fair value of the liability. As the period of restriction lapses, the marketability discount reduces to zero and increases the fair value of the warrants.

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

	Fair Value Hierarchy	December 31, 2014		December 31, 2013	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(In thousands)					
Assets:					
Cash and cash equivalents	Level 1	\$ 485,424	\$ 485,424	\$ 894,948	\$ 894,948
Notes receivable, net (a)	Level 3	28,630	28,630	20,554	20,554
Tax indemnity receivable, including interest	n.a.	-	-(b)	320,494	-(b)
Liabilities:					
Fixed-rate debt	Level 2	\$ 1,030,554	\$ 1,050,333	\$ 1,004,886	\$ 1,045,298
Variable-rate debt (c)	Level 2	962,916	962,916	509,737	509,737
Total mortgages, notes and loans payable	Level 2	\$ 1,993,470	\$ 2,013,249	\$ 1,514,623	\$ 1,555,035

- (a) Notes receivable is shown net of an allowance of \$471 and \$426 for the periods ending December 31, 2014 and 2013 respectively.
 (b) The tax indemnity receivable was settled with GGP during 2014. In 2013 it was not practicable to estimate the fair value, as the timing and ultimate amount received under the agreement, was highly dependent on numerous future events that could not have been reliably predicted. See Note 9 – *Income Taxes* for further detail related to these receivables.
 (c) \$172.0 million of variable-rate debt has been swapped to a fixed rate for the term of the related debt.

Notes receivable are carried at net realizable value which approximates fair value. The estimated fair values are based on certain factors, such as current interest rates, terms of the note and credit worthiness of the borrower.

The fair value of fixed-rate debt in the table above, not including our Senior Notes (as defined in Note 8 – *Mortgages, Notes and Loans Payable*), was estimated based on a discounted future cash payment model, which includes risk premiums and a risk free rate derived from the current London Interbank Offered Rate (“LIBOR”) or U.S. Treasury obligation interest rates. The discount rates reflect our judgment as to what the 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 fair value of our Senior Notes, included in fixed rate debt in the table above, was estimated based upon its most recent trade price.

The carrying amounts for our 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 carrying amounts of cash and cash equivalents and accounts receivable approximate fair value because of the short -term maturity of these instruments.

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NOTE 8 MORTGAGES, NOTES AND LOANS PAYABLE

Mortgages, notes and loans payable are summarized as follows:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
	(In thousands)	
Fixed-rate debt:		
Collateralized mortgages, notes and loans payable	\$ 1,008,165	\$ 971,786
Special Improvement District bonds	22,389	33,100
Variable-rate debt:		
Collateralized mortgages, notes and loans payable (a)	962,916	509,737
Total mortgages, notes and loans payable	<u>\$ 1,993,470</u>	<u>\$ 1,514,623</u>

(a) As more fully described below, \$172.0 million of variable-rate debt has been swapped to a fixed rate for the term of the related debt.

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The following table presents our mortgages, notes, and loans payable by property:

(\$ In thousands)	Maturity (a)	Interest Rate	Maximum Facility Amount	Carrying Value	
				December 31, 2014	December 31, 2013
Master Planned Communities					
Bridgeland Land Loan	June 2022	5.50 %		\$ 15,874	\$ 18,066
Bridgeland Development Loan	June 2015	5.00 % (b)	\$ 30,000	10	-
Summerlin South SID Bonds - S108	December 2016	5.95 %		563	823
Summerlin South SID Bonds - S124	December 2019	5.95 %		236	285
Summerlin South SID Bonds - S128	December 2020	6.05 %		623	707
Summerlin South SID Bonds - S128C	December 2030	6.05 %		5,274	5,511
Summerlin South SID Bonds - S132	December 2020	6.00 %		2,936	3,962
Summerlin South SID Bonds - S151	June 2025	6.00 %		6,211	6,623
Summerlin West SID Bonds - S808/S810	April 2031	6.00 %		2,805	11,168
The Woodlands Master Credit Facility	August 2018	2.91 % (b)	250,000	176,663	176,663
Master Planned Communities Total				211,195	223,808
Operating Assets					
70 Columbia Corporate Center (c)	July 2019	2.41 % (b)		20,000	16,287
Columbia Regional Building	March 2018	2.16 % (b)	23,008	20,513	9,207
Downtown Summerlin	July 2019	2.41 % (b)	311,800	229,153	-
Downtown Summerlin SID Bonds - S108	December 2016	5.95 %		310	452
Downtown Summerlin SID Bonds - S128	December 2030	6.05 %		3,431	3,569
One Hughes Landing	December 2029	4.30 %		52,000	19,128
Two Hughes Landing	September 2018	2.81 % (b)	41,230	19,992	10
1701 Lake Robbins	April 2017	5.81 %		4,600	-
Millennium Waterway Apartments	June 2022	3.75 %		55,584	55,584
110 N. Wacker (d)	October 2019	5.21 % (b)		29,000	29,000
9303 New Trails	December 2023	4.88 %		13,074	13,398
Outlet Collection at Riverwalk	October 2018	2.91 % (b)	64,400	47,118	-
The Woodlands Resort & Conference Center	February 2019	3.66 % (b)	95,000	76,027	36,100
Victoria Ward	September 2016	3.35 % (b)	250,000	238,716	238,716
20/25 Waterway Avenue	May 2022	4.79 %		14,330	14,450
3 Waterway Square	August 2028	3.94 %		52,000	52,000
4 Waterway Square	December 2023	4.88 %		38,289	39,237
Capital lease obligations	Various	3.60 %		135	205
Operating Assets Total				914,272	527,343
Strategic Developments					
1725-35 Hughes Landing Boulevard	June 2019	2.06 % (b)	143,000	47,513	-
Three Hughes Landing	December 2019	2.51 %	65,455	-	-
Hughes Landing Hotel	October 2020	2.66 %	37,100	-	-
Hughes Landing Retail	December 2018	2.11 % (b)	36,575	17,424	913
One Lake's Edge	November 2018	2.66 % (b)	73,525	40,787	-
Waiea and Anaha Condominiums	November 2019	6.91 %	600,000	-	-
Waterway Square Hotel	August 2019	2.81 % (b)	69,300	-	-
Strategic Developments Total				105,724	913
Other Corporate Financing Arrangements	June 2018	3.00 %	22,700	19,968	21,309
Senior Notes	October 2021	6.88 %		750,000	750,000
Unamortized underwriting fees				(7,689)	(8,750)
Total mortgages, notes, and loans payable				\$ 1,993,470	\$ 1,514,623

(a) Maturity date includes any extension periods which can be exercised at our option.

(b) The interest rate presented is based on the one month LIBOR rate, as applicable, at December 31, 2014 which was 0.1635%.

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- (c) The note we assumed on August 15, 2012 was fully paid with cash on hand on April 15, 2014. On June 30, 2014, we entered into a new \$20.0 million mortgage loan at one-month LIBOR plus 2.25%.
- (d) The \$29.0 million outstanding principal balance is swapped to a 5.21% fixed rate through maturity.

The weighted average interest rate on our mortgages, notes and loans payable, excluding interest rate hedges, was 4.61% and 5.25% as of December 31, 2014 and 2013, respectively.

All of the mortgage debt is secured by the individual properties as listed in the table above and is non-recourse to HHC, except for:

- (i) \$750.0 million of Senior Notes;
- (ii) \$311.8 million financing for the Downtown Summerlin development which has an initial maximum recourse of 35.0% assuming the loan is fully drawn, which will reduce to 15.0% upon completion of the project and achievement of a 1.15:1.0 debt service coverage ratio. The recourse further reduces to 10% upon achievement of a 1.25:1.0 debt service coverage ratio, a 90% occupancy level, and average tenant sales of at least \$500.00 per net rentable square foot;
- (iii) \$64.4 million of construction financing for the Outlet Collection at Riverwalk with an initial maximum recourse of 50%, which will be reduced to 25.0% upon completion of the project and the achievement of an 11.0% debt yield and a minimum level of tenant sales per square foot for twelve months;
- (iv) \$20.4 million of Other Corporate Financing Arrangements; and
- (v) \$7.0 million parent guarantee associated with the 110 N. Wacker mortgage.

The Woodlands Master Credit Facility and The Woodlands Resort & Conference Center loans are recourse to the entities that directly own The Woodlands operations. Certain of our 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. Such provisions are not expected to impact our operations in 2015. Certain mortgage notes may be prepaid, but may be subject to a prepayment penalty equal to a yield-maintenance premium, defeasance, or a percentage of the loan balance. As of December 31, 2014, land, buildings and equipment and developments with a cost basis of \$2.3 billion have been pledged as collateral for our mortgages, notes and loans payable.

The following table summarizes the contractual obligations relating to our mortgages, notes and loans payable as of December 31, 2014 based on final maturity dates:

	Mortgages, notes and loans payable principal payments
	(In thousands)
2015	\$ 7,970
2016	247,655
2017	13,773
2018	348,294
2019	394,996
Thereafter	980,782
Total	\$ 1,993,470

As of December 31, 2014, we were in compliance with all of the financial covenants related to our debt agreements.

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Master Planned Communities

On August 8, 2013, The Woodlands refinanced its existing Master Credit Facility with a \$250.0 million credit facility consisting of a \$125.0 million term loan and a \$125.0 million revolver (together, the "TWL Facility"). The TWL Facility bears interest at one-month LIBOR plus 2.75% and has an initial three-year term with two, one-year extension options. The extension options require a reduction of the total commitment to \$220.0 million for the first extension and \$185.0 million for the second extension. The TWL Facility also contains certain covenants that, among other things, require the maintenance of specified financial ratios, limit the incurrence of additional recourse indebtedness at The Woodlands, and limit distributions from The Woodlands to us based on a loan-to-value test. There was \$73.3 million of undrawn and available borrowing capacity under the TWL Facility based on the collateral underlying the facility and covenants as of December 31, 2014.

During the second quarter of 2012, we refinanced \$18.1 million of existing debt related to our Bridgeland Master Planned Community with a ten-year term loan facility at a fixed interest rate of 5.50% for the first five years and three-month LIBOR plus 2.75% for the remaining term and maturing on June 29, 2022. Beginning on June 29, 2014, annual principal payments are required in the amount of 5.00% of the then outstanding principal balance. In addition, we simultaneously entered into a three-year revolving credit facility with aggregate borrowing capacity of \$140.0 million of which \$96.2 million has been utilized as of December 31, 2014 and which has a \$30.0 million maximum outstanding loan amount at any time. The revolving loan bears interest at the greater of 5.00% or one-month LIBOR plus 3.25% and matures on June 29, 2015. This loan is intended to provide working capital at Bridgeland to accelerate development efforts to meet the demand of homebuilders for finished lots in the community. The Bridgeland loans are cross-collateralized and cross-defaulted and the Bridgeland Master Planned Community serves as collateral for the loans. The loans also require that Bridgeland maintain a minimum \$3.0 million cash balance and a minimum net worth of \$250.0 million. Additionally, we are restricted from making cash distributions from Bridgeland unless the revolving credit facility has no outstanding balance and one year of real estate taxes and debt service on the term loan have been escrowed with the lender.

The Summerlin Master Planned Community uses Special Improvement District ("SID") bonds to finance certain common infrastructure improvements. These bonds are issued by the municipalities and, although unrated, 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 us 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 Master Planned Community 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 we previously paid with respect to such proportionate share of the bond.

Operating Assets

On November 10, 2014 we refinanced our \$38.0 million loan and closed on a new \$52.0 million loan for One Hughes Landing. The loan bears fixed interest at 4.30% and matures on December 1, 2029.

On July 18, 2014, we assumed a \$4.6 million non-recourse mortgage loan at 1701 Lake Robbins. The loan bears fixed interest at 5.81% and has a maturity date of April 2017.

On July 15, 2014, we closed a \$311.8 million financing for the construction of Downtown Summerlin development bearing interest at one-month LIBOR plus 2.25%. The loan has an initial maturity date of July 15, 2017, with two, one-year extension options. The loan has an initial maximum recourse of 35.0% assuming the loan is fully drawn, which will reduce

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to 15.0% upon completion of the project and achievement of a 1.15:1.0 debt service coverage ratio. The recourse further reduces to 10% upon achievement of a 1.25:1.0 debt service coverage ratio, a 90% occupancy level, and average tenant sales of at least \$500.00 per net rentable square foot. Upon completion of the project and achievement of a 1.25x debt service coverage ratio, 90.0% occupancy and a minimum level of tenant sales per square foot for 12 months, the recourse amount will decrease to 10.0% of the outstanding principal. Due to the recent opening, we have not met these criteria.

On April 15, 2014, we paid \$17.0 million cash in full satisfaction of the \$16.0 million participating loan that we assumed as part of the acquisition of 70 CCC in August 2012. The non-recourse, interest only promissory note was due to mature on August 31, 2017 and included a participation right to the lender for 30.0% of the appreciation in the market value of the property after our 10.0% cumulative preferred return and repayment of the outstanding debt and our contributed equity. The final payment included approximately \$0.7 million for this participation right based upon the appraised value of the property. On June 27, 2014, we closed on a new \$20.0 million loan for 70 CCC that bears interest at one-month LIBOR plus 2.25% and has an initial maturity date of July 2017 with two, one-year extension options.

On October 24, 2013, we closed on a \$64.4 million partial recourse construction loan for the Outlet Collection at Riverwalk. The loan bears interest at one-month LIBOR plus 2.75%, with an initial maturity date of October 24, 2016 with two, one-year extension options. The initial recourse amount of 50.0% will be reduced to 25.0% upon completion of the project and the achievement of an 11.0% debt yield and a minimum level of tenant sales per square foot for 12 months. Due to the recent opening, we have not met these criteria.

On September 11, 2013, we closed on a non-recourse financing totaling \$41.2 million for the construction of Two Hughes Landing, the second Class A office building in the 66-acre mixed-use development of Hughes Landing on Lake Woodlands, located in The Woodlands. Two Hughes Landing will be a 197,000 square foot, eight-story office building with an adjacent parking garage containing approximately 630 spaces. The loan bears interest at one-month LIBOR plus 2.65% due monthly, with an initial maturity date of September 11, 2016 with two, one-year extension options.

On August 2, 2013, we refinanced the existing \$43.3 million construction loan on 3 Waterway Square, an 11-story, 232,000 square foot office building in The Woodlands, with a non-recourse first mortgage financing totaling \$52.0 million. The loan bears interest at 3.94% and matures on August 11, 2028.

On March 15, 2013, we closed on a non-recourse financing totaling \$23.0 million for the redevelopment of The Columbia Regional Building, a retail building located in Columbia, Maryland. The loan bears interest at one-month LIBOR plus 2.00%. The loan matures on March 15, 2016, and has two, one-year extension options.

On February 8, 2013, we closed on a \$95.0 million non-recourse construction loan which repaid the existing \$36.1 million mortgage and provides funding for the redevelopment of The Woodlands Resort & Conference Center. The loan bears interest at one-month LIBOR plus 3.50% and has an initial maturity of February 8, 2016, with three, one-year extension options. The loan is currently secured by the rooms available for rent, 40-acre conference center and resort located within The Woodlands and requires the maintenance of specified financial ratios after completion of construction.

On May 31, 2012, we closed on a \$55.6 million non-recourse first mortgage loan for the Millennium Waterway Apartments. The proceeds from the mortgage were used to refinance the joint venture's existing debt and to fund our acquisition of the partner's interest in the property. The loan has a fixed interest rate of 3.75% and matures on June 1, 2022.

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On April 26, 2012, we closed on a \$14.5 million non-recourse financing secured by 20/25 Waterway Avenue, located within The Woodlands. The loan bears interest at 4.79% and matures on May 1, 2022.

On December 5, 2011, we obtained a \$41.0 million loan for 4 Waterway Square and a \$14.0 million loan for 9303 New Trails, both located within The Woodlands. These non-recourse mortgages mature on December 11, 2023 and have fixed interest rates of 4.88%.

On September 30, 2011, we closed on a \$250.0 million non-recourse first mortgage financing secured by Ward Village in Honolulu, Hawaii, that bears interest at one-month LIBOR plus 2.50%. The loan may be drawn to a maximum \$250.0 million to fund capital expenditures at the property, provided that the outstanding principal balance cannot exceed 65% of the property's appraised value, and the borrowers are required to have a minimum 10.0% debt yield to draw additional loan proceeds under the facility. The loan permits partial repayment during its term in connection with property releases for development. In the third quarter of 2013, certain properties securing the loan were approved for condominium development. As a result, the properties were removed from the collateral pool and a minor principal paydown of the loan was required. The loan matures on September 29, 2016, and \$143.0 million of the principal balance was swapped to a 3.80% fixed rate for the term of the loan. The loan had a weighted -average interest rate of 3.35% as of December 31, 2014. The unused portion of this mortgage was \$11.3 million as of December 31, 2014.

On May 10, 2011, we closed a \$29.0 million first mortgage financing secured by our office building located at 110 N. Wacker Drive in Chicago, IL. The loan term is coterminous with the expiration of the first term of the existing tenant's lease. The loan has an interest-only period through April 2015 and, thereafter, amortizes ratably to \$12.0 million through maturity on October 31, 2019. We provided a \$7.0 million repayment guarantee for the loan, which is reduced on a dollar for dollar basis during the amortization period.

Strategic Developments

On December 5, 2014 we closed on a \$65.5 million non-recourse financing for the construction of Three Hughes Landing. The loan bears interest at one-month LIBOR plus 2.35%. The loan has an initial maturity date of December 5, 2017 with two, one-year extension options.

On November 6, 2014 we closed on a \$600.0 million non-recourse construction loan for the Waiea and Anaha Condominium towers bearing interest at one-month LIBOR plus 6.75%. The loan has an initial maturity date of November 6, 2017, with two, one-year extension options.

On October 3, 2014, we closed on a \$37.1 million construction financing for our Hughes Landing Hotel. The loan bears interest at one-month LIBOR plus 2.50%. The loan has an initial maturity of October 2018, with two, one-year extension options.

On August 6, 2014, we closed on a \$69.3 million non-recourse construction financing for the Waterway Hotel bearing interest at one-month LIBOR plus 2.65%. The loan has an initial maturity of August 2018, with a one-year extension option. The development will be a 302-room Westin-branded hotel that will be owned and managed by us.

On June 30, 2014, we closed on a \$143.0 million non-recourse construction financing for two office buildings bearing interest at one-month LIBOR plus 1.90%. The loan has an initial maturity date of June 30, 2018, with a one-year extension option.

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On December 20, 2013, we closed on a \$36.6 million non-recourse loan for the construction of Hughes Landing Retail, a 123,000 square foot retail component of Hughes Landing bearing interest at one-month LIBOR plus 1.95%. The loan has an initial maturity date of December 20, 2016, with two, one-year extension options.

On November 25, 2013, we closed on a \$73.5 million non-recourse loan for the construction of an eight-story, Class A, multi-family project within Hughes Landing called One Lake's Edge. The loan bears interest at one-month LIBOR plus 2.50% with an initial maturity date of November 25, 2016, with two, one-year extension options.

Corporate

On October 2, 2013, we issued \$750.0 million in aggregate principal amount of 6.875% Senior Notes due 2021 (the "Senior Notes") and received approximately \$741.3 million of net cash proceeds. Interest is payable semiannually, on April 1 and October 1 of each year starting in April 2014. At any time prior to October 1, 2016, we may redeem up to 35% of the Senior Notes at a price equal to 106.875% using the proceeds from equity offerings. We may redeem all or part of the Senior Notes at any time on or after October 1, 2016 with a declining call premium thereafter to maturity. The Senior Notes contain customary terms and covenants for non-investment grade senior notes and have no maintenance covenants.

NOTE 9 INCOME TAXES

The provision for (benefit from) income taxes for the years ended December 31, 2014, 2013 and 2012 were as follows:

	2014	2013	2012
	(In thousands)		
Current	\$ (2,050)	\$ 1,218	\$ 2,439
Deferred	65,010	8,352	4,448
Total	<u>\$ 62,960</u>	<u>\$ 9,570</u>	<u>\$ 6,887</u>

Income tax expense is computed by applying the Federal corporate tax rate for the years ended December 31, 2014, 2013 and 2012 and is reconciled to the provision for income taxes as follows:

	2014	2013	2012
	(In thousands)		
Tax at statutory rate on earnings from continuing operations before income taxes	\$ 13,800	\$ (22,477)	\$ (42,490)
Increase (decrease) in valuation allowance, net	5,602	(88,826)	(32,172)
State income taxes, net of Federal income tax benefit	1,320	1,562	1,328
Tax at statutory rate on REIT entity earnings not subject to Federal income taxes	(512)	(2,648)	(3,087)
Tax expense (benefit) from change in rates and other permanent differences	(12,193)	4,339	13,908
Set up deferred tax liability related to captive REIT	(1,068)	53,973	-
Non-deductible warrant liability loss	21,182	63,695	65,311
Non-taxable interest income	18,373	(363)	(2,863)
Uncertain tax position expense, excluding interest	2,395	(1,034)	1,765
Uncertain tax position interest, net of Federal income tax benefit	14,061	1,349	5,187
Income tax expense	<u>\$ 62,960</u>	<u>\$ 9,570</u>	<u>\$ 6,887</u>

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Realization of a deferred tax benefit is dependent upon generating sufficient taxable income in future periods. Our net operating loss carry-forwards are currently scheduled to expire in subsequent years through 2034. Some of the net operating loss carry-forward amounts are subject to the separate return limitation year rules ("SRLY"). It is possible that we could, in the future, experience a change in control pursuant to Section 382 that could put limits on the benefit of deferred tax assets. On February 27, 2012, we entered into a Section 382 Rights Agreement, with a three year term, to protect us from such an event and protect our deferred tax assets. On February 26, 2015, the Board of Directors extended the term of the Section 382 Rights Agreement to March 14, 2018. The extension is subject to approval by our stockholders.

As of December 31, 2014, the amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes are as follows:

	Amount	Expiration Date
	(In thousands)	
Net operating loss carryforwards - Federal	\$ 109,096	2024-2034
Net operating loss carryforwards - State	138,221	2015-2034
Capital loss carryforward	26,345	2018-2019
Tax credit carryforwards - Federal AMT	1,955	n/a

As of December 31, 2014 and 2013, we had gross deferred tax assets totaling \$335.7 million and \$336.6 million, and gross deferred tax liabilities of \$379.7 million and \$413.4 million, respectively. We have established a valuation allowance in the amount of \$18.2 million and \$12.6 million as of December 31, 2014 and 2013, respectively, against certain deferred tax assets for which it is more likely than not that such deferred tax assets will not be realized.

Deferred tax assets related to our investment in Head Acquisition, LP in the amount of \$76.4 million that we previously believed had only a remote possibility of realization were recorded in 2012 due to tax planning that made realization possible. Due to the uncertainty that the tax planning would result in the realization of the deferred tax asset we established a 100% valuation allowance. During the fourth quarter 2013, the tax planning was successfully implemented and over 90% of the deferred tax asset was realized and the remaining amount will likely be realized in future years; therefore, we determined that it was appropriate to release the entire valuation allowance in 2013.

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The tax effects of temporary differences and carry-forwards included in the net deferred tax liabilities at December 31, 2014 and 2013 are summarized as follows:

	2014	2013
	(In thousands)	
Deferred tax assets:		
Operating and Strategic Development properties, primarily differences in basis of assets and liabilities	\$ 201,303	\$ 201,993
Interest deduction carryforwards	80,520	85,671
Operating loss and tax credit carryforwards	53,851	48,971
Total deferred tax assets	335,674	336,635
Valuation allowance	(18,218)	(12,624)
Total net deferred tax assets	\$ 317,456	\$ 324,011
Deferred tax liabilities:		
Property associated with Master Planned Communities, primarily differences in the tax basis of land assets and treatment of interest and other costs	\$ (212,093)	\$ (137,930)
Operating and Strategic Development properties, primarily differences in basis of assets and liabilities	(47,355)	(48,007)
Deferred income	(120,213)	(227,439)
Total deferred tax liabilities	(379,661)	(413,376)
Net deferred tax liabilities	\$ (62,205)	\$ (89,365)

The deferred tax liability associated with the Master Planned Communities is largely attributable to the difference between the basis and value determined as of the date of the acquisition by our predecessors of The Rouse Company ("TRC") in 2004 adjusted for sales that have occurred since that time. The cash cost related to this deferred tax liability is dependent upon the sales price of future land sales and the method of accounting used for income tax purposes. The deferred tax liability related to deferred income is the difference between the income tax method of accounting and the financial statement method of accounting for prior sales of land in our Master Planned Communities.

One of our consolidated entities, Victoria Ward, Limited, elected to be taxed as a REIT and intended to continue to operate so as to qualify as a REIT going forward. Consequently, deferred taxes were not recorded on book and tax basis differences of Victoria Ward, Limited as it was believed these differences would ultimately be realized with no taxes due. In connection with the planned condominium development of Victoria Ward, the Company determined that it was likely to revoke its REIT election and consequently, the Company believed that the book and tax basis differences in the land and buildings of Victoria Ward, Limited would be realized after such time REIT status is revoked and would then be taxed at the applicable corporate tax rates. As a result of these events, deferred tax liabilities of \$48.0 million were recorded in 2013 due to the excess book over tax basis relating to land and buildings and reduced to \$46.9 million as of December 31, 2014. As planned, the Company revoked its REIT election effective January 1, 2015.

Although we believe our tax returns are correct, the final determination of tax examinations and any related litigation could be different than what was reported on the returns. In our opinion, we have made adequate tax provisions for years subject to examination. Generally, we are currently open to audit under the statute of limitations by the Internal Revenue Service as well as state taxing authorities for the years ended December 31, 2010 through 2014.

Two of our subsidiaries are involved in a dispute with the IRS relating to years in which those subsidiaries were owned by General Growth Properties ("GGP"), and in connection therewith, GGP provided us with an indemnity against certain

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potential tax liabilities. Pursuant to the Tax Matters Agreement with GGP, GGP had indemnified us from and against 93.75% of any and all losses, claims, damages, liabilities and reasonable expenses to which we become subject (the "Tax Indemnity"), in each case solely to the extent directly attributable to certain taxes related to sales of certain assets in our Master Planned Communities segment prior to March 31, 2010 ("MPC Taxes"), in an amount up to \$303.8 million, plus interest and penalties related to these amounts (the "Indemnity Cap") so long as GGP controlled the action in the United States Tax Court (the "Tax Court") related to the dispute with the IRS.

On May 6, 2011, GGP filed Tax Court petitions on behalf of the two former REIT subsidiaries of GGP seeking a redetermination of federal income tax for the years 2007 and 2008. The petitions seek to overturn determinations by the IRS that the taxpayers were liable for combined deficiencies totaling \$144.1 million. The case was heard by the Tax Court in November 2012 and filed their ruling in favor of the IRS on June 2, 2014.

In December 2014, we entered into a tax indemnity and mutual release agreement with GGP (the "Settlement Agreement") pursuant to which, in consideration of the full satisfaction of GGP's obligation for reimbursement of taxes related to certain assets in our Master Planned Communities segment prior to March 31, 2010, and interest, GGP (i) made a cash payment to us in the amount of \$138.0 million and (ii) conveyed to us fee simple interest in six office properties and related parking garages located in Columbia, Maryland, known as 10-60 Columbia Corporate Center, for an agreed upon total value of \$130.0 million. Under the Settlement Agreement, the Company now controls the Tax Matter, including the right to decide whether to appeal the decision. On December 15, 2014, the Company paid the MPC Taxes and filed an appeal of the decision to the Fifth Circuit Court of Appeals. The appeal seeks to overturn the decision and allow the Company to continue to use its current method of tax accounting for the sale of assets in the Company's Master Planned Communities Segment. If the decision stands, we may be required to change our method of tax accounting for certain transactions, which could affect the timing of our future tax payments. We expect the appeal to be heard by the appellate court in 2015.

As a result of the settlement, we recorded a net \$74.0 million non-cash charge representing the difference between the \$268.0 million value of the consideration received from GGP and the receivable recorded on our books. When we were spun-off from GGP in 2010, we recognized a receivable from GGP equal to the amount of the indemnity cap. However, the Tax Matters Agreement stipulated that a certain tax asset on our books related to deferred interest deductions be used to reduce GGP's indemnity obligation to us, when utilized in our tax returns. As a result, we had reduced the indemnity receivable as we utilized the tax asset. Going forward, we now will get 100% of the benefit of the tax asset, which totaled \$85.1 million before netting against an unrecognized tax benefit per ASU 2013-11 (described below), at December 31, 2014. We also could recover approximately \$60 million of cash interest paid to the U.S. Government if we prevail on appeal.

We apply the generally accepted accounting principle related to accounting for uncertainty in income taxes, which prescribes a recognition threshold that a tax position is required to meet before recognition in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition issues.

In 2014, we adopted the guidance in ASU 2013-11, "*Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.*" The impact of adoption on the financial statements in 2014 is a reclassification of \$39.0 million between Deferred tax assets and Uncertain tax position liability and \$2.5 million between Income tax receivable and Uncertain tax position liability.

We recognize and report interest and penalties, if applicable, within our provision for income tax expense. We recognized potential interest expense related to the unrecognized tax benefits of \$21.6 million, \$2.1 million and \$8.2 million for the years ended December 31, 2014, 2013 and 2012, respectively. At December 31, 2014, we had total unrecognized tax

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benefits of \$184.2 million, excluding interest of \$60.3 million, of which none would impact our effective tax rate. At December 31, 2013 and 2012, we had total unrecognized tax benefits of \$90.5 million and \$95.9 million, respectively, excluding interest, of which none would impact our effective tax rate. A reconciliation of the change in our unrecognized tax benefits for the years ended December 31, 2014, 2013 and 2012 is as follows:

	2014	2013	2012
	(In thousands)		
Unrecognized tax benefits, opening balance	\$ 90,532	\$ 95,917	\$ 101,408
Gross increases - tax positions in prior period	93,668	9,162	841
Gross decreases - tax positions in prior periods	-	(14,547)	(6,332)
Unrecognized tax benefits, ending balance	\$ 184,200	\$ 90,532	\$ 95,917

Periodically we make payments to taxing jurisdictions which reduce our uncertain tax benefits, but are not included in the reconciliation above, as the position is not yet settled. The amount of payments that reduced our uncertain tax benefits was \$144.1 million at December 31, 2014 and zero at December 31, 2013 and 2012, respectively.

Based on our assessment of the expected outcome of existing examinations or examinations that may commence, or as a result of the expiration of the statute of limitations for specific jurisdictions, it is reasonably possible that the related unrecognized tax benefits, excluding accrued interest, for tax positions taken regarding previously filed tax returns will materially change from those recorded at December 31, 2014. As of December 31, 2014, there is approximately \$184.2 million of unrecognized tax benefits, excluding accrued interest, which due to the reasons above, could significantly increase or decrease during the next twelve months.

NOTE 10 COMMITMENTS AND CONTINGENCIES

In the normal course of business, from time to time, we are involved in legal proceedings relating to the ownership and operations of our properties. In management's opinion, the liabilities, if any, that may ultimately result from such legal actions are not expected to have a material effect on our consolidated financial position, results of operations or liquidity.

We had outstanding letters of credit and surety bonds totaling \$ 53.7 million and \$58.7 million as of December 31, 2014 and 2013, respectively. These letters of credit and bonds were issued primarily in connection with insurance requirements, special real estate assessments and construction obligations.

We lease land or buildings at certain properties from third parties. Rental payments are expensed as incurred and have, to the extent applicable, been straight-lined over the term of the lease. Contractual rental expense, including participation rent, was \$ 7.3 million, \$6.3 million and \$5.4 million for 2014, 2013 and 2012, respectively. The amortization of above and below-market ground leases and straight-line rents included in the contractual rent amount, was not significant.

Our obligations for minimum rentals under non-cancelable operating leases are as follows:

	2015	2016	2017	2018	2019	Subsequent / Other	Total
	(In thousands)						
Ground lease and other leasing commitments	\$ 8,151	\$ 9,308	\$ 9,687	\$ 7,717	\$ 7,933	\$ 329,233	\$ 372,029

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South Street Seaport

On June 27, 2013, the City of New York executed the amended and restated ground lease for South Street Seaport. The restated lease terms provide for annual fixed rent of \$1.2 million starting July 1, 2013 with an expiration of December 30, 2072, including our options to extend. The rent escalates at 3.0% compounded annually. On July 1, 2018 the base rent will be adjusted to the higher of the fair market value or the then base rent. In addition to the annual base rent of \$1.2 million, we are required to make annual payments of \$210,000 as additional rent through the term of the lease. The additional rent escalates annually at the Consumer Price Index. We are entitled to a total rent credit of \$1.5 million, to be taken monthly over a 30-month period. Simultaneously with the execution of the lease, we executed a completion guaranty for the redevelopment of Pier 17. The completion guaranty requires us to perform certain obligations under the lease, including the commencement of construction by October 1, 2013 with a scheduled completion date in 2017.

In the fourth quarter of 2012, the Uplands portion of South Street Seaport suffered damage due to flooding as a result of Superstorm Sandy. Reconstruction efforts are ongoing and the property is only partially operating. We have received \$47.6 million in insurance proceeds through December 31, 2014 related to our claim. We have recognized a total of \$36.8 million in Other income to date, including \$24.6 million during the year ended December 31, 2014. We believe that our insurance will reimburse substantially all of the costs of repairing the property and will also compensate us for substantially all lost income resulting from the storm.

NOTE 11 OTHER ASSETS AND LIABILITIES

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

	December 31,	
	2014	2013
	(In thousands)	
Special Improvement District receivable	\$ 33,318	\$ 39,688
Equipment, net of accumulated depreciation of \$2.4 million and \$0.7 million, respectively	20,284	21,978
Tenant incentives and other receivables	14,264	6,757
Federal income tax receivable	8,629	6,053
Prepaid expenses	9,196	4,744
Below-market ground leases (Note 12)	19,663	20,002
Condominium deposits	151,592	12,405
Security and escrow deposits	9,829	28,082
Above-market tenant leases (Note 12)	4,656	1,095
Uncertain tax position asset	383	13,528
In-place leases (Note 12)	32,715	9,306
Intangibles	3,593	3,714
Other	2,014	6,588
	<u>\$ 310,136</u>	<u>\$ 173,940</u>

The \$136.2 million increase as of December 31, 2014 compared to 2013 primarily relates to a \$139.2 million increase in condominium deposits at Ward Village, \$23.4 million increase in acquired in-place leases primarily attributable to our acquisition of the 10-60 Columbia Corporate Center buildings and 1701 Lake Robbins in 2014 and \$7.5 million increase in tenant incentives and other receivables primarily relating to newly executed leases at Downtown Summerlin and Outlet Collection at Riverwalk. These increases are offset by a decrease of \$18.3 million in security and escrow deposits primarily

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related to our acquisition of 80 South Street and \$13.1 million decrease in uncertain tax position related to a tax benefit for the interest paid to the Internal Revenue Service related to the Tax Court Ruling.

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

	December 31,	
	2014	2013
	(In thousands)	
Construction payables	\$ 170,935	\$ 106,741
Accounts payable and accrued expenses	34,154	44,798
Condominium deposits	82,150	12,405
Membership deposits	21,023	19,665
Above-market ground leases (Note 12)	2,272	2,431
Deferred income	65,675	26,328
Accrued interest	14,791	17,463
Accrued real estate taxes	9,903	8,581
Tenant and other deposits	12,756	9,490
Accrued payroll and other employee liabilities	25,838	15,666
Interest rate swaps	3,144	4,164
Special Assessment	2,326	2,603
Other	21,050	13,656
	<u>\$ 466,017</u>	<u>\$ 283,991</u>

The \$182.0 million increase as of December 31, 2014 compared to 2013 is primarily due to the increase of \$69.7 million in condominium deposits for the two new market rate towers at Ward Village, a \$64.2 million increase in construction payables primarily due to increased development activities at Downtown Summerlin, Ward Village, and the Outlet Collection at Riverwalk, \$46.7 million increase in deferred income primarily due to increased land sales and the deferral of a portion of the income for post-sale land development obligations at our Summerlin MPC, and \$10.2 million increase in accrued payroll and other employee liabilities due to increased headcount and compensation costs. These increases are offset by a \$3.8 million decrease in membership deposits at the Club at Carlton Woods.

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NOTE 12 INTANGIBLES**Intangible Assets and Liabilities**

The following table summarizes our intangible assets and liabilities:

	<u>Gross Asset (Liability)</u>	<u>Accumulated (Amortization) / Accretion</u>	<u>Net Carrying Amount</u>
	(In thousands)		
As of December 31, 2014			
Tenant leases:			
In-place value	\$ 39,634	\$ (6,919)	\$ 32,715
Above-market	5,342	(686)	4,656
Below-market	(6,184)	296	(5,888)
Ground leases:			
Above-market	(3,545)	1,273	(2,272)
Below-market	23,096	(3,433)	19,663
As of December 31, 2013			
Tenant leases:			
In-place value	\$ 14,633	\$ (5,327)	\$ 9,306
Above-market	1,596	(501)	1,095
Below-market	(482)	150	(332)
Ground leases:			
Above-market	(3,546)	1,115	(2,431)
Below-market	23,096	(3,094)	20,002

The tenant in-place, above-market and below-market lease intangible assets and the above-market and below-market ground lease intangible assets resulted from real estate acquisitions. The in-place value of tenant leases are included in Prepaid expenses and other assets in our Consolidated Balance Sheets and are amortized over periods that approximate the related lease terms. The above-market and below-market tenant and ground leases are included in Prepaid expenses and other assets and Accounts payable and accrued expenses as detailed in Note 11 – *Other Assets and Other Liabilities* and are amortized over the remaining non-cancelable terms of the respective leases.

Amortization/accretion of these intangible assets and liabilities decreased our income (excluding the impact of noncontrolling interest and the provision for income taxes) by \$1.8 million in 2014, \$3.1 million in 2013 and \$2.5 million in 2012.

Future amortization/accretion is estimated to decrease income (excluding the impact of noncontrolling interest and the provision for income taxes) by \$10.6 million in 2015, \$7.6 million in 2016, \$5.6 million in 2017, \$3.7 million in 2018, \$2.7 million in 2019, and \$18.7 million thereafter.

NOTE 13 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We are exposed to interest rate risk related to our variable interest rate debt, and we manage this risk by utilizing interest rate derivatives. Our objectives in using interest rate derivatives are to add stability to interest costs by reducing our exposure to interest rate movements. To accomplish this objective, we use interest rate swaps and caps as part of our

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interest rate risk management strategy. 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 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 effective portion of changes in the fair value of derivatives designated and that qualify 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. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the years ended December 31, 2014, 2013 and 2012, the ineffective portion recorded in earnings was insignificant.

As of December 31, 2014 and 2013, we had gross notional amounts of \$172.0 million for interest rate swaps and a \$100.0 million interest rate cap that were designated as cash flow hedges of interest rate risk. The fair value of the interest rate cap derivative was insignificant.

If the interest rate swap agreements 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 according to the original strategy, any related amounts previously recorded in AOCI are recognized in earnings immediately.

Amounts reported in AOCI related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt. Over the next 12 months, we estimate that an additional \$ 1.8 million will be reclassified to interest expense.

The table below presents the fair value of our derivative financial instruments which are included in accounts payable and accrued liabilities in the Consolidated Balance Sheets:

	<u>As of December 31,</u>	
	<u>2014</u>	<u>2013</u>
	(In thousands)	
Interest rate swaps	\$ 3,144	\$ 4,164
Total derivatives designated as hedging instruments	<u>\$ 3,144</u>	<u>\$ 4,164</u>

The tables below present the effect of our derivative financial instruments on the Consolidated Statements of Operations for the years ended December 31, 2014 and 2013:

	<u>Year Ended December 31,</u>		Location of Loss Reclassified from AOCI into Earnings	<u>Year Ended December 31,</u>	
	<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>
	Amount of Loss Recognized in OCI	Amount of Gain Recognized in OCI		Amount of Loss Reclassified from AOCI into Earnings	Amount of Loss Reclassified from AOCI into Earnings
Cash Flow Hedges	(In thousands)			(In thousands)	
Interest rate swaps	\$ (1,192)	\$ 1,306	Interest expense	\$ (2,195)	\$ (1,236)
	<u>\$ (1,192)</u>	<u>\$ 1,306</u>		<u>\$ (2,195)</u>	<u>\$ (1,236)</u>

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NOTE 14 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes AOCI:

Changes in Accumulated Other Comprehensive Income (Loss) by Component (a)

**Gains and (Losses) on Cash Flow Hedges
(In Thousands)**

	For the Year Ended December 31, 2014
Balance as of January 1, 2014	\$ (8,222)
Other comprehensive income (loss) before reclassifications	(1,685)
Amounts reclassified from accumulated other comprehensive income (loss)	2,195
Net current-period other comprehensive income	510
Balance as of December 31, 2014	\$ (7,712)

	For the Year Ended December 31, 2013
Balance as of January 1, 2013	\$ (9,575)
Other comprehensive income (loss) before reclassifications	117
Amounts reclassified from accumulated other comprehensive income (loss)	1,236
Net current-period other comprehensive income	1,353
Balance as of December 31, 2013	\$ (8,222)

(a) All amounts are net of tax.

The following table summarizes the amounts reclassified out of AOCI:

**Reclassifications out of Accumulated Other Comprehensive Income (Loss)
(In thousands)**

Accumulated Other Comprehensive Income Components	Affected line item in the Statement of Operations	Amounts reclassified from Accumulated Other Comprehensive Income (Loss)	
		For the Year Ended December 31, 2014	For the Year Ended December 31, 2013
Gains and losses on cash flow hedges			
Interest rate swaps	Interest expense	\$ (2,502)	\$ (967)
	Provision for income taxes	307	(269)
Total reclassifications for the period	Net of tax	\$ (2,195)	\$ (1,236)

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NOTE 15 STOCK BASED PLANS

On November 9, 2010 (the "Effective Date"), HHC adopted The Howard Hughes Corporation 2010 Equity Incentive Plan (the "Equity Plan"). Pursuant to the Equity Plan, 3,698,050 shares of HHC common stock were reserved for issuance. The Equity Plan provides for grants of options, stock appreciation rights, restricted stock, other stock-based awards and performance-based compensation (collectively, "the Awards"). Directors, employees and consultants of HHC and its subsidiaries and affiliates are eligible for awards. The Equity Plan is administered by the Compensation Committee of the Board of Directors ("Committee"). Option grant amounts are awarded by the Committee.

Compensation cost for share-based payment arrangements totaled \$8.2 million, \$5.7 million and \$4.3 million for 2014, 2013 and 2012, respectively. As of December 31, 2014, there were a maximum of 2,434,995 shares available for future grant under our various stock plans.

Stock Options

The following tables summarize stock option activity:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value
Stock options outstanding at January 1, 2012	712,640	\$ 57.72		
Granted	200,000	64.19		
Exercised	-	-		
Forfeited	(50,700)	58.62		
Expired	-	-		
Stock options outstanding at December 31, 2012	<u>861,940</u>	<u>\$ 59.17</u>		
Granted	132,100	99.38		
Exercised	-	-		
Forfeited	(28,600)	62.40		
Expired	-	-		
Stock options outstanding at December 31, 2013	<u>965,440</u>	<u>\$ 64.57</u>		
Granted	116,500	144.26		
Exercised	-	-		
Forfeited	(35,450)	87.45		
Expired	-	-		
Stock options outstanding at December 31, 2014	<u>1,046,490</u>	<u>\$ 72.61</u>	7.0	\$ 61,986,678
Stock options exercisable at December 31, 2014	<u>400</u>	<u>\$ 57.77</u>	2.5	\$ 29,060
Remaining unvested options outstanding and expected to vest	<u>1,024,077</u>	<u>\$ 72.33</u>	7.0	\$ 60,907,525

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Information related to stock options outstanding as of December 31, 2014 is summarized below:

<u>Range of Exercise Prices</u>	<u>Number Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u> (In years)	<u>Number Exercisable</u>
\$46.49 - \$55.82	63,500	\$ 51.26	6.8	-
\$57.77 - \$60.33	580,400	57.95	6.3	400
\$61.64 - \$69.75	170,240	66.17	7.3	-
\$81.80 - \$110.50	128,100	99.90	8.5	-
\$125.09 - \$151.72	104,250	144.17	9.4	-
	<u>1,046,490</u>	<u>\$ 71.02</u>	<u>7.0</u>	<u>400</u>

The fair value on the grant date and the significant assumptions used in the Black -Scholes option-pricing model are as follows:

	<u>As of December 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Grant date fair value	\$ 48.65	\$ 28.04	\$ 19.33
Expected life of options (in years)	7.5	7.3	7.3
Risk-free interest rate	2.2%	1.8%	1.4%
Expected volatility	25.7%	22.0%	25.0%
Expected annual dividend per share	-	-	-

The computation of the expected volatility assumption used in the Black -Scholes calculations is based on the median asset volatility of comparable companies as of each of the grant dates.

Generally, options granted vest over requisite service periods or on a graduated scale based on total shareholder returns, expire ten years after the grant date and generally do not become exercisable until their restrictions on exercise lapse after the five -year anniversary of the grant date. For options that vest based on shareholder returns, the grant date fair values are calculated using a Monte-Carlo approach which simulates our stock price on the corresponding vesting dates before applying the Black Scholes model.

The balance of unamortized stock option expense as of December 31, 2014 is \$12.8 million, which is expected to be recognized over a weighted-average period of 3.0 years. Expense associated with stock options was \$4.3 million, \$3.5 million and \$3.0 million for the years ended December 31, 2014, 2013 and 2012, respectively, which are included in General and administrative expense in the accompanying Consolidated Statements of Operations.

Restricted Stock

Restricted stock awards issued under the Equity Plan provide that shares awarded may not be sold or otherwise transferred until restrictions have lapsed as established by the Committee. In addition to the granting of restricted stock to certain members of management, we award restricted stock to our non-employee directors as part of their annual retainer. The management awards vest over five years, and the restriction on the non-employee director shares lapse in June of each year. Generally, upon termination of employment or directorship, restricted stock units and restricted shares which have not vested are forfeited.

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The following table summarizes restricted stock activity:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Restricted stock outstanding at January 1, 2012	42,553	\$ 65.18
Granted	27,933	63.86
Vested	<u>(12,553)</u>	<u>59.77</u>
Restricted stock outstanding at December 31, 2012	57,933	\$ 65.72
Granted	77,434	79.77
Vested	<u>(13,033)</u>	<u>60.15</u>
Restricted stock outstanding at December 31, 2013	122,334	\$ 75.21
Granted	61,750	\$ 126.38
Vested	<u>(11,394)</u>	<u>97.72</u>
Restricted stock outstanding at December 31, 2014	<u>172,690</u>	<u>\$ 92.02</u>

The grant date fair value of the restricted stock is based on the closing sales price of our common stock on the grant date. For restricted stock awards that vest based on shareholder returns, the grant date fair values are calculated using a Monte-Carlo approach which simulates expected stock value on corresponding vesting dates and then discounts that back to the valuation date.

Recognized compensation expense of \$3.9 million, \$2.2 million and \$1.3 million for the years ended December 31, 2014, 2013 and 2012, respectively, and are included in General and administrative expense related to restricted stock awards in the accompanying Consolidated Statements of Operations. The fair value of restricted stock that vested during 2014 was \$1.7 million. The balance of unamortized restricted stock expense as of December 31, 2014 was \$10.4 million, which is expected to be recognized over a weighted-average period of 3.33 years.

NOTE 16 RENTALS UNDER OPERATING LEASES

We receive rental income from the leasing of retail, office, multi-family and other space under operating leases. Such operating leases are with a variety of tenants, the majority of which are national and regional retail chains and local

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retailers. The minimum future rentals based on operating leases of our consolidated properties held as of December 31, 2014 are as follows:

Year	Total Minimum Rent (In thousands)
2015	\$ 112,488
2016	103,487
2017	96,518
2018	88,816
2019	81,872
Subsequent	309,936

Minimum future rentals exclude amounts which are payable by certain tenants based upon a percentage of their gross sales or as reimbursement of operating expenses and amortization of above-market and below-market tenant leases.

Percentage rent in lieu of fixed minimum rent recognized from tenants for the years ended December 31, 2014, 2013 and 2012 was \$2.9 million, \$2.2 million and \$3.8 million, respectively.

Overage rent of approximately \$2.4 million, \$2.6 million, and \$2.8 million for the years ended December 31, 2014, 2013 and 2012, respectively, are included in Other rental and property revenues in our Consolidated Statements of Operations.

NOTE 17 SEGMENTS

We have three business segments which offer different products and services. Our three segments are managed separately because each requires different operating strategies or management expertise and are reflective of management's operating philosophies and methods. In addition, our segments or assets within such segments could change in the future as development of certain properties commences or other operational or management changes occur. We do not distinguish or group our combined operations on a geographic basis. Furthermore, all operations are within the United States. Our reportable segments are as follows:

- Master Planned Communities ("MPCs") – includes 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. For the year ended December 31, 2014, one commercial land sales buyer represented 11% of revenues of the Company.
- Operating Assets – includes retail, office, and multi-family properties, The Woodlands Resort & Conference Center, The Club at Carlton Woods and other real estate investments. These assets are currently generating revenues, and we believe there is an opportunity to redevelop or reposition certain of these assets to improve operating performance.
- Strategic Developments – includes our condominium projects and all other properties held for development which have no substantial operations.

Our segments are managed separately, therefore we use different operating measures to assess operating results and allocate resources among the segments. The one common operating measure used to assess operating results for the business segments is Real Estate Property Earnings Before Taxes ("REP EBT") which represents the operating revenues

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of the properties less property operating expenses and adjustments for interest, as further described below. We believe that REP EBT provides useful information about the operating performance of all of our properties.

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

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Segment operating results are as follows:

	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Master Planned Communities			
Land sales	\$ 325,099	\$ 251,217	\$ 182,643
Builder price participation	20,908	9,356	5,747
Minimum rents	818	781	576
Other land revenues	16,470	13,416	18,073
Total revenues	<u>363,295</u>	<u>274,770</u>	<u>207,039</u>
Cost of sales - land	119,672	124,040	89,298
Land sales operations	31,932	30,826	32,817
Land sales real estate and business taxes	9,862	7,588	7,558
Provision for (recovery of) doubtful accounts	(11)	-	-
Depreciation and amortization	397	32	72
Interest income	(118)	(16)	(45)
Interest expense (*)	(19,620)	(18,678)	(14,598)
Total expenses	<u>142,114</u>	<u>143,792</u>	<u>115,102</u>
MPC EBT	<u>221,181</u>	<u>130,978</u>	<u>91,937</u>
Operating Assets			
Minimum rents	95,807	80,124	81,140
Tenant recoveries	28,133	20,901	23,210
Resort and conference center revenues	37,921	39,201	39,782
Other rental and property revenues	24,429	20,360	20,959
Total revenues	<u>186,290</u>	<u>160,586</u>	<u>165,091</u>
Other property operating costs	62,752	61,146	60,072
Rental property real estate taxes	14,860	12,065	11,292
Rental property maintenance costs	8,592	7,552	8,073
Resort and conference center operations	31,829	29,454	29,112
Provision for doubtful accounts	1,399	835	1,335
Demolition costs	6,712	2,078	-
Development-related marketing costs	9,770	3,462	-
Depreciation and amortization	49,272	31,427	23,318
Interest income	(151)	(135)	(185)
Interest expense	17,081	19,146	16,289
Equity in Earnings from Real Estate and Other Affiliates	(2,025)	(3,893)	(3,683)
Total expenses	<u>200,091</u>	<u>163,137</u>	<u>145,623</u>
Operating Assets EBT	<u>(13,801)</u>	<u>(2,551)</u>	<u>19,468</u>
Strategic Developments			
Minimum rents	609	763	905
Tenant recoveries	220	167	141
Condominium rights and unit sales	83,565	32,969	267
Other land revenues	33	-	-
Other rental and property revenues	553	163	3,443
Total revenues	<u>84,980</u>	<u>34,062</u>	<u>4,756</u>
Condominium rights and unit cost of sales	49,995	16,572	96
Other property operating costs	4,282	5,547	3,094
Real estate taxes	2,547	2,226	2,351
Rental property maintenance costs	543	531	582
Provision for (recovery of) doubtful accounts	16	-	(111)
Demolition costs	22	-	-
Development-related marketing costs	13,013	1,449	-
Other income, net	(2,373)	(3,609)	-
Depreciation and amortization	1,706	189	225
Interest expense (*)	(11,918)	(4,318)	219
Equity in Earnings from Real Estate and Other Affiliates	(21,311)	(10,535)	-
Total expenses	<u>36,522</u>	<u>8,052</u>	<u>6,456</u>
Strategic Developments EBT	<u>48,458</u>	<u>26,010</u>	<u>(1,700)</u>
REP EBT	<u>\$ 255,838</u>	<u>\$ 154,437</u>	<u>\$ 109,705</u>

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(*) Negative interest expense amounts are due to interest capitalized in our Master Planned Communities and Strategic Developments segments related to Operating Assets segment debt and the Senior Notes.

The following reconciles REP EBT to GAAP-basis income (loss) before taxes:

Reconciliation of REP EBT to GAAP-net income (loss) before taxes	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
REP EBT	\$ 255,838	\$ 154,437	\$ 109,705
General and administrative	(73,569)	(48,466)	(36,548)
Corporate interest income/(expense), net	(30,819)	(10,575)	10,153
Warrant liability loss	(60,520)	(181,987)	(185,017)
Increase (reduction) in tax indemnity receivable	90	(1,206)	(20,260)
Loss on settlement of tax indemnity receivable	(74,095)	-	-
Corporate other income, net	27,098	25,869	2,125
Corporate depreciation and amortization	(4,583)	(2,197)	(814)
Income (loss) before taxes	\$ 39,440	\$ (64,125)	\$ (120,656)

The following reconciles segment revenues to GAAP-basis consolidated revenues:

Reconciliation of Segment Basis Revenues to GAAP Revenues	Year Ended December 31,		
	2014	2013	2012
	(In thousands)		
Master Planned Communities	\$ 363,295	\$ 274,770	\$ 207,039
Operating Assets	186,290	160,586	165,091
Strategic Developments	84,980	34,062	4,756
Total revenues	\$ 634,565	\$ 469,418	\$ 376,886

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

	Year Ended December 31,	
	2014	2013
	(In thousands)	
Master Planned Communities	\$ 1,877,043	\$ 1,760,639
Operating Assets	1,934,350	1,158,337
Strategic Developments	879,896	462,525
Total segment assets	4,691,289	3,381,501
Corporate and other	428,642	1,186,367
Total assets	\$ 5,119,931	\$ 4,567,868

A portion of the tax indemnification asset in the amount of \$185.7 million was incorrectly included in the Operating Assets segment at December 31, 2013 rather than the Corporate segment. The amounts in the table above at December 31, 2013 have been corrected to appropriately include the entire tax indemnification asset of \$320.5 million in the Corporate segment.

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The increase in the Operating Asset segment asset balance as of December 31, 2014 of \$776.0 million compared to 2013 is primarily due to the opening of Downtown Summerlin, \$423.7 million; the reopening of The Outlet Collection at Riverwalk, \$53.8 million; the acquisitions of 10-60 Columbia Office Properties, \$130 million, 85 South Street, \$24.4 million and the fee simple interest at 110 Wacker, \$12.2 million; the placing in service of Two Hughes Landing, \$45.2 million and 3831 Technology Forest Drive, \$16.6 million; increased development expenditures at Seaport, \$61.0 million; and the completion of the renovation at The Woodlands Resort & Conference Center \$52.4 million.

The increase in the Strategic Development segment's asset balance as of December 31, 2014 of \$394.1 million compared to December 31, 2013 is primarily due to \$151.6 million of buyer deposits collected on the sale of condominium units for both Waiea Condominiums and Anaha Condominiums in Ward Village, the \$141.8 million purchase of a land parcel near South Street Seaport, development costs of \$78.0 million for the 1725-35 Hughes Landing Boulevard office buildings, \$41.6 million for Ward Village, \$58.7 million for One Lake's Edge, \$20.3 million for Hughes Landing Retail, \$18.8 million for Waterway Square Hotel (Westin), \$31.9 million for various other development projects at The Woodlands, \$22.2 million in buildings and equipment from the completion of the transformation of the IBM building at Ward Village into an information center and sales gallery, and the reduction of \$163.8 million resulting from the transfer of Downtown Summerlin and Two Hughes Landing to the Operating segment.

Corporate and other assets as of December 31, 2014 consist primarily of Cash and cash equivalents. The \$757.7 million decrease compared to December 31, 2013 is primarily due to cash used to fund the Conroe and Seaport District Assemblage acquisitions, as well as a \$65.3 million tax payment made to the IRS as a result of the Tax Court case ruling net of \$138.0 million received from GGP in connection with the Settlement Agreement. See Note 9 – *Income Taxes*.

NOTE 18. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	2014			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except share amounts)			
Total revenues	\$ 98,653	\$ 209,631	\$ 119,228	\$ 207,053
Operating income	13,947	91,781	23,850	37,144
Net income (loss)	(86,331)	(14,733)	45,615	31,929
Net income (loss) attributable to common stockholders	(86,316)	(14,760)	45,615	31,930
Earnings (loss) per share:				
Basic	(2.19)	(0.37)	1.16	0.81
Diluted	(2.19)	(0.37)	0.48 (a)	(1.18)(a)
Weighted average shares outstanding:				
Basic	39,454	39,458	39,465	39,464
Diluted	39,454	39,458	43,171	43,027

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	2013			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except share amounts)			
Total revenues	\$ 90,091	\$ 145,759	\$ 99,615	\$ 133,953
Operating income	9,294	47,790	10,700	43,430
Net income (loss)	(23,170)	(76,496)	7,433	18,538
Net income (loss) attributable to common stockholders	(23,124)	(76,554)	7,335	18,533
Earnings (loss) per share:				
Basic	(0.59)	(1.94)	0.19	0.47
Diluted	(0.59)	(1.94)	0.17 (a)	0.44 (a)
Weighted average shares outstanding:				
Basic	39,441	39,445	39,454	39,454
Diluted	39,441	39,445	42,439	42,529

- a) Diluted earnings per share includes the impact of warrants, in the money options and restricted stock. Net income was also adjusted for the warrant gain during the period.

**SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2014**

Name of Center	Location	Initial Cost (b)		Costs Capitalized Subsequent to Acquisition (c)		Gross Amounts at Which Carried at Close of Period (d)			Accumulated Depreciation (f)	Date of Construction	Date Acquired / Completed
		Encumbrances (a)	Land	Buildings and Improvements (f)	Land	Buildings and Improvements (f)	Land	Buildings and Improvements (e)			
Alameda Plaza	Pocatello, ID	\$ -	\$ 740	\$ 2,060	\$ (740)	\$ (1,381)	\$ -	\$ 679	\$ 679	\$ -	2002
AllenTowne Anaha	Dallas, TX	-	25,575	-	(25,575)	25,475	-	25,475	25,475	-	2006
Condominiums	Honolulu, HI	-	-	47,783	-	-	-	47,783	47,783	-	-
Bridgeland	The Woodlands, TX	15,884	257,222	-	157,571	3,523	414,793	3,523	418,316	599	2004
Bridges at Mint Hill	Charlotte, NC	-	-	-	-	21,097	-	21,097	21,097	-	2007
Century Plaza	Birmingham, AL	-	3,164	28,514	(3,164)	(24,241)	-	4,273	4,273	-	1997
Circle T Ranch and Power Center	Dallas/Fort Worth, TX	-	-	-	-	40	-	40	40	-	2005
70 Columbia Corporate Center	Howard County, MD	20,000	1,281	14,523	-	6,256	1,281	20,779	22,060	1,612	2004
Columbia Office Properties	Howard County, MD	-	1,575	28,447	23,404	83,493	24,979	111,940	136,919	12,517	2004
Columbia Regional Building	Howard County, MD	20,513	-	28,865	-	-	-	28,865	28,865	1,206	2014
Conroe	Conroe, TX	-	99,284	-	-	-	99,284	-	99,284	-	2014
Cottonwood Mall	Salt Lake City, UT	-	7,613	42,987	(7,613)	(22,271)	-	20,716	20,716	-	2002
Cottonwood Square	Salt Lake City, UT	-	1,558	4,339	-	913	1,558	5,252	6,810	1,624	2002
Creekside Village Green	The Woodlands, TX	-	-	-	-	15,054	-	15,054	15,054	-	-
Downtown Summerlin	Las Vegas, NV	229,153	-	-	17,248	339,399	17,248	339,399	356,647	2,146	2004
Elk Grove Promenade	Elk Grove, CA	-	-	-	-	8,412	-	8,412	8,412	4	2003
Hughes Landing Hotel	The Woodlands, TX	-	-	6,752	-	-	-	6,752	6,752	-	-
Hughes Landing Retail	The Woodlands, TX	17,424	-	-	-	26,320	-	26,320	26,320	-	-
One Hughes Landing	The Woodlands, TX	52,000	-	-	1,678	35,062	1,678	35,062	36,741	1,626	2012
Two Hughes Landing	The Woodlands, TX	19,992	-	-	2,109	34,941	2,109	34,941	37,050	296	-
Three Hughes Landing	The Woodlands, TX	-	-	13,008	-	-	-	13,008	13,008	-	-
1725-35 Hughes Landing Boulevard	The Woodlands, TX	47,513	-	-	-	84,599	-	84,599	84,599	-	-
Kendall Town Center	Miami, FL	-	-	-	-	18,579	-	18,579	18,579	-	2004
1701 Lake Robbins	The Woodlands, TX	4,600	1,663	3,725	-	-	1,663	3,725	5,388	39	2014
2201 Lake Woodlands Drive	The Woodlands, TX	-	3,755	-	-	-	3,755	-	3,755	-	2011
One Lake's Edge Lakemoor (Volo)	The Woodlands, TX	40,787	-	-	-	64,800	-	64,800	64,800	-	-
Land	Volo, IL	-	320	-	(320)	321	-	321	321	-	1995
Landmark Mall	Alexandria, VA	-	28,396	67,235	(19,408)	(37,427)	8,988	29,808	38,796	8,118	2003
Maryland Communities	Howard County, MD	-	457,552	-	(397,669)	6,854	59,883	6,854	66,738	106	2004
Millennium Waterway Apartments	The Woodlands, TX	55,584	15,917	56,002	-	-	15,917	56,002	71,919	5,810	2012
9303 New Trails	The Woodlands, TX	13,074	1,929	11,915	-	1,959	1,929	13,874	15,803	1,513	2011
110 N. Wacker	Chicago, IL	29,000	-	29,035	12,249	5,461	12,249	34,496	46,745	13,366	1997
Outlet Collection at Riverwalk	New Orleans, LA	47,118	-	94,513	-	(1,896)	-	92,617	92,617	4,391	2004
Park West	Peoria, AZ	-	16,526	77,548	1,201	925	17,727	78,473	96,199	20,224	2008
80 South Street	New York, NY	-	-	144,015	-	-	-	144,015	144,015	-	-
South Street Seaport	New York, NY	-	-	7,884	15,913	100,630	15,913	108,514	124,427	520	2004
Summerlin 3831 Technology Forest	Las Vegas, NV	22,389	990,179	-	(128,520)	987	861,659	987	862,646	440	2004
The Club at Carlton Woods	The Woodlands, TX	-	514	14,194	-	-	514	14,194	14,708	21	2014
The Metropolitan Downtown Columbia	The Woodlands, TX	-	13,796	457	393	2,439	14,189	2,896	17,084	394	2011
The Woodlands Parking Garages	Columbia, MD	-	-	-	-	1,484	-	1,484	1,484	-	-
The Woodlands Resort & Conference Center	The Woodlands, TX	176,663	267,996	9,814	(57,180)	118	210,816	9,932	220,749	1,378	2011
The Woodlands	The Woodlands, TX	-	5,857	-	689	6,303	6,546	6,303	12,848	184	2011
Waiea Condominiums	The Woodlands, TX	76,027	13,258	37,983	-	71,345	13,258	109,328	122,586	4,022	2011
Waiea Condominiums	Honolulu, HI	-	-	30,555	-	-	-	30,555	30,555	-	-
Ward Village	Honolulu, HI	238,716	164,007	89,321	(21,157)	189,259	142,850	278,580	421,430	52,551	2002
Ward Workforce Housing	Honolulu, HI	-	-	5,114	-	-	-	5,114	5,114	-	-
Waterway Garage Retail	Honolulu, HI	-	1,342	4,255	(1)	1,106	1,341	5,361	6,702	548	2011
3 Waterway Square	The Woodlands, TX	52,000	748	-	-	42,214	748	42,214	42,962	3,162	2012
4 Waterway Square	The Woodlands, TX	38,289	1,430	51,553	-	6,748	1,430	58,301	59,731	7,005	2011
Waterway Square Hotel	The Woodlands, TX	-	-	22,473	-	-	-	22,473	22,473	-	-
20/25 Waterway Avenue	The Woodlands, TX	14,330	2,346	8,871	-	617	2,346	9,488	11,834	1,101	2011
West Windsor	Princeton, NJ	-	-	-	53	23,617	53	23,617	23,670	-	2004
1400 Woodloch Forest	The Woodlands, TX	-	-	-	1,570	14,045	1,570	14,045	15,615	6,612	1981
Corporate	Various	762,414	885	1,027	(885)	16,336	-	17,363	17,363	4,048	-
Total HHC		\$ 1,993,470	\$ 2,386,428	\$ 984,767	\$ (428,154)	\$ 1,173,515	\$ 1,958,273	\$ 2,158,282	\$ 4,116,556	\$ 157,182	

- (a) See description of mortgages, notes and other debt payable in Note 8 of the Consolidated Financial Statements.
 (b) Initial cost for constructed malls is cost at end of first complete calendar year subsequent to opening.
 (c) For retail and other properties, costs capitalized subsequent to acquisitions is net of cost of disposals or other property write -downs. For Master Planned Communities, costs capitalized subsequent to acquisitions are net of land sales.
 (d) The aggregate cost of land, building and improvements for federal income tax purposes is approximately \$3.5 billion.
 (e) Includes all amounts related to Developments.
 (f) Depreciation is computed based upon the following estimated lives:

	Years
Building and improvements	10 - 45
Equipment, tenant improvements and fixtures	5 - 10
Computer hardware and software, and vehicles	3 - 5

Reconciliation of Real Estate

	2014	2013	2012
	(In thousands)		
Balance at beginning of year	\$ 3,024,833	\$ 2,746,596	\$ 2,589,730
Change in Land	296,147	90,124	66,889
Additions	973,833	352,141	179,372
Impairments	-	-	-
Dispositions and write-offs and land and condominium costs of sales	(178,257)	(164,028)	(89,395)
Balance at end of year	<u>\$ 4,116,556</u>	<u>\$ 3,024,833</u>	<u>\$ 2,746,596</u>

Reconciliation of Accumulated Depreciation

	2014	2013	2012
	(In thousands)		
Balance at beginning of year	\$ 111,728	\$ 112,491	\$ 91,605
Depreciation Expense	50,683	29,637	19,457
Dispositions and write-offs	(5,229)	(30,400)	1,429
Balance at end of year	<u>\$ 157,182</u>	<u>\$ 111,728</u>	<u>\$ 112,491</u>

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Exhibit No.	Description of Exhibit
3.1	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 November 12, 2010)
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	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	Section 382 Rights Agreement, dated as of February 27, 2012, by and between The Howard Hughes Corporation and Computershare Trust Company, N.A., as rights agent (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed February 29, 2012)
10.1	Tax Matters Agreement, dated November 9, 2010, between The Howard Hughes Corporation and General Growth Properties, Inc. (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K, filed November 12, 2010)
10.2	Form of indemnification agreement for directors and certain executive officers of The Howard Hughes Corporation (incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K, filed November 12, 2010)
10.3	Warrant Agreement, dated November 9, 2010, between The Howard Hughes Corporation and Mellon Investor Services LLC (incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K, filed November 12, 2010)
10.4	Letter Agreement, dated November 9, 2010, between The Howard Hughes Corporation and Pershing Square Capital Management, L.P. (incorporated by reference to Exhibit 10.11 to the Company's Current Report on Form 8-K, filed November 12, 2010)
10.5	Registration Rights Agreement, dated November 9, 2010, between The Howard Hughes Corporation and Pershing Square Capital Management, L.P., Blackstone Real Estate Partners VI L.P., Blackstone Real Estate Partners (AIV) VI L.P., Blackstone Real Estate Partners VI.F L.P., Blackstone Real Estate Partners VI.TE.1 L.P., Blackstone Real Estate Partners VI.TE.2 L.P., Blackstone Real Estate Holdings VI L.P., and Blackstone GGP Principal Transaction Partners L.P. (incorporated by reference to Exhibit 99.4 to the Company's Current Report on Form 8-K, filed November 12, 2010)
10.6*+	Form of Restricted Stock Agreement for Nonemployee Directors under The Howard Hughes Corporation 2010 Amended and Restated Incentive Plan
10.7*+	Form of Restricted Stock Agreement for Executive Officers under the Howard Hughes Corporation Amended and Restated 2010 Incentive Plan
10.8*	Employment Agreement, dated as of November 22, 2010, between The Howard Hughes Corporation and David R. Weinreb (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed November 29, 2010)
10.9*	Amendment No.1 to Employment Agreement, dated as of August 17, 2012, between The Howard Hughes Corporation and David R. Weinreb (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed November 9, 2012)

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10.10*	Amendment No. 2 to Employment Agreement, dated as of December 17, 2013, between The Howard Hughes Corporation and David R. Weinreb (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed December 17, 2003)
10.11*	Warrant Purchase Agreement, dated November 22, 2010, between The Howard Hughes Corporation and David R. Weinreb (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed November 29, 2010)
10.12*	Amendment No.1 to the Warrant Purchase Agreement dated as of August 23, 2011, between The Howard Hughes Corporation and David R. Weinreb (incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K, filed February 29, 2012).
10.13*	Employment Agreement, dated as of November 22, 2010, between The Howard Hughes Corporation and Grant Herlitz (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K, filed November 29, 2010)
10.14*	Warrant Purchase Agreement, dated November 22, 2010, between The Howard Hughes Corporation and Grant Herlitz (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed November 29, 2010)
10.15*	Warrant Purchase Agreement, dated February 25, 2011, between The Howard Hughes Corporation and Andrew C. Richardson (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed March 3, 2011)
10.16*	Employment Agreement, dated as of February 25, 2011, between The Howard Hughes Corporation and Andrew C. Richardson (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed March 3 2011)
10.17	Third Amended and Restated Master Credit Agreement dated as of August 8 ,2013, by and among The Woodlands Commercial Properties Company, L.P., The Woodlands Land Development Company, L.P., Keybank National Association, the other lenders that are a party thereto, and the other lending institutions which may become a party thereto, as lenders, and Keybank National Association, as administrative agent for the lenders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 14, 2013)
10.18	Loan agreement dated as of September 29, 2011, by and among Victoria Ward, Limited along with certain Victoria Ward, Limited's subsidiaries, as borrowers, Wells Fargo Bank, National Association, as Administrative Agent and lead lender, CIBC, First Hawaiian Bank, Bank of Hawaii and Central Pacific Bank, as lenders, and Wells Fargo Securities, L.L.C., as Sole Lead Arranger and Sole Bookrunner (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed October 4, 2011)
10.19	Loan Agreement dated as of July 15, 2014, by and among The Shops at Summerlin North, LP, The Shops at Summerlin South, LP, Wells Fargo Bank, National Association, as Administrative Agent and lead lender, U.S. Bank National Association, as Syndication Agent and a lender, the other lending institutions party thereto, and Wells Fargo Securities, L.L.C., as sole Lead Arranger and Sole Bookrunner. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed July 16, 2014)
10.20+	Loan Agreement dated as of November 6, 2014 by and among 1108 Auahi, LLC and 1118 Ala Moana, LLC and BREDS II Mortgage Corp.

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10.21*	The Howard Hughes Corporation 2010 Amended and Restated Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed June 14, 2012)
10.22*	Form of The Howard Hughes Corporation Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed September 17, 2014)
10.23	Settlement of Tax Indemnity and Mutual Release Agreement dates as of December 12, 2014, by and between The Howard Hughes Corporation, a Delaware Corporation, and General Growth Properties, Inc., a Delaware Corporation (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed December 18, 2014)
21.1+	List of Subsidiaries
23.1+	Consent of Ernst & Young, LLP
23.2+	Consent of Deloitte & Touche LLP
23.3+	Consent of TRUSTA
24.1+	Power of Attorney
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
99.1+	KR Holdings, LLC Consolidated Financial Statements and Independent Auditor's Report
101.INS+	XBRL Instance Document
101.SCH+	XBRL Taxonomy Extension Schema Document
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB+	XBRL Taxonomy Extension Label Linkbase Document
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document

* Management contract, compensatory plan or arrangement
+ Filed herewith

Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012, (ii) the Consolidated Balance Sheets at December 31, 2014 and 2013, (iii) the Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012, (iv) the Consolidated Statements of Shareholders' Equity for the years ended December 31, 2014, 2013 and 2012.

LOAN AGREEMENT

Dated as of November 6, 2014

between

1108 AUAHI, LLC and 1118 ALA MOANA, LLC,
as Borrower

and

BREDS II MORTGAGE CORP.,
as Lender

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EXHIBITS

Exhibit A	-	[Intentionally Omitted]
Exhibit B	-	Form of Disbursement Request and Borrower's Requisition
Exhibit C	-	Form of Lien Waiver
Exhibit D	-	Scope of Work
Exhibit E	-	Budget
Exhibit F-1	-	Form of Architect's Certificate
Exhibit F-2	-	Form of Architect's Completion Certificate
Exhibit G-1	-	Form of General Contractor's Certificate
Exhibit G-2	-	Performance Letter
Exhibit H	-	Application and Certificate for Payment (AIA Document No. G702/G703)
Exhibit I	-	Form of Assignment of Management Agreement

SCHEDULES

Schedule I	-	Minimum Release Price
Schedule II	-	Form of U.S. Tax Compliance Certificate
Schedule III	-	Borrower Organizational Chart
Schedule IV	-	Conditions to Licenses
Schedule V	-	Related Unit Purchasers
Schedule VI	-	Federal Tax ID Numbers
Schedule VII	-	[Intentionally Blank]
Schedule VIII	-	Existing Unit Contracts and Existing Unit Contract Deposits
Schedule IX	-	Trademarks
Schedule X	-	Affiliate Contracts
Schedule XI	-	Exclusion of Requirement for Payment and Performance Bonds
Schedule XII	-	Condemnation Proceedings
Schedule XIII	-	Rent Roll
Schedule XIV	-	Statement of Escrow Funds
Schedule XV	-	Labor Matters
Schedule XVI	-	Leasing Status Report
Schedule XVII	-	Units for Subdivision

LOAN AGREEMENT

This **LOAN AGREEMENT**, dated as of November 6, 2014 (as amended, restated, replaced, supplemented or otherwise modified from time to time, this "**Agreement**"), between **BREDS II MORTGAGE CORP.**, a Delaware corporation, having an address at c/o Blackstone Real Estate Debt Strategies, 345 Park Avenue, New York, New York 10154 (together with its successors and assigns, "**Lender**"), and **1108 AUJHI, LLC** and **1118 ALA MOANA, LLC**, each, a Delaware limited liability company, having its principal place of business at c/o The Howard Hughes Corporation, 13355 Noel Road, 22nd Floor, Dallas, Texas 75240 (individually and/or collectively as the context may require, jointly and severally, "**Borrower**").

WITNESSETH:

WHEREAS, Borrower desires to obtain a loan up to the maximum aggregate principal amount of **SIX HUNDRED MILLION and No/100 Dollars (\$600,000,000.00)** from Lender pursuant to this Agreement (the "**Loan**"); and

WHEREAS, Lender is willing to make the Loan to Borrower, subject to and in accordance with the terms of this Agreement and the other Loan Documents (as hereinafter defined).

NOW THEREFORE, in consideration of the making of the Loan by Lender and the covenants, agreements, representations and warranties set forth in this Agreement, the parties hereto hereby covenant, agree, represent and warrant as follows:

ARTICLE I

DEFINITIONS; PRINCIPLES OF CONSTRUCTION

Section 1.1 Definitions. For all purposes of this Agreement, except as otherwise expressly required or unless the context clearly indicates a contrary intent:

"**Additional Insolvency Opinion**" shall have the meaning set forth in Section 5.2.12(b) hereof.

"**ADA**" means the Americans with Disabilities Act, of July 26, 1990, Pub. L. No. 101-336, 104 Stat. 327, 42 U.S.C. § 12101, et. seq., as amended from time to time.

"**Administration Fee**" shall mean a Loan administration fee in the sum of (i) prior to Final Completion, Four Thousand One Hundred Sixty-Six and 67/100 Dollars (\$4,166.67) per month, and (ii) from and after Final Completion, Two Thousand Eighty Three and 33/100 Dollars (\$2,083.33) per month, payable to Lender in accordance with Section 2.3.6 hereof.

"**Affiliate**" shall mean, as to any Person, any other Person that, directly or indirectly, is in Control of, is Controlled by or is under common Control with such Person or is a director or officer of such Person or of an Affiliate of such Person. In no event shall the term "Affiliate" include shareholders of Guarantor, other than a Controlling shareholder, so long as Guarantor's stock is publicly traded on a nationally-recognized public stock exchange.

"Affiliate Contract" shall mean those certain agreements set forth on **Schedule X** attached hereto or as may be entered into by Borrower from time to time, subject to the prior written approval of Lender in its reasonable discretion.

"Affiliate Fees" shall mean those fees that are disclosed on the Approved Annual Budget, including, without limitation, fees payable pursuant to an Affiliate Contract.

"Affiliated Manager" shall mean any Manager which is an Affiliate of Borrower and/or Guarantor, including without limitation Howard Hughes Management Services Company, LLC, a Delaware limited liability company.

"Agreement" shall mean this Loan Agreement, as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time.

"Ala Moana Borrower" shall mean 1118 Ala Moana, LLC, a Delaware limited liability company.

"Ala Moana Developer" shall mean Waiea Management Development Company, LLC, a Delaware limited liability company.

"Ala Moana Property" shall mean each parcel of real property, the Improvements thereon and all personal property owned by Ala Moana Borrower.

"ALTA" shall mean American Land Title Association or any successor thereto.

"Annual Budget" shall mean, with respect to each Property, the operating budget, including all planned Capital Expenditures, for the applicable Property prepared by the applicable Borrower in accordance with Section 5.1.11(f) hereof for the applicable Fiscal Year or other period.

"Appraisal" shall mean an "as is" appraisal prepared in accordance with the requirements of FIRREA, prepared by an independent third-party appraiser selected by Lender holding an MAI designation, who is state licensed or state certified if required under the laws of the state where the Property is located, who meets the requirements of FIRREA.

"Approved Annual Budget" shall have the meaning set forth in Section 5.1.11(f) hereof.

"Approved Project Costs" shall mean any Project Related Costs set forth in the Construction Budget approved by Lender pursuant to the terms hereof or any other Project Related Costs approved by Lender from time to time (including, Lender approved Hard Costs, Lender approved Soft Costs, sales commissions payable in connection with the sale of any Residential Unit, financing costs, and customary closing costs).

"Architect's Certificate" shall have the meaning as set forth in Section 2.8.2(f) hereof.

"Architect's Contract" shall mean an agreement to be entered into between a Developer and a Borrower 's Architect with respect to any portion of the Project, which shall be subject in

each case to the prior written approval of Lender in its reasonable discretion, as the same may be amended from time to time in compliance with the terms hereof.

"Assessments and Charges" means, individually or collectively, as the context may require, all assessments pursuant to the terms of a Condominium Declaration.

"Assignment of Construction Agreements" shall mean, with respect to each Property, that certain Assignment of Construction Agreements dated as of the date hereof, by the applicable Borrower to Lender, as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time in accordance with the terms hereof.

"Assignment of Contracts, Licenses and Permits" shall mean, with respect to each Property, that certain Assignment of Plans, Specifications, Permits, Contracts, Licenses, Entitlements and Intangibles dated as of the date hereof, by the applicable Borrower to Lender, as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time in accordance with the terms hereof.

"Assignment of Condominium Rights and Declarant's Rights" shall mean, with respect to each Property, that certain Assignment of Condominium Rights and Developer's Rights, dated as of the date hereof, by and between the applicable Borrower and Lender, with respect to the Condominium Documents, as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time.

"Assignment of Leases" shall mean, with respect to each Property, that certain first priority Assignment of Leases and Rents, dated as of the date hereof, from the applicable Borrower, as assignor, to Lender, as assignee, assigning to Lender all of such Borrower's interest in and to the Leases and Rents of the applicable Property as security for the Loan, as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time.

"Assignment of Management Agreement" shall mean, with respect to each Property, an assignment of management agreement, consent of manager and subordination of management fees, to be entered into by the applicable Borrower, any Manager and Lender, in a form reasonably approved by Lender, as the same may be amended, replaced, supplemented or otherwise modified from time to time in accordance with the terms thereof.

"Assignment of Sales Agency Agreement" shall mean, with respect to each Property, that certain Assignment of Sales Agency Agreement and Subordination of Sales Agent's Fees, dated as of the date hereof, among Lender, the applicable Borrower and Sales Agent, as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time.

"Assignment of Development Agreement" shall mean, with respect to each Property, that certain Assignment of Development Agreement and Subordination of Developer's Fees, dated as of the date hereof, among Lender, the applicable Borrower and Developer, as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time.

"Auahi Borrower" shall mean 1108 Auahi, LLC, a Delaware limited liability company.

"Auahi Developer" shall mean Anaha Management Development Company, LLC, a Delaware limited liability company.

"Auahi Property" shall mean each parcel of real property, the Improvements thereon and all personal property owned by Auahi Borrower.

"Award" shall mean any compensation paid by any Governmental Authority in connection with a Condemnation in respect of all or part of the Property.

"Backward-Looking Special Purpose Entity Representations and Warranties" shall have the meaning set forth in Section 4.1.30(d) hereof.

"Bankruptcy Action" shall mean with respect to any Person (a) such Person filing a voluntary petition under the Bankruptcy Code or any other federal or state bankruptcy or insolvency law; (b) the filing of an involuntary petition against such Person under the Bankruptcy Code or any other federal or state bankruptcy or insolvency law, or soliciting or causing to be solicited petitioning creditors for any involuntary petition against such Person; (c) such Person filing an answer consenting to or otherwise acquiescing in or joining in any involuntary petition filed against it, by any other Person under the Bankruptcy Code or any other federal or state bankruptcy or insolvency law, or soliciting or causing to be solicited petitioning creditors for any involuntary petition from any Person; (d) such Person consenting to or acquiescing in or joining in an application for the appointment of a custodian, receiver, trustee, assignee, sequestrator (or similar official), liquidator, or examiner for such Person or any portion of the Property; (e) the filing of a petition against a Person seeking reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under the Bankruptcy Code or any other applicable law; (f) under the provisions of any other law for the relief or aid of debtors, an action taken by any court of competent jurisdiction that allows such court to assume custody or Control of a Person or of the whole or any substantial part of its property or assets or (g) such Person making an assignment for the benefit of creditors, or admitting, in writing or in any legal proceeding, its insolvency or inability to pay its debts as they become due.

"Bankruptcy Code" shall mean Title 11 of the United States Code, 11 U.S.C. § 101, et seq., as the same may be amended from time to time, and any successor statute or statutes and all rules and regulations from time to time promulgated thereunder, and any comparable foreign laws relating to bankruptcy, insolvency or creditors' rights or any other federal or state bankruptcy or insolvency law.

"Basic Carrying Costs" shall mean, for any period, the sum of the following costs: (a) Taxes, (b) Other Charges and (c) Insurance Premiums.

"Basic Contract Price" shall have the meaning set forth in the definition of Gross Sales Proceeds.

"Borrower" shall have the meaning set forth in the introductory paragraph hereto, together with its successors and permitted assigns.

"Borrower's Architect" shall mean, (a) with respect to the Ala Moana Property, WCIT Architecture, a Hawaii corporation, (b) with respect to the Auahi Property, Solomon, Cordwell,

Buenz and Associates, Inc., an Illinois corporation, or in either case, any other licensed architect engaged by a Borrower or Developer to prepare plans and specifications for the Project (or any portion thereof) and approved by Lender in its reasonable discretion.

"Borrower's Requisition" shall have the meaning set forth in Section 2.8.3 hereof.

"Borrower Party" means each Borrower, Pledgor, Guarantor and any other guarantor under any guarantee issued in connection with the Loan.

"Borrower Related Party" shall mean each Borrower, Pledgor, Guarantor, any Affiliate of any Borrower, Pledgor or Guarantor or any Person in which any Guarantor or any Affiliate of Guarantor has, directly or indirectly, any Controlling legal, beneficial or economic interest.

"Breakage Costs" shall have the meaning set forth in Section 2.2.6 hereof.

"Broker" shall have the meaning set forth in Section 10.21 hereof.

"Business Day" shall mean any day other than a Saturday, Sunday or any other day on which any of the following institutions is not open for business: (a) banks and savings and loan institutions in New York, New York, (b) any Lender, (c) any Servicer, (d) the financial institution that maintains any collection account for or on behalf of any Servicer or any Reserve Funds, (e) the New York Stock Exchange or (f) the Federal Reserve Bank of New York.

"Capital Expenditures" shall mean, for any period, the amount expended for items capitalized under GAAP (including expenditures for building improvements or major repairs, leasing commissions and tenant improvements).

"Carrying Costs" shall mean Insurance Premiums, Operating Expenses, interest and other amounts due and payable on the Loan, the fees, costs and expenses of the Construction Consultant, and marketing expenses.

"Carry Costs Guaranty" shall mean that certain Carry Costs Guaranty, dated as of the date hereof, from Guarantor in favor of Lender, as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time.

"Carveout Guaranty" shall mean that certain Guaranty of Recourse Obligations, dated as of the date hereof, from Guarantor in favor of Lender, as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time.

"Cash Management Account" shall have the meaning set forth in Section 2.7.2(a) hereof.

"Cash Management Agreement" shall mean, with respect to each Property, that certain Cash Management Agreement, to be entered into by and among the applicable Borrower, Deposit Bank and Lender, and if applicable, Manager, as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time.

"Casualty" shall have the meaning set forth in Section 6.2 hereof.

"Casualty Consultant" shall have the meaning set forth in Section 6.4(b)(iii) hereof.

"Casualty Threshold" shall have the meaning set forth in Section 6.2 hereof.

"Change in Law" shall mean the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation, implementation or application thereof by any Governmental Authority or (c) the making or issuance of any request, rule, guideline or directive (whether or not having the force of law) by any Governmental Authority; provided that notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "Change in Law", regardless of the date enacted, adopted or issued.

"Change of Control" means (a) a Person or group of affiliated Persons acquires more than thirty-five percent (35%) of the HHC Shares in one or a series of transactions, provided, however, the acquisition by a Plan Sponsor of more than thirty-five percent (35%) of the HHC Shares in one or a series of transactions ("**Plan Sponsor Acquisition**") shall not constitute a Change of Control; or (b) the individuals comprising the Board of Directors of HHC (or a successor by merger pursuant to a Plan Sponsor Acquisition), as the same exists for the twelve (12) month period immediately prior to the HHC Share Transfer, fail to represent a majority of the Board of Directors of HHC (or a successor by merger pursuant to a Plan Sponsor Acquisition) as of the date of completion of the HHC Share Transfer and for a period of six (6) months following the HHC Share Transfer, provided further, however, that such a change in the majority of the Board of Directors of HHC in connection with a Plan Sponsor Acquisition shall not constitute a Change of Control. For purposes of the preceding clause (b), the following shall be expressly excluded: any change in directors resulting from (x) the death or incapacity of any director or (y) the resignation or removal of any director for reasons unrelated to an HHC Share Transfer, provided that any replacement director has been approved in the manner required by the governing documents of HHC in effect immediately prior to the date of the HHC Share Transfer.

"Change Order" means any material change in or deviation from the Plans and Specifications, or any change from the Plans and Specifications which affects any structural component or material building system, whether designated a change order or construction change directive, and whether or not there is a change in the contract sum or contract time under any Construction Contract; and any change in or deviation from the Plans and Specifications and/or the Construction Schedule which changes the contract time by more than thirty (30) days.

"Clearing Account" shall have the meaning set forth in Section 2.7.1(a) hereof.

"Clearing Account Agreement" shall mean, with respect to each Property, that certain Deposit Account Control Agreement, or similar agreement, to be entered into among the applicable Borrower, Manager, Lender and the Clearing Bank, as the same may be amended,

restated, replaced, supplemented or otherwise modified from time to time, relating to funds deposited in the Clearing Account.

"Clearing Bank" shall mean an Eligible Institution reasonably acceptable to Lender, or any successor or permitted assigns thereof.

"Closing Certificate" shall mean that certain Omnibus Closing Certificate, dated as of the date hereof, made by each Borrower and Guarantor for the benefit of Lender, as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time.

"Closing Date" shall mean the date of this Agreement.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Collateral" shall have the meaning set forth in the Security Instrument.

"Commercial Unit" shall mean each "Commercial Unit" (as such term is defined in the Condominium Documents) within the Condominium (including any appurtenant undivided common interest in the common elements) to be constructed in accordance with the Plans and Specifications and which shall be separate designated commercial units in the Condominium as more particularly set forth in the Condominium Documents.

"Commercial Unit Release Amount" shall have the meaning set forth in Section 5.1.41(h) hereof.

"Completion Guaranty" shall mean that certain Completion Guaranty, dated as of the date hereof, from Guarantor in favor of Lender, as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time.

"Condemnation" shall mean a temporary or permanent taking by any Governmental Authority as the result or in lieu or in anticipation of the exercise of the right of condemnation or eminent domain, of all or any part of the Property, or any interest therein or right accruing thereto, including any right of access thereto or any change of grade affecting the Property or any part thereof.

"Condemnation Proceeds" shall have the meaning set forth in Section 6.4(b) hereof.

"Condominium" shall have the meaning set forth in Section 5.1.40(a) hereof. The Waiea Condominium shall include 171 Residential Units, one Commercial Unit and is expected to total approximately 375,000 net saleable square feet in the aggregate to be constructed in accordance with the applicable Plans and Specifications in all material respects. The Anaha Condominium shall include 318 Residential Units, two Commercial Units and is expected to total approximately 450,000 net saleable square feet in the aggregate to be constructed in accordance with the applicable Plans and Specifications in all material respects.

"Condominium Act" shall mean the Condominium Property Act, Chapter 514B, Hawaii Revised Statutes, and all modifications, supplements and replacements thereof and all regulations with respect thereto, now or hereafter enacted or promulgated.

"Condominium Assessments" shall mean, with respect to each Property, any and all common charges and assessments under the Condominium Documents (including without limitation, regular and special assessments), together with any and all interest and penalties thereon, now or hereafter levied or assessed or imposed against Borrower or the Residential Units owned by Borrower (or any portion thereof).

"Condominium Board" shall mean, with respect to each Property, the board of directors for the Condominium established pursuant to the Condominium Declaration.

"Condominium Budget" shall mean, with respect to each Property, the annual budget adopted by the Condominium Board in accordance with the Condominium Declaration and Condominium By-Laws.

"Condominium By-Laws" shall mean, (a) with respect to the 1108 Auahi Property, the Bylaws of the Association of Unit Owners of 1108 Auahi dated September 16, 2013 and recorded at the Bureau of Conveyances of the State of Hawaii as Document No. A-50310870, as the same may be amended from time to time in accordance with the provisions hereof, and (b) with respect to the 1118 Ala Moana Property, the Bylaws of the Association of Unit Owners of 1118 Ala Moana dated September 16, 2013 and recorded at the Bureau of Conveyances of the State of Hawaii as Document No. A-50320948, as the same may be amended from time to time in accordance with the provisions hereof

"Condominium Declaration" shall mean, (a) with respect to the 1108 Auahi Property, Declaration of Condominium Property Regime of 1108 Auahi dated September 16, 2013 and recorded at the Bureau of Conveyances of the State of Hawaii as Document No. A-50310869, as amended by that First Amendment to Declaration of Condominium Property Regime of 1108 Auahi dated November 1, 2013, recorded at said Bureau as Document No. A-50571040, as further amended by that Second Amendment to Declaration of Condominium Property Regime of 1108 Auahi dated December 11, 2013, recorded at said Bureau as Document No. A-50940796, and (b) with respect to the 1118 Ala Moana Property, Declaration of Condominium Property Regime of 1118 Ala Moana dated September 16, 2013 and recorded at the Bureau of Conveyances of the State of Hawaii as Document No. A-50320947 as amended by that First Amendment to Declaration of Condominium Property Regime of 1118 Ala Moana dated November 1, 2013, recorded at said Bureau as Document No. A-50561126, as further amended by that Second Amendment to Declaration of Condominium Property Regime of 1118 Ala Moana dated November 26, 2013, recorded at said Bureau as Document No. A-50840998.

"Condominium Documents" shall mean, with respect to each Property, all documents required by the Condominium Act in connection with the operation and sale of the Residential Units in accordance with the provisions of the Condominium Act, including the Public Report, Property Report, Condominium Declaration, Condominium By-Laws, the Condominium Map, any and all filings and other Governmental Approvals and any and all other documentation required for the proper formation and operation of the condominium regime to be established at the applicable Property under Hawaii law and the marketing and sale of Residential Units to the public.

"Condominium Map" shall mean, (a) with respect to the 1108 Auahi Property, the map of the Condominium required pursuant to and meeting the requirements of HRS Section 514B-33 and -34 and recorded at the State of Hawaii Bureau of Conveyances as Condominium Map No. 5220, as amended, with the applicable Condominium Declaration, as the same may be amended from time to time, and (b) with respect to the 1118 Ala Moana Property, the map of the Condominium required pursuant to and meeting the requirements of HRS Section 514B-33 and -34 and recorded at the State of Hawaii Bureau of Conveyances as Condominium Map No. 5221, as amended, with the applicable Condominium Declaration, as the same may be amended from time to time.

"Condominium Matter" has the meaning set forth in Section 5.1.40(b)(v) hereof.

"Construction Budget" shall have the meaning set forth in Section 2.1.6 hereof.

"Construction Consultant" shall mean Cumming Corporation, or such other Person as Lender may designate and engage as a replacement to inspect the Improvements and the Property as construction of the Project Improvements progresses and consult with and to provide advice to and to render reports to Lender, which Person may be, at Lender's option upon notice to Borrower, either an officer or employee of Lender or any other person or entity appointed by Lender in its sole discretion.

"Construction Contract" shall mean, with respect to each Property, any agreement (taking into account all modifications, additions and supplements thereto) entered into by the applicable Borrower, the applicable Developer or by General Contractor with a Contractor or Subcontractor pursuant to which the Contractor or Subcontractor, as applicable, thereunder agrees to provide labor, services and/or materials in connection with the construction and development of the Project Improvements.

"Construction Permits" means, collectively, with respect to each Property, all material authorizations, consents and approvals, licenses and permits given or issued by Governmental Authorities which are required for the construction of the Project Improvements in accordance with all Legal Requirements in all material respects and the Plans and Specifications, and for the performance and observance of all obligations and agreements of the applicable Borrower contained herein or in the other Loan Documents relating to the development and construction of the Project Improvements.

"Construction Schedule" shall mean, with respect to each Property, the schedule, broken down by trade, of the dates of commencement and completion of the various stages of the Project Improvements certified by the applicable Borrower to Lender and approved by Lender.

"Contractor" shall mean any contractor or other Person, including, without limitation, the General Contractor (including subsidiaries and affiliates), supplying services, labor or materials in connection with the Project or the Improvements.

"Control" shall mean, with respect to any Person, the possession, directly or indirectly, of the power to direct or cause the direction of the management, policies or activities of such Person,

whether through ownership of voting securities, by contract or otherwise. **"Controlled"** and **"Controlling"** shall have correlative meanings.

"Cost Savings" shall mean, with respect to each Property, (x) the amount, if any, remaining in any Line Item in the Construction Budget (other than Carrying Costs) after (i) (A) completion of 100% of the work relating to such Line Item, (B) all Contractors, Subcontractors, materialmen and other Persons have been paid in full for work performed and materials provided with respect to the applicable Line Item, and (C) delivery to Lender of affidavits, final releases, and/or lien waivers (in recordable form, if requested by Lender) from such Contractors and any Subcontractors and other Persons performing work or supplying materials for such Line Item, in each case in form and substance reasonably satisfactory to Lender or (ii) such earlier date on which the applicable Borrower demonstrates such actual cost savings to the satisfaction of Lender in its reasonable discretion, which such discretion may be based on, together with other relevant factors, such Borrower delivering to Lender a final fixed price contract covering all of the work relating to any such Line Item; and (y) the amount, if any, remaining in any Line Item in the Construction Budget with respect to the cost of materials, equipment, or Fixtures purchased by the applicable Borrower covering the full amount or quantity of such materials, equipment, or Fixtures required for such Line Item, after (i) delivery to Lender of (A) the applicable Construction Contract, bills of sale or other evidence of the cost of and Borrower's title in and to such materials, equipment, or Fixtures, (B) proof that such materials, equipment, or Fixtures have been delivered to the applicable Property, in each case in form and substance reasonably acceptable to Lender, and (C) proof that such materials, equipment, or Fixtures have been paid for in full and all lien rights or claims of the supplier have been released, in each case in form and substance reasonably satisfactory to Lender or (ii) such earlier date on which such Borrower demonstrates such actual costs savings to the satisfaction of Lender in its reasonable discretion, which may be based on, together with other relevant factors, such Borrower delivering to Lender a final fixed price contract covering all of the work relating to any such Line Item.

"Covered Rating Agency Information" shall have the meaning set forth in [Section 10.13\(d\)](#) hereof.

"DBRS" shall mean Dominion Bond Rating Service.

"Debt" shall mean the Outstanding Principal Balance together with all interest accrued and unpaid thereon and all other sums (including any Yield Maintenance Premium and Breakage Costs) due to Lender in respect of the Loan under the Note, this Agreement, the Security Instrument or any other Loan Document.

"Default" shall mean the occurrence of any event hereunder or under any other Loan Document which, but for the giving of notice or passage of time, or both, would be an Event of Default.

"Default Rate" shall mean a rate per annum equal to the lesser of (a) the Maximum Legal Rate and (b) five percent (5%) above the Interest Rate.

"Deficit Deposit" shall have the meaning set forth in [Section 5.1.41\(e\)\(ii\)](#) hereof.

"Deposit Bank" shall mean PNC Bank or any other Eligible Institution selected by Lender, or any successor Eligible Institution acting as the "Deposit Bank" under the Cash Management Agreement.

"Developer" shall mean the Ala Moana Developer or the Auahi Developer, as applicable.

"Developer Control Period" shall mean the period during which a Borrower or a Developer controls the Condominium Board.

"Development Agreement" shall mean, collectively, (a) that certain Development Management Agreement entered into by and between Auahi Borrower and Auahi Developer, dated as of November 6, 2014, and (b) that certain Development Management Agreement entered into by and between Ala Moana Borrower and Ala Moana Developer, dated as of November 6, 2014.

"Disbursement" or **"Disbursements"** shall mean, with respect to each Property, (i) any disbursement of Escrow Funds in accordance with the terms of this Agreement, the Tri-Party Agreement, the Unit Sale Contracts, the Escrow Agreement and applicable law and (ii) subject to the terms and provisions of Section 2.8.1, any advance of any portion of the Loan Amount, pursuant to the provisions of this Agreement.

"Disbursement Request" shall mean, with respect to each Disbursement, Borrower's request for such Disbursement, together with Borrower's Requisition in the form of **Exhibit B** attached hereto, and all other documents and information required by this Agreement to be furnished to Lender as a condition to such Disbursement.

"Disclosure Document" shall mean a prospectus, prospectus supplement, private placement memorandum, offering memorandum, offering circular, term sheet, road show presentation materials or other offering documents or marketing materials, in each case in preliminary or final form, used to offer Securities in connection with a Securitization.

"Disregarded Entity" shall mean an entity disregarded from its owner for federal income tax purposes under United States Treasury regulations Section 301.7701-3.

"Dollars" and the sign **"\$"** shall mean lawful money of the United States of America.

"Eligible Account" shall mean a separate and identifiable account from all other funds held by the holding institution that is either (a) an account or accounts maintained with a federal or state-chartered depository institution or trust company which complies with the definition of "Eligible Institution" or (b) a segregated trust account or accounts maintained with a federal- or state-chartered depository institution or trust company acting in its fiduciary capacity that has a Moody's rating of at least "Baa3" and which, in the case of a state-chartered depository institution or trust company, is subject to regulations substantially similar to 12 C.F.R. § 9.10(b), having in either case a combined capital and surplus of at least Fifty Million and No/100 Dollars (\$50,000,000.00) and subject to supervision or examination by federal and state authority, as applicable. An Eligible Account will not be evidenced by a certificate of deposit, passbook or other instrument.

"Eligible Institution" shall mean a depository institution or trust company insured by the Federal Deposit Insurance Corporation, the short-term unsecured debt obligations or commercial paper of which are rated at least "A-1+" by S&P and "P-1" by Moody's, in the case of accounts in which funds are held for thirty (30) days or less (or, in the case of accounts in which funds are held for more than thirty (30) days, the long-term unsecured debt obligations of which are rated at least "A+" by S&P and "Aa1" by Moody's.

"Embargoed Person" shall mean any person, entity or government subject to trade restrictions under U.S. law, including, but not limited to, The USA Patriot Act (including the anti-terrorism provisions thereof), the International Emergency Economic Powers Act, 50 U.S.C. §§ 1701, et seq., The Trading with the Enemy Act, 50 U.S.C. App. 1 et seq., and any Executive Orders or regulations promulgated thereunder including those related to Specially Designated Nationals and Specially Designated Global Terrorists, with the result that the investment in any Borrower, Pledgor, Principal or Guarantor, as applicable (whether directly or indirectly), is prohibited by law or the Loan made by Lender is in violation of law.

"Environmental Indemnity" shall mean that certain Environmental Indemnity Agreement, dated as of the date hereof, executed by Borrower and Guarantor in connection with the Loan for the benefit of Lender, as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time.

"Environmental Reports" shall have the meaning set forth in [Section 4.1.40](#).

"Environmental Statutes" shall mean any present and future federal, state and local laws, statutes, ordinances, rules, regulations and the like, as well as common law, relating to protection of human health or the environment, relating to Hazardous Substances, and/or relating to liability for or costs of other actual or threatened danger to human health or the environment. The term "Environmental Statutes" includes, but is not limited to, the following statutes, as amended, any successor thereto, and any regulations promulgated pursuant thereto, and any state or local statutes, ordinances, rules, regulations and the like addressing similar issues: the Comprehensive Environmental Response, Compensation and Liability Act; the Emergency Planning and Community Right-to-Know Act; the Hazardous Substances Transportation Act; the Resource Conservation and Recovery Act (including but not limited to Subtitle I relating to underground storage tanks); the Solid Waste Disposal Act; the Clean Water Act; the Clean Air Act; the Toxic Substances Control Act; the Safe Drinking Water Act; the Occupational Safety and Health Act; the Federal Water Pollution Control Act; the Federal Insecticide, Fungicide and Rodenticide Act; the Endangered Species Act; the National Environmental Policy Act; and the Rivers and Harbors Appropriation Act. The term "Environmental Statutes" also includes, but is not limited to, any present and future federal, state and local laws, statutes, ordinances, rules, regulations, permits or authorizations and the like, as well as common law, that (a) condition transfer of property upon a negative declaration or other approval of a Governmental Authority of the environmental condition of the property or any portion thereof; (b) require notification or disclosure of releases of Hazardous Substances or other environmental condition of a property to any Governmental Authority or other Person, whether or not in connection with any transfer of title to or interest in such property; (c) impose conditions or requirements in connection with permits or other authorization for lawful activity; (d) relate to nuisance, trespass or other causes of action related to the Property or any portion thereof; or (e) relate to wrongful death, personal injury, or property or

other damage in connection with any physical condition or use of the Property or any portion thereof.

"**ERISA**" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and the rulings issued thereunder.

"**ERISA Affiliate**" shall mean each person (as defined in Section 3(9) of ERISA) that together with Borrower or Guarantor would be deemed to be a "single employer" within the meaning of Section 414(b), (c), (m), (n) or (o) of the Code.

"**Escrow Account**" shall mean an Eligible Account at a bank reasonably acceptable to Lender.

"**Escrow Agent**" shall mean Title Guaranty Escrow Services, Inc.

"**Escrow Agreement**" shall mean, with respect to each Property, that certain Escrow Agreement, dated as of September 13, 2013, between the applicable Borrower and Escrow Agent, with respect to Unit Sale Contract Deposits.

"**Escrow Funds**" shall mean, with respect to each Property, funds deposited pursuant to Unit Contracts held by Escrow Agent pursuant to the Escrow Agreement and subject to the terms of the Tri-Party Agreement.

"**Event of Default**" shall have the meaning set forth in [Section 8.1\(a\)](#) hereof.

"**Excess Cash**" shall have the meaning set forth in [Section 2.7.2\(b\)\(vii\)](#) hereof.

"**Excess Cash Reserve Account**" shall have the meaning set forth in [Section 7.2](#) hereof.

"**Excess Cash Reserve Funds**" shall have the meaning set forth in [Section 7.2](#) hereof.

"**Exchange Act**" shall mean the Securities Exchange Act of 1934, as the same may be amended, modified or replaced, from time to time.

"**Exchange Act Filing**" shall have the meaning set forth in [Section 5.1.11\(h\)](#) hereof.

"**Excluded Tax**" shall mean any of the following Taxes required to be withheld or deducted from a payment to Lender: (a) Taxes imposed on or measured by net income (however denominated), franchise Taxes and branch profits Taxes, in each case, imposed as a result of Lender being organized under the laws of, or having its principal office or its applicable lending office located in, the jurisdiction imposing such Taxes (or any political subdivision thereof), and (b) in the case of a Foreign Lender, U.S. federal withholding Taxes imposed on amounts payable to or for the account of such Foreign Lender with respect to an applicable interest in the Loan pursuant to a law in effect on the date on which (i) such Foreign Lender acquires such interest in the Loan or (ii) such Foreign Lender changes its lending office, except in each case to the extent that, pursuant to [Section 2.11](#), amounts with respect to such Taxes were payable either to such Foreign Lender's assignor immediately before such Foreign Lender became a party hereto or to such Foreign Lender immediately before it changed its lending office.

"Existing Unit Contract" shall mean, with respect to each Property, a Unit Sale Contract entered into prior to the Closing Date.

"Existing Unit Contract Deposits" shall mean, with respect to each Property, the Unit Sale Contract Deposits under an Existing Unit Contract.

"Extension Fee" shall mean a non-refundable fee equal to (a) with respect to the First Extension Option, one percent (1.0%) of the sum of (i) the Outstanding Principal Balance plus (ii) any unfunded portion of the Loan Amount that Borrower continues to have the right to draw hereunder and that has not been cancelled in accordance with Section 2.9 hereof, as of the Stated Maturity Date and payable on or prior to the Stated Maturity Date, and (b) with respect to the Second Extension Option, one percent (1.0%) of the sum of (i) the Outstanding Principal Balance plus (ii) any unfunded portion of the Loan Amount that Borrower continues to have the right to draw hereunder and that has not been cancelled in accordance with Section 2.9 hereof, as of the First Extended Maturity Date and payable on or prior to the First Extended Maturity Date.

"Extension Option" shall mean the First Extension Option or the Second Extension Option, as applicable.

"Extraordinary Expense" shall have the meaning set forth in Section 5.1.11(f) hereof.

"First Extended Maturity Date" shall have the meaning set forth in Section 2.9.1 hereof.

"First Extension Notice" shall have the meaning set forth in Section 2.9.1 hereof.

"First Extension Option" shall have the meaning set forth in Section 2.9.1 hereof.

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"Filed Budget" shall mean, with respect to each Property, the project budget filed with the Real Estate Commission of the State of Hawaii in accordance with Section 514B-92 of the Hawaii Revised Statutes as a condition for utilizing Unit Deposits for Hard Costs, which project budget shall be subject to the approval of Lender, not to be unreasonably withheld.

"Final Completion" shall mean, with respect to each Property, that (i) the construction of the Project Improvements, including all "punch list" items, shall have been completed, free and clear of all liens (except liens created by the Loan Documents), substantially in accordance with the Plans and Specifications, all applicable Legal Requirements in all material respects, in accordance in all respects with the Condominium Documents and the provisions of this Agreement, (ii) the Improvements contain all fixtures and equipment required pursuant to the Unit Sale Contracts or as may be required by the Condominium Documents, any Governmental Authority or by any Legal Requirements in all material respects, as certified by the applicable Borrower's Architect, (iii) all utilities necessary to serve the Project have been connected and are in operation, (iv) any required approval by the fire marshal or its equivalent having jurisdiction over the Project and any other approval required by any Governmental Authority, to the extent any such approval is a condition to the lawful use and occupancy of the Project Improvements and the opening of the same to the public, shall have been obtained, with completion of such requirements set forth in (i), (ii), (iii) and (iv) above to be evidenced to the reasonable satisfaction of Lender and the Construction Consultant, (v) all Project Related Costs incurred have been paid such that Lien waivers substantially in the form set forth in Exhibit C, conditioned only upon receipt of payment

to be made with the proceeds of the final Disbursement, from all Contractors and Subcontractors who performed any work or supplied any materials with regard to all work performed and/or all materials supplied been delivered to Lender, and (vi) to the extent required by applicable Legal Requirements, the final certificate of occupancy (or local equivalent) for the Project has been issued.

"First Payment Date" shall have the meaning set forth in Section 2.3.2 hereof.

"Fiscal Year" shall mean each twelve (12) month period commencing on January 1 and ending on December 31 during each year of the term of the Loan.

"Fitch" shall mean Fitch, Inc.

"Force Majeure" shall mean any delay directly affecting construction which is caused by fire, earthquake or other acts of God, strike, lockout, acts of public enemy, riot, insurrection, war, or governmental regulation of the sale or transportation of materials, supplies or labor or other similar events outside the control of Borrower; provided, however, that Borrower shall furnish Lender with written notice reasonably satisfactory to Lender evidencing any such event or delay within ten (10) days from the occurrence of any such event or delay; provided, further, all delays due to Force Majeure shall not exceed ninety (90) days in the aggregate.

"Foreign Lender" shall mean Lender at any time that it is not a U.S. Person.

"Forfeited Deposits" shall have the meaning set forth in Section 5.1.41(d) hereof.

"Full Replacement Cost" shall have the meaning set forth in Section 6.1(a)(i) hereof.

"Funding Borrower" shall have the meaning set forth in Section 10.29(g) hereof.

"GAAP" shall mean generally accepted accounting principles in the United States of America as of the date of the applicable financial report.

"General Contractor" shall mean, (a) with respect to the Ala Moana Property, Nordic PCL Construction, Inc., a Hawaii corporation, (b) with respect to the Auahi Property, Albert C. Kobayashi, Inc., a Hawaii corporation, or in either case, another third-party general contractor engaged by the applicable Borrower with respect to construction of the Project Improvements pursuant to the General Contractor's Agreement and approved by Lender.

"General Contractor's Agreement" shall mean, (a) with respect to the Ala Moana Property, that certain Construction Management Agreement dated as of May 5, 2014, as amended from time to time, between the Ala Moana Developer and Nordic PCL Construction, Inc., a Hawaii corporation, and (b) with respect to the Auahi Property, that certain Construction Management Agreement dated as of October 10, 2014, as amended from time to time, between the Auahi Developer and Albert C. Kobayashi, Inc., a Hawaii corporation, or in either case, another third-party general contractor engaged by the applicable Borrower with respect to construction of the Project Improvements, each of which shall be in form and substance acceptable to Lender.

"General Contractor's Certificate" shall have the meaning set forth in Section 2.8.2(g) hereof.

"Governmental Approvals" shall mean, with respect to each Property, all material approvals, consents, waivers, orders, acknowledgments, authorizations, inspections, signoffs, permits and licenses required under applicable Legal Requirements to be obtained from any Governmental Authority for the construction of the Project Improvements and/or the use, occupancy and operation of the Improvements during and following completion of construction of the Project, as the context requires, including, without limitation, all applicable and material land use, building, subdivision, zoning and similar ordinances and regulations promulgated by any Governmental Authority.

"Governmental Authority" shall mean any court, board, agency, commission, office or other authority of any nature whatsoever for any governmental unit (federal, state, county, district, municipal, city, foreign or otherwise) whether now or hereafter in existence.

"Gross Income from Operations" shall mean, for any period, all income, computed in accordance with GAAP or such other accounting basis reasonably acceptable to Lender, including cash basis accounting consistently applied, derived from the ownership and operation of the Property or any portion thereof from whatever source during such period, including, but not limited to, Rents, utility charges, escalations, forfeited security deposits, interest (if any) on credit accounts and on Reserve Funds, concession fees and charges, business interruption or other loss of income or rental insurance proceeds, service fees or charges, license fees, sums paid from users of parking spaces and other facilities or amenities located on the Property, rent concessions or credits, and other pass-through or reimbursements paid by Tenants under the Leases of any nature but excluding (a) Rents from Tenants that (i) are in monetary default under the applicable Lease for a period of sixty (60) days or more, (ii) are not in physical occupancy of the applicable leased premises, (iii) have less than two (2) months remaining on the term of the applicable Lease, (iv) are then in a free rent period (other than the non-abated portion of rents under such Leases which are still payable during the applicable free rent period any and other rent payable following such period), or (v) are the subject of, or otherwise subject to, a Bankruptcy Action, (b) sales, use and occupancy or other taxes on receipts required to be accounted for by Borrower to any Governmental Authority, (c) refunds and uncollectible accounts, (d) proceeds from the sale of furniture, fixtures and equipment, (e) Insurance Proceeds and Condemnation Proceeds (other than business interruption or other loss of income insurance), and (f) any disbursements to Borrower from any of the Reserve Funds. Notwithstanding anything to the contrary contained in this definition, Gross Income from Operations shall exclude any non-recurring Gross Income from Operations, including, without limitation, Gross Sales Proceeds.

"Gross Sales Proceeds" shall mean, with respect to each Property, as to any Residential Unit, the stated contract purchase price ("**Basic Contract Price**") plus the amounts of any additions or upgrades for which the purchaser has agreed to pay in excess of the Basic Contract Price less the amounts of any extraordinary credits or concessions for items that Borrower has agreed to provide such purchaser that are not otherwise reflected in the Basic Contract Price.

"Guarantor" shall mean The Howard Hughes Corporation, a Delaware corporation.

"Guarantor Net Worth" shall have the meaning ascribed to the term "Net Worth" in the Guaranty.

"Guaranty" shall mean, individually or collectively as the context may require, the Carry Costs Guaranty, the Carveout Guaranty, the Environmental Indemnity, the Pledgor Guaranty, and/or the Completion Guaranty.

"Hard Costs" shall mean, with respect to each Property, those Project Related Costs towards the construction and development of the Improvements which are, without limitation, for labor, materials, equipment and fixtures (exclusive of salaries, commissions or expenses of salespersons or other advertising expenses) and as shown on the applicable Construction Budget, as the same may be amended from time to time in accordance with the terms hereof, all in compliance with the requirements of HRS 514B-92.

"Hazardous Substances" shall include, but are not limited to, (a) any and all substances (whether solid, liquid or gas) defined, listed, or otherwise classified as pollutants, hazardous wastes, hazardous substances, hazardous materials, extremely hazardous wastes, or words of similar meaning or regulatory effect under any present or future Environmental Statutes or that may have a negative impact on human health or the environment, including, but not limited to, petroleum and petroleum products, asbestos and asbestos-containing materials, polychlorinated biphenyls, lead, radon, radioactive materials, flammables and explosives, but excluding substances of kinds and in amounts ordinarily and customarily used or stored in properties similar to the Property for the purposes of cleaning or other maintenance or operations and otherwise in compliance with all Environmental Statutes, and (b) mold, mycotoxins, microbial matter, and/or airborne pathogens (naturally occurring or otherwise) which pose a threat (imminent or otherwise) to human health or the environment or adversely affect the Property or any portion thereof.

"ILSFDA" shall mean the Federal Interstate Land Sales Full Disclosure Act (15 USC 1700 et seq.).

"Improvements" shall have the meaning set forth in the granting clause(s) of the Security Instrument.

"Increased Costs" shall have the meaning set forth in Section 2.10.1 hereof.

"Indebtedness" shall mean for any Person, on a particular date, the sum (without duplication) at such date of (a) all indebtedness or liability of such Person (including, without limitation, amounts for borrowed money and indebtedness in the form of mezzanine debt and preferred equity); (b) obligations evidenced by bonds, debentures, notes, or other similar instruments; (c) obligations for the deferred purchase price of property or services (including trade obligations); (d) obligations under letters of credit; (e) obligations under acceptance facilities; (f) all guaranties, endorsements (other than for collection or deposit in the ordinary course of business) and other contingent obligations to purchase, to provide funds for payment, to supply funds, to invest in any Person, or otherwise to assure a creditor against loss; and (g) obligations secured by any Liens, whether or not the obligations have been assumed (other than Permitted Encumbrances).

"Indemnified Liabilities" shall have the meaning set forth in Section 10.13(b) hereof.

"Indemnified Parties" shall mean Lender and any Affiliate or designee of Lender that has filed any registration statement relating to a Securitization or has acted as the sponsor or depositor in connection with a Securitization, any Affiliate of Lender that acts as an underwriter, placement agent or initial purchaser of Securities issued in a Securitization, any other co-underwriters, co-placement agents or co-initial purchasers of Securities issued in a Securitization, and each of their respective officers, directors, partners, employees, representatives, agents and Affiliates and each Person who Controls any such Person within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, any Person that is or will have been involved in the origination of the Loan, any Person that is or will have been involved in the servicing of the Loan secured hereby, any Person in whose name the encumbrance created by the Security Instrument is or will have been recorded, any Person that may hold or acquire or will have held a full or partial interest in the Loan secured hereby (including, but not limited to, investors or prospective investors in the Securities, as well as custodians, trustees and other fiduciaries that hold or have held a full or partial interest in the Loan secured hereby for the benefit of third parties) as well as the respective directors, officers, shareholders, partners, employees, agents, servants, representatives, contractors, subcontractors, Affiliates, subsidiaries, participants, successors and assigns of any and all of the foregoing (including, but not limited to, any other Person that holds or acquires or will have held a participation or other full or partial interest in the Loan, whether during the term of the Loan or as a part of or following a foreclosure of the Loan and including, but not limited to any successors by merger, consolidation or acquisition of all or a substantial portion of Lender's assets and business).

"Indemnified Taxes" shall mean (a) Taxes, other than Excluded Taxes, imposed on or with respect to any payment made by or on account of any obligation of Borrower or Guarantor under any Loan Document and (b) to the extent not otherwise described in clause (a), Other Taxes.

"Independent Director" shall mean an individual who has prior experience as an independent director, independent manager or independent member with at least three (3) years of employment experience and who is provided by CT Corporation, Corporation Service Company, National Registered Agents, Inc., Wilmington Trust Company, Stewart Management Company, Lord Securities Corporation or, if none of those companies is then providing professional Independent Directors, another nationally-recognized company reasonably approved by Lender, in each case that is not an Affiliate of Borrower and that provides professional Independent Directors and other corporate services in the ordinary course of its business, and which individual is duly appointed as an Independent Director and is not, and has never been, and will not while serving as Independent Director be, any of the following:

(a) a member, partner, equityholder, manager, director, officer or employee of Borrower or any of its equityholders or Affiliates (other than as an Independent Director of Borrower or an Affiliate of Borrower that is not in the direct chain of ownership of Borrower and that is required by a creditor to be a single purpose bankruptcy remote entity, provided that such Independent Director is employed by a company that routinely provides professional Independent Directors or managers in the ordinary course of its business);

(b) a creditor, supplier or service provider (including provider of professional services) to Borrower or any of its equityholders or Affiliates (other than a nationally recognized company that routinely provides professional Independent Directors and other corporate services to Borrower or any of its Affiliates in the ordinary course of its business);

(c) a family member of any such member, partner, equityholder, manager, director, officer, employee, creditor, supplier or service provider; or

(d) a Person that controls (whether directly, indirectly or otherwise) any of (a), (b) or (c) above.

A natural person who otherwise satisfies the foregoing definition and satisfies subparagraph (a) by reason of being the Independent Director of a "special purpose entity" affiliated with Borrower shall be qualified to serve as an Independent Director of the Borrower, provided that the fees that such individual earns from serving as an Independent Director of affiliates of Borrower in any given year constitute in the aggregate less than five percent (5%) of such individual's annual income for that year. For purposes of this paragraph, a "special purpose entity" is an entity, whose organizational documents contain restrictions on its activities and impose requirements intended to preserve such entity's separateness that are substantially similar to those contained in the definition of Special Purpose Entity of this Agreement.

"Initial Funding Date" shall mean the date of initial funding of the Loan.

"Initial Lender" shall mean Lender and any Affiliate thereof.

"Insolvency Opinion" shall mean that certain substantive non-consolidation opinion letter, dated the date hereof, in connection with the Loan.

"Insurance Premiums" shall have the meaning set forth in Section 6.1(b) hereof.

"Insurance Proceeds" shall have the meaning set forth in Section 6.4(b) hereof.

"Interest Determination Date" shall mean, (a) with respect to the initial Interest Period, the date that is two (2) Business Days before the Initial Funding Date and (b) with respect to any other Interest Period, the date that is two (2) Business Days prior to the first (1st) day of the calendar month in which such Interest Period commences. When used with respect to an Interest Determination Date, "Business Day" shall mean any day on which banks are open for dealing in foreign currency and exchange in London. The Interest Determination Date shall be subject to adjustment as described in Section 2.3.2 below.

"Interest Period" shall mean (a) initially, the period commencing on and including the Initial Funding Date and ending on and including the last of the calendar month in which the Initial Funding Date occurs, and (b) thereafter, for any specified Payment Date including the Maturity Date, the period commencing on and including the first (1st) day of the calendar month prior to the calendar month in which such Payment Date occurs and ending on and including the last day of the calendar month prior to the month in which such Payment Date occurs and with respect to the last Interest Period herein such Interest Period shall end on the Maturity Date. The Interest Period shall be subject to adjustment as described in Section 2.3.2 below.

"Interest Rate" shall mean, with respect to each Interest Period, an interest rate per annum at which the Outstanding Principal Balance bears interest from time to time in accordance with the provisions of Section 2.2 hereof.

"Investor" shall have the meaning set forth in Section 9.1(a) hereof.

"IRS" shall mean the United States Internal Revenue Service.

"Kroll" shall mean Kroll Bond Rating Agency, Inc.

"Land Value" shall have the meaning set forth in Section 2.8.2(l) hereof.

"Lease" shall mean any lease, sublease or subsublease, letting, license, concession or other agreement (whether written or oral and whether now or hereafter in effect) pursuant to which any Person is granted a possessory interest in, or right to use or occupy all or any portion of any space in the Property by or on behalf of Borrower, and (a) every modification, amendment or other agreement relating to such lease, sublease, subsublease, or other agreement entered into in connection with such lease, sublease, subsublease, or other agreement, and (b) every guarantee of the performance and observance of the covenants, conditions and agreements to be performed and observed by the other party thereto.

"Legal Requirements" shall mean all federal, state, county, municipal and other governmental statutes, laws, rules, orders, regulations, ordinances, judgments, decrees and injunctions, permits or requirements of Governmental Authorities applicable to Borrower or the Property (or any portion thereof or any part thereof), or the administration thereof, or the sale, construction, use, alteration or operation of the Property, or any part thereof, whether now or hereafter enacted and in force, including, without limitation, the Condominium Act, the ILSFDA, Prescribed Laws, any Environmental Statutes, the Americans with Disabilities Act of 1990, as amended, and all material permits, licenses and authorizations and regulations relating thereto, and all covenants, agreements, restrictions and encumbrances contained in any instruments, either of record or known to Borrower, at any time in force affecting Borrower, the Property or any part thereof, including, without limitation, any which may (a) require repairs, modifications or alterations in or to the Property or any part thereof, or (b) in any way limit the use and enjoyment thereof.

"Lender" shall have the meaning set forth in the introductory paragraph hereto, together with its successors and assigns.

"Liabilities" shall have the meaning set forth in Section 9.2 hereof.

"LIBOR" shall mean, with respect to each Interest Period and each Interest Determination Date, the rate per annum (rounded upwards, if necessary, to the nearest 1/1,000 of 1%) calculated by Lender as set forth below:

(a) The rate for deposits in U.S. Dollars for a one-month period that appears on Reuters Screen LIBOR01 Page (or its equivalent) as of 11:00 a.m., London time, on such Interest Determination Date.

(b) If such rate does not appear on Reuters Screen LIBOR01 Page (or its equivalent) as of 11:00 a.m., London time, on the applicable Interest Determination Date, Lender shall request the principal London office of any four (4) major reference banks in the London interbank market selected by Lender to provide such reference bank's offered quotation to prime banks in the London interbank market for deposits in U.S. Dollars for a one-month period as of 11:00 a.m., London time, on such Interest Determination Date in a principal amount of not less than One Million and No/100 Dollars (\$1,000,000.00) that is representative for a single transaction in the relevant market at the relevant time. If at least two (2) such offered quotations are so provided, LIBOR shall be the arithmetic mean of such quotations. If fewer than two such quotations are so provided, Lender shall request any three (3) major banks in New York City selected by Lender to provide such bank's rates for loans in U.S. Dollars to leading European banks for a one-month period as of 11:00 a.m., New York City time, on such Interest Determination Date in a principal amount not less than One Million and No/100 Dollars (\$1,000,000.00) that is representative for a single transaction in the relevant market at the relevant time. If at least two (2) such rates are so provided, LIBOR shall be the arithmetic mean of such rates. If fewer than two (2) rates are so provided, then LIBOR shall be the LIBOR rate used for the immediately preceding Interest Period and Interest Determination Date.

"LIBOR Loan" shall mean the Loan at such time as interest thereon accrues at a rate of interest based upon LIBOR in accordance with the terms of this Agreement.

"LIBOR Rate" shall mean with respect to each Interest Period for which interest is calculated using the LIBOR Rate pursuant to Section 2.2 hereof, an interest rate per annum equal to the sum of (a) LIBOR, determined as of the Interest Determination Date applicable to such Interest Period, and (b) the Spread.

"Licenses" shall have the meaning set forth in Section 4.1.22 hereof.

"Lien" shall mean any mortgage, deed of trust, deed to secure debt, indemnity deed of trust, lien (statutory or otherwise), pledge, hypothecation, easement, restrictive covenant, preference, assignment, security interest, or any other encumbrance, charge or transfer of, or any agreement to enter into or create any of the foregoing, on or affecting Borrower, the Property, or any portion thereof or any interest therein, or any direct or indirect interest in Borrower, including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, the filing of any financing statement, and mechanic's, materialmen's and other similar liens and encumbrances.

"Line Item" shall mean, with respect to each Property, each category of Hard Costs and Soft Costs and each distinct trade or contract within such category, which shall be set forth in the Construction Budget, to be disbursed from Escrow Funds subject to availability and satisfaction of all applicable conditions to Disbursements hereunder or pursuant to Section 2.8.1 hereof, subject to availability and satisfaction of all applicable conditions to Disbursements hereunder.

"Liquid Assets" shall have the meaning ascribed to such term in the Guaranty.

"Loan" shall have the meaning set forth in the recitals hereof.

"Loan Amount" shall mean the maximum principal amount of \$600,000,000.00.

"Loan Documents" shall mean, collectively, this Agreement, the Note, the Security Instrument, the Assignment of Leases, the Assignment of Construction Agreements, the Assignment of Development Agreement, the Environmental Indemnity, the Assignment of Management Agreement (when executed), the Assignment of Sales Agency Agreement, the Assignment of Contracts, Licenses and Permits, the Assignment of Condominium Rights and Developer's Rights, the Carry Costs Guaranty, the Carveout Guaranty, the Completion Guaranty, the Tri-Party Agreement, the Cash Management Agreement (when executed), the Pledgor Guaranty, the Pledge Agreement, and all other documents executed and/or delivered in connection with the Loan.

"Loan Party" shall mean each Borrower, Pledgor and Guarantor.

"Losses" shall have the meaning set forth in [Section 3.1\(b\)](#) hereto.

"Major Contractor" shall mean, with respect to each Property, any Contractor hired by the applicable Borrower or the applicable Developer, including, without limitation, the General Contractor (including subsidiaries and affiliates), supplying labor or materials, or both, in connection with the Project Improvements which is, when aggregated with all other Construction Contracts with such Contractor and any Affiliate of such Contractor hired by such Borrower, for an aggregate contract price equal to or greater than One Million and no/100 Dollars (\$1,000,000.00) whether pursuant to one contract or agreement or multiple contracts or agreements.

"Major Contracts" shall mean, with respect to each Property, (i) any Major Construction Contract, (ii) any Major Operating Contract or (iii) any Affiliate Contract.

"Major Construction Contract" shall mean, with respect to each Property, the Architect's Contract, the General Contractor's Agreement, the Sales Agency Agreement, and any other Construction Contract (taking into account all modifications, additions and supplements thereto) with a Major Contractor, Major Subcontractor or Other Design Professional.

"Major Operating Contract" shall mean, with respect to each Property, any Operating Contract (taking into account all modifications, additions and supplements thereto) entered into by Borrower as to which either (a) there is an obligation of Borrower to pay more than One Million and no/100 Dollars (\$1,000,000.00) in the aggregate, or (b) the term thereof extends beyond one year (unless cancelable on thirty (30) days or less notice without requiring the payment of termination fees or payments of any kind).

"Major Subcontractor" shall mean, with respect to each Property, any Subcontractor supplying labor or materials, or both, in connection with the Project Improvements which is, when aggregated with all other Contracts with any Affiliate of such subcontractor hired by the applicable Developer for the applicable Borrower, for an aggregate contract price equal to or greater than \$1,000,000.00, whether pursuant to one contract or agreement or multiple contracts or agreements.

"Management Agreement" shall mean, collectively, (a) that certain Property Management and Agency Agreement entered into by and between Auahi Borrower and Manager,

dated as of September 20, 2013, pursuant to which Manager is to provide management and other services with respect to the Auahi Property, and (b) that certain Property Management and Agency Agreement entered into by and between Ala Moana Borrower and Manager, dated as of September 20, 2013, pursuant to which Manager is to provide management and other services with respect to the Ala Moana Property; or, if the context requires, the Replacement Management Agreement.

"Manager" shall mean Hawaiiana Management Company, Ltd., a Hawaii corporation, or, if the context requires, a Qualified Manager that is managing the Property (or portions thereof) in accordance with the terms and provisions of this Agreement pursuant to a Replacement Management Agreement.

"Material Action" shall mean, with respect to each Borrower, to consolidate or merge such Borrower with or into any Person, or sell all or substantially all of the assets of such Borrower (unless such sale results in the repayment, in full, of the Loan), or to institute a Bankruptcy Action or take action in furtherance of any such action, or, to the fullest extent permitted by law, to dissolve or liquidate such Borrower.

"Material Adverse Change" shall mean the business, operations, prospects, property, assets, liabilities or financial condition of any applicable Person and each of their subsidiaries, taken as a whole, or in the ability of any such Person to perform its obligations under the Loan Documents has changed in a manner which would reasonably be expected to impair the value of Lender's security for the Loan or prevent timely repayment of the Loan or otherwise prevent the applicable Person from timely performing any of its material obligations under the Loan Documents, as the case may be, as determined by Lender in its reasonable discretion.

"Material Alteration" shall mean, with respect to each Property, any alteration to the Property following Substantial Completion which, when aggregated with all related alterations (other than decorative work such as painting, wall papering and carpeting and the replacement of fixtures, furnishings and equipment to the extent being of a routine and recurring nature and performed in the ordinary course of business) constituting a single project, involves an estimated cost exceeding Five Hundred Thousand and No/100 Dollars (\$500,000.00) with respect to such alteration or related alterations (including the alteration in question) then being undertaken at the Property. Material Alterations shall not include alterations, improvements, demolitions or removals undertaken with respect to any Residential Unit that is then subject to a bona fide sales contract or any alterations undertaken by any Tenant in accordance with the terms of the applicable Lease.

"Maturity Date" shall mean the Stated Maturity Date, provided that (a) if Borrower timely and properly exercises the First Extension Option pursuant to Section 2.9, the Maturity Date shall be the First Extended Maturity Date, and (b) if Borrower timely and properly exercises the Second Extension Option pursuant to Section 2.9, the Maturity Date shall be the Second Extended Maturity Date, or such earlier date on which the final payment of principal of the Note becomes due and payable as herein or therein provided, whether at the Stated Maturity Date, by declaration of acceleration, or otherwise.

"Maximum Legal Rate" shall mean the maximum nonusurious interest rate, if any, that at any time or from time to time may be contracted for, taken, reserved, charged or received on the

indebtedness evidenced by the Note and as provided for herein or the other Loan Documents, under the laws of such state or states whose laws are held by any court of competent jurisdiction to govern the interest rate provisions of the Loan.

"**Maximum Net Worth**" shall have the meaning set forth in [Section 10.29\(g\)](#) hereof.

"**Minimum Release Price**" shall mean an amount for such Residential Unit or Commercial Unit, as applicable, as set forth on [Schedule I](#) attached hereto.

"**Mold**" shall mean fungi that reproduces through the release of spores or the splitting of cells or other means, including, but not limited to, mold, mildew, fungi, fungal spores, fragments and metabolites such as mycotoxins and microbial organic compounds.

"**Monetary Default**" shall mean a Default that can be cured by the payment of a liquidated sum of money.

"**Monthly Debt Service Payment Amount**" shall have the meaning set forth in [Section 2.3.2](#) hereof.

"**Moody's**" shall mean Moody's Investors Service, Inc.

"**Morningstar**" shall mean Morningstar Credit Ratings, LLC.

"**Multiemployer Plan**" shall mean a multiemployer plan, as defined in Section 4001(a)(3) of ERISA to which Borrower, Guarantor or any ERISA Affiliate of any of them is making or accruing an obligation to make contributions or has within any of the preceding five plan years made or accrued an obligation to make contributions.

"**Net Cash Flow Schedule**" shall have the meaning set forth in [Section 5.1.11\(b\)](#) hereof.

"**Net Operating Income**" shall mean, for any period, the amount calculated by Lender by subtracting (a) the Operating Expenses for such period, from (b) the Gross Income from Operations for such period.

"**Net Proceeds**" shall have the meaning set forth in [Section 6.4\(b\)](#) hereof.

"**Net Proceeds Account**" shall have the meaning set forth in [Section 6.4\(b\)\(ii\)](#) hereof.

"**Net Proceeds Deficiency**" shall have the meaning set forth in [Section 6.4\(b\)\(vi\)](#) hereof.

"**Net Sales Proceeds**" shall mean, with respect to each Property, as to any Residential Unit, the Gross Sales Proceeds under the applicable Unit Sale Contract from such Residential Unit minus (i) any portion of funds deposited by the buyer under such Unit Sale Contract that have been applied by the applicable Borrower to pay Project Related Costs, as contemplated by section 12 of each Unit Sale Contract, (ii) a sales commission equal to six percent (6%) of the Basic Contract Price (even if to an Affiliate), and (iii) customary and reasonable credits or prorrations ("**Sales Closing Costs**") (such as fees or expenses of the applicable Borrower or any mortgage recording tax or transfer tax, documentary stamp tax or surtaxes reimbursement, or any other customary

closing prorations made at such closing such as real estate taxes in respect of accrual periods from and after the closing) actually incurred by the applicable Borrower in connection with the sale of such Residential Unit; provided, however, that such Sales Closing Costs shall only be paid to third parties unaffiliated with any Borrower Related Party unless such costs and expenses (x) constitute Affiliate Fees permitted under this Agreement or (y) are otherwise approved by Lender acting in its reasonable discretion.

"Net Worth" shall have the meaning set forth in Section 10.29(g) hereof.

"New Mezzanine Loan" shall have the meaning ascribed to such term in Section 9.4 hereof.

"Note" shall mean that certain Promissory Note of even date herewith in the principal amount of Six Hundred Million and No/100 Dollars (\$600,000,000.00), made by Borrower in favor of Lender, as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time.

"Obligations" shall mean, collectively, Borrower's obligations for the payment of the Debt and the performance of the Other Obligations.

"OFAC" shall mean the Office of Foreign Asset Control of the Department of the Treasury of the United States of America.

"Officer's Certificate" shall mean a certificate delivered to Lender by Borrower which is signed by an authorized officer of (a) the general partner or managing member of Borrower or (b) Manager, in each case, provided Borrower agrees that such shall be deemed to be signed and bind Borrower.

"Operating Contract" shall mean, with respect to each Property, any cleaning, maintenance, service, repair, supply, credit, personnel, staffing or other contract or agreement relating to the ownership, management, development, use, operation, leasing, maintenance or repair of the Property or any portion thereof to which any Borrower Related Party is a party. "Operating Contract" does not include any Lease, any Permitted Encumbrance, any Construction Contract or any Major Contract.

"Operating Expenses" shall mean, for any period, the total of all expenditures, computed in accordance with GAAP or such other accounting basis reasonably acceptable to Lender, including cash basis accounting consistently applied, of whatever kind relating to the operation, maintenance and management of the Property, which expenditures are incurred on a regular monthly or other periodic basis, including without limitation, utilities, ordinary repairs and maintenance, insurance, license fees, Taxes, Other Charges, advertising expenses, management fees, payroll and related taxes, computer processing charges, tenant improvements and leasing commissions, model unit costs, operational equipment or other lease payments as set forth in the Approved Annual Budget or as otherwise approved by Lender in its reasonable discretion, and other similar costs, including, without duplication, Condominium Assessments, but excluding expenses in connection with the sale of Residential Units in connection with such sales. Notwithstanding anything to the contrary in the foregoing, Operating Expenses shall (x) not

include depreciation, amortization and other non-cash items, debt service, Capital Expenditures, any contributions to any of the Reserve Funds, income taxes or other taxes in the nature of income taxes on sales, or use taxes required to be paid to any Governmental Authority, equity distributions, and other extraordinary and non-recurring items, and legal or other professional services fees and expenses unrelated to the operation of the Property, and (y) be increased to reflect known increases in Operating Expenses that are anticipated, in Lender's reasonable determination, to occur within the succeeding twelve (12) month period including without limitation those related to Property Taxes and Insurance Premiums.

"Operating Permits" shall mean, with respect to each Property, collectively, all authorizations, consents and approvals given by and licenses and permits issued by Governmental Authorities which are required for the ownership, use and occupancy of the real property in accordance with all Legal Requirements in all material respects, and for the performance and observance of all obligations and agreements of Borrower contained herein or in the other Loan Documents that relate to the ownership, use and occupancy of the real property, including (without limitation) the ownership, use and occupancy of the Project Improvements following Substantial Completion of the same.

"Other Charges" shall mean, with respect to each Property, all ground rents, maintenance charges, impositions other than Taxes, any "common expenses" or expenses allocated to and required to be paid by the applicable Borrower under the Condominium Documents and any other charges, including, without limitation, vault charges and license fees for the use of vaults, chutes and similar areas adjoining the Property or any portion thereof, now or hereafter levied or assessed or imposed against the Property or any part thereof.

"Other Design Professionals" shall mean, with respect to each Property, any architect (other than Borrower's Architect), engineer, expediter or other professionals engaged to work on the Project Improvements under a contract calling for compensation equal to or in excess of \$100,000.00 per annum.

"Other Obligations" shall mean (a) the performance of all obligations of Borrower contained herein; (b) the performance of each obligation of Borrower contained in any other Loan Document; (c) the payment of all costs, expenses, legal fees and liabilities incurred by Lender in connection with the enforcement of any of Lender's rights or remedies under the Loan Documents, or any other instrument, agreement or document which evidences or secures any other Obligations or collateral therefor, whether now in effect or hereafter executed; and (d) the payment, performance, discharge and satisfaction of all other liabilities and obligations of Borrower to Lender, whether now existing or hereafter arising, direct or indirect, absolute or contingent, and including, without limitation, each liability and obligation of Borrower under any one or more of the Loan Documents and any amendment, extension, modification, replacement or recasting of any one or more of the instruments, agreements and documents referred to herein or therein or executed in connection with the transactions contemplated hereby or thereby.

"Other Taxes" shall have the meaning set forth in [Section 2.10.3](#) hereof.

"Outstanding Principal Balance" shall mean, as of any date, the outstanding principal balance of the Loan.

"Participant Register" shall have the meaning set forth in Section 9.1(c) hereof.

"Payment Date" shall mean, commencing with the First Payment Date, the first (1st) day of each calendar month during the term of the Loan until and including the Maturity Date or, for purposes of making payments hereunder, but not for purposes of calculating Interest Periods, if such day is not a Business Day, the immediately preceding Business Day. The Payment Date shall be subject to adjustment as described in Section 2.3.2 below.

"Pension Plan" shall mean any "pension plan" (as defined in Section 3(2) of ERISA), other than a Multiemployer Plan, subject to Title IV of ERISA and/or Section 412 of the Code to which Borrower, Guarantor or any ERISA Affiliate of any of them is making or accruing an obligation to make contributions or has within any of the preceding five plan years made or accrued an obligation to make contributions or otherwise has any liability with respect thereto.

"Permitted Budget Variances" shall mean, with respect to each Property, for any month, Operating Expenses of the Property for such month which are addressed in a line item included in the applicable Annual Budget but the amount thereof exceeds the line item amount for such month; provided that (a) the amount of Permitted Budget Variances for any line item in the Annual Budget for such month shall not exceed ten percent (10%) of the budgeted line item amount for such month, unless such increase is attributable to **"Non-Controllable Operating Expenses"**. As used herein "Non-Controllable Operating Expenses" shall mean utilities, Taxes and Insurance Premiums; and (b) the amount of all Permitted Budget Variances for such month in the aggregate shall not exceed five percent (5%) of the total budgeted expenses for such month, unless such increase is attributable to "Non-Controllable Operating Expenses".

"Permitted Condominium Sale" shall mean, with respect to each Property, any transaction constituting a sale of a Residential Unit or a Commercial Unit to a third party pursuant to a Qualified Sales Agreement, and in accordance with the provisions of this Agreement.

"Permitted Encumbrances" shall mean, collectively (a) the Liens and security interests created by the Loan Documents, (b) all Liens, encumbrances and other matters disclosed in "Schedule B" of the Title Insurance Policy, (c) the Liens, if any, for Taxes imposed by any Governmental Authority which are not yet delinquent, (d) such other title and survey exceptions as Lender has approved or may approve in writing in Lender's sole discretion; provided, however, that Lender will not unreasonably withhold its consent with respect to any title and survey exceptions that do not materially and adversely affect the value or the use of the Property or Borrower's ability to repay the Loan, and (e) any workers', mechanics' or other similar Liens on the Property provided that any such Lien is being contested in accordance with the terms of this Agreement and the other Loan Documents.

"Permitted Indebtedness" means collectively, (a) the Note and the other obligations, indebtedness and liabilities specifically provided for in any Loan Document and secured by this Agreement, the Security Instruments and/or the other Loan Documents; (b) until Final Completion of the Project Improvements, amounts to be incurred pursuant to the Major Construction Contracts or otherwise in accordance with the Approved Annual Budget (and any re-allocations thereof expressly permitted pursuant to this Agreement); (c) upon Substantial Completion, unsecured trade payables (not including any Major Construction Contract and amounts set forth in clause (d)

below) and operational debt relating to the Project not evidenced by a note and in an aggregate amount not exceeding One Million and No/100 Dollars (\$1,000,000.00), in the aggregate; provided, that any Indebtedness incurred pursuant to this clause (c) shall be (x) outstanding not more than sixty (60) days from the date due and (y) incurred in the ordinary course of business; and (d) unsecured trade payables and operational debt in respect of marketing and selling the Residential Units, and tenant improvement costs in accordance with a Lease entered into in accordance with the terms hereof, including deferred fees, provided that any Indebtedness incurred pursuant to this clause (d) shall be (x) outstanding not more than sixty (60) days from the date due and (y) incurred in the ordinary course of business.

"Permitted Investments" shall mean any one or more of the following obligations or securities acquired at a purchase price of not greater than par, including those issued by the Servicer or the trustee under any Securitization, if any has occurred, or any of their respective Affiliates, payable on demand or having a maturity date not later than the Business Day immediately prior to the first Payment Date following the date of acquiring such investment and meeting one of the appropriate standards set forth below:

(a) obligations of, or obligations directly and unconditionally guaranteed as to principal and interest by, the U.S. government or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States of America and have maturities not in excess of one year;

(b) federal funds, unsecured certificates of deposit, time deposits, banker's acceptances, and repurchase agreements having maturities of not more than 90 days of any commercial bank organized under the laws of the United States of America or any state thereof or the District of Columbia, the short-term debt obligations of which are rated (i) "A-1+" (or the equivalent) by S&P and, if it has a term in excess of three months, the long-term debt obligations of which are rated "AAA" (or the equivalent) by S&P, and that (1) is at least "adequately capitalized" (as defined in the regulations of its primary federal banking regulator) and (2) has Tier 1 capital (as defined in such regulations) of not less than One Billion and No/100 Dollars (\$1,000,000,000.00), (ii) in one of the following Moody's rating categories: (1) for maturities less than one month, a long-term rating of "A2" or a short-term rating of "P-1", (2) for maturities between one and three months, a long-term rating of "A1" and a short-term rating of "P-1", (3) for maturities between three months to six months, a long-term rating of "Aa3" and a short-term rating of "P-1" and (4) for maturities over six months, a long-term rating of "Aaa" and a short-term rating of "P-1", or such other ratings as confirmed by Lender in its sole discretion (and in a Rating Agency Confirmation if a Securitization has occurred);

(c) deposits that are fully insured by the Federal Deposit Insurance Corporation;

(d) commercial paper rated (i) "A-1+" (or the equivalent) by S&P and having a maturity of not more than 90 days and (ii) in one of the following Moody's rating categories: (1) for maturities less than one month, a long-term rating of "A2" or a short-term rating of "P-1", (2) for maturities between one and three months, a long-term rating of "A1" and a short-term rating of "P-1", (3) for maturities between three months to six months, a long-term rating of "Aa3" and a short-term rating of "P-1" and (4) for maturities over six months, a long-term rating of "Aaa" and a short-term rating of "P-1";

(e) any money market fund that (i) has substantially all of its assets invested continuously in the types of investments referred to in subparagraph (a) above, (ii) has net assets of not less than Five Billion and No/100 Dollars (\$5,000,000,000.00), and (iii) has the highest rating obtainable from S&P and Moody's; and

(f) such other investments as to which each Approved Rating Agency shall have delivered a Rating Agency Confirmation (if a Securitization has occurred) and to which Lender shall have approved in its sole discretion.

Notwithstanding the foregoing, "Permitted Investments" (i) shall exclude any security with the S&P's "r" symbol (or any other Approved Rating Agency's corresponding symbol) attached to the rating (indicating high volatility or dramatic fluctuations in their expected returns because of market risk), as well as any mortgage-backed securities and any security of the type commonly known as "strips"; (ii) shall be limited to those instruments that have a predetermined fixed dollar of principal due at maturity that cannot vary or change; (iii) shall only include instruments that qualify as "cash flow investments" (within the meaning of Section 860G(a)(6) of the Code); and (iv) shall exclude any investment where the right to receive principal and interest derived from the underlying investment provides a yield to maturity in excess of one hundred and twenty percent (120%) of the yield to maturity at par of such underlying investment. Interest may either be fixed or variable, and any variable interest must be tied to a single interest rate index plus a single fixed spread (if any), and move proportionately with that index. No investment shall be made which requires a payment above par for an obligation if the obligation may be prepaid at the option of the issuer thereof prior to its maturity. All investments shall mature or be redeemable upon the option of the holder thereof on or prior to the earlier of (x) three months from the date of their purchase and (y) the Business Day preceding the day before the date such amounts are required to be applied hereunder.

"**Permitted Transfer**" shall mean (a) the issuance, redemption, sale, exchange, mortgage, pledge, hypothecation, assignment, encumbrance, conveyance, transfer or other disposition (each, an "**HHC Share Transfer**") of the equity interests ("**HHC Shares**") in The Howard Hughes Corporation ("**HHC**") or a successor by merger pursuant to a Plan Sponsor Acquisition so long as the HHC Share Transfer does not result in or cause a Change of Control of HHC (or a successor by merger pursuant to a Plan Sponsor Acquisition); (b) the issuance, redemption, sale, conveyance, exchange, mortgage, pledge, hypothecation, assignment, encumbrance, transfer or other disposition of equity interests in Persons having a direct or indirect equity interest in HHC (or successor by merger pursuant to a Plan Sponsor Acquisition); or (c) the pledge, hypothecation or encumbrance of any assets of HHC, The Howard Research And Development Corporation, a Maryland corporation, or The Hughes Corporation, a Delaware corporation (save and except any pledge, hypothecation or encumbrance of direct interests in the Property, any Borrower or Pledgor).

"**Person**" shall mean any individual, corporation, partnership, joint venture, limited liability company, estate, trust, unincorporated association, any Governmental Authority, and any fiduciary acting in such capacity on behalf of any of the foregoing.

"**Personal Property**" shall have the meaning set forth in the granting clause(s) of the Security Instrument.

"Plan Sponsor" means Pershing Square Capital Management, L.P. and any affiliate thereof, for so long as such person owns an equity interest in HHC.

"Plan Sponsor Acquisition" shall have the meaning set forth in the definition of "Change of Control".

"Plans and Specifications" shall mean, with respect to each Property, the plans and specifications for the Project prepared by Borrower's Architect and the Other Design Professionals, which shall be subject to review by Lender and the Construction Consultant and the approval by Lender in its discretion and in accordance with the terms hereof. The Plans and Specifications shall be consistent with the Scope of Work approved by Lender as of the date hereof or as otherwise modified from time to time with Lender's approval.

"Pledge Agreement" shall mean that certain Pledge and Security Agreement, dated as of the date hereof, from Pledgor in favor of Lender, as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time.

"Pledged Collateral" shall mean the "Collateral" as such term is defined in the Pledge Agreement.

"Pledgor" shall mean Ward Village CK Holdings, LLC, a Delaware limited liability company, and its permitted successors and assigns.

"Pledgor Guaranty" shall mean that certain limited recourse Pledgor Guaranty, dated as of the date hereof, from Pledgor in favor of Lender, as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time.

"Pledgor UCC-1" shall have the meaning set forth in [Section 4.1.6](#) hereof.

"Policies" shall have the meaning set forth in [Section 6.1\(b\)](#) hereof.

"Prescribed Laws" means, collectively, (a) the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (Public Law 107-56) (The USA PATRIOT Act), (b) Executive Order No. 13224 on Terrorist Financing, effective September 24, 2001, and relating to Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism, (c) the International Emergency Economic Power Act, 50 U.S.C. § 1701 *et. seq.*, (d) the Racketeer Influenced and Corrupt Organizations Act, (e) all requirements contained in the rules and regulations of OFAC, and (f) all other Legal Requirements relating to money laundering or terrorism.

"Prime Rate" shall mean the annual rate of interest publicly announced by Wells Fargo Bank, N.A. in San Francisco, California, as its prime rate, as such rate shall change from time to time. If Wells Fargo Bank, N.A. ceases to announce a prime rate, Prime Rate shall mean the rate of interest published in The Wall Street Journal from time to time as the "Prime Rate." If more than one "Prime Rate" is published in *The Wall Street Journal* for a day, the average of such "Prime Rates" shall be used, and such average shall be rounded up to the nearest one hundredth of one percent (0.01%). If *The Wall Street Journal* ceases to publish the "Prime Rate," Lender shall

select an equivalent publication that publishes such "Prime Rate," and if such "Prime Rates" are no longer generally published or are limited, regulated or administered by a governmental or quasigovernmental body, then Lender shall select a comparable interest rate index.

"Prime Rate Loan" shall mean the Loan at such time as interest thereon accrues at a rate of interest based upon the Prime Rate in accordance with the terms of this Agreement.

"Prime Rate Spread" shall mean the difference (expressed as the number of basis points) between (a) the Interest Rate on the date LIBOR was last applicable to the Loan and (b) the Prime Rate on the date that LIBOR was last applicable to the Loan; provided, however, in no event shall such difference be a negative number.

"Principal" shall mean the Special Purpose Entity that is the general partner of Borrower or Pledgor, if Borrower or Pledgor, as applicable, is a limited partnership, or member of Borrower or Pledgor, as applicable, if Borrower or Pledgor, as applicable, is a limited liability company other than a Delaware single-member limited liability company that satisfies the requirements of a Special Purpose Entity.

"Prohibited Transaction" shall mean any action or transaction which would cause any obligation, or action taken or to be taken, hereunder (or the exercise by Lender of any of its rights under the Note, this Agreement or the other Loan Documents) to be a non-exempt (under a statutory or administrative class exemption) prohibited transaction under ERISA or Section 4975 of the Code.

"Project" shall mean, with respect to each Property, the applicable Borrower's construction and development of the Project Improvements as described in the Scope of Work, to be constructed in accordance with this Agreement, the Plans and Specifications, the Condominium Documents, Legal Requirements in all material respects and the terms of this Agreement and the other Loan Documents.

"Project Development Team" shall have the meaning specified in [Section 5.1.39](#) hereof.

"Project Improvements" shall mean, with respect to each Property, the Improvements of the Property to be constructed as part of the Project in accordance with the Plans and Specifications.

"Project Related Costs" shall mean, with respect to each Property, all Hard Costs and Soft Costs including expenses of designing, inspecting, remediating, renovating, constructing, developing, selling and marketing the Project Improvements (including, without limitation, all Hard Costs to construct the Project and Improvements to Final Completion) and operating the Project Improvements throughout the term of this Agreement, including without limitation, Carrying Costs.

"Project Report" shall mean, with respect to each Property, a report to be prepared by the Construction Consultant, based on its review of the Construction Budget, the Plans and Specifications, the Construction Schedule, all in final form, the General Contractor's Agreement, the Major Construction Contracts, inspections of the Project, and such other documents and information required by the Construction Consultant. The applicable Borrower shall provide to

Construction Consultant all information and documentation reasonably necessary for Construction Consultant to prepare a Project Report.

"Property" shall mean each parcel of real property, the Improvements thereon and all personal property owned by Borrower and encumbered by the Security Instrument, together with all rights pertaining to such property and Improvements, as more particularly described in the granting clause(s) of the Security Instrument and referred to therein as the "Property".

"Property Report" shall mean, with respect to each Property, the current effective Property Report for the Project, in the form contained in the Statement of Record and filed by applicable Borrower with the United States Consumer Financial Protection Bureau under the ILSFDA.

"Property Taxes" shall mean, with respect to each Property, all taxes, assessments, water rates or sewer rents, now or hereafter levied or assessed or imposed against (a) the Property or any part thereof, together with all interest and penalties thereon and (b) the rents, issues, income or profits thereof or upon the lien or estate hereby created, whether any or all of said taxes, assessments or charges be levied directly or indirectly or as excise taxes or ad valorem real estate or personal property taxes or income taxes imposed on Borrower (but excluding any income tax imposed upon Lender).

"Provided Information" shall mean any and all financial and other information provided at any time by, or on behalf of, Borrower, Manager (if Manager is an Affiliate) or Guarantor with respect to the Property, Borrower, Guarantor and/or Manager.

"Public Report" shall mean, with respect to each Property, the Hawaii Developer's Public Report prepared by or on behalf of the applicable Borrower with respect to the Property, in form and substance as required by applicable Legal Requirements, whereby such Borrower proposes to offer for sale Residential Units of the Project to the public, with an effective date and issued by the State of Hawaii Real Estate Commission, in form and substance satisfactory to Lender, as the same may be amended, replaced, supplemented or otherwise modified from time to time with Lender's prior written approval to the extent required by Section 5.1.40(b) hereof.

"Punchlist Items" shall mean, with respect to each Property, collectively, minor or insubstantial details of construction, decoration, mechanical adjustment or installation the non-completion of which does not prevent the use and occupancy of the Project Improvements for their intended purposes.

"Qualified Sales Agreement" shall mean, with respect to each Property, a definitive and binding purchase and sale agreement between a Borrower and a purchaser that:

- (x) with respect to Residential Units:
 - (a) is an Existing Unit Contract; or
 - (b) is a Subsequent Unit Contract that satisfies the requirements of Section 5.1.41(e)(ii)(A) or (B);

(y) with respect to Commercial Units:

- (a) provides for a purchase price which yields gross sales proceeds equal to at least the applicable Minimum Release Price for such Unit; and
- (b) contains otherwise (i.e., other than pricing as described in (y)(a)) market terms and conditions reasonably acceptable to Lender.

"Qualified Manager" shall mean, with respect to each Property (or portion thereof), (i) a reputable and experienced property management organization selected by Borrower and reasonably approved by Lender, which possesses experience in managing properties similar in location, size, class, use, operation and value as the Property, or (ii) Affiliated Manager.

"Rating Agencies" shall mean each of S&P, Moody's, Fitch, Kroll, DBRS, Morningstar and Realpoint or any other nationally recognized statistical rating agency which has assigned a rating to the Securities, if any.

"Rating Agency Confirmation" shall mean a written affirmation from a Rating Agency that the credit rating of the Securities issued by such Rating Agency immediately prior to the occurrence of the event with respect to which such Rating Agency Confirmation is sought will not be qualified, downgraded or withdrawn as a result of the occurrence of such event, which affirmation may be granted or withheld in such Rating Agency's sole and absolute discretion.

"REA" shall mean, collectively, as the same may be amended, restated, supplemented or otherwise modified from time to time, any Construction, Operation and Reciprocal Easement Agreement entered into from time to time in accordance with the terms of this Agreement, subject to the reasonable approval of Lender.

"Realpoint" shall mean Realpoint, LLC, a Pennsylvania limited liability company.

"Register" shall have the meaning set forth in Section 9.1(b) hereof.

"Regulation AB" shall mean Regulation AB under the Securities Act and the Exchange Act, as such Regulation may be amended from time to time.

"Related Property" shall mean a parcel of real property, together with improvements thereon and personal property related thereto, that is "related" within the meaning of the definition of Significant Obligor, to the Property.

"Related Unit Purchaser" shall mean any prospective purchaser of a Residential Unit that is not an Unrelated Unit Purchaser. Lender acknowledges and agrees that notwithstanding anything in this Agreement to the contrary, attached as Schedule V is a list of approved Related Unit Purchasers.

"Release" shall mean, with respect to any Hazardous Substance, any release, deposit, discharge, emission, leaking, leaching, spilling, seeping, migrating, injecting, pumping, pouring, emptying, escaping, dumping, disposing (including the abandonment or discharging of barrels,

containers or other closed receptacles containing Hazardous Substances) into the environment or other movement of Hazardous Substances.

"Remaining Available Funds" shall have the meaning set forth in Section 2.1.8 hereof.

"Remaining Borrower" shall have the meaning set forth in Section 10.29(g) hereof.

"Remediation" shall mean any response, remedial, removal, or corrective action; any activity to clean up, detoxify, decontaminate, contain or otherwise remediate any Hazardous Substance; any actions to prevent, cure or mitigate any Release of any Hazardous Substance; any action to comply with any Environmental Statutes or with any permits issued pursuant thereto; any inspection, investigation, study, monitoring, assessment, audit, sampling and testing, or laboratory or other analysis, or evaluation relating to any Hazardous Substances or to anything referred to herein.

"REMIC Trust" shall mean a "real estate mortgage investment conduit" within the meaning of Section 860D of the Code that holds the Note.

"Rents" shall mean all rents (including additional rents of any kind and percentage rents), rent equivalents, moneys payable as damages (including payments by reason of the rejection of a Lease in a Bankruptcy Action) or in lieu of rent or rent equivalents, royalties (including, without limitation, all oil and gas or other mineral royalties and bonuses), income, receivables, receipts, revenues, deposits (including security, utility and other deposits), accounts, cash, issues, profits, charges for services rendered, and other payments and consideration of whatever form or nature received by or paid to or for the account of or benefit of Borrower or any of its agents or employees from any and all sources arising from or attributable to the Property or any portion thereof, and the Improvements, including charges for oil, gas, water, steam, heat, ventilation, air-conditioning, electricity, license fees, maintenance fees, charges for Property Taxes, Operating Expenses or other amounts payable to Borrower (or for the account of Borrower), revenues from telephone services, vending, and all receivables, customer obligations now existing or hereafter arising or created out of the sale, lease, sublease, license, concession or other grant of the right of the use and occupancy of the Property (or any portion thereof) or rendering of services by Borrower, Manager, or any of their respective agents or employees and proceeds, if any, from business interruption or other loss of income insurance.

"Repayment Date" shall mean the date of a prepayment of the Loan pursuant to the provisions of Section 2.4 hereof.

"Replacement Management Agreement" shall mean, with respect to each Property, collectively, (a) either (i) a management agreement with a Qualified Manager substantially in the same form and substance as the Management Agreement, or (ii) a management agreement with a Qualified Manager which is reasonably acceptable to Lender in form and substance, provided that, with respect to this clause (ii), if a Securitization has occurred, Lender, at its option, may require that Borrower obtain a Rating Agency Confirmation from each Approved Rating Agency with respect to each such management agreement; and (b) an assignment of management agreement and subordination of management fees substantially in the form then used by Lender (or of such

other form and substance reasonably acceptable to Lender), executed and delivered to Lender by Borrower and such Qualified Manager at Borrower's expense.

"Requested Disbursement Date" shall mean the applicable date for disbursement as set forth in a Borrower's Requisition.

"Required Records" shall have the meaning set forth in Section 5.1.11(i) hereof.

"Required Minimum Release Price" shall have the meaning set forth in Section 5.1.41(e)(ii) hereof.

"Required Release Price" shall have the meaning set forth in Section 5.1.41(f)(vii) hereof.

"Reserve Accounts" shall mean, collectively, the Tax and Insurance Escrow Account, the Excess Cash Reserve Account, the Net Proceeds Account and any other escrow or reserve account established pursuant to the Loan Documents.

"Reserve Funds" shall mean, collectively, the Tax and Insurance Escrow Funds and the Excess Cash Reserve Funds and any other escrow or reserve fund established pursuant to the Loan Documents.

"Residential Unit" shall mean, with respect to each Property, each "Residential Unit" (as such term is defined in the Condominium Documents) within the Condominium (including any appurtenant interest in the common elements) to be constructed in accordance with the Plans and Specifications and which are to be offered for sale to the public pursuant to the Public Report and Property Report and which shall be separate designated residential units in the Condominium as more particularly set forth in the Condominium Documents.

"Restoration" shall mean, with respect to each Property, the repair and restoration of the Property or any portion thereof after a Casualty or Condemnation as nearly as possible to the condition the Property (or such portion thereof) was in immediately prior to such Casualty or Condemnation, with such alterations as may be approved by Lender in its sole discretion.

"Restricted Party" shall mean, collectively (a) Borrower, Principal, Pledgor, Guarantor, Developer and any Affiliated Manager, and (b) any shareholder, partner, member, non-member manager, direct or indirect legal or beneficial owner, agent or employee of Borrower, Pledgor, Guarantor, Developer, any Affiliated Manager or any non-member manager. In no event shall the term "Restricted Party" include shareholders of Guarantor, other than a Controlling shareholder, so long as Guarantor's stock is publicly traded on a nationally-recognized public stock exchange.

"Retainage" shall mean, with respect to each Property, for each Construction Contract, the greater of (a) ten percent (10%) of all costs funded to the Contractor or Subcontractor under such Construction Contract (exclusive of bond costs, insurance costs, CCIP or OCIP costs, and general conditions for which no retainage is required) until fifty percent (50%) of the total costs of such Construction Contract have been paid to the Contractor or Subcontractor; provided, that Borrower shall not be obligated to withhold any additional retainage with respect to the remaining fifty percent (50%) of such costs but shall retain the initial retainage until Final Completion of all work

required under any such Construction Contract, including any Punchlist Items (it being acknowledged and agreed that at no time until Final Completion of the work under such Construction Contract shall the retainage with respect thereto, in each case, be less than five percent (5%)), and (b) the actual retainage required under such Construction Contract. Notwithstanding the foregoing, Borrower shall have the right for any Construction Contract that is not a Major Construction Contract to release final retainage amounts otherwise required to be withheld allocable to Construction Contracts for which work has been completed not to exceed \$2,000,000.00 in the aggregate per Project.

"Retention Amount" shall have the meaning set forth in Section 6.4(b)(iv) hereof.

"RICO" shall mean the Racketeer Influenced and Corrupt Organizations Act.

"S&P" shall mean Standard & Poor's Ratings Group, a division of the McGraw-Hill Companies.

"Sale or Pledge" shall mean a voluntary or involuntary sale, conveyance, assignment, transfer, encumbrance, pledge, grant of an option or other transfer or disposal of a legal or beneficial interest, whether direct or indirect.

"Sales Agency Agreement" shall mean, with respect to each Property, any sales agency agreement with respect to the sale of the Residential Units or a Commercial Unit entered into between the applicable Borrower and a Sales Agent, in form and substance reasonably acceptable to Lender.

"Sales Agent" shall mean, with respect to each Property, any sales agent engaged for the sale of the Residential Units or a Commercial Unit selected by the applicable Borrower and reasonably approved by Lender.

"Sales Closing Costs" shall have the meaning set forth in the definition of Net Sales Proceeds.

"Scope of Work" shall mean, with respect to each Property, the description of the general scope of the Project, including the conceptual plan for the Project, the number of Residential Units, contemplated design and a pre-development plan and schedule, which has been approved by Lender as of the Closing Date and is attached hereto as **Exhibit D**. The Scope of Work may hereafter only be amended or modified with the prior written approval of Lender, which approval shall not be unreasonably withheld, conditioned or delayed.

"Second Extended Maturity Date" shall have the meaning set forth in Section 2.9.1 hereof.

"Second Extension Notice" shall have the meaning set forth in Section 2.9.1 hereof.

"Second Extension Option" shall have the meaning set forth in Section 2.9.1 hereof.

"Securities Act" shall mean the Securities Act of 1933, as the same shall be amended from time to time.

"Securitization" shall have the meaning set forth in Section 9.1(a) hereof.

"Security Instrument" shall mean, with respect to each Property, that certain Mortgage, Assignment of Leases and Rents, Security Agreement, and Fixture Filing, dated the date hereof, executed and delivered by the applicable Borrower as security for the Obligations which encumbers the Property or any portion thereof, as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time.

"Servicer" shall have the meaning set forth in Section 9.3 hereof.

"Servicing Agreement" shall have the meaning set forth in Section 9.3 hereof.

"Severed Loan Documents" shall have the meaning set forth in Section 8.1.1(c) hereof.

"Shortfall" shall have the meaning set forth in Section 2.1.8 hereof.

"Shortfall Advance" shall have the meaning set forth in Section 2.1.8 hereof.

"Shortfall Deposit Period" shall have the meaning set forth in Section 2.1.8 hereof.

"Shortfall Notice" shall have the meaning set forth in Section 2.1.8 hereof.

"Significant Obligor" shall have the meaning set forth in Item 1101(k) of Regulation AB under the Securities Act.

"Soft Costs" shall mean, with respect to each Property, those Project Related Costs which are not Hard Costs as shown on the applicable Construction Budget, as the same may be changed from time to time in accordance with the terms of this Agreement, including but not limited to, architect's, engineer's and general contractor's fees, interest on the Loan, recording taxes and title charges in respect of the Security Instrument, Taxes and Other Charges, Insurance Premiums and such other non-construction costs as are part of the Cost of the Improvements.

"Special Purpose Entity" shall mean a corporation, limited partnership or limited liability company which at all times prior to, on and after the date hereof:

(a) was, is and will be organized solely for the purpose of (i) in the case of each Borrower, acquiring, developing, owning, holding, selling, leasing, transferring, exchanging, managing and operating the applicable Property (and no other property), entering into this Agreement with Lender and performing its obligations under the Loan Documents, refinancing the applicable Property in connection with a permitted repayment of the Loan, and transacting lawful business that is incident, necessary and appropriate to accomplish the foregoing, and (ii) intentionally omitted, or (iii), in the case of Pledgor, acting as general partner of the limited partnership that owns Borrower or member of the limited liability company that owns Borrower, as applicable;

(b) has not been, is not, and will not be engaged, in any business unrelated to (i) in the case of each Borrower, the acquisition, development, ownership, management or operation of the applicable Property, and (ii) intentionally omitted, or (iii), in the case of Pledgor, acting as general

partner of the limited partnership that owns Borrower or member of the limited liability company that owns Borrower, as applicable;

(c) has not had, does not have, and will not have, any assets other than (i) in the case of each Borrower, those related to the applicable Property or (ii) in the case of Pledgor, its partnership interest in the limited partnership or the membership interest in the limited liability company that owns the applicable Property, as applicable, or acts as the general partner or managing member thereof, as applicable;

(d) has not engaged in, sought or consented to, and will not engage in, seek or consent to, any dissolution, winding up, liquidation, consolidation, merger, sale of all or substantially all of its assets, transfer of partnership or membership interests (if such entity is a general partner in a limited partnership or a member in a limited liability company) or amendment of its limited partnership agreement, articles of incorporation, articles of organization, certificate of formation or operating agreement (as applicable) with respect to the matters set forth in this definition;

(e) if such entity is a limited partnership, has had, now has, and will have as its only general partners, Special Purpose Entities each of which (i) is a corporation or single-member Delaware limited liability company or multimember Delaware limited liability company treated as a single member limited liability company that complies with the requirements set forth in subparagraph (h) hereof, (ii) has two (2) Independent Directors, and (iii) holds a direct interest as general partner in the limited partnership of not less than one-half-of-one percent (0.5%) (or one-tenth-of-one percent (0.1%), if the limited partnership is a Delaware entity);

(f) if such entity is a corporation, has had, now has and will have at least two (2) Independent Directors, and has not caused or allowed, and will not cause or allow, the board of directors of such entity to take any Bankruptcy Action or any other Material Action either with respect to itself or, if the corporation is Pledgor, with respect to the Borrower or Pledgor, as applicable, or any action requiring the unanimous affirmative vote of one hundred percent (100%) of the members of its board of directors unless the two (2) Independent Directors shall have participated in such vote and shall have voted in favor of such action;

(g) if such entity is a limited liability company with more than one member, has had, now has and will have at least one (1) member that is a Special Purpose Entity (i) that is a corporation, (ii) that has at least two (2) Independent Directors, and (iii) that directly owns at least one-half-of-one percent (0.5%) of the equity of the limited liability company (or one-tenth-of-one percent (0.1%) if the limited liability company is a Delaware entity);

(h) if such entity is a limited liability company with only one member, now is, and will be a limited liability company organized in the State of Delaware that (i) has at least two (2) Independent Directors, (ii) has not caused or allowed, and will not cause or allow the members or managers of such entity to take any Bankruptcy Action or any other Material Action, either with respect to itself or, if the company is Pledgor, with respect to the Borrower or Pledgor, as applicable, in each case unless the two (2) Independent Directors then serving as managers of the company shall have consented in writing to such action, and (iii) has and shall have either (1) a member which owns no economic interest in the company, has signed the company's limited liability company agreement and has no obligation to make capital contributions to the company,

or two (2) natural persons or one entity that is not a member of the company, that has signed its limited liability company agreement and that, under the terms of such limited liability company agreement becomes a member of the company immediately prior to the withdrawal or dissolution of the last remaining member of the company;

(i) has been, is and intends to remain solvent and has paid and intends to pay its debts and liabilities from its then available assets (including a fairly allocated portion of any personnel and overhead expenses that it shares with any Affiliate) from its assets as the same shall become due, and has maintained and intends to maintain adequate capital for the normal obligations reasonably foreseeable in a business of its size and character and in light of its contemplated business operations (provided, however, that the foregoing shall not require any shareholder, partner, or member of such entity, as applicable, to make additional capital contributions or loans to such entity);

(j) has not failed, and will not fail, to correct any known misunderstanding regarding the separate identity of such entity and has not and shall not identify itself as a division of any other Person;

(k) has maintained and will maintain its accounts, books and records separate from any other Person and has filed and will file its own Tax returns, except to the extent that it has been or is required to file consolidated Tax returns by law or is treated as a Disregarded Entity;

(l) has maintained and will maintain its own records, books, resolutions and agreements;

(m) other than as provided in the Cash Management Agreement or this Agreement, (i) has not commingled, and will not commingle, its funds or assets with those of any other Person and (ii) has not participated and will not participate in any cash management system with any other Person;

(n) has held and will hold its assets in its own name;

(o) has conducted and shall conduct its business in its name or in a name franchised or licensed to it by an entity other than an Affiliate of itself or of Borrower, except for business conducted on behalf of itself by another Person under a business management services agreement that is on commercially reasonable terms, so long as the manager, or equivalent thereof, under such business management services agreement holds itself out as an agent of Borrower;

(p) has maintained and will maintain its books, bank accounts, balance sheets, financial statements, accounting records and other entity documents separate from any other Person and has not permitted, and will not permit, its assets to be listed as assets on the financial statement of any other entity except as required by GAAP;

(q) except as contemplated by this Agreement, has paid and will pay its own liabilities and expenses, including the salaries of its own employees, out of its own funds and assets, and has maintained and will maintain a sufficient number of employees in light of its contemplated business operations (provided, however, the foregoing shall not require any shareholder, partner or member of such entity, as applicable, to make additional capital contributions to such entity);

- (r) has observed and will observe all partnership, corporate or limited liability company formalities, as applicable;
- (s) Borrower has not incurred and will not incur any Indebtedness other than the (i) Loan and (ii) Permitted Indebtedness. Pledgor has not incurred and will not incur any Indebtedness other than the Pledgor Guaranty and Pledge Agreement;
- (t) has not assumed or guaranteed or become obligated for, and will not assume or guarantee or become obligated for, the debts of any other Person and has not held out and will not hold out its credit as being available to satisfy the obligations of any other Person except as permitted pursuant to this Agreement (other than, with respect to the Pledgor, pursuant to the Pledgor Guaranty and the Pledge Agreement);
- (u) has not acquired and will not acquire obligations or securities of its partners, members or shareholders or any other Affiliate;
- (v) has allocated and will allocate, fairly and reasonably, any overhead expenses that are shared with any Affiliate, including, but not limited to, paying for shared office space and services performed by any employee of an Affiliate;
- (w) has maintained and used, now maintains and uses, and will maintain and use, separate stationery, invoices and checks bearing its name, which stationery, invoices and checks utilized by the Special Purpose Entity or utilized to collect its funds or pay its expenses have borne, and shall bear its own name and have not borne and shall not bear the name of any other entity unless such entity is clearly designated as being the Special Purpose Entity's agent;
- (x) except pursuant to the Loan Documents including without limitation the Pledge Agreement, has not pledged and will not pledge its assets for the benefit of any other Person;
- (y) has held itself out and identified itself, and will hold itself out and identify itself, as a separate and distinct entity under its own name or in a name franchised or licensed to it by an entity other than an Affiliate of Borrower and not as a division or part of any other Person, except for services rendered under a business management services agreement with an Affiliate that complies with the terms contained in subparagraph (z) of this definition, so long as the manager, or equivalent thereof, under such business management services agreement holds itself out as an agent of Borrower;
- (z) has maintained and will maintain its assets in such a manner that it will not be costly or difficult to segregate, ascertain or identify its individual assets from those of any other Person;
- (aa) has not made and will not make loans to any Person or hold evidence of indebtedness issued by any other Person (other than cash and investment-grade securities issued by an entity that is not an Affiliate of or subject to common ownership with such entity);
- (bb) has not identified and will not identify its partners, members or shareholders, or any Affiliate of any of them, as a division or part of it, and has not identified itself, and shall not identify itself, as a division of any other Person;

(cc) has not entered into or been a party to, and will not enter into or be a party to, any transaction with its partners, members, shareholders or Affiliates except (i) in the ordinary course of its business and on terms which are intrinsically fair, commercially reasonable and are no less favorable to it than would be obtained in a comparable arm's-length transaction with an unrelated third party, and (ii) in connection with this Agreement;

(dd) other than capital contributions and distributions permitted under the terms of its organizational documents or as contemplated by this Agreement, has not entered into or been a party to, and shall not enter into or be a party to, any transaction with any of its partners, members, shareholders or Affiliates except in the ordinary course of its business and on terms which are commercially reasonable terms comparable to those of an arm's-length transaction with an unrelated third party;

(ee) has not had and shall not have any obligation to, and has not indemnified and shall not indemnify its partners, officers, directors or members, as the case may be, in each case unless such an obligation or indemnification is fully subordinated to the Debt and shall not constitute a claim against it in the event that its cash flow is insufficient to pay the Debt;

(ff) if such entity is a corporation, shall consider the interests of its creditors in connection with all corporate actions;

(gg) does not and will not have any of its obligations guaranteed by any Affiliate except as provided in the Loan Documents including without limitation the Guaranty, and the Pledgor Guaranty;

(hh) has conducted and shall conduct its business so that each of the assumptions made about it and each of the facts stated about it in the Insolvency Opinion are true;

(ii) has complied and will comply with all of the terms and provisions contained in its organizational documents and cause statements of facts contained in its organizational documents to be and to remain true and correct; and

(jj) has not permitted and shall not permit any Affiliate or constituent party independent access to its bank accounts except as permitted under the Loan Documents.

"Special Taxes" shall mean any and all present or future taxes, levies, imposts, deductions, charges or withholdings, or any liabilities with respect thereto, including those arising after the Closing Date as a result of the adoption of or any change in law, treaty, rule, regulation, guideline or determination of a Governmental Authority or any change in the interpretation or application thereof by a Governmental Authority but excluding, in the case of Lender, such taxes (including income taxes, franchise taxes and branch profit taxes) as are imposed on or measured by Lender's net income by the United States of America or any Governmental Authority of the jurisdiction under the laws under which Lender is organized or maintains a lending office.

"Sponsor" shall mean The Howard Hughes Corporation, a Delaware corporation.

"Spread" shall mean six and seventy-five one-hundredths percent (6.75%) per annum.

"State" shall mean the State or Commonwealth in which the Property or any part thereof is located.

"Stated Maturity Date" shall mean November 6, 2017.

"Statement of Record" shall mean, with respect to each Property, that certain Statement of Record for the Project, in the form filed by Borrower with the United States Consumer Financial Protection Bureau.

"Stored Materials" shall have the meaning set forth in Section 5.1.33(i) hereof.

"Subaccounts" shall have the meaning set forth in Section 2.7.2(a) hereof.

"Subcontractor" shall mean, with respect to each Property, any subcontractor supplying labor or materials, or both, in connection with the Project Improvements.

"Subsequent Unit Contract" shall mean, with respect to each Property, a Unit Sale Contract entered into from and after the Closing Date.

"Substantial Completion" shall mean, with respect to each Property, that (i) the construction of the Project Improvements, except for Punchlist Items, shall have been completed, free and clear of all Liens (except Liens created by the Loan Documents or being contested pursuant to the terms of the Loan Documents), substantially in accordance with the Plans and Specifications, all applicable Legal Requirements in all material respects, and in accordance in all respects with the Condominium Documents and the provisions of this Agreement, (ii) all fixtures and equipment required for the use and operation of the Improvements for their intended use or which may be required by any Governmental Authority or by any Legal Requirements, the Condominium Documents or rule of any Governmental Authority for the use, operation and/or sale of such Improvements for their intended use have been installed and/or are located on the Property and ready for installation, as certified by the applicable Borrower's Architect, (iii) all utilities necessary to serve the Project have been connected and are in operation, and (iv) any required approval by the fire marshal or its equivalent having jurisdiction over the Project and any other approval required by any Governmental Authorities, to the extent any such approval is a condition to the lawful use and occupancy of the Project Improvements and the opening of the same to the public, shall have been obtained, with completion of such requirements set forth in (i), (ii), (iii) and (iv) above to be evidenced to the reasonable satisfaction of Lender and the Construction Consultant, (v) all Project Related Costs incurred have been paid such that Lien waivers substantially in the form set forth in **Exhibit C**, conditioned only upon receipt of payment to be made with the proceeds of the final Disbursement, from all Contractors and Subcontractors who performed any work or supplied any materials with regard to all work performed and/or all materials supplied been delivered to Lender (other than as provided in (i) above), (vi) to the extent required by applicable Legal Requirements in all material respects, the temporary certificate of occupancy for the Project has been issued, and (vii) Borrower has sent notice to the purchasers under the Unit Sale Contracts that the acquisition of Residential Units thereunder may occur.

"Survey" shall mean, with respect to each Property, one or more survey(s) of the Property prepared by a surveyor licensed in the State and satisfactory to Lender and the company or

companies issuing the Title Insurance Policy, and containing a certification of such surveyor satisfactory to Lender.

"Tax and Insurance Escrow Account" shall have the meaning set forth in Section 7.1.1 hereof.

"Tax and Insurance Escrow Funds" shall have the meaning set forth in Section 7.1.1 hereof.

"Taxes" shall mean all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

"Tenant" shall mean the lessee of all or any portion of the Property under a Lease.

"Term" shall mean the term of the Loan.

"Title Company" shall mean, collectively, (a) Title Guaranty of Hawaii, Inc, a Hawaii corporation, as agent for First American Title Insurance Company, (b) Fidelity National Title Insurance Company and (c) National Land Tenure, LLC, as agent for Chicago Title Insurance Company.

"Title Continuation" shall mean, with respect to each Property, an endorsement to a Title Insurance Policy indicating that, since the last preceding Disbursement under this Agreement, there has been no change in the state of title to the Property and no Liens or survey exception not previously approved by Lender, or otherwise permitted hereunder, as provided herein, which notice or endorsements shall have the effect of continuing such Title Insurance Policy to the date of such Disbursement and increasing the coverage of the Title Insurance Policy by an amount equal to the Disbursement then being made if such Title Insurance Policy does not by its terms provide for such an increase.

"Title Insurance Policy" shall mean, with respect to each Property, an ALTA mortgagee title insurance policy in a form acceptable to Lender (or, if the Property is in a State which does not permit the issuance of such ALTA policy, such form as shall be permitted in such State and acceptable to Lender) with respect to the Property and insuring the lien of the Security Instrument encumbering the Property.

"Trademarks" shall mean (i) all trademarks, service marks, domain names, trade names, corporate names, trade dress, logos and other indicia of origin, all registrations thereof, and all applications therefor, whether in the United States Patent and Trademark Office or in any similar office or agency of the United States, any state thereof, any other country or political subdivision thereof, or any multi-national intellectual property office, and all common-law rights related thereto, and all rights corresponding thereto throughout the world; (ii) all extensions and renewals of the foregoing; (iii) all goodwill connected with the use of and symbolized by the foregoing; (iv) the right to sue for past, present and future infringements or dilution of any of the foregoing or for any injury to goodwill; and (v) all proceeds of the foregoing, including, without limitation, licenses, royalties, income, payments, claims, damages, and proceeds of suit.

"Trademark License" shall mean any agreement now or hereafter made pursuant to which Borrower receives or grants any right in, to, or under, any Trademark.

"Transfer" shall have the meaning set forth in [Section 5.2.10\(b\)](#) hereof.

"Tri-Party Agreement" shall mean, with respect to each Property, that certain Tri-Party Agreement, dated as of the date hereof, by and among the applicable Borrower, Escrow Agent and Lender.

"UCC" shall mean the Uniform Commercial Code as in effect on the date hereof in the State in which the Property or any portion thereof is located; provided, however, that if by reason of mandatory provisions of law, the perfection or the effect of perfection or non-perfection or priority of the security interest in any item or portion of the collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State in which the Property is located (**"Other UCC State"**), "UCC" means the Uniform Commercial Code as in effect in such Other UCC State for purposes of the provisions hereof relating to such perfection or effect of perfection or non-perfection or priority.

"Unit Sale Contract" shall have the meaning set forth in [Section 5.1.41\(a\)](#) hereof.

"Unit Sale Contract Deposit" or **"Unit Sale Contract Deposits"** shall have the meaning set forth in [Section 5.1.41\(c\)](#) hereof.

"Unit Sales Report" shall have the meaning set forth in [Section 5.1.11\(c\)](#) hereof.

"Unrelated Unit Purchaser" shall mean a prospective purchaser of a Residential Unit that is not a Borrower Related Party and has not entered into any agreement or understanding, written, oral or otherwise, to reconvey such Residential Unit to a Borrower Related Party at any time after the Transfer of such Residential Unit to such prospective purchaser.

"Up-Front Fee" shall mean a fee equal to one percent (1.0%) of the Loan Amount paid by Borrower to Lender on the Closing Date as provided in the Fee Letter by and between Borrower and Lender dated of even date herewith.

"Useable Unit Sale Contract Deposits" shall mean, with respect to each Property, at any given time, the amounts available for use by the applicable Borrower for construction and development purposes under section 12 of all Unit Sale Contracts entered into in accordance with this Agreement in accordance with applicable Legal Requirements including, without limitation, pursuant to the Escrow Agreement and HRS Section 514B-92.

"U.S. Obligations" shall mean non-redeemable securities evidencing an obligation to timely pay principal and/or interest in a full and timely manner that are (a) direct obligations of the United States of America for the payment of which its full faith and credit is pledged, or (b) to the extent acceptable to Lender, other "government securities" within the meaning of Section 2(a)(16) of the Investment Company Act of 1940, as amended.

"U.S. Person" shall mean any Person that is a "United States person" as defined in Section 7701(a)(30) of the Code.

"Yield Maintenance Premium" shall mean, with respect to any payment or prepayment of principal (or acceleration of the Loan) on or prior to the Maturity Date, an amount equal to the greater of (i) the product of the following: (a) the amount of such prepayment (or the amount of principal so accelerated), multiplied by (b) three percent (3%) and (ii) the product of the following: (a) the amount of such prepayment (or the amount of principal so accelerated), multiplied by (b) the Assumed Interest Rate, multiplied by (c) the number of calendar days that occur in the period commencing on the date such prepayment (or acceleration) occurs and ending on and including the Maturity Date. As used in this definition, **"Assumed Interest Rate"** shall mean an annual interest rate equal to the Interest Rate in effect at the time of such prepayment, but the LIBOR portion of such Interest Rate being calculated using the forward LIBOR curve then in effect as reported by *The Wall Street Journal*.

"Zoning Approvals" shall mean, with respect to each Property, all land use, entitlement, building permits, and related permits and approvals issued by the City and County of Honolulu and the State of Hawaii for such Property, including, but not limited to the following and any amendments thereto: (1) Nunc Pro Tunc Order Re: Hearing Officer's Proposed Findings of Fact, Conclusions of Law, and Decision and Order for a Master Plan Permit, approved by the Hawaii Community Development Authority in File No. PL MASP 13.1.3 on January 14, 2009, a memorandum of which was filed in the Office of the Assistant Registrar of the Land Court of the State of Hawaii as Document No. 3869623 and recorded in the Bureau of Conveyances of the State of Hawaii as Document No. 2009-093051 on June 17, 2009; (2) Master Plan Development Agreement for the Ward Neighborhood Master Plan, executed December 30, 2010 by the Hawaii Community Development Authority, Victoria Ward, Limited, Bank of Hawaii as Trustee under Land Trust No. 89433 and Land Trust No. 3188119, and First Hawaiian Bank as Trustee under Land Trust No. FHB-TRES 200601 and Land Trust No. FHB-TRES 200602, a memorandum of which was filed in the Office of the Assistant Registrar of the Land Court of the State of Hawaii as Document No. 4036891 and recorded in the Bureau of Conveyances of the State of Hawaii as Document No. 2011-004171 on January 7, 2011; (3) Declaratory Order re: Applicability of Condition No. 4 of Nunc Pro Tunc Order Re: Hearing Officer's Proposed Findings of Fact, Conclusions of Law, and Decision and Order for a Master Plan Permit, issued January 14, 2009 in File No. PL MASP 13.1.3 by the Hawaii Community Development Authority; (4) with respect to the Ala Moana Property, only, Development Permit for Ward Village Land Block 2, Project 1 (Permit No. KAK 13-036), approved by the Hawaii Community Development Authority on August 21, 2013; (5) with respect to the Auahi Property only: (a) Development Permit for Ward Village Land Block 3, Project 1 (Permit No. KAK 13-037), approved by the Hawaii Community Development Authority on August 21, 2013; and (b) Ward Village Shops Joint Development Agreement effective as of March 17, 2006, a short form of which was filed in the Office of the Assistant Registrar of the Land Court of the State of Hawaii as Document No. 3821858 on January 23, 2009; and (6) First Amended and Restated Public Facilities Agreement for Land Block 2, Project 1, Land Block 3, Project 1, Land Block 5, Project 1, executed July 26, 2013.

Section 1.2 Principles of Construction. All references to sections and schedules are to sections and schedules in or to this Agreement unless otherwise specified. All uses of the word "including" shall mean "including, without limitation" unless the context shall indicate otherwise. Unless otherwise specified, the words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. Unless otherwise specified, all meanings attributed to

defined terms herein shall be equally applicable to both the singular and plural forms of the terms so defined.

ARTICLE II

GENERAL TERMS

Section 2.1 Loan Commitment; Disbursement to Borrower.

2.1.1 Agreement to Lend and Borrow. Subject to and upon the terms and conditions set forth herein, including the payment by Borrower to Lender of the Up-Front Fee, Lender hereby agrees to make, and Borrower hereby agrees to borrow, the Loan on the Closing Date.

2.1.2 Multiple Disbursements to Borrower. Subject to and upon the terms and conditions set forth herein, including, without limitation, the conditions set forth in Section 2.8 hereof, Borrower shall be entitled to request, and Lender shall make, advances of the principal amount of the Loan in an aggregate amount not to exceed the Loan Amount.

2.1.3 The Note, Security Instrument and Loan Documents. The Loan shall be evidenced by the Note and secured by the Security Instrument, the Assignment of Leases and the other Loan Documents.

2.1.4 Use of Proceeds. Borrower shall use the proceeds of the Loan solely to pay for Approved Project Costs and in the manner set forth herein.

2.1.5 Intentionally Omitted.

2.1.6 Construction Budget. Each Borrower has prepared a budget, which has been approved by Lender and is attached hereto as **Exhibit E**, which sets forth such Borrower's good faith estimate of all Project Related Costs to be incurred by such Borrower until Final Completion of the applicable Project Improvements (as amended from time to time in accordance with the provisions hereof, individually or collectively, as the context may require, the "**Construction Budget**"). The Construction Budget shall not be amended or modified without Lender's prior written consent, which shall not be unreasonably withheld, delayed, or conditioned.

2.1.7 Project Related Disbursements.

(a) Subject to satisfaction of the conditions set forth in Section 2.8 and subject to compliance by Borrower with the other terms and conditions of this Agreement, Lender shall advance portions of the Loan as Disbursements to Borrower for Approved Project Costs.

(b) Subject to satisfaction of the conditions set forth in Section 2.8 and subject to compliance by Borrower with the other terms and conditions of this Agreement, Lender shall authorize Escrow Agent to authorize Disbursements of Useable Unit Sale Contract Deposits to Borrower for Project Related Costs of the Condominium to which such Useable Unit Sale Contract Deposits relate (exclusive of salaries, commissions, or expenses of salespersons or other advertising expenses) as provided in HRS Section 514B-92, as then in effect, to the extent set forth

in the applicable Construction Budget and the applicable Filed Budget, as the same may be revised in accordance with the provisions of this Agreement and in accordance with applicable Legal Requirements.

(c) Lender shall not be required to permit Disbursements for costs incurred by Borrower with respect to materials stored on or off the Property unless Borrower has furnished reasonably satisfactory evidence that such materials are stored, secured and insured in accordance with the provisions of Section 5.1.33(i). Subject to each Borrower's right to reallocate Cost Savings and Contingency in accordance with this Agreement within its Construction Budget, Lender shall not be required to disburse for any category or Line Item more than the amount specified therefor in such Borrower's Construction Budget.

(d) For any individual Disbursement under the applicable Construction Budget, in no event shall (x) (i) such Disbursement in accordance with such Construction Budget, plus (ii) all previous Disbursements pursuant to such Construction Budget exceed (y) (i) all Project Related Costs incurred (but not paid) or to be incurred by such Borrower through the date of the Disbursement Request plus (ii) the full amount of Project Related Costs actually paid with the proceeds of any previous Disbursement by such Borrower minus (iii) the applicable Retainage for each Construction Contract relating to such Project Related Costs.

(e) The Retainage shall be authorized to be disbursed on request by Borrower on a per Construction Contract basis after completion of each Construction Contract, subject to confirmation thereof by the Construction Consultant and receipt by Lender of final lien waiver(s) from the Contractor with respect to such Construction Contract (conditioned only upon payment of any amounts to be paid with such Retainage) and satisfaction of all other conditions precedent to such Disbursement set forth in Section 2.8.

(f) No portion of any Disbursement shall be used to pay any fees or other payments to be made to any Borrower Related Party except for Affiliate Fees expressly approved by Lender under this Agreement or pursuant to the terms and conditions in this Agreement.

(g) No Disbursement or any portion thereof shall be made with respect to any known defective work or to any Contractor that has performed work that is defective and that has not been cured, as accepted by the Borrower under the Construction Agreement and confirmed by the report of the Construction Consultant, but Lender may approve amounts payable, and Lender or Escrow Agent, as applicable, shall make such Disbursements before the sum shall become due if Lender reasonably believes it advisable to do so, and all such Disbursements or parts thereof shall be deemed to have been approved pursuant to this Agreement.

(h) Subject to satisfaction of the conditions set forth in Section 2.8 and subject to compliance by Borrower with the other terms and conditions of this Agreement, an amount of Escrow Funds shall be authorized by Lender to be authorized by Escrow Agent to be made available as Disbursements for payment of Monthly Debt Service Payment Amounts. No Unit Sale Contract Deposits shall be authorized to be made available for payment of Monthly Debt Service Payment Amounts unless otherwise expressly provided in this Agreement and permitted under all applicable Legal Requirements.

2.1.8 Insufficiency of Escrow Funds and Loan Proceeds. Notwithstanding anything to the contrary set forth herein, at any time and from time to time during the term of the Loan, Lender shall have the right (but not the obligation), based on a Project Report or other written report from its Construction Consultant or any other basis in Lender's sole but good faith discretion, to notify Borrower in writing (the "**Shortfall Notice**") that (a) the total amount of Project Related Costs necessary to achieve Final Completion of the applicable Project Improvements that remain unpaid at the time in question exceeds the sum of (I) the undisbursed Escrow Funds that constitute Useable Unit Sale Contract Deposits and which, pursuant to applicable Legal Requirements, may be used to pay for actual costs of construction and development of the applicable Condominium (exclusive of salaries, commissions, or expenses of salespersons or other advertising expenses) as provided in HRS Section 514B-92, as then in effect, plus (II) the unadvanced portion of the Loan allocated to such Project (the sum of the amounts in the foregoing clauses (I) through (II) being referred to herein as "**Remaining Available Funds**"), or (b) the cost of completing any Line Item in the Construction Budget exceeds the sum of (I) the remaining undisbursed portion of the Remaining Available Funds that are allocated to such Line Item in the Construction Budget plus (II) any available amounts in the "Contingency" Line Item of the Construction Budget plus any Cost Savings that may, in accordance with the provisions of this Agreement, be reallocated by Borrower to the Line Item in question (the amount of any such deficiency under clause (a) or (b) being herein referred to as the "**Shortfall**"). If Lender at any time shall deliver a Shortfall Notice to Borrower, then Borrower shall within thirty (30) days of delivery of the Shortfall Notice (the "**Shortfall Deposit Period**"), at its option, either individually or in combination (i) deposit with Lender an amount equal to the Shortfall, which Lender shall apply from time to time, or allow Borrower to apply, to such Project Related Costs in accordance with the Loan Documents, or (ii) pay for such costs using third-party equity as incurred, in the amount of such Shortfall; provided, that, Borrower shall provide evidence reasonably acceptable to Lender of such payment from third-party equity. Lender shall have no obligation to make any Disbursement or to authorize Escrow Agent to authorize any further Disbursements until the sums required to be deposited with Lender pursuant to this Section 2.1.8 have been exhausted or paid to Borrower and, in any such case, no Shortfall then exists. Any such sums not used as provided in this Section 2.1.8 shall be released to Borrower when and to the extent that Lender determines in its reasonable discretion that a Shortfall no longer exists; provided, however, if an Event of Default occurs and is continuing, Lender, in its sole discretion, may apply such amounts either to the remaining Project Related Costs or to the immediate payment of any Obligations of Borrower. In the event that Borrower does not pay the Shortfall in accordance with this Section 2.1.8, without waiving any resulting Event of Default hereunder, Lender shall have the right, upon five (5) Business Days prior written notice to Borrower, acting in its sole discretion, but not the obligation, to fund such Shortfall and, notwithstanding anything to the contrary contained herein, interest on such amount so funded shall be secured by the Lien of the Loan Documents and accrue at the Default Rate. Borrower shall, within five (5) Business Days following notice from Lender that Lender has elected to make such an additional advance ("**Shortfall Advance**"), execute such amendments to the Loan Documents as Lender may require to evidence such Shortfall Advance and to increase the Loan amount accordingly. Borrower agrees to reasonably cooperate in all respects with Lender with regard to such funding to insure that such advances and interest are secured by the Lien of the Security Instrument and other Loan Documents and that the priority of such Lien is not affected, and shall pay any and all actual out-of-pocket costs and expenses incurred in connection with the advance and such amendments (including mortgage recording

tax), reasonable legal fees, and title insurance premiums, and shall provide such additional title insurance policies or endorsements as may be required by Lender.

Section 2.2 Interest Rate.

2.2.1 Interest Rate. Subject to Section 2.2.5 hereof, interest on the Outstanding Principal Balance shall accrue from the Closing Date to but excluding the Maturity Date at the Interest Rate.

2.2.2 Interest Calculation. With respect to any applicable period, interest on the Outstanding Principal Balance shall be calculated by multiplying (a) the actual number of days elapsed in the period for which the calculation is being made by (b) a daily rate based on the Interest Rate and a three hundred sixty (360) day year by (c) the Outstanding Principal Balance in effect for the applicable period as calculated by Lender.

2.2.3 Determination of Interest Rate.

(a) The Interest Rate with respect to the Loan shall be: (i) the LIBOR Rate with respect to the applicable Interest Period for a LIBOR Loan, (ii) the Prime Rate plus the Prime Rate Spread for a Prime Rate Loan if the Loan is converted to a Prime Rate Loan pursuant to the provisions hereof or (iii) when applicable pursuant to this agreement, the Default Rate. Notwithstanding any provision of this Agreement to the contrary, in no event shall Borrower have the right to convert a LIBOR Loan to a Prime Rate Loan.

(b) Subject to the terms and conditions hereof, the Loan shall be a LIBOR Loan and Borrower shall pay interest on the Outstanding Principal Balance at the LIBOR Rate for the applicable Interest Period. Any change in the rate of interest hereunder due to a change in the Interest Rate shall become effective as of the opening of business on the first day on which such change in the Interest Rate shall become effective. Each determination by Lender of the Interest Rate shall be conclusive and binding for all purposes, absent manifest error.

(c) In the event that Lender shall have determined (which determination shall be conclusive and binding upon Borrower absent manifest error) that by reason of circumstances affecting the interbank Eurodollar market, adequate and reasonable means do not exist for ascertaining LIBOR, then Lender shall forthwith give notice by telephone of such determination, confirmed in writing, to Borrower at least one (1) day prior to the last day of the related Interest Period. If such notice is given, the related outstanding LIBOR Loan shall be converted, on the last day of the then current Interest Period, to a Prime Rate Loan.

(d) If, pursuant to the terms hereof, any portion of the Loan has been converted to a Prime Rate Loan and Lender shall determine (which determination shall be conclusive and binding upon Borrower absent manifest error) that the event(s) or circumstance(s) which resulted in such conversion shall no longer be applicable, Lender shall give notice by telephone of such determination, confirmed in writing, to Borrower at least one (1) day prior to the last day of the related Interest Period. If such notice is given, the related outstanding Prime Rate Loan shall be converted to a LIBOR Loan on the last day of the then current Interest Period.

(e) If any requirement of law or any change therein or in the interpretation or application thereof, shall hereafter make it unlawful for Lender to make or maintain a LIBOR Loan as contemplated hereunder (i) the obligation of Lender hereunder to make a LIBOR Loan or to convert a Prime Rate Loan to a LIBOR Loan shall be canceled forthwith and (ii) any outstanding LIBOR Loan shall be converted automatically to a Prime Rate Loan on the last day of the then current Interest Period or within such earlier period as required by law. Borrower hereby agrees to promptly pay to Lender, upon demand, any additional amounts necessary to compensate Lender for any costs incurred by Lender in making any conversion in accordance with this Agreement, including, without limitation, any interest or fees payable by Lender to lenders of funds obtained by it in order to make or maintain the LIBOR Loan hereunder. Lender's notice of such costs, as certified to Borrower, shall be conclusive absent manifest error.

(f) Borrower agrees to pay any Breakage Costs in connection with the conversion (for any reason whatsoever, whether voluntary or involuntary) of the Interest Rate from the LIBOR Rate to the Prime Rate with respect to any portion of the Outstanding Principal Balance then bearing interest at the LIBOR Rate on a date other than the last day of an Interest Period.

2.2.4 Default Rate. In the event that, and for so long as, any Event of Default shall have occurred and be continuing, the Outstanding Principal Balance and, to the extent permitted by law, all accrued and unpaid interest in respect thereof and any other amounts due pursuant to the Loan Documents, shall accrue interest at the Default Rate, calculated from the date such payment was due without regard to any grace or cure periods contained herein.

2.2.5 Usury Savings. This Agreement, the Note and the other Loan Documents are subject to the express condition that at no time shall Borrower be obligated or required to pay interest on the principal balance of the Loan at a rate which could subject Lender to either civil or criminal liability as a result of being in excess of the Maximum Legal Rate. If, by the terms of this Agreement, the Note or the other Loan Documents, Borrower is at any time required or obligated to pay interest on the principal balance due hereunder at a rate in excess of the Maximum Legal Rate, the Interest Rate or the Default Rate, as the case may be, shall be deemed to be immediately reduced to the Maximum Legal Rate and all previous payments in excess of the Maximum Legal Rate shall be deemed to have been payments in reduction of principal and not on account of the interest due hereunder. All sums paid or agreed to be paid to Lender for the use, forbearance, or detention of the sums due under the Loan shall, to the extent permitted by applicable law, be amortized, prorated, allocated, and spread throughout the full stated term of the Loan until payment in full so that the rate or amount of interest on account of the Loan does not exceed the Maximum Legal Rate of interest from time to time in effect and applicable to the Loan for so long as the Loan is outstanding.

2.2.6 Breakage Indemnity. Borrower shall indemnify Lender against any loss or expense which Lender may actually sustain or incur in liquidating or redeploying deposits from third parties acquired to effect or maintain the Loan or any part thereof as a consequence of (a) any payment or prepayment of the Loan or any portion thereof made on a date other than a Payment Date and (b) any default in payment or prepayment of the Outstanding Principal Balance or any part thereof or interest accrued thereon, as and when due and payable (at the date thereof or otherwise, and whether by acceleration or otherwise) (collectively, "**Breakage Costs**"). Lender

shall deliver to Borrower a statement for any such sums which it is entitled to receive pursuant to this Section 2.2.6, which statement shall be binding and conclusive absent manifest error. Borrower's obligations under this Section 2.2.6 are in addition to Borrower's obligations to pay any Yield Maintenance Premium applicable to a payment or prepayment of the Loan.

Section 2.3 Debt Service Payments.

2.3.1 Payments Generally. For purposes of making payments hereunder, but not for purposes of calculating Interest Periods, if the date on which any such payment is due is not a Business Day, then amounts due on such date shall be due on the immediately preceding Business Day. All amounts due pursuant to this Agreement and the other Loan Documents shall be payable without setoff, counterclaim, defense or any other deduction whatsoever.

2.3.2 Monthly Debt Service Payment. On the Initial Funding Date, Borrower shall make a payment of interest only for the period commencing on and including the Initial Funding Date through and including the final day of the month in which the Initial Funding Date occurs. Thereafter, on the first day of the second following month (the "**First Payment Date**") and each subsequent Payment Date up to and including the Maturity Date, Borrower shall make a payment to Lender of interest on the Outstanding Principal Balance for the Interest Period immediately preceding the month during which such Payment Date occurs (the "**Monthly Debt Service Payment Amount**"). Lender shall have the right from time to time, in its sole discretion, upon not less than ten (10) days prior written notice to Borrower, to change (a) the Payment Date to a different calendar day and/or (b) the calendar days upon which the Interest Period shall commence (in a particular calendar month) and end (in the immediately succeeding calendar month), with a corresponding change in the Interest Determination Date and, if requested by Lender, Borrower shall promptly execute an amendment to this Agreement to evidence all such changes, but the failure of Borrower to exercise such amendment shall not affect the effectiveness of any change for which Lender has so notified Borrower.

2.3.3 Payment on Maturity Date. Borrower shall pay to Lender not later than 3:00 p.m., New York City time, on the Maturity Date of the Outstanding Principal Balance, all accrued and unpaid interest and all other amounts due hereunder and under the Note, the Security Instrument and the other Loan Documents.

2.3.4 Late Payment Charge. If any principal, interest or any other sums due under the Loan Documents (other than the payment of principal due on the Maturity Date) are not paid by Borrower on or prior to the date on which such sums are due, Borrower shall pay to Lender upon demand an amount equal to the lesser of (a) five percent (5%) of such unpaid sum, and (b) the Maximum Legal Rate, in order to defray the expense incurred by Lender in handling and processing such delinquent payment and to compensate Lender for the loss of the use of such delinquent payment; provided, however, no such amount shall be due and payable with respect to the first late payment during any calendar year unless such delinquency persists for more than five (5) days after the date such payment was due and payable. Any such amount shall be secured by the Security Instrument and the other Loan Documents to the extent permitted by applicable law.

2.3.5 Method and Place of Payment. Except as otherwise specifically provided herein, all payments and prepayments under this Agreement and the Note shall be made to Lender

not later than 3:00 p.m., New York City time, on the date when due and shall be made in Dollars in immediately available funds at Lender's office or as otherwise directed by Lender, and any funds received by Lender after such time shall, for all purposes hereof, be deemed to have been paid on the next succeeding Business Day. Any payments required to be made hereunder or under the Cash Management Agreement by Lender or Servicer out of the Cash Management Account shall be deemed to have been timely made for purposes of this Section 2.3.5.

2.3.6 Administration Fee. Until the Loan has been paid in full, Borrower shall pay to Lender any Administration Fee that is due and payable on each Payment Date, which Administration Fee may be funded from Disbursements.

Section 2.4 Prepayments.

2.4.1 Voluntary Prepayments.

(a) Except as otherwise provided herein, Borrower shall not have the right to prepay the Loan in whole or in part prior to the Maturity Date.

(b) Permitted Prepayment.

(i) On any Payment Date so long as no Event of Default has occurred and is continuing, Borrower may, at its option and upon not more than ninety (90) and not less than thirty (30) days prior written notice to Lender, and subject to compliance with the provisions of this Section 2.4.1, prepay the Outstanding Principal Balance, in whole or in part, provided that such prepayment is accompanied by (A) all accrued and unpaid interest on the Outstanding Principal Balance prepaid through the end of the Interest Period in which such prepayment was made and (B) all other amounts due under the Note, this Agreement, or any of the other Loan Documents (including, without limitation, any Breakage Costs and any Yield Maintenance Premium). A prepayment notice may be revoked by written notice of revocation to Lender on or up to the date of prepayment specified in any such prepayment notice; provided that Borrower shall pay Lender upon demand for all of Lender's out-of-pocket costs and expenses (including reasonable fees and disbursements of Lender's counsel) incurred in connection with such anticipated prepayment and any sums that would have been payable for any Breakage Costs actually incurred and due if the prepayment was made on the date specified in any such prepayment notice.

(c) Prepayment/Repayment Conditions.

(i) On the date on which a prepayment is made, Borrower shall pay to Lender:

(A) all accrued and unpaid interest calculated at the Interest Rate on the amount of principal being prepaid through and including the end of the Interest Period in which such prepayment was made;

(B) Intentionally Omitted;

(C) Breakage Costs, if any, without duplication of any sums paid pursuant to the preceding subparagraphs (A) and (B);

(D) the Yield Maintenance Premium applicable thereto (if such prepayment occurs on or prior to the date that is thirty (30) days before the Maturity Date);

(E) all other sums then due under the Note, this Agreement, the Security Instrument, and the other Loan Documents.

2.4.2 Mandatory Prepayments.

(a) Following any Casualty or Condemnation, on the next occurring Payment Date following the date on which Lender actually receives any Net Proceeds, if Lender is not obligated to make such Net Proceeds available to Borrower for Restoration, Borrower shall prepay, or authorize Lender to apply such Net Proceeds as a prepayment of, the Outstanding Principal Balance of the Note in an amount equal to one hundred percent (100%) of such Net Proceeds; provided, however, that if an Event of Default has occurred and is continuing, Lender may apply such Net Proceeds to the Debt (until paid in full) in any order or priority in its sole discretion. Additionally, so long as no Event of Default has occurred and is continuing, no Yield Maintenance Premium shall be due in connection with any prepayment made pursuant to this Section 2.4.2(a). Any partial prepayment under this Section 2.4.2(a) shall be applied to the last payments of principal due under the Loan; and

(b) All prepayments made pursuant to the terms of Section 5.1.41 from the Required Release Price of individual condominium units shall be considered mandatory prepayments under this Section 2.4.2(b). So long as no Event of Default has occurred and is continuing, no Yield Maintenance Premium or Breakage Costs shall be due in connection with any prepayment made pursuant to this Section 2.4.2(b) from the Required Release Price of the sale of an individual condominium unit in the ordinary course of business. Any partial prepayment under this Section 2.4.2(b) shall be applied to the last payments of principal due under the Loan.

2.4.3 Prepayments Made While an Event of Default Exists. If, following the occurrence and during the continuance of an Event of Default, payment of all or any part of the Debt is tendered by Borrower for any reason or otherwise recovered by Lender (including, without limitation, through acceleration or the application of any Reserve Funds or Net Proceeds) Borrower shall pay, as part of the Debt, all of (a) all accrued interest calculated at the Interest Rate on the amount of principal being prepaid through and including the date of such prepayment, (b) the Breakage Costs, if any, without duplication of any sums paid pursuant to the preceding clause (a), and (c) the Yield Maintenance Premium.

Section 2.5 Intentionally Blank

Section 2.6 Release of Property. Except as set forth in this Section 2.6, no repayment or prepayment of all or any portion of the Note shall cause, give rise to a right to require, or otherwise result in, the release of the Lien of the Security Instrument.

2.6.1 Release on Payment in Full. Lender shall, upon the written request and at the expense of Borrower, upon payment in full of the Debt in accordance with the terms of this Agreement and the other Loan Documents, execute appropriate release documents for the release of the Lien of the Security Instrument or, if requested by Borrower, assign to Borrower's designee (without any representation or warranty by and without any recourse against Lender whatsoever) the Lien of the Loan Documents if not theretofore released, provided (i) such assignment is in accordance with applicable law, (ii) Borrower pays Lender's then customary administrative fee for processing assignments of mortgages and the reasonable expenses of Lender, including reasonable attorney's fees and expenses incurred in connection therewith, (iii) Lender shall not be liable if the original Loan Documents cannot be located, and (iv) Borrower shall provide such other items, information and documents which a prudent lender would require to effectuate such assignment.

2.6.2 Partial Release on Permitted Condominium Sales. Release of Residential Units or Commercial Units in connection with Permitted Condominium Sales shall be governed by Section 5.1.41 hereof.

Section 2.7 Cash Management.

2.7.1 Clearing Account.

(a) Upon Substantial Completion of the Project Improvements, each Borrower shall establish and maintain a segregated Eligible Account (each, a "**Clearing Account**") with the Clearing Bank in trust for the benefit of Lender, which Clearing Account shall be under the sole dominion and control of Lender. The Clearing Account shall be entitled, as applicable, "1108 Auahi, LLC, as pledgor, for the benefit of BREDS II Mortgage Corp., as Secured Party – Clearing Account" or "1118 Ala Moana, LLC, as pledgor, for the benefit of BREDS II Mortgage Corp., as Secured Party – Clearing Account", or such other name as required by Lender from time to time. Such Borrower (i) hereby grants to Lender a first priority security interest in the Clearing Account and all deposits at any time contained therein and the proceeds thereof, and (ii) will take all actions necessary to maintain in favor of Lender a perfected first priority security interest in the Clearing Account, including, without limitation, the execution of any account control agreement required by Lender. Borrower will not in any way alter, modify or close the Clearing Account and will notify Lender of the account number thereof. Except as may be expressly permitted in the Clearing Account Agreement, Lender and Servicer shall have the sole right to make withdrawals from the Clearing Account and all costs and expenses for establishing and maintaining the Clearing Account shall be paid by Borrower. All monies now or hereafter deposited into the Clearing Account shall be deemed additional security for the Obligations.

(b) Each Borrower shall, or shall cause Manager to, deliver written instructions to all Tenants under Leases to deliver all Rents payable thereunder directly to the applicable Clearing Account. Each Borrower shall, and shall cause Manager to, deposit into the applicable Clearing Account within one (1) Business Day after receipt all amounts received by such Borrower or such Manager constituting Rents. Each Clearing Account Agreement and each Clearing Account shall remain in effect until the Loan has been repaid in full.

(c) Subject to the final sentence of Section 2.7.2(a), each Borrower shall cause the Clearing Bank to transfer to the applicable Cash Management Account in immediately

available funds by federal wire transfer all amounts on deposit in the applicable Clearing Account once every Business Day (less any required minimum balance pursuant to the terms of the applicable Clearing Account Agreement).

(d) Upon the occurrence of an Event of Default and during the continuance of an Event of Default, Lender may, in addition to any and all other rights and remedies available to Lender, direct the applicable Clearing Bank to immediately pay over all funds on deposit in the applicable Clearing Account to Lender and to apply any such funds to the payment of the Debt in any order in its sole discretion.

(e) Funds deposited into each Clearing Account shall not be commingled with other monies held by any Borrower, any Manager or any Clearing Bank.

(f) Borrower shall not further pledge, assign or grant any security interest in any Clearing Account or the monies deposited therein or permit any lien or encumbrance to attach thereto, or any levy to be made thereon, or any UCC-1 financing statements, except those naming Lender as the secured party, to be filed with respect thereto.

(g) Borrower shall indemnify Lender and the Clearing Bank and hold Lender and the Clearing Bank harmless from and against any and all actions, suits, claims, demands, liabilities, losses, damages, obligations and costs and expenses (including litigation costs and reasonable attorneys' fees and expenses) arising from or in any way connected with each Clearing Account, each Clearing Account Agreement or the performance of the obligations for which each Clearing Account was established (unless arising from the gross negligence, illegal acts, fraud or willful misconduct of Lender or the Clearing Bank, as applicable).

2.7.2 Cash Management Account.

(a) On or prior to Substantial Completion, Lender shall establish and maintain a segregated Eligible Account (each, a "**Cash Management Account**") to be held by the Deposit Bank in trust for the benefit of Lender, which Cash Management Account shall be under the sole dominion and control of Lender. The Cash Management Account shall be entitled "1108 Auahi, LLC, as pledgor, for the benefit of BREDS II Mortgage Corp., as Secured Party – Cash Management Account" or "1118 Ala Moana, LLC, as pledgor, for the benefit of BREDS II Mortgage Corp., as Secured Party – Cash Management Account", or such other name as required by Lender from time to time. Lender will also establish subaccounts of the Cash Management Account which shall at all times be Eligible Accounts (and may be ledger or book entry accounts and not actual accounts) (such subaccounts are referred to herein as "**Subaccounts**"). Borrower (i) hereby grants to Lender a first priority security interest in the Cash Management Account and the Subaccounts and all deposits at any time contained therein and the proceeds thereof, and (ii) will take all actions necessary to maintain in favor of Lender a perfected first priority security interest in the Cash Management Account and the Subaccounts, including, without limitation, filing or authorizing Lender to file UCC-1 financing statements and continuations thereof. Borrower will not in any way alter, modify or close the Cash Management Account and will notify Lender of the account number thereof. Lender and Servicer shall have the sole right to make withdrawals from the Cash Management Account and the Subaccounts and all costs and expenses for establishing and maintaining the Cash Management Account and the Subaccounts shall be paid by Borrower.

All monies now or hereafter deposited into the Cash Management Account and the Subaccounts shall be deemed additional security for the Obligations. Notwithstanding anything to the contrary, so long as no Event of Default exists, funds in the Clearing Account shall be transferred to Borrower's operating account specified in the Clearing Account Agreement, as may be requested by Borrower from time to time.

(b) Subject to Section 2.7.2(e) below, all funds on deposit in the Cash Management Account shall be applied by Lender (or by the Deposit Bank at Lender's direction) to the payment of the following items in the order indicated:

(i) First, payment to Lender (for deposit in the Tax and Insurance Escrow Account) in respect of the Tax and Insurance Escrow Funds in accordance with the terms and conditions of Section 7.1.1 hereof, to be disbursed as set forth in this Agreement;

(ii) Second, payment to the Deposit Bank of the fees and expenses of the Deposit Bank then due and payable pursuant to the Cash Management Agreement;

(iii) Third, payment to Borrower in an amount equal to the aggregate of (A) Operating Expenses due and payable by Borrower during the succeeding month as set forth in the Approved Annual Budget, (B) Operating Expenses which were paid by Borrower during the previous month and which constitute Permitted Budget Variances, (C) Extraordinary Expenses, if any, approved by Lender; less (D) any amounts which were previously disbursed to Borrower pursuant to this Section 2.7.2(b)(iii) and which were not used by Borrower to pay Operating Expenses or Extraordinary Expenses; provided, however, that Lender shall have no obligation to disburse any funds to Borrower under this Section 2.7.2(b)(iii) unless Borrower has delivered to Lender not less than five (5) Business Days prior to the disbursement date an Officer's Certificate in form and substance reasonably acceptable to Lender certifying to Lender: (x) a list in reasonable detail of the Operating Expenses which are due and payable by Borrower during the succeeding month as set forth in the Annual Budget, and (y) a list in reasonable detail of the Operating Expenses which were paid by Borrower during the previous month and which constitute Permitted Budget Variances, and (z) a reconciliation showing all Operating Expenses and Extraordinary Expenses actually paid by Borrower for the prior month and all amounts distributed to Borrower under this Section 2.7.2(b)(iii);

(iv) Fourth, payment to Lender of the Monthly Debt Service Payment Amount;

(v) Intentionally Omitted;

(vi) Fifth, payment to Lender of any other amounts then due and payable under the Loan Documents; and

(vii) Sixth, payment of all amounts then remaining after payment of items (i) through (vi) (all amounts then remaining after payment of items (i) through (vi) being hereinafter referred to as "Excess Cash") to the Excess Cash Reserve Fund in accordance with the terms and conditions of Section 7.2 hereof.

(c) Provided no Event of Default shall have occurred and be continuing, the Required Release Price shall be applied on the date received by Lender (or by the Deposit Bank at Lender's direction) to prepay the Outstanding Principal Balance.

(d) The insufficiency of funds on deposit in the Cash Management Account shall not relieve Borrower of the obligation to make any payments, as and when due pursuant to this Agreement and the other Loan Documents, and such obligations shall be separate and independent, and not conditioned on any event or circumstance whatsoever.

(e) Notwithstanding Section 2.7.2(b) or (c) above, following the occurrence of an Event of Default and during the continuance thereof, all funds on deposit in the Cash Management Account may be applied by Lender in such order and priority as Lender shall determine in its sole discretion until the Debt has been paid in full.

(f) Borrower hereby agrees to reasonably cooperate with Lender with respect to any requested modifications to the Cash Management Agreement for the purpose of establishing additional sub-accounts in connection with any payments otherwise required under this Agreement and the other Loan Documents.

(g) Borrower shall indemnify Lender and the Deposit Bank and hold Lender and the Deposit Bank harmless from and against any and all actions, suits, claims, demands, liabilities, losses, damages, obligations and costs and expenses (including litigation costs and reasonable attorneys' fees and expenses) arising from or in any way connected with each Cash Management Account, each Cash Management Agreement or the performance of the obligations for which each Cash Management Account was established (unless arising from the gross negligence, illegal acts, fraud or willful misconduct of Lender or the Deposit Bank, as applicable).

Section 2.8 Conditions To Disbursements.

2.8.1 Conditions to Loan Advances. The obligation of Lender to advance all or any portion of the Loan Amount shall be subject to the following conditions precedent, in addition to the conditions set forth in Section 2.8.2 below:

(a) Borrower shall not be entitled to utilize any available Escrow Funds with respect to the applicable Approved Project Costs pursuant to the Condominium Act, Legal Requirements and the Filed Budget.

(b) Borrower shall submit to Lender and Construction Consultant a Borrower's Requisition in accordance with the requirements of this Section 2.8, not less than ten (10) Business Days prior to the proposed Disbursement date and no more frequently than once in each calendar month. Each Borrower's Requisition shall specify (i) the Approved Project Costs to be paid from the Loan advance, (ii) the amount of remaining Escrow Funds, and (iii) the percentage of the Escrow Funds that have been used for Project Related Costs to date.

(c) Lender shall have no obligation to make any Disbursement of the unadvanced portion of the Loan more often than once in each calendar month, and all such Disbursements shall be in an amount not less than One Hundred Thousand and no/100 Dollars (\$100,000.00) (except for the final Disbursement, which may be in any amount).

2.8.2 Conditions to Disbursements for Construction. The obligation of Lender to make or authorize (as applicable) the initial Disbursement shall be subject to the following conditions precedent (as well as the conditions set forth in Section 2.8.3, which shall apply to all Disbursements), all of which conditions precedent must be satisfied (or waived in writing by Lender) prior to Lender making or authorizing (as applicable) the initial Disbursement (provided that Lender's making or authorization of a Disbursement shall constitute written waiver of any such conditions not satisfied as of the date of funding of such Disbursement):

(a) Performance: No Default. On the date the initial Disbursement is requested and on the date of the initial Disbursement there shall exist no Default or Event of Default.

(b) Representations and Warranties. The representations and warranties made by the Borrower Parties in the Loan Documents or in any certificate or instrument delivered in connection with the Loan Documents shall have been true and correct on the date in all material respects on which made and shall also be true and correct in all material respects as if remade on the date of the initial Disbursement.

(c) Approvals. Borrower shall have delivered to Lender evidence that all Governmental Approvals necessary for the construction of the Project Improvements as contemplated by the Plans and Specifications, and to commence the marketing and sale of Residential Condominium Units, have been obtained and are in full force and effect.

(d) Licenses and Permits. Lender shall have received satisfactory evidence that any and all building permits required for the commencement of full construction of the Project Improvements and the work contemplated by the Disbursement, as contemplated in the Plans and Specifications, have been obtained in accordance with all Legal Requirements and are in full force and effect.

(e) Condominium Documents. Lender shall have received and approved all applicable Condominium Documents and filings.

(f) Architect's Contract. Lender shall have approved the identity of Borrower's Architect and the form and substance of the Architect's Contract, and such Architect's Contract shall have been executed and shall be in full force and effect. Borrower's Architect shall have duly executed and delivered to Lender a fully executed original certificate in the form of Exhibit F-1 to this Agreement with such changes thereto as are reasonably approved by Lender (the "**Architect's Certificate**").

(g) General Contractor's Agreement. Lender shall have approved the identity of the General Contractor and the form and substance of the General Contractor's Agreement. The General Contractor's Agreement shall have been executed and delivered and shall be in full force and effect (and Lender shall have received a certified copy or a fully executed duplicate original

thereof) and the General Contractor shall have duly executed and delivered to Lender a consent and certificate in the form attached hereto as **Exhibit G-1** with such changes thereto as are reasonably approved by Lender (the "**General Contractor's Certificate**"). If General Contractor consists of more than one Person, then each such Person shall deliver such a consent to the assignment of the General Contractor's Agreement, in form and substance reasonably satisfactory to Lender, and Lender shall have received a certified copy or a fully executed duplicate original thereof.

(h) **Plans and Specifications.** Lender shall have received two (2) complete sets of the final Plans and Specifications with respect to the Project and, in addition detailed final Plans and Specifications with respect to any work that is the subject-matter of such Disbursement, approved by Lender and any and all modifications, addendums and amendments made thereto.

(i) **Contracts and Subcontracts.** Borrower shall have delivered to Lender and Construction Consultant a list, certified by Borrower, of all Contractors and Subcontractors who have been or will be supplying labor or materials under any Construction Contract, and all such Contracts shall be in full force and effect. If requested by Lender, all Major Contractors and Major Subcontractors shall have delivered a consent to the assignment to each of their Contracts in the form of the Consent, Certification, Waiver and Agreement attached as "Exhibit A" to the Assignment of Contracts (the "**Form Consent and Certification**") or otherwise in form and substance reasonably satisfactory to Lender, and (2) Lender shall have received a performance letter substantially in the form attached hereto as **Exhibit G-2** with such changes thereto as are reasonably approved by Lender from each Major Contractor or Major Subcontractor. Lender shall have received a certified copy or a fully executed duplicate original of each such Major Construction Contract.

(j) **Notices.** All notices required by any Governmental Authority or by any applicable Legal Requirement to be filed prior to commencement of construction of the Project Improvements shall have been filed.

(k) **Further Documents.** Lender shall have received such other documents and information as Lender or its counsel may have reasonably requested (including, without limitation, insurance policies, development agreements, service agreements, title insurance policies, zoning reports and opinions, Borrower Party searches, legal opinions, financial statements, form of unit purchase agreement, utility letters, organizational documents, real estate tax bills, site/floor plans, stacking plans, copies of unit purchase contracts and reservations), in form and substance reasonably satisfactory to Lender.

(l) **Sponsor Equity.** Lender shall have received satisfactory evidence that the sum of (i) the Land Value, (ii) the Escrow Funds and (iii) cash equity contributions made by Sponsor to the development of the Project equal or exceed \$386,252,370.00; provided, however, at such time as the condition set forth in the preceding clause has been satisfied, and prior to the initial Disbursement, (x) to the extent permitted in accordance with applicable Legal Requirements and the Filed Budget, (y) provided no Default or Event of Default is then continuing, and (z) there is not, and there would not result from such disbursement, any Shortfall arising out of insufficient remaining budgeted interest expense based on the then applicable 30 day LIBOR forward curve and an updated development timing schedule, Borrower may make a single draw of up to Four

Million and No/100 Dollars (\$4,000,000.00) in Escrow Funds in reimbursement of cash equity contributions that have been utilized for Approved Project Costs, reduced on a dollar-for-dollar basis for the amount of any portion of the Soft Cost contingency that has been utilized, and, notwithstanding any other provisions of this Agreement, distribute such amount to Borrower's owners. As used herein, "**Land Value**" shall mean \$152,786,000.00.

- (m) Construction Schedule. Lender shall have received and approved a final Construction Schedule.
- (n) Budget. Lender shall have received and approved a final Construction Budget, and Lender and any applicable Governmental Authority shall have approved the Filed Budget.
- (o) Guaranteed Maximum Price. Lender shall have received satisfactory evidence that Borrower has obtained a guaranteed maximum price contract from General Contractor in form and substance reasonably acceptable to Lender, and that not less than sixty-five percent (65%) of the Construction Contracts under such guaranteed maximum price contract have been bought out.
- (p) Zoning. Lender shall be satisfied that the Property shall comply with all applicable use and zoning ordinances, regulations and restrictive covenants, if any, including, without limitation, the Zoning Approvals.
- (q) Performance Bonds. Lender shall have received satisfactory evidence that Borrower has provided payment and performance bonds, in amounts required by, and in form and substance acceptable to, Lender for the General Contractor's Agreement and all Construction Contracts with Contractors and Subcontractors, except as expressly set forth on Schedule XI hereto.
- (r) Intentionally omitted.
- (s) Notice of Commencement. All notices required by any Governmental Authority or by any applicable Legal Requirement to be filed prior to commencement of construction of the Project Improvements shall have been filed.
- (t) No Shortfall. Borrower shall have provided evidence satisfactory to Lender that immediately prior to the initial Disbursement and immediately after giving effect to the initial Disbursement, no Shortfall shall exist.
- (u) Intentionally omitted.
- (v) Escrow Agreement. Borrower shall have provided and Lender shall have approved the Escrow Agreement and a current account report with respect to the Escrow Funds.
- (w) Subordinations. Borrower shall have provided and Lender shall have approved subordinations from all Sales Agents.

2.8.3 Conditions to all Disbursements. The obligation of Lender to make or authorize Escrow Agent to authorize any Disbursement (including the initial Disbursement) shall be subject to the satisfaction of the following conditions precedent, all of which conditions precedent must be satisfied (or waived in writing by Lender) prior to Lender making or authorizing Escrow Agent to authorize any such Disbursement (provided that Lender's funding of a Disbursement shall constitute written waiver of any such conditions not satisfied as of the date of funding of such Disbursement).

(a) Prior Conditions Satisfied. All conditions precedent to any initial Disbursement as set forth in Section 2.8.2 shall continue to be satisfied (or waived by Lender in its sole discretion) as of the date of such subsequent Disbursement, irrespective of whether or not such conditions are repeated in this Section 2.8.3.

(b) Performance: No Default. On the date such Disbursement is requested and on the date of such Disbursement there shall exist no Default or Event of Default.

(c) Representations and Warranties. The representations and warranties made by the Borrower Parties in the Loan Documents or in any certificate or instrument delivered in connection with the Loan Documents shall have been true and correct on the date in all material respects on which made and shall also be true and correct in all material respects as if remade on the date of the Disbursement.

(d) Deliveries. The following items or documents shall have been delivered to Lender for each Project, as applicable, except as indicated to the contrary below:

(i) Anticipated Costs Report. An anticipated cost report, in form and substance reasonably acceptable to Lender, executed by Borrower which sets forth all anticipated costs to complete construction of the Project to Final Completion, after giving effect to costs incurred to date and any anticipated Change Orders.

(ii) Title Update and Title Endorsement. Lender shall have received a notice of Title Continuation and, upon making such Disbursement, to the extent available in the State of Hawaii, a title endorsement with respect to the Security Instrument that has not been fully funded (without giving effect to the requested Disbursement), dated the date of the requested Disbursement, which Title Continuation or endorsement shall state that since the last Disbursement of the Loan there have been no changes in the state of title to the Property which are not permitted under the terms of the Loan Documents and that there are no additional exceptions that are not Permitted Encumbrances that were not previously approved by Lender in its reasonable discretion (to the extent such approval is required hereunder). The endorsement to the Title Insurance Policy shall be in form customarily used for "down-date endorsements" in the State of Hawaii. In addition, Lender shall have received an updated title search from the Title Company which shall indicate that there are no exceptions to title other than Permitted Encumbrances (excluding Permitted Encumbrances that are of the type described in clause (e) of the definition of Permitted Encumbrances).

(iii) *Evidence of Sufficiency of Funds.* Evidence reasonably satisfactory to Lender that the remaining Escrow Funds and undisbursed Loan proceeds available for such purposes will be sufficient to cover all remaining Project Related Costs reasonably anticipated by Lender to be incurred in connection with the Project.

(iv) *Disbursement Request.* Borrower shall submit to Lender one (1) Disbursement Request for both Projects including Borrower's Requisition in the form attached hereto as **Exhibit B** ("Borrower's Requisition"), not less than twelve (12) Business Days prior to the proposed Disbursement date and no more frequently than once in each calendar month, which shall constitute Borrower's representation and warranty to Lender that: (a) any completed construction is substantially in accordance with the Plans and Specifications, (b) all costs for which Lender has previously authorized Disbursement of funds have in fact been paid, (c) all the representations and warranties contained in Article IV of this Agreement continue to be true and correct in all material respects, except for such changes in facts and circumstances as shall have occurred in the ordinary course of business and which do not otherwise give rise to or constitute an Event of Default, (d) to Borrower's knowledge, no Event of Default shall have occurred and be continuing hereunder, and (e) to Borrower's knowledge, Borrower continues to be in compliance in all material respects with all of the other terms, covenants and conditions contained in this Agreement. In connection with any Disbursements of the unadvanced portion of the Loan, Borrower's Requisition shall additionally include the information outlined in Section 2.8.1(b) hereof. With regard to all Disbursements, each Borrower's Requisition shall also include a certification from Borrower that all prior Disbursements of Useable Unit Sale Contract Deposits from Escrow Funds have been utilized in accordance with applicable Legal Requirements, the Tri-Party Agreement, the Unit Sale Contracts, the Public Report, the Property Report, the Filed Budget and this Agreement. With regard to Disbursements for Hard Costs, Borrower's Requisition shall be accompanied by:

(A) a completed and itemized Application and Certificate for Payment (AIA Document No. G702/G703) attached hereto as **Exhibit H** or similar form reasonably approved by Lender, containing the certification of the General Contractor or Contractor or Subcontractor to whom such payment is made, as applicable, and Borrower's Architect as to the accuracy of same, together with invoices relating to all items of Project Related Costs covered thereby and accompanied by a cost breakdown showing the cost of work on, and the cost of materials incorporated into, the Project to the date of the requisition. The cost breakdown shall also show the percentage of completion of each Line Item on the Construction Budget, and the accuracy of the cost breakdown shall be certified by Borrower and by Borrower's Architect. All such applications for payment shall also show all Contractors and Subcontractors, including Major Contractors and Major Subcontractors, by name and trade, the total amount of each Construction Contract or Subcontract, the amount theretofore paid to each Subcontractor

as of the date of such application, and the amount to be paid from the proceeds of the Disbursement to each Contractor and Subcontractor;

(B) a certificate or report of the Borrower's Architect to Lender based upon a site observation of the Property made by the Borrower's Architect not more than thirty (30) days prior to the date of such draw, in which the Borrower's Architect shall in substance: (i) verify that the portion of the Project Improvements completed as of the date of such site observation has been completed substantially in accordance with the Plans and Specifications; and (ii) state its estimate of (1) the percentages of the construction of the Project Improvements completed as of the date of such site observation on the basis of work in place as part of the Project Improvements and the Construction Budget, (2) the Hard Costs actually incurred for work in place as part of the Project Improvements as of the date of such site observation, (3) the sum necessary to complete construction of the Project Improvements substantially in accordance with the applicable Plans and Specifications, and (4) the amount of time from the date of such inspection that will be required to achieve Final Completion of the Improvements; and

(C) copies of all executed Change Orders (AIA G701 Form) Construction Contracts and Subcontracts, and, to the extent requested by Lender, of all inspection or test reports and other documents relating to the construction of the Project Improvements not previously delivered to Lender, and a Change Order log reflecting pending, potential and executed Change Orders;

(v) *Subcontractor Log*. Borrower shall have delivered to Lender and Construction Consultant a Subcontractor buyout log reconciling the Construction Contracts with the guaranteed maximum price contract entered into with the General Contractor.

(vi) *Lien Waivers*. Borrower shall have delivered to Lender and Construction Consultant duly executed lien waivers, which shall be conditional lien waivers (for payments to be made from the pending Disbursement) and unconditional lien waivers (for all payments from prior Disbursements), as applicable, and otherwise substantially in the form set forth in Exhibit C, from all Contractors and Subcontractors for all work performed and all labor or material supplied prior to the date of the Disbursement in excess of \$100,000.00 as to any individual Contractor or Subcontractor (provided, however, the amount of such payments to Contractors and Subcontractor not providing lien waivers shall not at any time exceed \$5,000,000.00 in the aggregate), subject to Borrower's right to contest liens in accordance with the terms of this Agreement.

(e) Construction Consultant Approval. Lender has not received an unsatisfactory Project Report or other written report from the Construction Consultant based on the Construction Consultant's on-site inspections of the Improvements and the data submitted to

and reviewed by it as part of Borrower's Requisition of the value of the labor and materials in place, such as a determination that the construction of the Project Improvements is not proceeding reasonably satisfactorily and according to schedule and that the work on account of which the Disbursement is sought has not been completed in a good and workmanlike manner to such Construction Consultant's reasonable satisfaction within the Construction Budget (as the same may be updated from time to time) and in accordance with the Plans and Specifications and Legal Requirements in all material respects.

(f) Sufficiency of Contracts. If in the reasonable judgment of Lender and the Construction Consultant all Construction Contracts, together with the General Contractor's Agreement, do not cover all of the work necessary for Final Completion, Borrower shall, prior to submitting any additional Disbursement Requests, cause to be furnished estimates and other information reasonably satisfactory to Lender, for the work not so covered, to enable Lender to ascertain the total estimated cost of all work done and to be done.

(g) Stored Materials. Notwithstanding anything to the contrary contained in the Loan Documents, Borrower shall be permitted, from time to time, to submit requests for and, subject to Lender's reasonable approval, obtain Disbursements for amounts payable under Contracts for Stored Materials, upon (i) submission of a Disbursement Request containing those items which are relevant to a Disbursement for the purchase of Stored Materials for such amounts, (ii) satisfaction of the conditions in Section 2.8.3(a) and Section 2.8.3(b) and (iii) satisfaction of the conditions set forth in Section 5.1.33(i).

(h) Use of Disbursements from Escrow Funds. Disbursements of Useable Unit Sale Contract Deposits from Escrow Funds shall only be used to pay for Project Related Costs in strict compliance with all applicable Legal Requirements and the Filed Budget incurred in connection with the construction and development of the Residential Units in the Condominium and all easements thereon and rights appurtenant thereto intended for use in connection with the Residential Units in the Condominium.

(i) Use of Disbursements from Loan Proceeds. Disbursements of any unadvanced portion of the Loan shall only be used for Approved Project Costs.

(j) No Liens. The Property shall be free from all Liens other than Permitted Encumbrances.

(k) No Shortfall. Immediately prior to any Disbursement and immediately after giving effect to any Disbursement, no Shortfall shall exist.

(l) Further Documents. Lender shall have received such other documents and information as Lender or its counsel may have reasonably requested, in form and substance reasonably satisfactory to Lender, provided that the same shall be customary for similarly situated projects (unless the same is required by a Governmental Authority).

2.8.4 Conditions of Final Disbursement. In addition to the conditions set forth in Sections 2.8.2 and 2.8.3 above, as applicable, Lender's obligation to make or authorize Escrow

Agent to authorize the final Disbursement of Retainage shall be subject to receipt by Lender of the following:

- (a) Final Completion. Evidence reasonably satisfactory to Lender of Final Completion.
- (b) Certificates. A Certificate of the Borrower's Architect substantially in the form attached hereto as **Exhibit F-2** or as otherwise reasonably approved by Lender, which shall be executed by Borrower's Architect and the General Contractor, and closeout letters from all other Major Contractors or Major Subcontractors as required by Lender.
- (c) Lien Waivers. Duly executed final lien waivers in the form attached hereto as **Exhibit C** or as otherwise reasonably approved by Lender (which shall be conditional with respect to amounts to be paid from such Disbursement and unconditional with respect to all other amounts) from all Contractors and Subcontractors who have performed work, for the work so performed, and/or who have supplied labor and/or materials for the labor and/or materials so supplied; provided, however, with respect to any individual Contractor or Subcontractor that has performed work and/or supplied labor and/or materials not in excess of \$50,000.00 (and not to exceed \$1,000,000.00 in the aggregate), if Borrower provides evidence of payment reasonably satisfactory to Lender and has used and continues to use commercially reasonable efforts to obtain such final lien waivers, Lender shall not decline to authorize Disbursement solely by reason of a failure to deliver such executed final lien waivers from such individual Contractors or Subcontractors.
- (d) Conformed Plans and Specifications. Final conformed Plans and Specifications certified to by Borrower's Architect.
- (e) Unit Sale Contracts. Evidence reasonably satisfactory to Lender that Borrower, in its capacity as seller under the Unit Sale Contracts, has satisfied all obligations required of seller thereunder.
- (f) Other Documents. Such documents, letters, affidavits, reports and assurances, as Lender, Lender's counsel and the Construction Consultant may reasonably require in connection with such Disbursement and all necessary Governmental Approvals from all applicable Governmental Authorities, provided that the same shall be customary for similarly situated projects (unless the same is required by a Governmental Authority).

Section 2.9 Extension Options.

2.9.1 Extension Options. Subject to the provisions of this Section 2.9, Borrower shall have the option (the "**First Extension Option**"), by irrevocable written notice (the "**First Extension Notice**") delivered to Lender no earlier than one hundred twenty (120) days prior to, nor later than thirty (30) days prior to, the Stated Maturity Date, to extend the Maturity Date to December 1, 2018 (the "**First Extended Maturity Date**"). If the Maturity Date shall have been timely and properly extended to the First Extended Maturity Date, then Borrower shall have the option (the "**Second Extension Option**"), by irrevocable written notice (the "**Second Extension Notice**") delivered to Lender no earlier than one hundred twenty (120) days prior to, nor later than

thirty (30) days prior to, the First Extended Maturity Date, to extend the Maturity Date to December 1, 2019 (the " **Second Extended Maturity Date**"). Borrower's right to so extend the Maturity Date to the First Extended Maturity Date and the Second Extended Maturity Date shall be subject to the satisfaction of the following conditions precedent prior to each extension hereunder:

(a) no Event of Default shall have occurred and be continuing on the date Borrower delivers the First Extension Notice or the Second Extension Notice, as applicable, and no Default or Event of Default shall have occurred and be continuing on the Stated Maturity Date and the First Extended Maturity Date, as applicable;

(b) all costs and expenses of Lender, including reasonable fees and expenses of Lender's counsel, in connection with the Loan and/or the applicable extension of the Term shall have been paid in full on or before the Stated Maturity Date or the First Extended Maturity Date, as applicable;

(c) Borrower shall pay to Lender the Extension Fee on or before the Stated Maturity Date or the First Extended Maturity Date, as applicable; provided, however, Borrower shall have the right, exercisable by delivery of written notice to Lender, but not the obligation, to cancel Lender's commitment with respect to any or all of the undisbursed portion of the Loan in connection with the exercise of the First Extension Option or the Second Extension Option, as applicable; provided, that, Borrower shall submit proof to Lender, which proof shall be acceptable to Lender in its reasonable discretion and whose determination of such amounts shall be conclusive absent manifest error, that the amount of (i) any remaining Useable Unit Sale Contract Deposits, plus (ii) any undisbursed portion of the Loan that has not been cancelled pursuant to and in accordance with this paragraph (c), shall be sufficient to pay all Carrying Costs (excluding interest on the Loan) through the Second Extended Maturity Date.

(d) [Intentionally omitted];

(e) [Intentionally omitted];

(f) Borrower shall cause to be filed in the appropriate filing office (and provide evidence of same to Lender) (i) a UCC-3 continuation statement with respect to the Pledgor UCC-1 (as defined below) or (ii) if such Pledgor UCC-1 has lapsed, a new Pledgor UCC-1;

(g) No Shortfall shall exist (or if a Shortfall does exist, Borrower deposit an amount with Lender equal to such Shortfall, pursuant to and in accordance with the terms and conditions of Section 2.1.8);

(h) Final Completion shall have occurred;

(i) The sales of Residential Units containing not less than (i) with respect to the First Extension Option, fifty percent (50%) and (ii) with respect to the Second Extension Option, sixty-five percent (65%), in each case, of the net sellable square footage of the residential component of the Project shall have closed under Unit Sale Contracts with pricing at or above the applicable Minimum Release Prices, and with the Net Sales Proceeds having been applied in accordance with this Agreement toward the Required Release Prices pursuant to Section 5.1.41(f)(vii);

(j) If Borrower is unable to satisfy all of the foregoing conditions within the applicable time frames for each, Lender shall have no obligation to extend the Maturity Date hereunder.

2.9.2 Extension Documentation. As soon as practicable following an extension of the Maturity Date pursuant to this Section 2.9, Borrower shall, if requested by Lender, execute and deliver an amendment of and/or restatement of the Note and shall, if requested by Lender, enter into such amendments to the related Loan Documents as may be necessary or appropriate to evidence the extension of the Maturity Date as provided in this Section 2.9; provided, however, that no failure by Borrower to enter into any such amendments and/or restatements shall affect the rights or obligations of Borrower or Lender with respect to the extension of the Maturity Date.

Section 2.10 Change in Law; Taxes.

2.10.1 Increased Costs.

If as a result of any Change in Law or compliance of Lender therewith, the basis of taxation of payments to Lender or any Person Controlling Lender of the principal of or interest on the Loan is changed or Lender or the Person Controlling Lender shall be subject to (i) any tax, duty, charge or withholding of any kind with respect to this Agreement (excluding federal, state or local taxation of the overall net income of Lender or the Person Controlling Lender); or (ii) any reserve, special deposit or similar requirements relating to any extensions of credit or other assets of, or any deposits with or other liabilities, of Lender or any Person Controlling Lender is imposed, modified or deemed applicable; or (iii) any other condition affecting loans to borrowers subject to LIBOR-based interest rates is imposed on Lender or any Person Controlling Lender and Lender determines that, by reason thereof, the cost to Lender or any Person Controlling Lender of making, maintaining or extending the Loan to Borrower is increased, or any amount receivable by Lender or any Person Controlling Lender hereunder in respect of any portion of the Loan to Borrower is reduced (such increases in cost and reductions in amounts receivable being herein called "**Increased Costs**"), then Lender shall provide notice thereof to Borrower and Borrower agrees that it will pay to Lender upon Lender's written request such additional amount or amounts as will compensate Lender or any Person Controlling Lender for such Increased Costs to the extent Lender determines that such Increased Costs are allocable to the Loan and, if imposed by the Lender initially named herein, are imposed by such Lender on similar loans to similar borrowers in such Lender's sole discretion (it being agreed that Lender shall not be obligated to provide Borrower with the terms of any other loans). If Lender requests compensation under this Section 2.10.1, Lender shall, if requested by notice by Borrower to Lender, furnish to Borrower a statement setting forth the basis for requesting such compensation and the method for determining the amount thereof.

2.10.2 Special Taxes. Borrower shall make all payments hereunder free and clear of and without deduction for Special Taxes. If Borrower shall be required by law to deduct any Special Taxes from or in respect of any sum payable hereunder or under any other Loan Document to Lender, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.10.2) Lender receives an amount equal to the sum it would have received had no such

deductions been made, (ii) Borrower shall make such deductions, and (iii) Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

2.10.3 Other Taxes. In addition, Borrower agrees to pay any present or future stamp or documentary taxes or other excise or property taxes, charges, or similar levies which arise from any payment made hereunder, or from the execution, delivery or registration of, or otherwise with respect to, this Agreement, the other Loan Documents, or the Loan (hereinafter referred to as "**Other Taxes**").

Section 2.11 Taxes.

(a) Payments Free of Taxes. Any and all payments by or on account of any obligation of Borrower under any Loan Document shall be made without deduction or withholding for any Taxes, except as required by applicable law. If any applicable law (as determined in the good faith discretion of both Borrower and Lender after consultation with each other) requires the deduction or withholding of any Tax from any such payment by Borrower, then Borrower shall be entitled to make such deduction or withholding and shall timely pay the full amount deducted or withheld to the relevant Governmental Authority in accordance with applicable law and, if such Tax is an Indemnified Tax, then the sum payable by Borrower shall be increased as necessary so that after such deduction or withholding has been made (including such deductions and withholdings applicable to additional sums payable under this Section), and after deduction for any other Taxes imposed on additional sums payable under this Section, the applicable Lender receives an amount equal to the sum it would have received had no such deduction or withholding been made.

(b) Payment of Other Taxes by Borrower. The Borrower shall timely pay to the relevant Governmental Authority in accordance with applicable law, or at the option of Lender timely reimburse it for the payment of, any Other Taxes.

(c) Indemnification by Borrower. The Borrower shall indemnify Lender, within ten (10) days after demand therefor, for the full amount of any Taxes indemnified under this Section 2.11(c) (including Taxes imposed or asserted on or attributable to amounts payable under this Section) payable or paid by Lender or required to be withheld or deducted from a payment to Lender and any reasonable expenses arising therefrom or with respect thereto, whether or not such Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by Lender shall be conclusive absent manifest error.

(d) Evidence of Payments. As soon as practicable after any payment of Taxes by or on account of Borrower to a Governmental Authority pursuant to this Section, Borrower shall deliver to Lender the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to Lender.

(e) Status of Lenders. If Lender is entitled to an exemption from or reduction of withholding Tax with respect to payments made under any Loan Document, Lender shall deliver to Borrower, promptly following the time or times reasonably requested by Borrower, such

properly completed and executed documentation reasonably requested by Borrower as will permit such payments to be made without withholding or at a reduced rate of withholding, including:

- (i) if Lender is a U.S. Person, executed originals of IRS Form W-9 certifying that Lender is exempt from U.S. federal backup withholding tax;
- (ii) if Lender is a Foreign Lender, executed originals of IRS Form W-8BEN, W-8ECI or W-8IMY, as applicable, together with all supporting documentation required under applicable law, including in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under Section 881(c) of the Code, a certificate substantially in the form of **Schedule II** to the effect that such Foreign Lender is not a "bank" within the meaning of Section 881(c)(3)(A) of the Code, a "10 percent shareholder" of Borrower within the meaning of Section 881(c)(3)(B) of the Code, or a "controlled foreign corporation" described in Section 881(c)(3)(C) of the Code; and
- (iii) any documentation required to be provided by a Lender as prescribed under Sections 1471 through 1474 of the Code and the applicable Treasury regulations thereunder and official interpretations thereof.

Section 2.12 Method of Disbursements.

2.12.1 Procedure For Requesting Disbursements from Escrow Funds. At such time as Borrower shall desire to obtain a Disbursement from Escrow Funds (the date of such Disbursement being required to be a Business Day), Borrower shall complete, execute and deliver a Disbursement Request and Borrower's Requisition to Lender at least ten (10) Business Days prior to the date of the requested Disbursement. Each Disbursement Request shall set forth on an itemized basis and the total amount of funds being requested by Borrower for Hard Costs and Soft Costs to the extent set forth in the Construction Budget, as the same may be revised in accordance with the provisions of this Agreement, pursuant to such request (the "**Total Request Amount**"), and shall include a certification by an authorized officer of Borrower that no Shortfall exists. Provided that the conditions to making or authorizing a Disbursement set forth in Section 2.8 are satisfied, then, on the Requested Disbursement Date, Lender shall authorize Escrow Agent to authorize a Disbursement, in an amount equal in the aggregate to the Total Requested Amount set forth in the applicable Disbursement Request; provided, however Lender shall not be responsible if Escrow Agent shall not authorize or cause such Disbursement in whole or in part.

(a) Not later than 2:00 P.M. New York City time on the Requested Disbursement Date, Lender shall authorize Escrow Agent to authorize such Disbursement to Borrower in accordance with the terms of this Section 2.12.

(b) Notwithstanding anything to the contrary contained herein, Lender shall not be required to authorize Escrow Agent to authorize any Disbursement if the amount of such requested Disbursement is less than One Hundred Thousand and No/100 Dollars (\$100,000.00), except for a Disbursement approved by Lender and made pursuant to Section 2.12 hereof or for the final Disbursement.

2.12.2 Funds Disbursed. All proceeds of all Disbursements shall be used by Borrower only for the purposes for which such Disbursements were made.

2.12.3 Direct Disbursements to Third Parties. Lender, during the continuance of an Event of Default, may make any Disbursement or authorize Escrow Agent to authorize any or all Disbursements to be made directly to (i) any Contractor or Subcontractor, (ii) Borrower's Architect, (iii) the Construction Consultant to pay its fees, (iv) Lender's counsel to pay its reasonable fees and (v) to pay (x) any other expenses incurred by Lender which are reimbursable by Borrower under the Loan Documents (including, without limiting the generality of the foregoing, reasonable and actual attorneys' fees and expenses and other fees and expenses incurred by Lender and payable by Borrower pursuant to the provisions of the Loan Documents) or (y) any other sums due to Lender under the Note, this Agreement or any of the other Loan Documents. The execution of this Agreement by Borrower shall, and hereby does, constitute an irrevocable authorization to so authorize the Disbursement of Escrow Funds during the continuance of an Event of Default directly to any such Person in accordance with this Section 2.12.3 as amounts become due and payable to them hereunder, but subject in all events to the restrictions and requirements on disbursements set forth in the Escrow Agreement, the Unit Sales Contracts and Legal Requirements. No further authorization from Borrower shall be necessary to warrant such direct Disbursements to such relevant Person.

2.12.4 One Disbursement Per Month. Other than a Disbursement authorized by Lender to be made by Escrow Agent pursuant to Section 2.12, Lender shall have no obligation to authorize Escrow Agent to authorize any Disbursement of Escrow Funds more often than once in each calendar month. Lender shall have no obligation to make any Disbursement of the unadvanced portion of the Loan more often than once in each calendar month.

2.12.5 Disbursements Do Not Constitute a Waiver. Neither the making nor the authorization of Escrow Agent to authorize a Disbursement shall constitute a waiver of any of the conditions of Lender's obligation to make or to authorize Escrow Agent to authorize further Disbursements nor, in the event Borrower is unable to satisfy any such condition, shall any Disbursement have the effect of precluding Lender from thereafter declaring such inability to be an Event of Default hereunder.

2.12.6 Disbursements to Pay Debt Service. Notwithstanding anything to the contrary in this Agreement, provided no Event of Default has occurred and is continuing, if (1) on any Payment Date, there are insufficient funds in the Cash Management Account allocable to the payment of the Monthly Debt Service Payment Amount to pay in full the Monthly Debt Service Payment Amount (the shortfall in funds available in the Cash Management Account to make such payments, a "**Debt Service Payment Shortfall**"), and (2) there are funds then remaining in the Interest and/or Contingency Line Items of the Construction Budget in an amount at least equal to such Debt Service Payment Shortfall, then Lender shall make a Disbursement of the unadvanced portion of the Loan on such Payment Date in an amount equal to such Debt Service Payment Shortfall in order to pay the Monthly Debt Service Payment Amount.

2.12.7 Disbursements Under Completion Guaranty. Notwithstanding anything to the contrary contained in this Agreement or in any other Loan Document, Borrower hereby irrevocably and unconditionally authorizes Lender to make Disbursements of the Loan and

Escrow Agent to make Disbursements of the Escrow Funds to Guarantor pursuant to and in accordance with the Completion Guaranty and this Agreement.

Section 2.13 Review of Plans and Specification. Borrower hereby acknowledges and agrees that neither Lender nor the Construction Consultant's approval of any Plans and Specifications (or any revisions thereto), nor its inspection of the performance of the construction, nor its right to inspect such work, shall impose upon Lender and/or Construction Consultant any obligation or liability whatsoever with respect thereto, including, without limitation, any obligation or liability that might arise as a result of such work not being performed in accordance with applicable laws and/or requirements of public authorities or with the Plans and Specifications (and revisions thereto) approved by Lender and Construction Consultant or otherwise. The review or approval by Lender and Construction Consultant of any Plans and Specifications or any revisions thereto is solely for Lender's benefit, and is without any representation or warranty whatsoever with respect to the adequacy, correctness or efficiency thereof or otherwise. Neither the granting by Lender and/or Construction Consultant of its approval of any Plans and Specifications or any revisions thereto, shall in any manner constitute or be deemed to constitute a judgment or acknowledgment by Lender as to their legality or compliance with laws and/or requirements of public authorities.

Section 2.14 No Reliance. All conditions and requirements of this Agreement are for the sole benefit of Lender and no other person or party (including, without limitation, the Construction Consultant, the General Contractor and subcontractors (including, without limitation, Major Contractors and Major Subcontractors) and materialmen engaged in the construction of the Project Improvements) shall have the right to rely on the satisfaction of such conditions and requirements by Borrower. Lender shall have the right, in its sole and absolute discretion, to waive any such condition or requirement and Borrower shall be authorized to rely on such waiver if and to the extent such waiver is in writing and signed by Lender.

ARTICLE III EXCULPATION

Section 3.1 Exculpation.

(a) Subject to the qualifications below, Lender shall not enforce the liabilities and obligations of Borrower to perform and observe the obligations contained in the Note, this Agreement, the Security Instrument or the other Loan Documents by any action or proceeding wherein a money judgment shall be sought against Borrower, except that Lender may bring a foreclosure action, an action for specific performance or any other appropriate action or proceeding to enable Lender to enforce and realize upon its interest under the Note, this Agreement, the Security Instrument and the other Loan Documents, or in the Property, the Rents, or any other collateral given to Lender pursuant to the Loan Documents; provided, however, that, except as specifically provided herein, any judgment in any such action or proceeding shall be enforceable against Borrower only to the extent of Borrower's interest in the Property, in the Rents and in any other collateral given to Lender, and Lender, by accepting the Note, this Agreement, the Security Instrument and the other Loan Documents, agrees that it shall not sue for, seek or demand any deficiency judgment against Borrower in any such action or proceeding under, or by reason of,

or in connection with, the Note, this Agreement, the Security Instrument or the other Loan Documents. The provisions of this Section 3.1 shall not, however, (a) constitute a waiver, release or impairment of any obligation evidenced or secured by any of the Loan Documents; (b) impair the right of Lender to name Borrower as a party defendant in any action or suit for foreclosure and sale under the Security Instrument; (c) affect the validity or enforceability of the Environmental Indemnity or any guaranty made in connection with the Loan or any of the rights and remedies of Lender thereunder; (d) impair the right of Lender to obtain the appointment of a receiver; (e) impair the enforcement of the Assignment of Leases; or (f) constitute a prohibition against Lender seeking a deficiency judgment against Borrower in order to fully realize the security granted by the Security Instrument or commencing any other appropriate action or proceeding in order for Lender to exercise its remedies against the Property.

(b) Nothing contained herein shall in any manner or way release, affect or impair the right of Lender to recover, and Borrower shall be fully and personally liable and subject to legal action, for any losses, damages (including, without limitation, punitive or exemplary damages), costs, expenses, liabilities (including, without limitation, strict liability), claims, obligations, settlement payments, penalties, fines, assessments, citations, litigation, demands, defenses, judgments, suits, proceedings or other expenses of any kind whatsoever incurred or suffered by Lender (including reasonable attorneys' fees and expenses and court costs) arising out of or in connection with the following ("**Losses**"):

- (i) fraud or intentional misrepresentation by or on behalf of Borrower, Guarantor or any Affiliate of any of them in connection with the Loan or the Property;
- (ii) gross negligence or willful misconduct of Borrower, Guarantor or any Affiliate of any of them in connection with the Loan or the Property;
- (iii) breach, by or on behalf of Borrower, Guarantor, Principal or Developer, of any representation, warranty, covenant or indemnification provision in the Environmental Indemnity, the Loan Agreement or the Security Instrument concerning Environmental Statutes or Hazardous Substances;
- (iv) intentional material physical waste, by or on behalf of Borrower, Guarantor, Principal or Developer, of the Property or any portion thereof;
- (v) intentional removal or disposal, by or on behalf of Borrower, Guarantor, Principal or Developer, of any portion of the Property in violation of the Loan Documents after an Event of Default unless the same is replaced with property of equal or greater value and utility;
- (vi) breach of any Legal Requirement (including RICO) mandating the forfeiture by Borrower of the Property, or any portion thereof, because of the conduct or purported conduct of criminal activity by Borrower, Guarantor or any Restricted Party or any Affiliate of any of them in connection therewith;

(vii) any intentional misrepresentation, intentional breach of warranty or intentionally false certification by Borrower or Guarantor (a) contained in this Agreement or any other Loan Document or in any Disbursement Request or (b) otherwise provided to Lender by or on behalf of Borrower, Guarantor, Principal or Developer, to induce Lender to make the Loan, to make or authorize any Disbursement, or to release monies from any account held by Lender (including any reserve or escrow) or to take other action with respect to the Collateral;

(viii) misapplication, misappropriation or conversion by or on behalf of Borrower, Guarantor or any Affiliate of any of them in violation of the requirements of the Loan Documents of (A) any insurance proceeds, (B) any Awards, (C) any Rents, (D) any Rents paid more than one (1) month in advance, (E) Net Sales Proceeds, (F) Unit Sale Contract Deposits, (G) Escrow Funds, or (H) any other monetary collateral for the Loan;

(ix) failure to pay charges for Taxes, Other Charges, labor or materials or judgments that can create Liens on any portion of the Property, unless such charges are the subject of a bona fide dispute in which Borrower is contesting the amount or validity thereof in accordance with the terms of this Agreement and the other Loan Documents, in a manner which prevents any interest or penalties from accruing, or any Lien from attaching, but solely to the extent of any funds actually made available by Lender hereunder for payment thereof or from other available cash flow from the Property, it being agreed that, nothing herein shall require Borrower or any indirect owners of Borrower to fund additional capital therefor;

(x) failure to deliver to Lender any security deposits, Unit Sale Contract Deposits, advance deposits or any other deposits collected with respect to the Property upon a foreclosure of the Property or action in lieu thereof, to the extent such delivery is permitted by law, except to the extent any such security deposits, Unit Sale Contract Deposits or other deposits were applied in accordance with the terms and conditions of any of the Leases or Unit Sale Contracts prior to the occurrence of the Event of Default that gave rise to such foreclosure or action in lieu thereof;

(xi) failure by Borrower to obtain and maintain, from time to time, the fully paid for insurance policies in accordance with the terms hereof; but solely to the extent of any funds actually made available by Lender hereunder for payment of annual premiums therefor or from other available cash flow from the Property, it being agreed that, nothing herein shall require Borrower or any indirect owners of Borrower to fund additional capital therefor; or

(xii) an act or omission of any of Borrower, Principal, Pledgor or Guarantor, or any Affiliate of any of them which hinders, delays or interferes with Lender's enforcement of its rights under any Loan Document or the realization of the collateral, including the assertion by Borrower, Principal, Pledgor or Guarantor, or any Affiliate of any of them of defenses or counterclaims (other than defenses or

counterclaims by Borrower, Principal, Pledgor or Guarantor, or any Affiliate of any of them, in each case, made in good faith).

(c) Notwithstanding anything to the contrary in this Agreement, the Note or any of the Loan Documents, (A) Lender shall not be deemed to have waived any right which Lender may have under Section 506(a), 506(b), 1111(b) or any other provisions of the U.S. Bankruptcy Code to file a claim for the full amount of the Debt secured by the Security Instrument or to require that all collateral shall continue to secure all of the Obligations in accordance with the Loan Documents, and (B) Borrower shall be personally liable for the payment of the entire amount of the Debt in the event of:

(i) Borrower, Principal, Pledgor, Guarantor or Developer filing a voluntary petition under the Bankruptcy Code or any other federal or state bankruptcy or insolvency law;

(ii) the filing of an involuntary petition against Borrower, Principal, Pledgor, Guarantor or Developer under the Bankruptcy Code or any other federal or state bankruptcy or insolvency law, by any Person that is an Affiliate of Borrower, Principal, Pledgor, Guarantor or Developer;

(iii) Borrower, Principal, Pledgor, Guarantor or Developer consenting to or otherwise joining in any involuntary petition filed against it, by any other Person under the Bankruptcy Code or any other federal or state bankruptcy or insolvency law;

(iv) Borrower, Principal, Pledgor, Guarantor or Developer consenting to or otherwise joining in an application for the appointment of a custodian, receiver, trustee or examiner for Borrower or any portion of the Property (other than an application by Lender in connection with the enforcement of Lender's remedies under the Loan Documents);

(v) Borrower, Principal, Pledgor, Guarantor or Developer or any Affiliate (but expressly excluding Lender or any Affiliate of Lender) of any of them soliciting or causing to be solicited petitioning creditors or any other Person for any involuntary petition against Borrower, Principal, Pledgor, Guarantor or Developer by any Person (other than by Lender in connection with the exercise of Lender's remedies under the Loan Documents);

(vi) Borrower, Principal, Pledgor, Guarantor or Developer making an assignment for the benefit of creditors, or admitting, in writing or in any legal proceeding, its insolvency or inability to pay its debts as they become due (other than merely Borrower's inability to repay or as a result of Borrower's mere failure to repay, in either case, the Debt on the Maturity Date);

(vii) Borrower, Principal, or Pledgor failing to obtain Lender's prior written consent to any subordinate financing that is secured by the Property or any interests therein (excluding usual and customary equipment financing);

(viii) Borrower encumbers the Property, the Collateral or any portion thereof or Pledgor encumbers the Pledged Collateral with a voluntary Lien, in each instance, other than in accordance with the terms of the Loan Documents;

(ix) Borrower, Principal or Pledgor failing to obtain Lender's prior written consent to any Transfer, as required by this Agreement or the other Loan Documents other than the exercise by Lender of its remedies;

(x) Borrower or Pledgor failing to comply with any representation, warranty or covenant set forth in Section 4.1.30 hereof or failing to maintain its status as a Special Purpose Entity, as required by, and in accordance with, the terms and provisions of this Agreement or the Security Instrument, and which in either event results in a substantive consolidation of the Borrower's assets with those of another entity in a Bankruptcy Action, including, without limitation, the breach of the covenant in Section 5.2.12 to provide five (5) Business Days' prior written notice prior to the removal of an Independent Director, or the breach of any Backward-Looking Special Purpose Entity Representations and Warranties set forth in Section 4.1.30; or

(xi) Pledgor's failure to observe any of the covenants or obligations contained in Sections 2(b) or 6 of the Pledge Agreement.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

Section 4.1 Borrower Representations. Borrower represents and warrants as of the date hereof that:

4.1.1 Organization. Borrower has been duly organized and is validly existing and in good standing with requisite power and authority to own its properties and to transact the business in which it is now engaged. Borrower is duly qualified to do business and is in good standing in each jurisdiction where it is required to be so qualified in connection with its properties, businesses and operations. Borrower possesses all rights, licenses, permits and authorizations, governmental or otherwise, necessary to entitle it to own its properties and to transact the businesses in which it is now engaged, and the sole business of Borrower is the ownership, management and operation of the Property. The ownership interests of Borrower are as set forth on the organizational chart attached hereto as Schedule III. Borrower (a) has complied in all respects with its certificate of incorporation, bylaws, limited partnership agreement, articles of organization and limited liability company operating agreement, as applicable; (b) has maintained complete books and records and bank accounts separate from those of its Affiliates; (c) has obeyed all formalities required to maintain its status as, and at all times has held itself out to the public as, a legal entity separate and distinct from any other entity (including, but not limited to, any Affiliate thereof); and (d) has all requisite power and authority to conduct its business and to own its property, as now conducted or owned, and as contemplated by this Agreement, including, without limitation, the power and authority to do business in the state in which the Property is located. The signatory hereto has all requisite power, authority and legal right to

execute this Agreement, the Note and the other Loan Documents on Borrower's behalf to which Borrower is a party. Guarantor has the necessary power, authority and legal right to execute, deliver and perform its obligations under the Guaranty.

4.1.2 Proceedings. Borrower has taken all necessary action to authorize the execution, delivery and performance of this Agreement and the other Loan Documents. This Agreement and the other Loan Documents have been duly executed and delivered by or on behalf of Borrower and constitute the legal, valid and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms, subject only to applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting rights of creditors generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

4.1.3 No Conflicts. The execution, delivery and performance of this Agreement and the other Loan Documents by Borrower and/or Guarantor, as applicable, will not conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, or result in the creation or imposition of any Lien, charge or encumbrance (other than pursuant to the Loan Documents) upon any of the property or assets of Borrower pursuant to the terms of any indenture, mortgage, deed of trust, loan agreement, partnership agreement, management agreement or other agreement or instrument to which Borrower is a party or by which any of Borrower's property or assets is subject, nor will such action result in any violation of the provisions of any Legal Requirements of any Governmental Authority having jurisdiction over Borrower or any of Borrower's properties or assets, and any consent, approval, authorization, order, registration or qualification of or with any court or any such Governmental Authority required for the execution, delivery and performance by Borrower and/or Guarantor, as applicable, of this Agreement or any other Loan Documents has been obtained and is in full force and effect.

4.1.4 Litigation. There are no actions, suits or proceedings at law or in equity by or before any Governmental Authority or other agency now pending or threatened in writing against or affecting Borrower, Guarantor, Principal, Pledgor or the Property or any portion thereof, which actions, suits or proceedings (a "**Litigation Matter**"), if determined against Borrower, Guarantor, Principal, Pledgor, Developer or the Property or such portion thereof, would reasonably be expected to materially adversely affect the condition (financial or otherwise) or business of Borrower, Guarantor, Principal, Pledgor, Developer or the condition or ownership of the Property or any portion thereof; provided, however, for purposes of Sections 2.8.2(b), 2.8.3(c), 2.9 or 8.1(a)(v), the existence or occurrence of a Litigation Matter shall be disclosed to Lender but shall not cause the representation in this Section 4.1.4 to fail to be true and correct in all material respects so long as such new Litigation Matter would not reasonably be expected to materially adversely affect the condition (financial or otherwise) or business of Borrower, Guarantor, Principal, Pledgor, Developer or the condition or ownership of the Property or any portion thereof.

4.1.5 Agreements. Borrower is not a party to any agreement or instrument or subject to any restriction that might materially and adversely affect Borrower or the Property or any portion thereof, or Borrower's business, properties or assets, operations or condition, financial or otherwise. Borrower is not in default in any material respect in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any agreement or instrument to which it is a party or by which Borrower or the Property are bound. Borrower has no

material financial obligation under any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which Borrower is a party or by which Borrower or the Property is otherwise bound, other than (a) any obligations incurred in the ordinary course of the operation of the Property as permitted pursuant to clause (s) of the definition of "Special Purpose Entity" set forth in Section 1.1 hereof, and (b) the obligations under the Loan Documents.

4.1.6 **Title.** Borrower has good, marketable and insurable fee simple title to the real property comprising part of the Property and good title to the balance of the Property, free and clear of all Liens whatsoever, except the Permitted Encumbrances, such other Liens as are permitted pursuant to the Loan Documents and the Liens created by the Loan Documents. The Permitted Encumbrances, in the aggregate, do not materially and adversely affect the value, operation or use of the Property or any portion thereof (as currently used) or Borrower's ability to repay the Loan. The Security Instrument and the Assignment of Leases, when properly recorded in the appropriate records, together with any UCC-1 financing statements required to be filed in connection therewith, will create (a) a valid, perfected first priority lien on the Property, subject only to Permitted Encumbrances and the Liens created by the Loan Documents, and (b) perfected security interests in and to, and perfected collateral assignments of, all personalty (including the Leases), all in accordance with the terms thereof, in each case subject only to any applicable Permitted Encumbrances, such other Liens as are permitted pursuant to the Loan Documents and the Liens created by the Loan Documents. There are no claims for payment for work, labor or materials affecting the Property or any portion thereof that are or may become a Lien prior to, or of equal priority with, the Liens created by the Loan Documents. The UCC-1 financing statements required to be filed in connection with the Pledge Agreement, when properly filed in the appropriate records, will create a valid, perfected first priority lien on the Pledged Collateral (the "**Pledgor UCC-1**").

4.1.7 **Solvency.** Borrower has (a) not entered into the transactions contemplated by this Agreement or executed the Note, this Agreement or any other Loan Document with the actual intent to hinder, delay or defraud any creditor and (b) received reasonably equivalent value in exchange for its Obligations under such Loan Documents. After giving effect to the Loan, the fair saleable value of Borrower's assets exceeds and will, immediately following the making of the Loan, exceed Borrower's total liabilities, including, without limitation, subordinated, unliquidated, disputed and contingent liabilities. The fair saleable value of Borrower's assets is and will, immediately following the making of the Loan, be greater than Borrower's probable liabilities, including the maximum amount of its contingent liabilities on its debts as such debts become absolute and matured. Borrower's assets do not and, immediately following the making of the Loan will not, constitute unreasonably small capital to carry out its business as conducted or as proposed to be conducted. Borrower does not intend to, and does not believe that it will, incur debts and liabilities (including contingent liabilities and other commitments) beyond its ability to pay such debts and liabilities as they mature (taking into account the timing and amount of cash to be received by Borrower and the amount to be payable on or in respect of the obligations of Borrower). No Bankruptcy Action exists against Borrower, Pledgor or any Principal, and neither Borrower, Pledgor nor Principal has ever been a party to a Bankruptcy Action. Neither Borrower, Pledgor nor Principal is contemplating either a Bankruptcy Action or the liquidation of all or a major portion of Borrower's assets or properties, and Borrower has no knowledge of any Person contemplating the filing of any petition against it, Pledgor or Principal.

4.1.8 Full and Accurate Disclosure. No statement of fact made by or on behalf of Borrower in this Agreement or in any of the other Loan Documents contains any untrue statement of a material fact or omits to state any material fact necessary to make statements contained herein or therein not misleading in any material respect in light of the circumstances under which they were made. There is no material fact presently known to Borrower that has not been disclosed to Lender that adversely affects, nor as far as Borrower can foresee, might adversely affect, the Property (or any portion thereof) or the business, operations or condition (financial or otherwise) of Borrower or Guarantor. As of the date of this Agreement, Borrower has delivered to Lender copies of all Contracts relating to the property and all documentation relating to the zoning and entitlement of the Property.

4.1.9 No Plan Assets. Borrower is not an "employee benefit plan" as defined in Section 3(3) of ERISA which is subject to Title I of ERISA or a "plan" as defined in and subject to the provisions of Section 4975 of the Code, and none of the assets of Borrower constitutes or will constitute "plan assets" of one or more such plans for purposes of ERISA or the Code. In addition, (a) Borrower is not a "governmental plan" within the meaning of Section 3(32) of ERISA or an entity whose assets constitute "plan assets" of a governmental plan or plans, (b) transactions by or with Borrower are not subject to any state statute or regulation regulating investments of, or fiduciary obligations with respect to, governmental plans (within the meaning of Section 3(32) of ERISA), in any case, which is similar to the provisions of Section 406 of ERISA or Section 4975 of the Code currently in effect, which would prohibit or otherwise restrict the transactions contemplated by this Agreement, and (c) none of Borrower, Guarantor or their ERISA Affiliates is at the date hereof, or has been at any time within the five (5) years preceding the date hereof, required to contribute to any Multiemployer Plan or any Pension Plan, or a "contributing sponsor" (as such term is defined in Section 4001 of ERISA) in any Multiemployer Plan or Pension Plan; and none of Borrower, Guarantor or any ERISA Affiliate has any contingent liability with respect to any post-retirement "employee welfare benefit plan" (as such term is defined in Section 3(1) of ERISA), except as disclosed to Lender in writing.

4.1.10 Compliance. Borrower and the Property (including the use thereof) comply in all material respects with all applicable Legal Requirements, including, without limitation, building and zoning ordinances and codes. Borrower is not in default or violation of any order, writ, injunction, decree or demand of any Governmental Authority. There has not been committed by Borrower or Developer, or, to Borrower's knowledge, any other Person in occupancy of or involved with the operation or use of the Property or any portion thereof, any act or omission affording any Governmental Authority the right of forfeiture as against the Property or any part thereof or any monies paid in performance of Borrower's Obligations under any of the Loan Documents. Neither the Improvements to be constructed, nor the use of the Property by Tenants under the Leases and the contemplated accessory uses, will violate (a) any Legal Requirements (including subdivision, zoning, building, environmental protection and wetland protection Legal Requirements), or (b) any building permits, restrictions or records, or agreements affecting the Property or any part thereof. Neither the zoning authorizations, approvals or variances nor any other right to construct or to develop the Property consistent with the Zoning Approvals is to any extent dependent upon or related to any real estate other than the Property, except as expressly set forth in the Zoning Approvals. The Improvements to be constructed on the Property will comply with all applicable Legal Requirements once completed. To Borrower's knowledge, there are no violations or notices of violations of any Legal Requirements relating to Borrower or the Property.

4.1.11 Financial Information. All financial data with respect to the Property and Guarantor, including, without limitation, the statements of cash flow, property sales reports and income and operating expenses that have been delivered to Lender in connection with the Loan (a) are true, complete and correct in all material respects, (b) accurately represent the financial condition of the Property and Guarantor as of the date of such reports, and (c) to the extent prepared or audited by an independent certified public accounting firm, have been prepared in accordance with GAAP (or such other accounting basis acceptable to Lender) throughout the periods covered, except as disclosed therein. Except for Permitted Encumbrances, Borrower does not have any contingent liabilities, liabilities for Taxes, unusual forward or long-term commitments or unrealized or anticipated losses from any unfavorable commitments that are known to Borrower and reasonably likely to have a material adverse effect on the Property or any portion thereof or the operation thereof as a residential condominium with retail and parking uses and its other intended uses, except as referred to or reflected in said financial statements. Since the date of such financial statements, there has been no Material Adverse Change in the financial condition, operation or business of Borrower or Guarantor from that set forth in said financial statements.

4.1.12 Condemnation. Except as set forth on Schedule XII, no Condemnation or other similar proceeding has been commenced or, to Borrower's knowledge, is threatened or contemplated with respect to all or any portion of the Property or for the relocation of any roadway providing access to the Property, and any Condemnation pursuant to the proceeding described on Schedule XII would not reasonably be expected to impair the Project in any material respect.

4.1.13 Federal Reserve Regulations. No part of the proceeds of the Loan will be used for the purpose of purchasing or acquiring any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System or for any other purpose that would be inconsistent with such Regulation U or any other Regulations of such Board of Governors, or for any purposes prohibited by any Legal Requirements or by the terms and conditions of this Agreement or the other Loan Documents.

4.1.14 Utilities and Public Access. The Property has rights of access to public ways and is served by water, sewer, sanitary sewer and storm drain facilities adequate to service the Property for its intended uses. All public utilities necessary or convenient to the full use and enjoyment of the Property are located either in the public right-of-way abutting the Property (which are connected so as to serve the Property without passing over other property) or in recorded easements serving the Property and such easements are set forth in and insured by the Title Insurance Policy. All roads necessary for the use of the Property for its current purpose have been completed and dedicated to public use and accepted by all applicable Governmental Authorities. There is no on-site sewage disposal system and the Property is served by a sewer system maintained by a Governmental Authority or property owners association.

4.1.15 Not a Foreign Person. Borrower is not a "foreign person" within the meaning of §1445(f)(3) or of the Code §7701 and, if Borrower is a disregarded entity for federal income tax purposes, the Person treated as owning the assets owned by Borrower for federal income tax purposes.

4.1.16 Separate Lots. The Property is comprised of one (1) or more parcels, which constitute a separate tax lot or lots and does not constitute a portion of any other tax lot not a part of the Property.

4.1.17 Assessments. There are no pending or proposed special or other assessments for public improvements or otherwise affecting the Property, nor are there any contemplated improvements to the Property that might result in such special or other assessments.

4.1.18 Enforceability. The Loan Documents are enforceable by Lender (or any subsequent holder thereof) in accordance with their respective terms, subject to principles of equity and bankruptcy, insolvency, reorganization, moratorium and other similar laws generally applicable to creditors' rights and the enforcement of debtors' obligations. The Loan Documents are not subject to any right of rescission, set-off, counterclaim or defense by Borrower, Pledgor or Guarantor, including the defense of usury, nor would the operation of any of the terms of the Loan Documents, or the exercise of any right thereunder, render the Loan Documents unenforceable (subject to principles of equity and bankruptcy, insolvency, reorganization, moratorium and other similar laws generally affecting creditors' rights and the enforcement of debtors' obligations), and neither Borrower, Pledgor nor Guarantor has asserted any right of rescission, set-off, counterclaim or defense with respect thereto.

4.1.19 No Prior Assignment. There are no prior assignments of the Leases or any portion of the Rents due and payable or to become due and payable that are presently outstanding.

4.1.20 Insurance. Borrower has obtained and has delivered to Lender certified copies of all Policies (or binders or certificates of insurance therefor), with all premiums paid thereunder, reflecting the insurance coverages, amounts and other requirements set forth in this Agreement. No claims have been made or are currently pending, outstanding or otherwise remain unsatisfied under any such Policies relating specifically to the Property, and no Person, including Borrower, has done, by act or omission, anything which would impair the coverage of any such Policies.

4.1.21 Use of Property. The Property (and each portion thereof) upon Substantial Completion will be used exclusively as a residential condominium with retail and parking uses and/or other appurtenant and related uses.

4.1.22 Licenses. All certifications, permits, licenses, entitlements and approvals, including, without limitation, building permits required for the construction of the Project on the Property and each portion thereof for its intended uses in accordance with the Plans and Specifications and all Legal Requirements (collectively, the "**Licenses**"), have been obtained and are in full force and effect and/or will be obtained prior to the date on which such Licenses are required in order to develop the Project in accordance with the Construction Schedule. Except as set forth on **Schedule IV**, there are no conditions to the Licenses and other entitlements required to develop the Project in accordance with the Plans and Specifications, the Condominium Documents, the Construction Contract, the Construction Schedule and Legal Requirements.

4.1.23 Flood Zone. None of the Improvements on the Property are located in an area as identified by the Federal Emergency Management Agency as an area having special flood

hazards or, if so located, the flood insurance required pursuant to Section 6.1(a)(i) hereof is in full force and effect with respect to the Property.

4.1.24 Intentionally Omitted.

4.1.25 Boundaries. All of the Improvements which were included in determining the appraised value of any portion of the Property lie wholly within the boundaries and building restriction lines of such portion of the Property, and no improvements on adjoining properties encroach upon any portion of the Property, and no easements or other encumbrances upon the Property or any portion thereof encroach upon any of the Improvements, so as to adversely affect the value or marketability of the Property, except those easements or other encumbrances with respect to which the Title Insurance Policy insures against any losses resulting therefrom.

4.1.26 Leases. No portion of the Property is subject to any Leases other than the Leases described on the rent roll attached at Schedule XIII. Borrower is the owner and lessor of landlord's interest in the Leases. No Person has any possessory interest in the Property or any portion thereof or right to occupy the same, except under and pursuant to the provisions of the Leases. The current Leases are in full force and effect and there are no defaults thereunder by either party and there are no conditions that, with the passage of time or the giving of notice, or both, would constitute defaults thereunder. The copies of the Leases and any related guaranty (including all amendments thereto) delivered to Lender are accurate, true and complete, and there are no oral agreements with respect thereto. No Rents (other than security deposits, if any, listed on Schedule XIII) have been paid more than one (1) month in advance of its due date. There has been no prior sale, transfer or assignment, hypothecation or pledge of any Lease or of the Rents received therein which is still in effect. Except as listed on Schedule XIII, no Tenant has assigned its Lease or sublet all or any portion of the premises demised thereby, no such Tenant holds its leased premises under assignment or sublease, nor does anyone, except such Tenant and its employees occupy such leased premises. No Tenant under any Lease has a right or option pursuant to such Lease or otherwise to purchase all or any part of the Property. No Tenant under any Lease has any right or option for additional space in the Improvements.

4.1.27 Survey. The Survey for the Property (and each portion thereof) delivered to Lender in connection with this Agreement has been prepared by a professional and properly licensed land surveyor in accordance with the Accuracy Standards for ALTA/ACSM Land Title Surveys as adopted by ALTA, American Congress on Surveying & Mapping and National Society of Professional Surveyors in 2011. The Survey reflects the same legal description of the Land contained in the Title Insurance Policy. The surveyor's seal is affixed to the Survey and the surveyor provided a certification for the Survey in form and substance acceptable to Lender, which does not fail to reflect any material matter affecting the Property or the title thereto.

4.1.28 Principal Place of Business; State of Organization. Borrower's principal place of business as of the date hereof is the address set forth in the introductory paragraph of this Agreement. Each Borrower and Pledgor is organized under the laws of the State of Delaware, and their respective organizational identification numbers are: Ala Moana Borrower: 5385428; Auahi Borrower: 5385434; and Pledgor: 5614639.

4.1.29 Filing and Recording Taxes. All transfer taxes, deed stamps, intangible taxes or other amounts in the nature of transfer taxes (including all Other Taxes) required to be paid by any Person under applicable Legal Requirements currently in effect in connection with the transfer of the Property to Borrower have been paid. All mortgage, mortgage recording, stamp, intangible or other similar tax (including all Other Taxes) required to be paid by any Person under applicable the Legal Requirements currently in effect in connection with the execution, delivery, recordation, filing, registration, perfection or enforcement of any of the Loan Documents, including, without limitation, the Security Instrument, have been paid or are being paid simultaneously herewith.

4.1.30 Special Purpose Entity/Separateness.

(a) Until the Debt has been paid in full, Borrower hereby represents, warrants and covenants that (i) Borrower is, shall be and shall continue to be a Special Purpose Entity, and (ii) Pledgor is, shall be and shall continue to be a Special Purpose Entity.

(b) The representations, warranties and covenants set forth in Section 4.1.30(a) shall survive for so long as any amount remains payable to Lender under this Agreement or any other Loan Document.

(c) Any and all of the stated facts and assumptions made in any Insolvency Opinion, including, but not limited to, any exhibits attached thereto, will have been and shall be true and correct in all respects, and Borrower, Pledgor and Principal will have complied and will comply with all of the stated facts and assumptions made with respect to it in any Insolvency Opinion. Each entity other than Borrower, Pledgor and Principal with respect to which an assumption is made or a fact stated in any Insolvency Opinion will have complied and will comply with all of the assumptions made and facts stated with respect to it in any such Insolvency Opinion.

(d) In addition to the foregoing, Borrower hereby represents, warrants and agrees that (being hereinafter referred to as the "**Backward-Looking Special Purpose Entity Representations and Warranties**") prior to the Closing Date:

(i) Each of Borrower and Pledgor has always been (A) since the date of its formation in Delaware, duly formed, validly existing and in good standing under the laws of the state of Delaware, and (B) duly qualified to do business and is in good standing in each jurisdiction where it is required to be so qualified in connection with the Property and its business and operations, with requisite power and authority, and all rights, licenses, permits and authorizations, governmental or otherwise, necessary to own the Property and to transact the business in which it has been engaged.

(ii) Neither Borrower nor Pledgor has ever had any judgments or liens of any nature against it except for tax liens not yet delinquent and Permitted Encumbrances.

(iii) Each of Borrower and Pledgor has always been in material compliance with all laws, regulations, and orders applicable to it and has always had, all permits necessary for it to operate.

(iv) Neither Borrower nor Pledgor is aware of any pending or threatened litigation, nor has ever been a party to any material lawsuit, arbitration, summons, or other material legal proceeding except as disclosed in writing to Lender.

(v) Neither Borrower nor Pledgor has been, except as disclosed in writing to Lender, nor is involved in, any dispute with any taxing authority, and Borrower has paid all taxes due to any taxing authority before the delinquency thereof.

(vi) To the extent financial statements of Borrower have been provided to Lender by or on behalf of Borrower in connection with the Loan, to Borrower's knowledge, the latest set of each such financial statements fairly and accurately reflects the current financial condition of the subject of such statement, as of the date of such statement, in all material respects.

(vii) Borrower has never owned any real property other than the Property and has never engaged in any business except the ownership, developing, sales, managing, leasing and operation of such Property. Pledgor has never owned any property or assets other than the Pledged Collateral and the proceeds thereof.

(viii) Borrower has no material contingent or actual obligations unrelated to the Property and Pledgor has no material contingent or actual obligations.

4.1.31 Development Agreement. Borrower has delivered a true, correct and complete copy of the Development Agreement to Lender. The Development Agreement is in full force and effect and there is no default thereunder by any party thereto and no event has occurred that, with the passage of time and/or the giving of notice would constitute a default thereunder. Neither the execution and delivery of the Loan Documents nor Borrower's performance thereunder will adversely affect Borrower's rights under the Development Agreement. Developer is and at all times shall be an Affiliate of Borrower.

4.1.32 Illegal Activity. No portion of the Property has been or will be purchased with proceeds of any illegal activity.

4.1.33 No Change in Facts or Circumstances; Disclosure. All information submitted by Borrower to Lender including, but not limited to, all financial statements, rent rolls, reports, certificates and other documents submitted in connection with the Loan or in satisfaction of the terms thereof and all statements of fact made by Borrower in this Agreement or in any other Loan Document, are accurate, complete and correct in all material respects. There has been no material adverse change in any condition, fact, circumstance or event that would make any such information inaccurate, incomplete or otherwise misleading in any material respect or that otherwise materially and adversely affects or might materially and adversely affect the use, operation or value of the Property or any portion thereof or the business operations and/or the

financial condition of Borrower or Guarantor. Borrower and Guarantor have disclosed to Lender all material facts and have not failed to disclose any material fact that could cause any Provided Information or representation or warranty made herein to be materially misleading.

4.1.34 Investment Company Act. Borrower is not (a) an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended; (b) a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" of either a "holding company" or a "subsidiary company" within the meaning of the Public Utility Holding Company Act of 2005, as amended; or (c) subject to any other federal or state law or regulation which purports to restrict or regulate its ability to borrow money.

4.1.35 Embargoed Person. As of the date hereof and at all times throughout the term of the Loan, including after giving effect to any Transfers permitted pursuant to the Loan Documents, (a) none of the funds or other assets of Borrower, Pledgor, Principal or Guarantor constitute property of, or are beneficially owned, directly or indirectly, by any Embargoed Person; (b) no Embargoed Person has any interest of any nature whatsoever in Borrower, Pledgor, Principal or Guarantor, as applicable, with the result that the investment in Borrower, Pledgor, Principal or Guarantor, as applicable (whether directly or indirectly), is prohibited by law or the Loan is in violation of law; and (c) none of the funds of Borrower, Pledgor, Principal or Guarantor, as applicable, has been derived from any unlawful activity with the result that the investment in Borrower, Pledgor, Principal or Guarantor, as applicable (whether directly or indirectly), is prohibited by law or the Loan is in violation of law.

4.1.36 Cash Management Account.

(a) At all times throughout the term of the Loan after the Cash Management Account has been established, this Agreement, together with the other Loan Documents, creates a valid and continuing security interest (as defined in the UCC) in the Clearing Account and Cash Management Account in favor of Lender, as and when each such account may be established, which security interest is prior to all other Liens, other than Permitted Encumbrances, and is enforceable as such against creditors of and purchasers from Borrower. Other than in connection with the Loan Documents and except for Permitted Encumbrances, Borrower has not sold, pledged, transferred or otherwise conveyed its interest in the Clearing Account and Cash Management Account.

(b) At such time as each of the Clearing Account and the Cash Management Agreement has been established, the Clearing Account and the Cash Management Account each shall constitute a "deposit account" within the meaning of the UCC.

(c) [Intentionally Omitted].

(d) At all times throughout the term of the Loan after each of the Clearing Account and the Cash Management Account has been established, the Clearing Account and the Cash Management Account each shall not be held in the name of any Person other than Borrower, as pledgor, for the benefit of Lender, as secured party.

(e) The Property is not subject to any cash management system (other than pursuant to the Loan Documents), and any and all existing tenant instruction letters issued in connection with any previous financing have been duly terminated prior to the date hereof.

4.1.37 Filing of Returns; Payment of Taxes. Each of Borrower's and Guarantor's federal tax identification number is set forth on **Schedule VI**. Borrower has at all times been properly treated for federal income tax purposes either as a Disregarded Entity or as a partnership. All Taxes relating to the Property are current and are not delinquent. Each of Borrower and Guarantor has filed, or caused to be filed, all federal, state, local and foreign Tax returns, reports and other Tax-related documents required to be filed by it and has paid all Taxes payable by it that have become due, other than those not yet delinquent and except for those being contested in good faith (in accordance with the terms of this Agreement and the other Loan Documents) by appropriate proceedings for which adequate reserves have been established on its financial statements therefor. Each of Borrower and Guarantor has established on its books such charges, accruals and reserves in respect of Taxes for all fiscal periods as are required by sound accounting principles consistently applied. Neither Borrower nor Guarantor knows of any proposed assessment for additional Taxes for any period, or of any basis therefor, that, individually or in the aggregate, taking into account such charges, accruals and reserves in respect thereof as such Person has made, could reasonably be expected to cause a Material Adverse Change with respect to Borrower, Guarantor or the Property.

4.1.38 REA. The REA is in full force and effect and neither Borrower nor, to the best of Borrower's knowledge, any other party to the REA, is in default thereunder, and to the best of Borrower's knowledge after due inquiry, there are no conditions which, with the passage of time or the giving of notice, or both, would constitute a default thereunder. Except as set forth in the Permitted Encumbrances, the REA has not been modified, amended or supplemented.

4.1.39 Escrow Funds; Filed Budget. Borrower has delivered to Lender a true, correct and complete copy of the Filed Budget, which has been approved by all applicable Governmental Authorities. **Schedule VIII** hereto includes a statement of all Escrow Funds deposited into the Escrow Account, and all Escrow Funds heretofore disbursed from the Escrow Account for the purposes permitted under applicable Legal Requirements, Unit Contracts, the Condominium Act and the Filed Budget, and no Escrow Funds have been disbursed from the Escrow Account other than for the purposes permitted under applicable Legal Requirements, Unit Contracts, the Condominium Act and the Filed Budget.

4.1.40 Environmental Representations. Except as otherwise disclosed by that certain Phase I environmental report (or Phase II environmental report, if required by Lender) with respect to the Property delivered to Lender by Borrower on or prior to the date hereof (hereinafter referred to as the "**Environmental Reports**") and based upon Borrower' actual knowledge, (A) there are no Hazardous Substances or underground storage tanks in, on, or under the Property, except those that are both (i) in compliance with all Environmental Statutes and with permits issued pursuant thereto and (ii) fully disclosed to Lender in writing pursuant to the Environmental Report(s); (B) there are no past, present or threatened Releases of Hazardous Substances in, on, under or from the Property which have not been fully remediated in accordance with Environmental Statute; (C) there is no past or present non-compliance with Environmental Statutes, or with permits issued pursuant thereto, in connection with the Property which has not

been fully remediated in accordance with Environmental Statutes; (D) Indemnitor does not know of, and has not received, any written or oral notice or other communication from any Person (including, but not limited to, a Governmental Authority) relating to the threat of any Release of Hazardous Substances migrating to the Property; (E) no Indemnitor knows of, nor has received, any written or oral notice or other communication from any Person (including, but not limited to, a Governmental Authority) relating to Hazardous Substances or Remediation thereof, of possible liability of any Person pursuant to any Environmental Statute, any other environmental conditions in connection with the Property, or any actual or potential administrative or judicial proceedings in connection with any of the foregoing; (G) each Indemnitor has truthfully and fully delivered to Lender, in writing, any and all information relating to conditions in, on, under or from the Property that is known to such Indemnitor and all information that is contained in the files and records of such Indemnitor, including, but not limited to, any reports relating to Hazardous Substances in, on, under or from the Property and/or to the environmental condition of the Property; and (H) no Mold (as defined below) is present in the indoor air of the Property at concentrations exceeding ambient air levels and no visible Mold is present on any building materials or surfaces at the Property for which any Governmental Authority recommends or requires removal thereof by remediation professionals, and Borrower are not aware of any conditions at the Property that are likely to result in the presence of Mold in the indoor air at concentrations that exceed ambient air levels or on building materials or surfaces that would require such removal.

4.1.41 Intentionally Omitted.

4.1.42 Labor Matters. Other than as described on Schedule XV, true, correct and complete copies of which have been delivered to Lender, there are no collective bargaining agreements or similar agreement in effect with respect to Borrower or the Property. Borrower does not have any employees.

4.1.43 Condominium Documents. (i) All Condominium Documents comply with all applicable Federal and State statutes and Legal Requirements, including without limitation, all statutes relating to condominiums, all Federal and State Securities Laws, all Federal and State Truth-in-Lending Statutes, the Condominium Act, the ILSFDA, and the requirements of any Governmental Authority having jurisdiction, (ii) the recordation of the Condominium Declaration and the Condominium Map, has created a valid condominium under the laws of the State of Hawaii, (iii) Borrower has delivered to Lender true, correct and complete copies of the Condominium Documents, which are in full force and effect, (iv) the Condominium Documents permit the Residential Units to be encumbered by a mortgage subordinate to the Condominium Declaration, (v) there have not been amendments or modifications to the terms of the Condominium Documents, with the exception of written instruments which have been delivered to Lender and approved by Lender in writing in each case as and to the extent required herein, (vi) no Person under the Condominium Documents has commenced any action or given or received any notice for the purpose of terminating the condominium regime, (vii) Lender is permitted the opportunity to cure any default under the Condominium Documents that is curable by Lender, after the receipt of notice of the default, before the Condominium Board or its representative thereunder may exercise remedies against Borrower or the Property, (viii) the Condominium Documents are in full force and effect and Borrower has not received notice of any conditions which, with the passage of time or the giving of notice, or both, would constitute a default by Borrower thereunder, (ix) the Public Report and the Property Report are both current and contain

all required disclosures under the Condominium Act and ILSFDA, respectively, (x) the Condominium Documents do not contain any provision which prevents the exercise of any and all remedies available to the holder of the Loan, including acquisition of title to the remaining Residential Units then owned by Borrower through foreclosure, deed in lieu thereof or otherwise, by their terms or under applicable law without the requirement for consent of or approval by the Condominium Board or any Residential Unit owner and (xi) Borrower shall comply with the terms of the Public Report, the Property Report and all applicable Federal and State Securities Laws, all other Legal Requirements and the requirements of any Governmental Authority having jurisdiction over the Project.

4.1.44 Unit Sale Contracts. All Unit Sale Contracts (x) are, subject to the terms and conditions therein contained and applicable law, the valid and binding obligations of Borrower and the purchaser (subject to principles of equity and bankruptcy, insolvency, reorganization, moratorium and other similar laws generally applicable to creditors' rights and the enforcement of debtors' obligations) and (after expiration of the initial 30-day period of rescission under the Condominium Act and 7-day period of rescission under the ILSFDA) are not rescindable by buyer, as required in accordance with applicable Legal Requirements or as otherwise set forth in the Public Report or Property Report, (y) were executed by purchasers who received the Public Report and Property Report, and all required disclosures under the Condominium Act and ILSFDA, and (z) are in the form of Unit Sale Contract submitted to the applicable Governmental Authority along with the Public Report and Property Report (except as modified from time to time by arm's length amendments or addenda by Seller and buyer in accordance with the terms of this Agreement). Attached hereto as Schedule VIII is a true, correct and complete list of all Existing Unit Contracts and all Existing Unit Contract Deposits as of the date hereof. There are no other contracts or agreements for the sale of any portion of the Property or any Residential Unit other than the Existing Unit Contracts set forth on such Schedule VIII. There are no defaults or events of default by Borrower or, to Borrower's knowledge, any purchaser, under any Existing Unit Contracts as of the date hereof. Borrower has delivered to Lender true, correct and complete copies of the Existing Unit Contracts as of the date hereof. No Existing Unit Contract Deposits have been disbursed from the Escrow Account prior to the date hereof, except for such amounts as are specifically set forth on Schedule VIII, which have been expended for purposes permitted under the Condominium Act, the Condominium Documents, the Existing Unit Contracts and the Filed Budget, and all Existing Unit Contract Deposits have been received, held and if applicable, disbursed in strict compliance with the Escrow Agreement, the applicable Unit Sale Contract and the Condominium Act. No claim has been made by any party with respect to any Existing Unit Contract Deposits. No notices have been given or received by Borrower under any Existing Unit Contract, no notices have been given or received by Borrower under the Public Report and/or Property Report, and no notices have been given or received by Borrower under the Escrow Agreement, except for notices copies of which have been provided to Lender. All actions necessary for disbursements of Existing Unit Contract Deposits for payment of projects costs have been undertaken in strict compliance with applicable law.

4.1.45 Sales Agency Agreement. Borrower has delivered a true, correct and complete copy of the Sales Agency Agreement to Lender. The Sales Agency Agreement is in full force and effect and, to Borrower's knowledge, there is no default thereunder by any party thereto and no event has occurred that, with the passage of time and/or the giving of notice would constitute a default thereunder.

4.1.46 General Contractor's Agreement. (i) The General Contractor's Agreement is in full force and effect and has not been amended; (ii) Borrower or Developer and, to Borrower's knowledge, General Contractor are in compliance with their respective material obligations under the General Contractor's Agreement; (iii) the work to be managed by General Contractor under the General Contractor's Agreement is the work called for by the Plans and Specifications; and (iv) the General Contractor's Agreement requires that all work theretofore completed has been completed in accordance with the Plans and Specifications in all material respects in a good and workmanlike manner and shall be free of any material defects.

4.1.47 Architect's Contract. (i) The Architect's Contract is in full force and effect and has not been amended; (ii) Borrower or Developer and, to Borrower's knowledge, Borrower's Architect are in compliance with their respective obligations under the Architect's Contract; and (iii) the work to be performed by the Borrower's Architect under the Architect's Contract is the architectural services required to design the Project Improvements to be built in accordance with the Plans and Specifications and all architectural services required to complete the Project Improvements substantially in accordance with the Plans and Specifications as provided for under the Architect's Contract.

4.1.48 Plans and Specifications: Construction Budget. All Plans and Specifications delivered with respect to Project Improvements comply with all applicable Legal Requirements in all material respects and all applicable material Governmental Approvals. The Construction Budget accurately reflects Borrower's estimate of all anticipated Building Costs and Project Related Costs to achieve Final Completion of the Project Improvements.

4.1.49 Intentionally Omitted Zoning. Borrower has delivered or caused to have been delivered to Lender a true, correct, and complete copies of the Zoning Approvals. The Zoning Approvals are in full force and effect, and neither Borrower nor, to Borrower's knowledge, any other party to the Zoning Approvals is in default in any material obligations thereunder. Except as described herein, the Zoning Approvals have not been amended, restated, replaced, supplemented, or otherwise modified.

4.1.51 Intellectual Property.

(a) Schedule IX is a true and complete list of all Trademark registrations and applications (including, without limitation, domain name registrations) owned by Borrower. Borrower has performed all acts and has paid all renewal, maintenance, and other fees and taxes required to maintain all such Trademark registrations and applications in full force and effect.

(b) Except as set forth on Schedule IX, Borrower does not use, own, or intend to use or own any Trademarks in connection with Borrower's operation of the Property.

4.1.52 Intentionally omitted.

4.1.53 Compliance with ILSFDA and the Condominium Act. Borrower represents and warrants to Lender that:

(a) the Plans and Specifications do not deviate in any material respect from the plans and specifications for the Improvements contained in the Condominium Documents, Public Report and the Property Report;

(b) Borrower has not received any notice or other communication, from or on behalf of the United States Consumer Financial Protection Bureau or the Real Estate Commission of the State of Hawaii, reporting or alleging any fact or circumstance that could give rise to a right of cancellation or rescission of any Unit Contract by the purchaser therein; and

(c) none of the Unit Sale Contracts is subject to any such right of cancellation or rescission as described in Section 4.1.53(b).

Section 4.2 Survival of Representations. Borrower agrees that all of the representations and warranties of Borrower set forth in Section 4.1 and elsewhere in this Agreement and in the other Loan Documents shall survive for so long as any amount remains owing to Lender under this Agreement or any of the other Loan Documents by Borrower. All representations, warranties, covenants and agreements made in this Agreement or in the other Loan Documents by Borrower shall be deemed to have been relied upon by Lender notwithstanding any investigation heretofore or hereafter made by Lender or on its behalf.

ARTICLE V

BORROWER COVENANTS

Section 5.1 Affirmative Covenants. From the date hereof and until payment and performance in full of all Obligations, Borrower hereby covenants and agrees with Lender that:

5.1.1 Existence: Compliance with Legal Requirements. Each of Borrower and Pledgor shall do or cause to be done all things reasonably necessary to preserve, renew and keep in full force and effect its existence, rights, licenses, permits and franchises necessary for the conduct of its business and comply with all Legal Requirements applicable to Borrower and the Property (or any portion thereof). There shall never be committed by Borrower, and Borrower shall not permit any other Person in occupancy of or involved with the operation or use of the Property or any portion thereof to commit, any act or omission affording any Governmental Authority the right of forfeiture against the Property or any part thereof or any monies paid in performance of Borrower's Obligations under any of the Loan Documents. Borrower shall not commit, permit or suffer to exist any act or omission affording such right of forfeiture. Borrower shall at all times maintain, preserve and protect all franchises and trade names, preserve all the remainder of its property used or useful in the conduct of its business, and shall keep the Property in good working order and repair, and from time to time make, or cause to be made, all reasonably necessary repairs, renewals, replacements, betterments and improvements thereto, all as more fully provided in the Security Instrument. Borrower shall keep the Property insured at all times by financially sound and reputable insurers, to such extent and against such risks, and maintain liability and such other insurance, as is more fully provided in this Agreement. After prior notice to Lender, Borrower, at its own expense, may contest by appropriate legal proceeding promptly initiated and conducted in good faith and with due diligence, the validity of any Legal Requirement, the applicability of any Legal Requirement to Borrower or the Property (or portion thereof) or any

alleged violation of any Legal Requirement; provided, that: (a) no Event of Default has occurred and remains uncured; (b) such proceeding shall be permitted under, and be conducted in accordance with, the provisions of any instrument to which Borrower is subject and shall not constitute a default thereunder and such proceeding shall be conducted in accordance with all applicable statutes, laws and ordinances; (c) neither the Property nor any part thereof or interest therein will be in danger of being sold, forfeited, terminated, cancelled or lost; (d) Borrower shall, upon final determination thereof, promptly comply with any such Legal Requirement determined to be valid or applicable or cure any violation of any Legal Requirement; (e) such proceeding shall suspend the enforcement of the contested Legal Requirement against Borrower and the Property; (f) Borrower shall furnish such security as may be required in the proceeding, or as may be reasonably requested by Lender, to insure compliance with such Legal Requirement, together with all interest and penalties payable in connection therewith. Lender may apply any such security, as necessary to cause compliance with such Legal Requirement at any time when, in the reasonable judgment of Lender, the validity, applicability or violation of such Legal Requirement is finally established or the Property (or any part thereof or interest therein) shall be in danger of being sold, forfeited, terminated, cancelled or lost; and (g) such contest shall not delay or materially adversely affect the construction of the Project as required under this Agreement.

5.1.2 Taxes and Other Charges. Borrower shall pay, or shall cause its Tenant(s) to pay (to the extent any Tenant is obligated to make such payments under its Lease) all Property Taxes and Other Charges now or hereafter levied or assessed or imposed against the Property, or any part thereof, as the same become due and payable (and with respect to Property Taxes, prior to the date the same become delinquent); provided, however, Borrower's obligation to directly pay Property Taxes shall be suspended for so long as Borrower complies with the terms and provisions of Section 7.1 hereof. Borrower will deliver to Lender receipts for payment or other evidence satisfactory to Lender that the Property Taxes and Other Charges have been so paid or are not then delinquent no later than ten (10) days prior to the date on which the Property Taxes and/or Other Charges would otherwise be delinquent if not paid; provided, however, Borrower is not required to furnish such receipts for payment of Property Taxes in the event that such Property Taxes have been paid by Lender pursuant to Section 7.1 hereof. Subject to the terms of this Section 5.1.2 and Section 5.2.2, Borrower shall not suffer and shall promptly cause to be paid and discharged any Lien or charge whatsoever, which may be or become a Lien or charge against the Property or any portion thereof (other than Permitted Encumbrances), and shall promptly pay for all utility services provided to the Property. After prior notice to Lender, Borrower, at its own expense, may contest by appropriate legal proceeding, promptly initiated and conducted in good faith and with due diligence, the amount or validity or application in whole or in part of any Property Taxes or Other Charges; provided that (a) no Default or Event of Default has occurred and remains uncured; (b) such proceeding shall be permitted under, and be conducted in accordance with, the provisions of any other instrument to which Borrower is subject and shall not constitute a default thereunder and such proceeding shall be conducted in accordance with all applicable statutes, laws and ordinances; (c) neither the Property nor any part thereof or interest therein will be in danger of being sold, forfeited, terminated, cancelled or lost; (d) Borrower shall promptly upon final determination thereof pay the amount of any such Property Taxes or Other Charges, together with all costs, interest and penalties which may be payable in connection therewith; (e) such proceeding shall suspend the collection of such contested Property Taxes or Other Charges from the Property (except that if such Property Taxes or Other Charges must be paid sooner in order to avoid being

delinquent, then Borrower shall cause the same to be paid prior to delinquency, and upon making such payment prior to delinquency Borrower may continue such contest); (f) Borrower shall furnish such security as may be required in the proceeding, or as may be reasonably requested by Lender, to insure the payment of any such Property Taxes or Other Charges, together with all interest and penalties thereon. Lender may pay over any such cash deposit or part thereof held by Lender to the claimant entitled thereto at any time when, in the judgment of Lender, the entitlement of such claimant is established or the Property (or part thereof or interest therein) shall be in danger of being sold, forfeited, terminated, cancelled or lost or there shall be any danger of the Lien of the Security Instrument being primed by any related Lien; and (g) such contest shall not delay or affect the construction of the Project as required under this Agreement.

5.1.3 Litigation. Each of Borrower and Pledgor shall give prompt notice to Lender of any litigation or proceedings by any Governmental Authority pending or threatened against Borrower, Pledgor, Developer and/or Guarantor which would reasonably be expected to materially adversely affect Borrower's, Pledgor's, Developer's or Guarantor's ability to perform its obligations under the Loan Documents, or Borrower's, Developer's or Guarantor's condition (financial or otherwise) or business or the Property or any portion thereof.

5.1.4 Access to Property. Subject to the rights of the tenants under the Leases and the rights of owners of Residential Units and Commercial Units other than Borrower, Borrower shall permit Lender, the Construction Consultant and their respective representatives, upon reasonable prior notice to enter upon the Property, inspect the Project Improvements and all materials to be used in the construction thereof, to examine the Plans and Specifications or any Contracts, Governmental Approvals or other documentation relating to the Project requested by Lender or the Construction Consultant and to perform such testing as Lender or Construction Consultant reasonably deem desirable at the Project at all times at which Lender or the Construction Consultant reasonably deems necessary or desirable upon reasonable advance notice to Borrower, provided, that, Borrower shall have the right to have a representative of Borrower be present absent the existence of an Event of Default. Borrower shall reasonably cooperate, and shall use commercially reasonable efforts to cause the General Contractor, the Contractors and the Subcontractors to cooperate, with Lender and Construction Consultant to enable each Person to perform its functions hereunder. Lender, Construction Consultant or their agents, representatives, consultants and employees as part of any inspection may take soil, air, water, building material and other samples from the Property and shall have the right to undertake testing of such soil, air, water, building material and other samples at Borrower's cost and expense in the event that an Event of Default exists or Lender reasonably believes that Hazardous Substances exist on the Property or there is an actual or potential breach of Environmental Statutes and, in Lender's reasonable opinion, Borrower's testing of the adequacy of such soil, air, water, building material and other samples is not acceptable to Lender, provided, however, that Lender shall use commercially reasonable efforts to minimize any disturbances or damage to the Property.

5.1.5 Notice of Changed Circumstances. Each of Borrower and Pledgor shall promptly advise Lender of (i) any Material Adverse Change in Borrower's, Pledgor's or Guarantor's condition, financial or otherwise, of which Borrower has knowledge, (ii) the occurrence of any default of which Borrower has knowledge under the Management Agreement or Development Agreement, (iii) the occurrence of any event which, but for the giving of notice or passage of time, or both, would be a default under the Management Agreement, or Development

Agreement, of which Borrower has knowledge and (iv) any material adverse change in the business, operations, prospects, assets, liabilities or financial condition of Guarantor, to the extent that Guarantor has knowledge of the same, if such change would or might reasonably be expected to impair Guarantor's ability to maintain the Guarantor Net Worth and Liquid Assets required under the Guaranty.

5.1.6 Cooperate in Legal Proceedings. Borrower shall cooperate fully with Lender with respect to any proceedings before any court, board or other Governmental Authority which may in any way affect the rights of Lender hereunder or any rights obtained by Lender under any of the other Loan Documents and, in connection therewith, permit Lender, at its election, to participate in any such proceedings.

5.1.7 Perform Loan Documents. Borrower shall observe, perform and satisfy all the terms, provisions, covenants and conditions of, and shall pay when due all costs, fees and expenses to the extent required under the Loan Documents executed and delivered by, or applicable to, Borrower and shall cause the Pledgor to observe, perform and satisfy all the terms, provisions, covenants and conditions of, and shall pay when due all costs, fees and expenses to the extent required under the Loan Documents executed and delivered by, or applicable to, the Pledgor. Payment of the costs and expenses associated with any of the foregoing shall be in accordance with the terms and provisions of this Agreement, including, without limitation, the provisions of Section 10.13 hereof.

5.1.8 Award and Insurance Benefits. Borrower shall cooperate with Lender in obtaining for Lender the benefits of any Awards or Insurance Proceeds lawfully or equitably payable in connection with the Property or any portion thereof in accordance with the terms of Article VI below, and Lender shall be reimbursed for any expenses incurred in connection therewith (including reasonable attorneys' fees and disbursements, and the payment by Borrower of the expenses of an appraisal on behalf of Lender in the case of Casualty or Condemnation affecting the Property or any part thereof) out of such Insurance Proceeds.

5.1.9 Further Assurances. Borrower shall, at Borrower's sole cost and expense (and, where applicable, shall cause the Pledgor to):

(a) furnish to Lender all instruments, documents, boundary surveys, footing or foundation surveys, certificates, plans and specifications, appraisals (provided that Borrower shall not be obligated to pay for more than one appraisal in any calendar year unless an Event of Default has occurred and is continuing or is required by applicable law), title and other insurance reports and agreements, and each and every other document, certificate, agreement and instrument required to be furnished by Borrower or the Pledgor pursuant to the terms of the Loan Documents or which are reasonably requested by Lender in connection therewith;

(b) execute and deliver to Lender such documents, instruments, certificates, assignments and other writings, and do such other acts necessary or desirable, to evidence, preserve and/or protect the Collateral at any time securing or intended to secure the Obligations under the Loan Documents, as Lender may reasonably require; and

(c) do and execute all and such further lawful and reasonable acts, conveyances and assurances for the better and more effective carrying out of the intents and purposes of this Agreement and the other Loan Documents, as Lender shall reasonably require from time to time. In furtherance hereof, Borrower grants to Lender an irrevocable power of attorney coupled with an interest for the purpose of protecting, perfecting, preserving and realizing upon the interests granted pursuant to this Agreement and to effect the intent hereof, all as fully and effectually as Borrower might or could do; and Borrower hereby ratifies all that Lender shall lawfully do or cause to be done by virtue hereof. Upon receipt of an affidavit of an officer of Lender as to the loss, theft, destruction or mutilation of the Note or any other Loan Document which is not of public record, and, in the case of any such mutilation, upon surrender and cancellation of such Note or other applicable Loan Document, Borrower will issue, in lieu thereof, a replacement Note or other applicable Loan Document, dated the date of such lost, stolen, destroyed or mutilated Note or other Loan Document in the same principal amount thereof and otherwise of like tenor.

5.1.10 Mortgage Taxes. Borrower shall simultaneously herewith pay all state, county and municipal mortgage, recording, stamp, intangible and all Other Taxes imposed upon the execution and recordation of the Security Instrument.

5.1.11 Financial Reporting.

(a) Borrower will keep and maintain or will cause to be kept and maintained on a Fiscal Year basis in accordance with GAAP (or such other accounting basis selected by Borrower and reasonably acceptable to Lender), proper and accurate books, records and accounts reflecting all of the financial affairs of Borrower and all items of income and expense in connection with the operation of the Property. Lender shall have the right from time to time at all times during normal business hours upon reasonable notice (which may be verbal) to examine such books, records and accounts at the office of Borrower or any other Person maintaining such books, records and accounts and to make such copies or extracts thereof as Lender shall desire. After the occurrence of an Event of Default, Borrower shall pay any reasonable costs and expenses incurred by Lender to examine Borrower's accounting records with respect to the Property, as Lender shall reasonably determine to be necessary or appropriate in the protection of Lender's interest. Upon Lender's reasonable request, Borrower shall furnish to Lender such other information reasonably necessary and sufficient to fairly represent the financial condition of Borrower and the Property.

(b) Borrower will furnish to Lender annually, within ninety (90) days following the end of each Fiscal Year of Borrower, a complete copy of Borrower's and Guarantor's annual financial statements certified as true and correct by the party providing such statements audited by a "Big Four" accounting firm or other independent certified public accountant acceptable to Lender in accordance with GAAP (or such other accounting basis acceptable to Lender) covering the Property for such Fiscal Year and containing statements of profit and loss for Borrower, Guarantor and the Property and a balance sheet for Borrower and Guarantor. Such statements of Borrower shall set forth the financial condition and the results of operations for the Property for such Fiscal Year, and shall include, but not be limited to, amounts representing annual net cash flow, Net Operating Income, Gross Income from Operations and Operating Expenses. Borrower's annual financial statements shall be accompanied by (i) a comparison of the budgeted income and expenses and the actual income and expenses for the prior Fiscal Year in Excel spreadsheet form if

requested by Lender, (ii) an unqualified opinion of a "Big Four" accounting firm or other independent certified public accountant reasonably acceptable to Lender, (iii) a schedule audited by such independent certified public accountant reconciling Net Operating Income to net cash flow (the "**Net Cash Flow Schedule**"), which shall itemize all adjustments made to Net Operating Income to arrive at net cash flow deemed material by such independent certified public accountant, and (iv) an Officer's Certificate certifying that each annual financial statement fairly presents the financial condition and the results of operations of Borrower and the Property subject to such reporting, and that such financial statements have been prepared in accordance with GAAP and as of the date thereof whether there exists an event or circumstance which constitutes a Default or Event of Default under the Loan Documents executed and delivered by, or applicable to, Borrower, and if such Default or Event of Default exists, the nature thereof, the period of time it has existed and the action then being taken to remedy the same. Guarantor's annual financial statements shall be accompanied by (i) an unqualified opinion of a "Big Four" accounting firm or other independent certified public accountant reasonably acceptable to Lender, (ii) a statement of its Guarantor Net Worth and Liquidity within such ninety (90) day period described above and (iii) an Officer's Certificate certifying that each annual financial statement presents fairly the financial condition and the results of operations of Guarantor being reported upon and that such financial statements have been prepared in accordance with GAAP (or such other accounting basis acceptable to Lender) and as of the date thereof whether there exists an event or circumstance which constitutes a Default or Event of Default under the Loan Documents executed and delivered by, or applicable to, Guarantor, and if such Default or an Event of Default exists, the nature thereof, the period of time it has existed and the action then being taken to remedy the same.

(c) Borrower will furnish, or cause to be furnished, to Lender on or before twenty (20) days after the end of each calendar month the following items, accompanied by an Officer's Certificate stating that such items are true, correct, accurate, and complete: (i) a monthly sales report (such report, the "**Unit Sales Report**") noting all Unit sales closing during such month (and the Net Sales Proceeds thereof) and all Unit Sale Contracts entered into during such month (and the sales prices provided for therein), all Unit Sale Contract Deposits received and released during such month; and (ii) a sales and marketing report in form and substance reasonably acceptable to Lender. In addition, such Officer's Certificate shall also state that the representations and warranties of Borrower set forth in Section 4.1.30 are true and correct as of the date of such certificate and that there are no trade payables outstanding for more than sixty (60) days.

(d) Prior to Substantial Completion, Borrower will furnish, or cause to be furnished, to Lender on or before twenty (20) days after the end of each calendar month the following items, accompanied by an Officer's Certificate stating that such items are true, correct, accurate, and complete: (i) a log of Stored Materials in a form acceptable to Lender (ii) a monthly cost report for the construction of the Project on a cumulative basis and broken down by Line Item, showing percentage of completion, the original budgeted amount, the current budgeted amount pursuant to an updated Construction Budget approved by Lender, costs incurred to date, projected costs to complete, explanations of any Construction Budget variances of five percent (5%) or more, a summary of any approved reallocations, a summary of permitted approved and pending Change Orders, an explanation of any variances of five percent (5%) or more from the Construction Budget and/or Plans and Specifications and an updated Construction Budget and/or Plans and Specifications, as applicable, for which Borrower has requested Lender's approval.

From and after Substantial Completion, Borrower will furnish, or cause to be furnished, to Lender on or before twenty (20) days after the end of each calendar month the following items, accompanied by an Officer's Certificate stating that such items are true, correct, accurate, and complete and fairly present the financial condition and results of the operations of Borrower and the Property (subject to normal year-end adjustments) as applicable: (i) a rent roll for the subject month or quarter containing the names of all tenants at the Property, the terms and expiration date of their respective leases, the space occupied, the rents payable and the securities deposited thereunder, annualized expense reimbursement income detail paid by each tenant, together with the name of any lease guarantor thereof; (ii) a leasing status report addressing those items more fully described in **Schedule XVI** attached hereto; (iii) monthly, quarterly and year-to-date operating statements (including Capital Expenditures) prepared for each calendar month or quarter, as applicable, noting Net Operating Income, Gross Income from Operations, and Operating Expenses, and, upon Lender's request, other information necessary and sufficient to fairly represent the financial position and results of operation of the Property during such calendar month or quarter, as applicable, and containing a comparison of budgeted income and expenses and the actual income and expenses together with a detailed explanation of any variances of five percent (5%) or more between budgeted and actual amounts for such periods, all in form satisfactory to Lender; (iii) a Net Cash Flow Schedule Reports for the most recently completed month. In addition, such Officer's Certificate shall also state that the representations and warranties of Borrower set forth in **Section 4.1.30** are true and correct as of the date of such certificate and that there are no trade payables outstanding for more than sixty (60) days.

(e) In addition, Borrower shall provide to Lender within thirty (30) days of the end of each calendar month the financial reports that Borrower receives from the Manager pursuant to the terms and provisions of the Management Agreement.

(f) From and after Substantial Completion, for the partial year period commencing on the date thereof, and for each Fiscal Year thereafter, Borrower shall submit to Lender an Annual Budget not later than sixty (60) days prior to the commencement of such period or Fiscal Year in form reasonably satisfactory to Lender. The Annual Budget shall be subject to Lender's reasonable approval (each such Annual Budget, an "**Approved Annual Budget**"). In the event that Lender objects to a proposed Annual Budget submitted by Borrower which requires the approval of Lender hereunder, Lender shall advise Borrower of such objections within fifteen (15) days after receipt thereof (and deliver to Borrower a reasonably detailed description of such objections) and Borrower shall promptly revise such Annual Budget and resubmit the same to Lender. Lender shall advise Borrower of any objections to such revised Annual Budget within ten (10) days after receipt thereof (and deliver to Borrower a reasonably detailed description of such objections) and Borrower shall promptly revise the same in accordance with the process described in this subsection until Lender approves the Annual Budget. Until such time that Lender approves a proposed Annual Budget that requires the approval of Lender hereunder, the most recently Approved Annual Budget shall apply; provided that, such Approved Annual Budget shall be adjusted to reflect actual increases in Taxes, Insurance Premiums and Other Charges.

(g) In the event that Borrower must incur an extraordinary Operating Expense or Capital Expenditure not set forth in the Approved Annual Budget and not constituting a Permitted Budget Variance (each an "**Extraordinary Expense**"), then Borrower shall promptly

deliver to Lender a reasonably detailed explanation of such proposed Extraordinary Expense for Lender's approval.

(h) If, at the time a Disclosure Document is being prepared for a Securitization, Lender expects that Borrower alone or Borrower and one or more Affiliates of Borrower collectively, or the Property alone or the Property and Related Properties collectively, will be a Significant Obligor, Borrower shall furnish to Lender upon request (i) the selected financial data or, if applicable, Net Operating Income for Borrower and the Property for the most recent Fiscal Year and interim period (or such longer period as may be required by Regulation S-K if the Loan is not treated as a non-recourse loan under Instruction 3 for Item 1101(k) of Regulation AB) meeting the requirements and covering the time periods specified in Section 301 of Regulation S-K and Item 1112 of Regulation AB, if Lender expects that the principal amount of the Loan together with any related Loans as of the cut-off date for such Securitization may, or if the principal amount of the Loan together with any related Loans as of the cut-off date for such Securitization and at any time during which the Loan and any related Loans are included in a Securitization does, equal or exceed ten percent (10%) (but less than twenty percent (20%)) of the aggregate principal amount of all mortgage loans included or expected to be included, as applicable, in the Securitization, or (ii) the financial statements required under Item 1112(b)(2) of Regulation AB, if Lender expects that the principal amount of the Loan together with any related Loans as of the cut-off date for such Securitization may, or if the principal amount of the Loan together with any related Loans as of the cut-off date for such Securitization and at any time during which the Loan and any related Loans are included in a Securitization does, equal or exceed twenty percent (20%) of the aggregate principal amount of all mortgage loans included or expected to be included, as applicable, in the Securitization. Such financial data or financial statements shall be furnished to Lender (A) within ten (10) Business Days after notice from Lender in connection with the preparation of Disclosure Documents for the Securitization, (B) not later than thirty (30) days after the end of each fiscal quarter of Borrower and (C) not later than seventy-five (75) days after the end of each Fiscal Year of Borrower; provided, however, that Borrower shall not be obligated to furnish financial data or financial statements pursuant to clauses (B) or (C) of this sentence with respect to any period for which a filing pursuant to the Exchange Act in connection with or relating to the Securitization (an "**Exchange Act Filing**") is not required. If requested by Lender, Borrower shall use commercially reasonable efforts to furnish to Lender financial data and/or financial statements for any Tenant of the Property if, in connection with a Securitization, Lender expects there to be, with respect to such Tenant or group of Affiliated Tenants, a concentration within all of the mortgage loans included or expected to be included, as applicable, in the Securitization such that such Tenant or group of affiliated Tenants would constitute a Significant Obligor. All financial data and financial statements provided by Borrower hereunder pursuant to this Section 5.1.11(f) shall be prepared in accordance with GAAP and shall meet the requirements of Regulation S-K or Regulation S-X, as applicable, Regulation AB and other applicable legal requirements. All financial statements referred to in this Section 5.1.11(f) hereof shall be audited by independent accountants of Borrower acceptable to Lender in accordance with Regulation AB, Regulation S-K or Regulation S-X, as applicable, and all other applicable legal requirements, shall be accompanied by the manually executed report of the independent accountants thereon, which report shall meet the requirements of Regulation S-K or Regulation S-X, as applicable, Regulation AB and all other applicable legal requirements, and shall be further accompanied by a manually executed written consent of the independent accountants, in form and substance acceptable to Lender, to the

inclusion of such financial statements in any Disclosure Document and any Exchange Act Filing and to the use of the name of such independent accountants and the reference to such independent accountants as "experts" in any Disclosure Document and Exchange Act Filing, all of which shall be provided at the same time as the related financial statements are required to be provided. All financial data and financial statements (audited or unaudited) provided by Borrower under this [Section 5.1.11\(f\)](#) shall be accompanied by an Officer's Certificate, which certification shall state that such financial statements meet the requirements set forth in this [Section 5.1.11\(f\)](#). If requested by Lender, each Borrower shall provide Lender, promptly upon request, with any other or additional financial statements, or financial, statistical or operating information, as Lender shall reasonably determine to be required pursuant to Regulation S-K or Regulation S-X, as applicable, Regulation AB or any amendment, modification or replacement thereto or other legal requirements in connection with any Disclosure Document or any Exchange Act filing in connection with or relating to a Securitization or as shall otherwise be reasonably requested by the Lender. In the event Lender determines, in connection with a Securitization, that the financial data and financial statements required in order to comply with Regulation S-K or Regulation S-X, as applicable, Regulation AB or any amendment, modification or replacement thereto or other legal requirements are other than as provided herein, then notwithstanding the provisions of this [Section 5.1.11\(h\)](#), Lender may request, and Borrower shall promptly provide, such other financial data and financial statements as Lender determines to be necessary or appropriate for such compliance.

(i) If requested by Lender, Borrower shall provide Lender, promptly upon request, a list of Tenants (including all affiliates of such Tenants) that in the aggregate (i) occupy ten percent (10%) or more (but less than twenty percent (20%)) of the total floor area of the Improvements or represent ten percent (10%) or more (but less than twenty percent (20%)) of aggregate base rent, and (ii) occupy twenty percent (20%) or more of the total floor area of the Improvements or of any particular building located on the Property or represent twenty percent (20%) or more of aggregate base rent attributable to the Property or of any particular building located on the Property.

(j) Borrower shall furnish to Lender, within ten (10) Business Days after request (or as soon thereafter as may be reasonably possible), such further detailed information with respect to the operation of the Property and the financial affairs of Borrower as may be reasonably requested by Lender.

(k) Borrower shall furnish to Lender, within ten (10) Business Days after Lender's request (or as soon thereafter as may be reasonably possible), financial and sales information from any Tenant designated by Lender (to the extent such financial and sales information is required to be provided under the applicable Lease and the same is received by Borrower after request therefore).

(l) Any reports, statements or other information required to be delivered under this Agreement shall be delivered in electronic form and prepared using Excel®. Borrower agrees that Lender may disclose information regarding the Property and Borrower that is provided to Lender pursuant to this [Section 5.1.11](#) in connection with any Securitization to such parties requesting such information in connection with such Securitization.

(m) If Borrower fails to provide to Lender or its designee any of the financial statements, certificates, reports or information (the "**Required Records**") required by this Section 5.1.11 within the applicable time periods set forth in this Section 5.1.11, Lender shall have the option, upon fifteen (15) days' notice to Borrower, to gain access to Borrower's books and records and prepare or have prepared at Borrower's expense, any Required Records not delivered by Borrower. In addition, it shall be an Event of Default if any of the following shall occur: (i) any failure of Borrower to provide to Lender any of the Required Records within the applicable time periods set forth in this Section 5.1.11, if such failure continues for fifteen (15) days after written notice thereof, or (ii) in the event any Required Records shall be materially inaccurate or false, or (iii) in the event of the failure of Borrower to permit Lender or its representatives to inspect said books, records and accounts upon request of Lender as required by this Section 5.1.11.

5.1.12 Business and Operations. Borrower will continue to engage in the businesses presently conducted by it as and to the extent the same are necessary for the ownership, maintenance, management and operation of the Property. Borrower will qualify to do business and will remain in good standing under the laws of each jurisdiction as and to the extent the same are required for the ownership, maintenance, management and operation of the Property. Borrower shall keep and maintain all Licenses necessary for, prior to Final Completion, the construction and, from and after Substantial Completion, operation of the Property and each portion thereof for its intended uses and otherwise as a residential condominium with retail and parking uses.

5.1.13 Title to the Property. Borrower will warrant and defend (a) the title to the Property and every part thereof, subject only to Permitted Encumbrances, and (b) the validity and priority of the Lien of the Security Instrument and the Assignment of Leases, subject only to Permitted Encumbrances, in each case against the claims of all Persons whomsoever. Borrower shall reimburse Lender for any Losses incurred by Lender if an interest in the Property, other than as permitted hereunder, is claimed by another Person.

5.1.14 Costs of Enforcement. In the event (a) that the Security Instrument is foreclosed in whole or in part or that the Security Instrument is put into the hands of an attorney for collection, suit, action or foreclosure, (b) of the foreclosure of any mortgage prior to or subsequent to the Security Instrument in which proceeding Lender is made a party, or (c) of a Bankruptcy Action related to Borrower, Pledgor or any Principal or an assignment by Borrower or any Principal for the benefit of its creditors, Borrower, on behalf of itself and its successors and assigns, agrees that it/they shall be chargeable with and shall pay all costs of collection and defense, including attorneys' fees and expenses, and court costs, incurred by Lender or Borrower in connection therewith and in connection with any appellate proceeding or post-judgment action involved therein, together with all required sales or use Taxes.

5.1.15 Estoppel Statement.

(a) After request by Lender, Borrower shall within ten (10) Business Days furnish Lender with a statement, duly acknowledged and certified, setting forth (i) the original principal amount of the Loan, (ii) the Outstanding Principal Balance, (iii) the Interest Rate of the Loan, (iv) the date installments of interest and/or principal were last paid, (v) any offsets or defenses to the performance of the Obligations, if any, and (vi) that the Note, this Agreement, the

Security Instrument and the other Loan Documents are valid, legal and binding obligations of Borrower and have not been modified or if modified, giving particulars of such modification.

(b) From and after Substantial Completion, Borrower shall deliver to Lender following Lender's written request, tenant estoppel certificates from each commercial Tenant leasing space at the Property in form and substance reasonably satisfactory to Lender; provided that Borrower shall not be required to deliver such certificates more frequently than two (2) times in any calendar year.

5.1.16 REAs. Borrower shall observe, perform and fulfill each and every covenant, term and provision of each REA, and shall not enter into or otherwise suffer or permit any amendment, waiver, supplement, termination or other modification of any REA without the prior written consent of Lender. Borrower shall deliver to Lender, upon request, estoppel certificates from each party under the REA; provided that such certificates may be in the form required under the REA.

5.1.17 Loan Proceeds. Borrower shall use the proceeds of the Loan received by it on the Initial Funding Date only for the purposes set forth in Section 2.1.4.

5.1.18 Performance by Borrower. Borrower shall (and shall cause the Pledgor) in a timely manner observe, perform and fulfill each and every covenant, term and provision of each Loan Document executed and delivered by, or applicable to, Borrower (or the Pledgor) and shall not enter into or otherwise suffer or permit any amendment, waiver, supplement, termination or other modification of any Loan Document executed and delivered by, or applicable to, Borrower (or the Pledgor) without the prior written consent of Lender.

5.1.19 Confirmation of Representations. Borrower shall deliver, in connection with any Secondary Market Transaction, (a) one or more Officer's Certificates certifying as to the accuracy of all representations made by Borrower in the Loan Documents as of the date of the closing of such Secondary Market Transaction in all relevant jurisdictions, and (b) certificates of the relevant Governmental Authorities in all relevant jurisdictions indicating the good standing and qualification of Borrower as of the date of the Secondary Market Transaction.

5.1.20 No Joint Assessment. Borrower shall not suffer, permit or initiate the joint assessment of the Property or any portion thereof (a) with any other real property constituting a tax lot separate from the Property, and (b) which constitutes real property with any portion of the Property which may be deemed to constitute personal property, or any other procedure whereby the Lien of any Taxes which may be levied against such personal property shall be assessed or levied or charged to such real property portion of the Property.

5.1.21 Leasing Matters.

(a) Borrower shall not enter into any Lease with respect to any Residential Unit. Borrower shall not enter into any Lease with respect to any Commercial Unit (or any renewals, amendments or modifications of a Lease) without Lender's prior consent, which shall not be unreasonably withheld, delayed or conditioned.

(b) Borrower shall not permit or consent to any assignment or sublease of any Lease without Lender's prior written approval, which shall not be unreasonably withheld, delayed or conditioned (other than assignments or subleases expressly permitted under any Lease pursuant to a unilateral right of the Tenant thereunder not requiring the consent of Borrower).

(c) Borrower (i) shall observe and timely perform all obligations imposed upon the lessor under the Leases in a commercially reasonable manner; (ii) shall enforce and may amend or terminate the terms, covenants and conditions contained in the Leases upon the part of the Tenant thereunder to be observed or performed in a commercially reasonable manner and in a manner not to impair the value of the Property involved, except that Borrower shall not terminate, or accept the surrender by a Tenant of, any Lease unless by reason of a Tenant default and then only in a commercially reasonable manner to preserve and protect the Property; provided, however, that no such termination or surrender of any Lease will be permitted without the prior written consent of Lender, which shall not be unreasonably withheld, conditioned or delayed, or unless such termination or surrender is specifically provided for in the Lease; (iii) shall not collect any of the Rents more than one (1) month in advance (other than security deposits required pursuant to such Lease); (iv) shall not execute any other assignment of lessor's interest in the Leases or the Rents (except as contemplated by the Loan Documents); (v) shall not alter, modify or change the terms of the Leases in a manner inconsistent with the provisions of the Loan Documents; and (vi) shall execute and deliver at the request of Lender all such further assurances, confirmations and assignments in connection with the Leases as Lender shall from time to time reasonably require. Notwithstanding anything to the contrary contained herein, Borrower shall not enter into a Lease of all or substantially all of the Property or all or substantially all of any building located on the Property without Lender's prior written consent. Lender shall have the right to require each new Tenant to execute and deliver to Lender a subordination, non-disturbance of possession and attornment agreement in form, content and manner of execution reasonably acceptable to Lender.

(d) Borrower shall furnish Lender with true, correct and complete copies of all Leases, amendments thereof and any related agreements promptly following execution thereof.

(e) Borrower shall promptly notify Lender, in writing, of any defaults by any tenant or lease guarantor after Borrower becomes aware of the same.

5.1.22 Alterations. Other than construction of the Project Improvements in accordance with the Plans and Specifications, Borrower shall obtain Lender's prior written consent to any alterations to any Improvements, which consent shall not be unreasonably withheld, conditioned, or delayed, except with respect to any alterations to any Improvements which may have a material adverse effect on Borrower's financial condition, the value of the Property or any portion thereof or the Net Operating Income, and/or require an amendment to the Public Report, Property Report or the Condominium Declaration which amendment would require consent of Lender pursuant to Section 5.1.40(b)(iv). Notwithstanding the foregoing, Lender's consent shall not be required in connection with any alterations that will not have a material adverse effect on Borrower's financial condition, the value of the Property or any portion thereof or the Net Operating Income and/or require an amendment to the Public Report, Property Report or the Condominium Declaration which amendment would require consent of Lender pursuant to Section 5.1.40(b)(iv); provided that such alterations (a) are either work performed pursuant to the

terms of any Lease approved or deemed approved in accordance with the terms hereof, or the costs for such alterations are adequately covered in the current Approved Annual Budget, (b) do not adversely affect any structural component of any Improvements, any utility or HVAC system contained in any Improvements or the exterior of any building constituting a part of any Improvements and (c) the aggregate cost thereof does not exceed Five Hundred Thousand and No/100 Dollars (\$500,000.00) per Property, or (d) are performed in connection with Restoration after the occurrence of a Casualty in accordance with the terms and provisions of this Agreement.

5.1.23 Operation of Property.

(a) On or prior to the earlier of (i) Substantial Completion, or (ii) the occupancy of a Residential Unit pursuant to a closing under a bona fide sale contract or a Lease, Borrower shall engage Manager as the manager of the Property, pursuant to, and in accordance with, the terms of a Management Agreement in form and substance reasonably acceptable to Lender in all respects. Any Manager engaged by (or on behalf of) Borrower pursuant to the foregoing and any replacement thereof must be a Qualified Manager at all times during the term of such engagement so long as the Loan remains outstanding. Simultaneously with such engagement or replacement, Borrower shall cause Manager to deliver to Lender an executed original of an Assignment of Management Agreement in substantially the form attached hereto as **Exhibit I**, which in each case has been acknowledged and countersigned by Borrower and Manager, together with a certified true, correct and complete copy of the final executed Management Agreement in the form approved by Lender in accordance with this Agreement and any other documentation, certificates or information as Lender may reasonably request in connection with the foregoing. Borrower shall (1) use commercially reasonable efforts to cause Manager to promptly perform and/or observe all of the covenants and agreements required to be performed and observed by Manager under the Management Agreement and do all things necessary to preserve and to keep unimpaired its material rights thereunder, (2) promptly notify Lender of any material default" by Borrower or Manager under the Management Agreement of which it is aware; (3) promptly deliver to Lender a copy of each financial statement, business plan, capital expenditures plan, notice, report and estimate received by it under the Management Agreement; and (4) enforce the performance and observance of all of the covenants and agreements required to be performed and/or observed by Manager under the Management Agreement, in a commercially reasonable manner.

(b) Borrower shall not, without the prior written consent of Lender, which consent shall not be unreasonably withheld, conditioned or delayed: (i) modify, change, supplement, alter or amend the Management Agreement or waive or release any of its rights and remedies under the Management Agreement in each case in a manner that would have a material adverse effect, or (ii) replace Manager with a Person other than a Qualified Manager. As a condition to any consent to an amendment of the Management Agreement, Lender may require that Borrower deliver an amendment to the Assignment of the Management Agreement, in form reasonably approved by Lender.

(c) Borrower shall notify Lender in writing (and shall deliver a copy of the proposed management agreement) of any entity proposed to be designated as a Qualified Manager of the Property not less than ten (10) Business Days before such Qualified Manager begins to Manage the Property.

(d) Upon retention of a new Qualified Manager, Lender shall have the right to approve (which approval shall not be unreasonably withheld or delayed) any new management agreement with such Qualified Manager.

(e) If an event occurs pursuant to the Management Agreement which would allow Borrower to terminate same, then Borrower shall promptly notify Lender of such event and the basis for such termination, and if an Event of Default exists, Lender may, or may require Borrower to, terminate the Management Agreement and replace Manager with a Qualified Manager in accordance with this Section 5.1.23(e). If (i) Manager or any of its Affiliates shall become insolvent or shall commit gross negligence, malfeasance or willful misconduct, or any other event occurs pursuant to the Management Agreement which would allow Borrower to terminate same, then Borrower shall promptly notify Lender of same and Lender may, or may require Borrower to, terminate the Management Agreement and replace Manager with a Qualified Manager in accordance with this Section 5.1.23(e), and (ii) if an Event of Default has occurred and is continuing, then Lender may, or may require Borrower to, terminate the Management Agreement with Manager and replace Manger with a Qualified Manager in accordance with this Section 5.1.23(e).

(f) Borrower shall not enter into, and shall cause and shall not permit the Condominium Board to enter into, any agreement for the management and/or operation of the Property, other than the Management Agreement previously approved by Lender in accordance with and pursuant to the terms of Section 5.1.23(a) above, without Lender's prior written consent, and conditioned upon such assignment and subordination of management agreement being executed and delivered by Manager, the Condominium Board and Borrower as is acceptable to Lender.

5.1.24 Changes in the Legal Requirements Regarding Taxation. If any Change in Law shall subject any Lender to any Taxes on its loans, loan principal, commitments, or other obligations, or its deposits, reserves, other liabilities or capital attributable thereto, and the result of the foregoing shall be to increase the cost to such Lender of making, converting to, continuing or maintaining any Loan or of maintaining its obligation to make any such Loan, or to increase the cost to such Lender or reduce the amount of any sum received or receivable by such Lender hereunder (whether of principal, interest or any other amount), then, upon request of such Lender, Borrower will pay to such Lender such additional amount or amounts as will compensate such Lender for such additional costs incurred or reduction suffered. If Lender is advised by counsel chosen by it that the payment of such Tax or interest and penalties by Borrower would be unlawful or taxable to Lender or unenforceable or provide the basis for a defense of usury, then in any such event, Lender may, by written notice to Borrower of not less than ninety (90) days, declare the Obligations immediately due and payable. Each of Borrower and Pledgor shall continue at all times to be treated for federal income tax purposes as a Disregarded Entity or as a partnership.

5.1.25 No Credits on Account of the Obligations. Borrower will not claim or demand or be entitled to any credit or credits on account of the Obligations for any payment of Property Taxes assessed against the Property and no deduction shall otherwise be made or claimed from the assessed value of the Property for real estate Tax purposes because of the Loan Documents or the Obligations. If Legal Requirements or other laws, orders, requirements or

regulations require such claim, credit or deduction, Lender may, by written notice to Borrower of not less than ninety (90) days, declare the Obligations immediately due and payable.

5.1.26 Personal Property. Borrower shall cause all of its personal property, fixtures, attachments and equipment delivered upon, attached to or used in connection with the operation of the Property to always be located at the Property and shall be kept free and clear of all Liens, encumbrances and security interests, except Permitted Encumbrances.

5.1.27 Appraisals. Lender shall have the right to obtain a new or updated Appraisal of the Property (and/or any portions thereof) from time to time, provided, however, that so long as no Event of Default has occurred Lender shall do so with respect to the same portion of the Property not more often than once in every twelve (12) month period. Borrower shall cooperate with Lender in this regard. If the Appraisal is obtained to comply with this Agreement or any applicable law or regulatory requirement, or bank or lender policy promulgated to comply therewith, or if an Event of Default exists, Borrower shall pay for any such Appraisal upon Lender's request.

5.1.28 Financing Statements. Borrower, at its sole cost and expense, shall at all times cause the Security Instrument and the Assignment of Leases, together with any UCC-1 financing statements required to be filed in connection therewith and any UCC-1 financing statements required to be filed in connection with the Pledge Agreement, to be recorded, registered or filed in the appropriate public records, and any amendments or supplements hereto and thereto, and, if requested by Lender, any instruments of assignment hereof or thereof, to be recorded, registered and filed, as applicable, and to be kept recorded, registered and filed, in such manner and in such places, shall pay all recording, registration and filing fees and taxes and other charges, including any recording, transfer or intangible personal property tax or similar imposition, with respect thereto, and shall comply with all applicable Legal Requirements in order fully and effectively to establish, preserve, perfect and protect Lender's first priority security interest in the Property, the Collateral and the Pledged Collateral, subject only to Permitted Encumbrances and the Liens created by the Loan Documents. Borrower hereby authorizes Lender to file UCC-1 financing and continuation statements with respect to the Property, the Collateral and the Pledged Collateral.

5.1.29 ERISA. Borrower further covenants and agrees to deliver to Lender such certifications or other evidence from time to time throughout the term of the Loan, as may be requested by Lender in its sole discretion that (i) Borrower is not an "employee benefit plan" as defined in Section 3(3) of ERISA, which is subject to Title I of ERISA, a "plan" as defined in and subject to the provisions of Section 4975 of the Code an entity whose assets are treated as "plan assets" for purposes of ERISA or the Code or a "governmental plan" within the meaning of Section 3(32) of ERISA or any entity whose assets are treated as "plan assets" of a governmental plan or plans; (ii) Borrower is not subject to any state statute regulating investments of, or fiduciary obligations with respect to, governmental plans, in either case, subjecting Lender to liability for a violation of ERISA, the Code, a state statute or regulation or a similar law; and (iii) one or more of the following circumstances is true:

(a) equity interests in Borrower are publicly offered securities, within the meaning of 29 C.F.R. §2510.3-101(b)(2);

(b) less than twenty-five percent (25%) of each outstanding class of equity interests in Borrower is held by "benefit plan investors" within the meaning of Section 3(42) of ERISA;

(c) Borrower qualifies as an "operating company" or a "real estate operating company" within the meaning of 29 C.F.R. §2510.3-101(c) or (e); or

(d) the Loan meets the requirements of PTE 95-60, 91-38, 90-1, 84-14 or similar exemption.

5.1.30 Costs. Borrower shall pay when due all Project Related Costs and other costs and expenses otherwise required under this Agreement for the construction and ownership of the Improvements in accordance with the provisions of this Agreement, including without limitation, any repair and restoration of the Improvements pursuant to the provisions of this paragraph hereinabove set forth and any Carrying Costs through the payment in full of all amounts due to Lender hereunder.

5.1.31 Architect's Contract. Borrower shall (a) enforce the provisions of the Architect's Contract in the best interests of the Project using sound business judgment, (b) diligently perform and observe all of the terms, covenants and conditions of the Architect's Contract on the part of Borrower to be performed and observed, subject to any applicable notice, grace, and cure periods, (c) waive none of the obligations of Borrower's Architect thereunder, (d) do no act which would relieve Borrower's Architect from its obligations under the Architect's Contract and (e) make no amendments to the Architect's Contract without the prior written approval of Lender, not to be unreasonably withheld, conditioned or delayed. Following receipt of written request by Lender, Borrower shall use commercially reasonable efforts to cause Borrower's Architect to provide Lender with reports in regard to the status of construction of the Project Improvements, in such form and detail as requested by Lender.

5.1.32 General Contractor. Borrower shall (i) use commercially reasonable efforts to cause the General Contractor to manage the development and construction of the Project and perform its duties under and substantially in accordance with the General Contractor's Agreement, in the best interests of the Project consistent with the Scope of Work, the Construction Budget, and any applicable Plans and Specifications using sound business judgment, (ii) diligently perform and observe all of the terms, covenants and conditions of the General Contractor's Agreement on the part of Borrower to be performed and observed, (iii) promptly notify Lender of any material default under the General Contractor's Agreement of which it is aware, (iv) promptly deliver to Lender, upon written request, any information received by Borrower under the General Contractor's Agreement, subject to the terms of the General Contractor's Agreement, (v) promptly enforce in a commercially reasonable manner the performance and observance of all of the covenants required to be performed and observed by General Contractor under the General Contractor's Agreement, (vi) use commercially reasonable efforts to ensure that the work to be managed by General Contractor under the General Contractor's Agreement is completed substantially in accordance with the Plans and Specifications in a good and workmanlike manner and shall be free of any material defects (taking into account the luxury nature of the Project). Borrower shall, upon request by Lender, use commercially reasonable efforts to cause General Contractor to provide Lender and Construction Consultant with reports in regard to the status of

construction of the Project Improvements, in such form and detail as reasonably requested by Lender; provided, however, that Borrower need not cause General Contractor to provide any reports which General Contractor is not obligated to produce pursuant to the General Contractor's Agreement. If Borrower shall default in the performance or observance of any term, covenant or condition of the General Contractor's Agreement on the part of Borrower to be performed or observed beyond any applicable notice and cure period, then, without limiting Lender's other rights or remedies under this Agreement or the other Loan Documents, and without waiving or releasing Borrower from any of its Obligations hereunder or the General Contractor's Agreement, Lender shall have the right, but shall be under no obligation, to pay any sums and to perform any act as may be appropriate to cause all the terms, covenants and conditions the General Contractor's Agreement on the part of Borrower to be performed or observed.

5.1.33 Construction of Project Improvements: Completion of Construction.

(a) Project Improvements. The Plans and Specifications and the Construction Budget shall be subject to the prior written approval of Lender in accordance with Section 2.8.2(e). Except as expressly set forth in Sections 5.1.33(e) and (f), each material addition or modification to the Plans and Specifications shall be subject to approval in writing by Lender and the Construction Consultant, and, to the extent required by law, by the appropriate Governmental Authorities. Lender shall respond to a request for approval of a material addition or modification to any Plans and Specifications within ten (10) Business Days of request from Borrower. Subject to the rights of the Borrower's Architect and the Other Design Professionals, if any, the Plans and Specifications as approved by Lender shall become the property of Lender upon the occurrence of an Event of Default under the Loan Documents. The Project Improvements shall be constructed and equipped in compliance with the requirements of the Governmental Authorities and the appropriate Board of Fire Underwriters, if any, or other similar body, if any, acting in and for the locality in which the Property is situated. Compliance with the provisions of this paragraph and any other provisions of this Agreement relating to the construction and equipping of the Project Improvements shall be determined by the Construction Consultant in its reasonable discretion. At all reasonable times and upon reasonable advance notice to Borrower, Lender, the Construction Consultant, and their respective agents and employees, shall have the right of entry and free access to the Property to inspect the Improvements, subject to the rights of any third party Tenants or Residential Unit owners, provided that Lender, the Construction Consultant, and their respective agents and employees shall use reasonable efforts not to unreasonably interfere with Borrower's construction of the Project Improvements. Borrower shall deliver to Lender copies of each application, any objection sheet and other material communications received from any Governmental Authority in connection with each application for any Governmental Approval, and shall keep Lender apprised from time to time with respect to the status of each such application, and shall advise Lender promptly if any such application or filing is rejected, or if Borrower receives any objection from any Governmental Authority to the performance of work on the Project without the issuance of a particular Governmental Approval. Borrower shall deliver to Lender copies of each Governmental Approval promptly following issuance thereof.

(b) Commencement of Construction. To the extent not theretofore commenced, Borrower shall commence construction of the Project Improvements as soon as reasonably practicable following the Closing Date; provided, that, Borrower shall not commence such construction until each of the following shall have occurred:

(i) All notices required by any Governmental Authority or by any applicable Legal Requirement to be filed prior to commencement of construction of the Project Improvements shall have been filed.

(ii) Borrower shall have obtained all Governmental Approvals from, and has given all such notices to, and shall have taken all such other actions with respect to such Governmental Authority as may be required under applicable Legal Requirements for the commencement of construction the Project.

(iii) The Architect's Contract and the General Contractor's Agreement, each in form and substance reasonably satisfactory to Lender, shall have been duly executed and delivered by the parties thereto, shall be in full force and effect and Lender shall have received a certified copy or a fully executed duplicate original thereof. Borrower's Architect shall have duly executed and delivered to Lender the Architect's Certificate and the General Contractor shall have duly executed and delivered to Lender the General Contractor's Certificate.

(c) Completion of Improvements. Borrower shall construct, complete and equip the Project Improvements in accordance with the Plans and Specifications in all material respects, all Governmental Approvals, Legal Requirements, and the Condominium Documents, and in accordance with the provisions of this Agreement and free and clear of all Liens (other than the Permitted Encumbrances). Borrower shall: (i) diligently pursue construction of all of the Project Improvements to Final Completion substantially in accordance with any applicable Plans and Specifications, the Construction Schedule (subject to Force Majeure), and in compliance with all Permitted Encumbrances, all applicable Legal Requirements, and all applicable Governmental Approvals, and in accordance with all terms and conditions of the Loan Documents, and (ii) promptly pay all sums and perform such duties as may be necessary to complete such construction of the Project Improvements in accordance with the Plans and Specifications and in compliance with all Permitted Encumbrances, all Legal Requirements and all applicable Governmental Approvals, and in accordance with all terms and conditions of the Loan Documents free from any Liens asserted against the Property for any material, labor or other items furnished in connection therewith.

(d) Correction of Defects. Borrower shall promptly correct (or cause the applicable Contractor to correct) all material defects in the Project Improvements or any material departure from the Plans and Specifications not previously approved by Lender to the extent required hereunder. Borrower agrees that the Disbursement of any Escrow Funds whether before or after such defects or departures from the Plans and Specifications are discovered by, or brought to the attention of, Lender shall not constitute a waiver of Lender's right to require compliance with this covenant.

(e) Change Orders. Borrower shall permit no Change Orders or deviations from any applicable Plans and Specifications, Construction Schedule or Construction Budget (other than de minimis changes to reflect site conditions) or any amendment, modification or supplement to any Major Construction Contract or Major Subcontract during construction without the prior written consent of Lender; provided, however, that any single Change Order shall be permitted without Lender's consent if (i) such Change Order does not increase construction costs

by more than One Million Five Hundred Thousand and No/100 Dollars (\$1,500,000.00) with respect to an individual Property, (ii) such Change Order, when taken together with all other Change Orders, does not result in an increase in total construction costs by more than Four Million and No/100 Dollars (\$4,000,000.00) with respect to an individual Property, (iii) when such Change Orders take effect there is Contingency available to Borrower under Section 5.1.33(f) to pay any increased cost arising from such Change Orders, (iv) Borrower delivers to Lender and Construction Consultant prior written notice of such Change Order, with a copy thereof promptly following execution, and (v) notwithstanding anything to the contrary contained herein, no such Change Order or deviations shall be permitted without Lender's consent if such Change Order (a) decreases in any material respect the floor area or sellable square footage of the Project, (b) changes in any material respect the basic layout of the Project Improvements, (c) involves the use of materials, furniture, fixtures or equipment that is not at least of equal quality to that set forth in the final Plans and Specifications approved by Lender, (d) adversely affect the Lien or priority of the Lien of the Security Instrument, (e) is inconsistent with the requirements of any Condominium Document or any Legal Requirement or any Unit Sale Contract, or would give any party under such agreements the right to terminate, rescind or modify the same, (f) negatively impacts a structural element, building system or the exterior of the Project Improvements in any material respect or (g) would have the effect of delaying Final Completion of the Project Improvements beyond November 30, 2016 (with respect to the Ala Moana Property) and April 30, 2017 (with respect to the Auahi Property). Notwithstanding anything to the contrary, Borrower shall permit no Change Orders or deviations from any applicable Plans and Specifications, Construction Schedule or Construction Budget if the same would permit any Purchaser under a Unit Sale Contract to terminate or rescind such Unit Sale Contract.

(f) Cost Savings; Contingency. Borrower may revise the Construction Budget from time to time to reallocate Cost Savings available under any Line Item for costs in the Construction Budget to the "Contingency" Line Item, provided that Borrower shall deliver to Lender evidence satisfactory to Lender that the requirements set forth in the definition of "Cost Savings" have been satisfied. Borrower may, with Lender's prior written consent, reallocate "Contingency" to other Line Items for costs in the Construction Budget; provided, however, that Lender's consent shall not be required so long as (i) the percentage of the "Contingency" Line Item reallocated by Borrower at all times is less than or equal to the percentage of the Project Improvements that have been completed as contemplated by the Scope of Work and the terms of this Agreement as of the time of such reallocation, and (ii) Borrower delivers to Lender prior notice of such reallocation together with an Officer's Certificate certifying as to calculation described in the foregoing clause (i). Notwithstanding the foregoing or anything to the contrary herein, (v) until such time as there is in fact Cost Savings, Borrower shall not have the right to reallocate as Cost Savings any amounts required to be set aside as Retainage for such Line Item, (w) Borrower shall not be permitted to reallocate Line Items for "Contingency" from the Hard Costs to Soft Costs or vice versa, (x) Borrower shall not be permitted to reallocate Cost Savings available under a Line Item for Soft Costs to the Hard Costs without Lender's reasonable consent, (y) Borrower shall not be permitted to allocate Cost Savings from the Construction Budget for one Project to the Construction Budget for the other Project, and (z) Borrower shall not be permitted to utilize the Soft Cost contingency without Lender's reasonable consent.

(g) Cost Overruns. If there is a change in Project Related Costs which will increase a category or Line Item of Project Related Costs reflected on the Construction Budget,

Borrower shall promptly notify Lender in writing and promptly submit to Lender for its approval a revised Construction Budget. Any reallocation of any category or Line Items in the Construction Budget in connection with cost overruns shall be subject to Lender's approval in Lender's discretion except as permitted without Lender's consent as set forth in Section 5.1.33(f); provided, that if and to the extent that an unforeseen cost overrun exists with respect to a specific Line Item, the Construction Budget (but not the Plans and Specifications) shall be deemed modified to include such cost overrun in such Line Item and Lender's prior consent shall not be required, so long as Borrower funds such cost overrun with equity or deposits with Lender an amount equal to such cost overrun. Lender shall have no obligation to authorize Escrow Agent to authorize any further Disbursements unless and until the revised Construction Budget so submitted by Borrower, as applicable, is approved by Lender, and Lender reserves the right to approve or disapprove any revised Construction Budget in its reasonable discretion (except with respect to reallocations in accordance with Section 5.1.33(f)) and to require the funding of a Shortfall if required pursuant to Section 2.1.8 above).

(h) Review of Plans and Specifications. Borrower hereby acknowledges and agrees that neither Lender nor the Construction Consultant's approval of any Plans and Specifications (or any revisions thereto), nor its inspection of the performance of the construction, nor its right to inspect such work, shall impose upon Lender and/or Construction Consultant any obligation or liability whatsoever with respect thereto, including, without limitation, any obligation or liability that might arise as a result of such work not being performed in accordance with applicable laws and/or requirements of public authorities or with the Plans and Specifications (and revisions thereto) approved by Lender and Construction Consultant or otherwise. The review or approval by Lender and Construction Consultant of any Plans and Specifications or any revisions thereto is solely for Lender's benefit, and is without any representation or warranty whatsoever with respect to the adequacy, correctness or efficiency thereof or otherwise. Neither the granting by Lender and/or Construction Consultant of its approval of any Plans and Specifications or any revisions thereto, shall in any manner constitute or be deemed to constitute a judgment or acknowledgment by Lender as to their legality or compliance with laws and/or requirements of public authorities.

(i) Stored Materials.

(i) Lender shall not be required to authorize or disburse any funds for any materials, machinery or other Personal Property not yet incorporated into the Project Improvements (the "**Stored Materials**"), unless the following conditions are satisfied:

(A) Borrower shall deliver to Lender bills of sale or other evidence reasonably satisfactory to Lender of the cost of, and, subject to the payment therefor, Borrower's title in and to such Stored Materials;

(B) The Stored Materials are identified to the applicable Property and applicable Borrower, are segregated so as to adequately give notice to all third parties of such Borrower's title in and to such materials, and are components in substantially final form ready for incorporation into the applicable Project Improvements;

(C) The Stored Materials are stored at the applicable Property or at such other third-party owned and operated site (including as described in Section 5.2.15 below) as Lender shall reasonably approve, and are protected against theft and damage in a manner reasonably satisfactory to Lender;

(D) The Stored Materials will be paid for in full with the funds to be disbursed, and all lien rights or claims of the supplier will be released upon full payment;

(E) Lender has or will have upon payment with disbursed funds a perfected, first priority security interest in the Stored Materials;

(F) The Stored Materials are insured for an amount equal to their replacement costs in accordance with Section 6.1 of this Agreement;

(G) The aggregate cost of Stored Materials stored at the applicable Property is approved by the Construction Consultant and, if required by Lender, the Construction Consultant shall certify that it has inspected such Stored Materials and they are in good condition and suitable for use in connection with the Project Improvements; and

(ii) The aggregate cost of Stored Materials stored on the applicable Property or off the applicable Property at any one time shall not exceed Ten Million and No/100 Dollars (\$10,000,000.00) unless otherwise approved by Lender acting in its reasonable discretion.

(j) Americans with Disabilities Act Compliance. The Plans and Specifications shall be prepared, and the Project Improvements shall be designed, and shall be constructed and completed, and thereafter maintained, in strict accordance and full compliance with all of the requirements of the ADA. Borrower shall be responsible for all costs of complying with the ADA.

5.1.34 Construction Consultant. Borrower acknowledges that (i) the Construction Consultant has been retained by Lender to act as a consultant and only as a consultant to Lender in connection with the construction of the Project Improvements and has no duty to Borrower, (ii) the Construction Consultant shall in no event have any power or authority to give any approval or consent or to do any other act or thing which is binding upon Lender, (iii) Lender reserves the right to make any and all decisions required to be made by Lender under this Agreement and to give or refrain from giving any and all consents or approvals required to be given by Lender under this Agreement and to accept or not accept any matter or thing required to be accepted by Lender under this Agreement, and without being bound or limited in any manner or under any circumstance whatsoever by any opinion expressed or not expressed, or advice given or not given, or information, certificate or report provided or not provided, by the Construction Consultant with respect thereto, (iv) Lender reserves the right in its sole and absolute discretion to disregard or disagree, in whole or in part, with any opinion expressed, advice given or information, certificate or report furnished or provided by the Construction Consultant to Lender or any other person or

party, and (v) Lender reserves the right to replace the Construction Consultant with another project monitor at any time and without prior notice to or approval by Borrower.

5.1.35 Construction Consultant/Duties and Access.

(a) Borrower shall permit Lender to retain the Construction Consultant at the cost of Borrower (subject to the limits below) to perform services on behalf of Lender as reasonably deemed necessary by Lender or the Construction Consultant in order to effectively administer and review the Project and coordinate with Borrower and Lender regarding pending or proposed Disbursement Requests, including, without limitation, to attend all regularly scheduled construction progress meetings relating to the Project (it being agreed the Borrower shall schedule such meetings on a regular basis consistent with standard construction practices for similar projects) (and Borrower and the Project Development Team shall meet with the Construction Consultant at other times upon Lender's or Construction Consultant's reasonable request), prepare the Project Report, review Plans and Specifications, Disbursement Requests and Change Orders, Construction Contracts, Governmental Approvals and other documentation relating to the Project as requested by Lender; provided, however, Lender recognizes that the Project is an ongoing work in progress and that Borrower will be in frequent communication with its construction manager, project team, architect and other professionals, and that such routine communication, even if in the form of an ad-hoc meeting or conference call, will not require Construction Consultant's attendance.

(b) The fees of the Construction Consultant shall be paid by Borrower (and out-of-pocket expenses incurred by Lender on account thereof shall be reimbursed to Lender). Borrower shall also be responsible to reimburse Lender for (i) the Construction Consultant's initial review of the Project and (ii) the Construction Consultant's review of the Plans and Specifications, as part of the next Disbursement after Borrower receives the Construction Consultant's invoice approved by Lender for payment to the extent such fees are set forth in the Construction Budget or, if not set forth in the Construction Budget, within ten (10) days of request therefor, but neither Lender nor the Construction Consultant shall have any liability to Borrower on account of (A) the services performed by the Construction Consultant, (B) any neglect or failure on the part of the Construction Consultant to properly perform its services or (C) any approval by the Construction Consultant of construction of the Project Improvements. Neither Lender nor the Construction Consultant assumes any obligation to Borrower or any other Person concerning the quality of construction of the Project Improvements or the absence therefrom of defects.

5.1.36 Easements and Restrictions: Zoning. Borrower shall submit to Lender for Lender's reasonable approval, prior to the execution thereof by Borrower all proposed plats, easements, restrictions, covenants, permits, licenses, and other instruments which would affect the title to the Property or use of the Property for its intended purposes, accompanied by a Survey showing the exact proposed location thereof and such other information as Lender shall reasonably require. Borrower shall not subject the Property or any part thereof to any easement, restriction or covenant (including any restriction or exclusive use provision in any lease or other occupancy agreement) which is not a Permitted Encumbrance without the prior reasonable approval of Lender. With respect to any and all existing easements, restrictions, covenants or operating agreements which benefit or burden the Property, any easement, restriction or covenant to which the Property may hereafter be subjected in accordance with the provisions hereof and any zoning

or land use classification of the Property approved by Lender, Borrower shall: (a) observe and perform the obligations imposed upon Borrower or the Property in all material respects; (b) not alter, modify or change the same without the prior written approval of Lender; (c) enforce its rights thereunder in a commercially reasonable manner so as to preserve for the benefit of the Property the full benefits of the same; and (d) deliver to Lender a copy of any notice of default or other notice or correspondence received or delivered by Borrower in respect of the same promptly after Borrower's receipt or within a reasonable period of time before delivery of such notice or correspondence. Borrower shall fully comply with the terms and conditions of the Zoning Approvals.

5.1.37 Laborers, Subcontractors and Materialmen. Borrower shall notify Lender promptly, and in writing, if Borrower receives any material default notice, notice of lien or final demand for past due payment of any material amount, written or oral, from any contractor, laborer, subcontractor or materialmen. To the extent not previously delivered, Borrower will also furnish to Lender at any time and from time to time upon demand by Lender, lien waivers in conformity with the Lien Law and otherwise in form reasonably satisfactory to Lender bearing a then current date from the Contractors and the Subcontractors performing the work the payment for which was the basis of any prior Disbursement.

5.1.38 Ownership of Personalty. To the extent available, Borrower shall furnish to Lender, if Lender so requests, photocopies of the fully executed contracts, bills of sale, receipted vouchers and agreements, or any of them, under which Borrower claims title to the materials, articles, fixtures and other personal property used or to be used in the construction or operation of the Improvements.

5.1.39 Replacement of Project Development Team; Replacement of Sales Agent; Replacement of General Contractor. Without limiting any other rights of Lender under the Loan Documents, Borrower shall, with Lender's prior written consent, remove and replace the General Contractor, any Sales Agent, Developer and/or Manager and all other Persons (as to each Property, the "**Project Development Team**") involved in the management, construction or development of the applicable Project working on behalf of the applicable Borrower or any other Affiliate of such Borrower, as applicable, with a Person or Persons approved by Lender acting in its reasonable discretion (or if no such Person or Persons are approved by Lender within thirty (30) days of such election, with such Person(s) chosen by Lender acting in its reasonable discretion) in accordance with and upon the occurrence of any one or more of the following events: (i) with regard to replacement of the General Contractor, any Sales Agent, Developer, Manager and/or Project Development Team, at any time following the occurrence and during the continuance of an Event of Default, (ii) with regard to replacement of the General Contractor, if the General Contractor shall be in default under the General Contractor's Agreement beyond any applicable grace and cure period, if the General Contractor shall become insolvent or a debtor in any bankruptcy or insolvency proceeding, (iii) with regard to replacement of the Manager and/or Project Development Team, if at any time the Manager or Project Development Team has engaged in gross negligence, fraud, willful misconduct or misappropriation of funds, (iv) with regard to replacement of the any Sales Agent, if such Sales Agent shall be in default under the applicable Sales Agency Agreement beyond applicable grace and cure periods, if any Sales Agent shall become insolvent or a debtor in any bankruptcy or insolvency proceeding, and (v) with regard to

replacement of the Developer, if the Developer shall be in default under the Development Agreement beyond applicable grace and cure periods.

5.1.40 Condominium Documents.

(a) General. With respect to each Property, it is acknowledged and agreed that, pursuant to the terms and provisions of the applicable Condominium Documents, the applicable Borrower has converted the applicable Property into a condominium (the "**Condominium**") so that each planned residential unit constitutes a separate Residential Unit, and in connection with the foregoing, the applicable Borrower intends to offer the Residential Units for sale to the public.

(b) Covenants.

(i) Borrower shall comply with, and take or cause its representatives on each Condominium Board to vote in favor of, all action as may be reasonably necessary from time to time to preserve and maintain the Condominium in accordance with, in all material respects, all applicable Legal Requirements, including, without limitation, all federal, state and local laws, rules and regulations which affect the establishment and operation of condominiums in Hawaii that are applicable to the Condominium. Borrower shall promptly observe, perform and comply in all material respects with all of the terms, covenants and provisions of the Condominium Documents and shall not do, and shall use its commercially reasonable efforts not to suffer or permit to be done any act, event or omission that may cause a material default or material breach under the Condominium Documents. Without limiting the foregoing, Borrower shall promptly pay or cause to be paid all Assessments and Charges and real estate taxes, prior to delinquency, with respect to the Residential Units for so long as title to such Residential Units is held by Borrower. Borrower shall promptly notify Lender of (A) any material adjustments made to the amount of any Assessments and Charges or (B) the imposition of any special assessments levied or assessed under the Condominium Documents. Borrower shall furnish to Lender such information and such other evidence as Lender may reasonably request from time to time concerning Borrower's due observance, performance and compliance with the terms, covenants and provisions of the Condominium Documents, including, without limitation, evidence that such Assessments and Charges, real estate taxes and special assessments have been so paid or are not then delinquent.

(ii) Borrower shall use commercially reasonable efforts to promptly enforce or cause its representatives on the Condominium Board to vote to enforce (to the extent the same is the obligation of the Condominium Board) the performance and observance (or to cause the same), in all material respects, of all the covenants, agreements and conditions required to be performed and/or observed by any other party under the Condominium Documents, including the obligation of the owners of Residential Units to pay all Assessments and Charges.

(iii) Borrower shall promptly send to Lender a copy of (A) any written notice received or sent by Borrower alleging any material default by Borrower or

any other Person under, or noncompliance with, any of the Condominium Documents and, in the case of any such default or alleged default by Borrower, do all such acts and undertake all such reasonable steps and institute all such proceedings as shall be reasonably necessary to cure or avert such default, (B) any written responses, demands or further notice received or sent by Borrower in regard to any of the foregoing matters and (C) all written communications with Governmental Authorities and any written communication from a purchaser or a purchaser's attorney alleging a violation of the terms of any bona fide sales contract, the Condominium Act, ILSFDA or any Legal Requirement. Borrower shall promptly notify Lender in writing of the initiation of any litigation, arbitration or other proceeding, of which Borrower has received notice in writing, affecting Borrower or the Property under or in connection with the Condominium Documents and shall enforce its rights under the Condominium Documents.

(iv) Borrower shall not, without the prior written consent of Lender, take any action pursuant to Sections XXXIII, XXXIV or XXXV of the Condominium Declaration. Borrower shall not, without the prior written consent of Lender, not to be unreasonably withheld, conditioned or delayed, give any consent or perform any action in furtherance of any material modification or amendment of the Condominium Documents. Without limiting the foregoing, Lender shall reasonably promptly approve and consent to such modifications to the Condominium Documents as Borrower may elect to make in order to subdivide the Units described on Schedule XVII. Without Lender's prior written consent, Borrower shall not cancel (or vote to cancel) any material Condominium Documents or, except as expressly permitted pursuant to this Agreement, modify, change, supplement, alter or amend the Condominium Documents (or vote to do so), in any respect that would have a material adverse effect on Lender, and, to the extent assignable, Borrower hereby assigns to Lender, as further security for the payment and performance of the Obligations and for the performance and observance of the terms, covenants and conditions of this Agreement and the other Loan Documents, all of the rights, privileges and prerogatives of Borrower under the Condominium Documents to terminate, cancel, modify, change, supplement, alter or amend the Condominium Documents, which rights, privileges and prerogatives may only be exercised by Lender upon the occurrence and during the continuance of an Event of Default, and any such prohibited termination, cancellation, modification, change, supplement, alteration or amendment of the Condominium Documents without the prior consent of Lender, such consent not to be unreasonably withheld, conditioned or delayed, shall be void and of no force and effect.

(v) To the extent permitted by applicable law, Borrower shall not, without the prior written consent of Lender, vote at any meeting of the owners of Residential Units, or permit its representatives on the Condominium Board, to vote or take any action whatsoever respecting: (A) any partition of all or a part of the property subject to the Condominium Declaration; (B) the nature and amount of any insurance covering all or a part of the Property (including, without limitation, any common elements appurtenant to the Residential Units included therein), after

Substantial Completion, if the insurance under question differs from that required under the Condominium Documents and, to the extent applicable, the provisions hereof, and the disposition of any proceeds thereof, the decision as to whether or not the Condominium will restore following a casualty, or the manner in which any condemnation or threat of condemnation of all or a part of the Condominium shall be defended or settled and the disposition of any award or settlement in connection therewith; (C) the disposition of any excess insurance or condemnation proceeds; (D) the adoption, establishment, approval, material modification or amendment of the Condominium Budget, including without limitation, any budget for Assessments and Charges; (E) the assessment or levy of any special assessment; (F) any amendment to the Condominium Documents; (G) any removal of the Condominium or any Residential Unit thereof from the provision of the Condominium Act (unless combined with another Residential Unit); (H) any additions or improvements to the common elements of the Condominium that are Material Alterations; or (I) any borrowing on behalf of a Condominium other than the normal and customary financing of annual insurance premiums. Borrower shall promptly notify the Lender of any of the foregoing matters (each, a "**Condominium Matter**") and unless the foregoing have been approved by Lender in writing, to the extent permitted by applicable law, Borrower shall, or shall cause its representatives on the Condominium Board to, vote against any of the foregoing matters unless and until the same has been approved by the Lender; provided, that with respect to the Condominium Matters described in clauses (D) and (F) above, Lender shall be reasonable in approving or disapproving of such Condominium Matters.

(vi) To the extent that any approval rights, consent rights or other rights or privileges are granted to the holder of a recognized mortgagee under the Condominium Documents, then such approval rights, consent rights or other rights or privileges shall be deemed to be required by this Agreement. If the Condominium Documents provide for one or more "mortgagee representative(s)" (or the equivalent thereto), then Lender shall be named in the Condominium Documents as the (or, if the Condominium Documents provide for more than one, a) mortgagee representative for so long as the Loan is outstanding and shall give notice to the Condominium Board and any other Persons reasonably necessary for Lender to be recognized as a mortgagee under the Condominium Documents.

(vii) Borrower shall attend each duly called meeting or special meeting of owners of the Residential Units, and shall cause its representatives on the Condominium Board to attend each duly called meeting or special meeting of the Condominium Board, in each case, as required in order to avoid Borrower's absence therefrom or such representative's absence therefrom to be deemed consent to any proposals put forth at such meeting in accordance with the applicable Condominium Documents which would be in violation of the terms of this Agreement.

(viii) Without the prior written consent of Lender, unless the Developer Control Period must end pursuant to HRS Section 514B-106(a), (b) or (c),

Borrower shall not cause the Developer Control Period to end so long as all or any portion of the Debt remains outstanding unless caused by the conveyance of the applicable percentage of Residential Units.

(ix) Borrower shall promptly notify Lender, upon its becoming aware, of (i) any rescission right obtained by a purchaser under a Unit Sale Contract in the event that any such rescission contingently provided under the Condominium Act or ILSFDA or the standard form of Unit Sale Contract becomes exercisable by any purchaser thereunder and (ii) any rescission right exercised by a purchaser under a Unit Sale Contract.

(x) Borrower shall not assign (other than to Lender) or encumber (other than in favor of Lender as security for the Obligations) any of its rights under the Condominium Documents, except as permitted hereunder. Borrower shall not, without prior written consent from Lender, to the extent permitted by applicable law, cast any vote or give any consent, or permit any Affiliate to cast any vote or give any consent, where such vote or consent could reasonably be expected to materially adversely affect, alter or impair the lien of the Security Instrument or the security therefor, where such vote or consent could increase the obligation or diminish the rights of Lender or where such vote or consent could reasonably be expected to materially adversely affect the Property, without, in each instance, the prior written approval of Lender, such approval not to be unreasonably withheld, conditioned or delayed.

(xi) Borrower shall not, without Lender's prior written consent, cause the Condominium Board to borrow any money unless required by Legal Requirements other than the normal and customary financing of annual insurance premiums.

(xii) Borrower shall, prior to delinquency, pay all Assessments and Charges and all real estate taxes and assessments and insurance premiums made against or relating to the portion of the Property then owned by Borrower, whether pursuant to the Condominium Declaration, the Condominium By-Laws adopted in connection therewith or rules and regulations adopted thereunder as the same shall be in force from time to time or otherwise, prior to delinquency, and promptly upon demand, exhibit to Lender receipts for all such payments, and in the event Borrower shall fail to make such payments as the same become delinquent, Lender may from time to time at its option, but without any obligation to do so and upon notice to Borrower, make such payments, and all expenses paid by Lender for such purpose, including reasonable attorneys' fees, shall be added to the Loan and shall be payable on demand and bear interest at the Default Rate until repaid.

(xiii) Borrower shall deliver to Lender a true and full copy of each and every written notice of default, if any, received by Borrower with respect to Borrower under any of the Condominium Documents or applicable law regarding the Condominium.

(xiv) Without the consent of Lender, Borrower shall not extend the guaranty period established under the Condominium Declaration relating to Residential Unit assessments, if any.

(c) Indemnification, Costs and Expenses. Borrower shall indemnify and save harmless Lender, and all those claiming by, through or under Lender, from and against any reasonable expense or other liability of any nature whatsoever arising out of (A) any obligations of the developer of the Condominium or the declarant under the Condominium Declaration or other Condominium Documents, or (B) the Condominium, whether to Residential Unit owners or otherwise, including, without limitation, liability arising under applicable law. The foregoing indemnity and save harmless shall not apply to any expense or other liability to the extent caused by the gross negligence, illegal acts, fraud or willful misconduct of Lender, or any of its officers, agents or employees, which arise after a foreclosure sale or an acceptance of a deed in lieu of foreclosure under the Loan Documents. Borrower shall pay to Lender upon demand from time to time any and all reasonable fees, costs and expenses incurred by Lender, including, but not limited to, reasonable legal fees and disbursements, with respect to the formation of the Condominium, the sale of Residential Units in connection therewith and/or the approvals of Lender in connection with the formation of the Condominium or such sales.

(d) Casualty and Insurance Proceeds.

(i) In the event of any Casualty to the Condominium or of any Residential Units, Borrower shall promptly notify Lender of such loss. Borrower further covenants and agrees that (A) Lender may, in its sole discretion, with respect to any Residential Units and their appurtenant common interest which are subject to the Security Instrument from time to time, but only to the extent permitted by any Legal Requirements, elect to vote in place and stead of Borrower with respect to all matters of repair and restoration of the same and with respect to insurance under the terms and as provided in the Condominium By-Laws, to the extent that any such votes are taken (and to the extent it may legally do so), (B) in order to effectuate the foregoing, Borrower hereby irrevocably appoints Lender, or any agent designated by Lender, as the agent of Borrower so to act with respect to said right to vote, (C) written notice from Lender of such election in each such event to the Residential Unit owners association and to Borrower is to be deemed conclusive evidence as to such right to vote, (D) said agency is coupled with an interest, (E) Borrower shall make all advances for repair and restoration due to inadequacy of insurance, other than advances which are the obligation of another owner of a Residential Unit, (F) if Borrower fails to promptly do so, upon notice to Borrower, Lender may make such advances and the same together with interest thereon at the Default Rate shall be added to the Loan and secured by the Security Instrument, and (G) if Lender makes such advances pursuant to the immediately preceding clause (F) Borrower shall execute and deliver and record, at no expense to Lender, such documents Lender may reasonably require further evidencing and confirming such advances and such security.

(ii) If a Casualty occurs, Borrower shall, to the extent permitted by applicable law, vote, or cause each of Borrower's representatives on the

Condominium Board to vote to restore in the case of any decision as to whether or not the Condominium will restore following a Casualty except in the event that Lender is entitled and elects to require Net Proceeds to be applied to repay the Loan pursuant to the terms hereof, in which event Borrower shall vote or cause each of Borrower's representatives on the Condominium Board to vote as required by Lender, and Borrower shall cause such vote to be taken prior to any construction contracts for the restoration being entered into. In connection with any Casualty to the Property or any part of any building that is part of the Property, Borrower shall, or shall cause each of Borrower's representatives on the Condominium Board to vote (to the extent it may legally do so), to appoint an insurance trustee that meets the requirements of the Condominium Documents. Any Insurance Proceeds shall be held by such insurance trustee and applied toward restoration in accordance with the terms of this Agreement and the applicable Condominium Documents, and in the event of a direct conflict with respect to the use of such Net Proceeds between this Agreement and the Condominium Documents, the provisions contained in the Condominium Documents shall control. Borrower shall, to the extent permitted by applicable law, cause its representatives on the Condominium Board to vote to not approve (A) the appointment of any Person as the insurance trustee or substitute insurance trustee that does not meet the requirements of the Condominium Documents or (B) without the prior consent of the Lender, the removal of any qualified insurance trustee. Borrower will not, without the prior written consent of Lender, exercise any right it may have to vote for (I) the expenditure of Insurance Proceeds or condemnation awards for the repair or restoration of the Property, or (II) any additions or improvements to the any common elements or limited common elements of the Condominium that are Material Alterations.

(e) Rights and Remedies.

(i) Lender shall have the rights and privileges which Borrower has under the Condominium Documents (including, without limitation, all voting rights) as though Lender were the owner of the Property, which rights and privileges may only be exercised by Lender upon the occurrence and during the continuance of an Event of Default, but only to the extent permitted by Legal Requirements. Upon the occurrence and during the continuance of an Event of Default, Lender may vote in place of Borrower and may exercise any and all of said rights and privileges. Borrower hereby irrevocably appoints Lender as Borrower's attorney-in-fact, coupled with an interest to vote as Borrower's proxy and to act with respect to all of said rights and privileges so long as any Event of Default exists. Written notice from Lender to the Condominium Board shall be deemed conclusive as to the existence of such Event of Default and as to Lender's rights and privileges under this Section 5.1.40(e). Notwithstanding the foregoing, nothing contained in this Section 5.1.40(e) or otherwise, and no action taken by Lender under this Section 5.1.40(e) or otherwise, shall render Lender liable for any Operating Expenses.

(ii) Upon the occurrence and during the continuance of a default by Borrower under the Condominium Documents, upon notice to Borrower, Lender

may (but shall not be obligated to), in its sole discretion, cause such default by Borrower to be remedied and otherwise take or perform such other actions as Lender may deem necessary or desirable in connection therewith. Borrower shall, on demand, reimburse Lender for all advances made and reasonable out-of-pocket expenses incurred by Lender in curing any such default (including, without limitation, reasonable attorneys' fees), together with interest thereon at the Default Rate from the date expended to the date repaid in full. The provisions of this Section 5.1.40(e)(ii) are in addition to any cure rights or other rights or remedies granted to Lender under the Condominium Documents, the Loan Documents or otherwise.

(f) No Release. Borrower acknowledges and agrees that no release or forbearance of any of Borrower's obligations under the Condominium Documents or otherwise shall release Borrower from any of its obligations under this Agreement, including without limitation its obligations with respect to the payment of any Operating Expenses, including, without limitation, the Assessments and Charges, and the performance of all of the terms, provisions, covenants, conditions and agreements contained in the Condominium Documents, to be kept, performed and complied with by Borrower.

5.1.41 Sale of Residential Units; Sale of Commercial Units.

(a) A Borrower shall only be permitted to sell Residential Units if the same constitute a Permitted Condominium Sale and using the form of contract of sale for the Residential Units (each, a "**Unit Sale Contract**") submitted to the applicable Governmental Authority along with the Public Report and Property Report (which may be subject to commercially reasonable changes pursuant to bona fide arms-length negotiations in connection with the sale of Residential Units or such other changes as may reasonably be approved by Lender, which approval shall not be unreasonably withheld, conditioned or delayed). Within two (2) Business Days of execution by Borrower and purchaser of any Unit Sale Contract a copy of such Unit Sale Contract shall be delivered to Lender.

(b) Borrower shall comply in all material respects with all Legal Requirements in connection with the offering and sale of Residential Units.

(c) Each Borrower shall cause any deposits in connection with any Unit Sale Contract and any interest thereon (including, without limitation, all Existing Unit Contract Deposits) (collectively, the "**Unit Sale Contract Deposits**" or each individually, a "**Unit Sale Contract Deposit**") to be held in the applicable Escrow Account, which account shall be subject to the terms and conditions of the applicable Tri-Party Agreement, and shall not withdraw such deposits for any purpose except as expressly provided in the applicable Unit Sale Contract or as required by Legal Requirements Public Report, Property Report and/or the Condominium Act and as expressly permitted in accordance with this Agreement. Borrower shall, in accordance with, and to the extent permitted pursuant to Legal Requirements, assign its rights in all Unit Sale Contract Deposits (whenever deposited) to Lender pursuant to a form acceptable to Lender and, if required, approved by the applicable Governmental Authority, which form shall be executed by Escrow Agent to confirm its acknowledgement of such assignment and its agreement to act in accordance therewith, subject to Legal Requirements. Without limiting the foregoing, Borrower

shall not permit the proceeds of any such Unit Sale Contract Deposits to be used to pay for construction or other costs related to the Improvements except in accordance with the Public Report, the Property Report, the applicable Unit Sale Contracts and this Agreement. In no event shall any assignment by Borrower to Lender, of its rights in any Unit Sale Contract Deposits, either in this Agreement or in any other Loan Documents require any consent or approval from Lender in connection with Borrower's obligation to return to any buyer its deposit upon a termination by buyer of its respective Unit Sale Contract within the initial 30-day period of rescission under HRS 514B-86 or -87 or the 7-day period of rescission under the ILSFDA.

(d) If the purchaser under any Unit Sale Contract shall default in the performance of its obligations thereunder beyond all applicable grace, notice and cure periods and Borrower shall, to the extent permitted by the Public Report, Property Report, such Unit Sale Contract, the applicable Escrow Agreement, the applicable Tri-Party Agreement and Legal Requirements, receive from Escrow Agent and retain all or a portion of the Unit Sale Contract Deposit thereunder as damages, then Borrower shall give prompt notice to Lender of such retention and (i) if Final Completion has not yet occurred and such funds constitute Useable Unit Sale Contract Deposits, shall be held and disbursed as Useable Unit Sale Contract Deposits, or (ii) otherwise shall, if permitted by the Condominium Act, the applicable Escrow Agreement, the applicable Tri-Party Agreement and Legal Requirements, pay the Unit Sale Contract Deposit and any other amounts received from the defaulting purchaser from such forfeiture (the "**Forfeited Deposits**") to Lender within two (2) Business Days after receipt, and if such payment is not permitted by the Public Report, Property Report, the applicable Escrow Agreement, the applicable Tri-Party Agreement and Legal Requirements, to the extent permitted by applicable Governmental Authorities, such amounts shall, to the extent permitted by Legal Requirements and applicable Governmental Authorities be deemed to be collateral for the Obligations and shall be held in trust by Escrow Agent for the benefit of Lender and shall not be distributed to any other Person without Lender's prior written consent and then only if such distribution so consented to is in accordance with Legal Requirements. Upon receipt by Lender, any Forfeited Deposits shall be applied towards repayment of the Outstanding Principal Balance without premium or penalty.

(e) Without the prior written consent of Lender, Borrower shall not:

(i) sell or offer for sale any Residential Units except in compliance with the Condominium Documents, the Condominium Act, the ILSFDA and all applicable Legal Requirements or sell a Residential Unit except pursuant to a Unit Sale Contract;

(ii) enter into any Subsequent Unit Contract unless

(A) with respect to an Unrelated Unit Purchaser, one of the following shall apply:

(X) for any Residential Unit that is, as of the Closing Date, subject to an Existing Unit Contract (*i.e.*, the case of a Subsequent Unit Contract for which an Existing Unit Contract has been terminated), the Gross Sales Proceeds shall be greater

than or equal to the Minimum Release Price for such Residential Unit; or

(Y) for any Residential Unit that is not, as of the Closing Date, subject to an Existing Unit Contract, the Gross Sales Proceeds shall be greater than or equal to the Required Minimum Release Price for such Residential Unit (as used herein, "**Required Minimum Release Price**" means an amount equal to 85% of the Minimum Release Price for the applicable Unit); or

(Z) for any Residential Unit that is not, as of the Closing Date, subject to an Existing Unit Contract, prior to entering into a Unit Sale Contract for which the Gross Sales Proceeds will be less than the Required Minimum Release Price for such Residential Unit, Borrower shall have provided written notice of such Unit Sale Contract to Lender and confirmed in writing to Lender that Borrower shall deposit with Lender in cash an amount equal to the difference between the expected Gross Sales Proceeds and the Required Minimum Release Price for such Unit (the "**Deficit Deposit**") not less than five (5) Business Days prior to the closing of the sale for such Residential Unit,

- (B) with respect to any Unit Sale Contract entered into with a Related Unit Purchaser, the Unit Sale Contract has been approved by Lender acting in its reasonable discretion,
- (C) the Unit Sale Contract provides that the portion of the sale price due at closing is payable in full by bank or certified check or wire transfer of immediately available funds at the closing of such sale,
- (D) the effective dates for the Public Report and Property Report have been issued by the applicable Governmental Authorities and Escrow Agent has executed and delivered the acknowledgement contemplated by Section 5.1.41(c),
- (E) such Unit Sale Contract shall require the purchaser to deposit with the Escrow Agent a cash amount equal to not less than twenty percent (20%) of the purchase price and shall provide that such amount shall be retained by Borrower, to the extent of its actual damages upon default beyond all applicable grace, notice and cure periods by the purchaser of its purchase obligation under such Unit Sale Contract (or such lower amount as may be required to comply with Legal Requirements), and

(F) such Unit Sale Contract shall be subject to no conditions upon the purchaser's obligations to purchase the applicable Residential Unit (except for customary title conditions, market financing and lease termination contingencies and rights of rescission required by the Condominium Act and the ILSFDA).

(iii) sell more than ten (10) Residential Units to any Related Unit Purchaser under any Unit Sale Contract (whether as an individual or as companies controlled by such individual) without Lender's prior written consent;

(iv) (A) amend, modify or supplement any Unit Sale Contract (except any amendment, modification or supplement which is commercially reasonable under the circumstances and does not affect the sales price thereunder), or terminate any Unit Sale Contract (except for default on the part of a purchaser thereto but with prompt notice to Lender), or permit any of the foregoing actions to be taken or (B) release any Unit Sale Contract Deposit under any Unit Sale Contract except in each case as required under the terms of such Unit Sale Contract, the Condominium Act, or any regulations promulgated by, or directives of, the applicable Governmental Authority or any other Legal Requirements, provided, that Borrower shall be permitted to return the applicable Unit Sale Contract Deposit in connection with the settlement of any dispute under a Unit Sale Contract with the prior reasonable consent of Lender except in the event of a termination of a Unit Sale Contract by a buyer within the initial thirty (30) day period of rescission under HRS 514B-86 and -87 or seven (7) day period of rescission under the ILSFDA, upon which Borrower shall return to buyer its deposit thereunder, or in connection with any other occurrence where the return of the return the applicable Unit Sale Contract Deposit is required by Legal Requirements; or

(v) use any portion of the Useable Unit Sale Contract Deposits for costs that are not permitted to be paid out of Buyer deposits pursuant to applicable law.

(f) Provided that no Event of Default has occurred and is continuing under this Agreement, Lender shall release one or more Residential Units or Commercial Units, as applicable, from the lien of the Security Instrument and all other Loan Documents securing the indebtedness evidenced by the Note (and from any UCC-1 financing statements in favor of Lender covering such Residential Units or Commercial Units, as applicable) and deliver to Borrower a duly executed release(s) in recordable form, UCC-3 release(s) of security interest and other such documents as may be required to release the Residential Unit(s) or Commercial Units, as applicable, from the lien and/or security interest of the Loan Documents upon satisfaction of each of the following conditions:

(i) With respect to any Residential Unit, Borrower shall have complied with the provisions of subsections (a) through (e) of this Section 5.1.41;

(ii) With respect to any Residential Unit, Lender shall have received a copy of an executed Unit Sale Contract with reference to such Unit as and when required pursuant to this Agreement;

(iii) Lender shall have received (A) not less than seven (7) Business Days prior written notice of the proposed release and (B) not less than five (5) Business Days prior to the proposed release a pro forma settlement statement acceptable to Lender and reflecting the items necessary to calculate the portion of the, Gross Sales Proceeds and Net Sales Proceeds and Borrower's calculation thereof with respect to any Residential Unit;

(iv) the closing of the sale of such Unit pursuant to a Qualified Sales Agreement shall occur within ten (10) Business Days of receipt of the release from Lender, such release to have been delivered by Lender to Escrow Agent to be held in escrow pending such closing pursuant to an escrow arrangement by and between Escrow Agent and Lender in a form reasonably required by Lender;

(v) the Unit to be released will constitute one or more tax lots separate and distinct from the tax lot or lots applicable to the remaining portion of the Property encumbered by the lien of the Security Instrument;

(vi) neither the release from the lien of the Security Instrument, nor the conveyance to the transferee of such Unit will violate any applicable zoning or subdivision laws;

(vii) an amount equal to the Required Release Price (hereinafter defined) shall have been received by Escrow Agent at the closing of the sale of the Residential Unit or Commercial Unit, as applicable, and Escrow Agent shall be irrevocably committed to delivering the Required Release Price to Lender upon the sale of such Unit. As used herein, "**Required Release Price**" shall mean

(a) with respect to releases of Residential Units,

(x) in the case of a Residential Unit that is the subject of an Existing Unit Contract (regardless of whether sold pursuant to such Existing Unit Contract or a Subsequent Unit Contract), the Net Sales Proceeds from the sale of such Unit;

(y) in the case of any Subsequent Unit Contract entered into in accordance with Section 5.1.41(e)(ii)(Y) (i.e., Gross Sales Proceeds at or more than the Required Minimum Release Price) or in the case of any Subsequent Unit Contract entered into with a Related Unit Purchaser, the Net Sales Proceeds from the sale of such Unit;

(z) in the case of any Subsequent Unit Contract entered into in accordance with Section 5.1.41(e)(ii)(Z) (i.e., Gross Sales Proceeds less than the Required Minimum Release Price), the Net Sales Proceeds plus the Deficit Deposit applicable to such sale for such Unit;

and

(b) with respect to releases of Commercial Units, the Commercial Unit Release Amount;

(viii) to the extent required under applicable Legal Requirements, a temporary, partial or permanent certificate of occupancy for or covering the Residential Unit in question has been obtained from the proper Governmental Authorities pursuant to the Unit Sale Contract; and

(ix) payment of Lender's reasonable and customary actual out-of-pocket expenses pursuant to this Agreement shall be delivered to Escrow Agent for delivery to Lender at closing of the sale of the Unit.

(g) Borrower shall promptly notify Lender of (i) any rescission right obtained by a purchaser under a Unit Sale Contract in the event that any such rescission contingently provided pursuant to the Condominium Act, ILSFDA or the standard form of Unit Sale Contract becomes exercisable by any purchaser thereunder and (ii) any rescission right exercised by a purchaser under a Unit Sale Contract.

(h) Any sale of a Commercial Unit shall be made pursuant to a Qualified Sales Agreement, and the release price therefor (the "**Commercial Unit Release Amount**") shall be the greater of (i) the net proceeds from such sale (after customary proration and closing costs (including commissions), as reasonably approved by Lender) and (ii) the Minimum Release Price. Nothing herein shall prohibit or preclude an Affiliate of Guarantor from purchasing a Commercial Unit; provided, however, such Affiliate of Guarantor which acquires any such Commercial Unit shall enter into an agreement for the benefit of Lender prohibiting such Affiliate of Guarantor from selling or otherwise transferring (or entering into an agreement to sell or transfer) any legal or beneficial interest in such Commercial Unit to a Person that is not an Affiliate of Guarantor for a period of one (1) year after such Affiliate of Guarantor acquired such Commercial Unit, except for a lease (on market terms and conditions reasonably acceptable to Lender) of such Commercial Unit.

(i) Borrower shall promptly observe, perform and comply in all material respects with all of the terms, covenants and provisions of the Qualified Sales Agreements and shall not do, and shall use its commercially reasonable efforts not to suffer or permit to be done any act, event or omission that may cause a material default or material breach under the Qualified Sales Agreements.

5.1.42 Community Covenant for Ward Village. Borrower shall provide the notice contemplated by Section 16.4 of the Community Covenant for Ward Village, dated September 13, 2013, recorded in the Hawaii Bureau of Conveyances as Document No. A-50010794.

5.1.43 Sales Agency Agreement: Sales Agent.

(a) The Sales Agency Agreement is in full force and effect.

(b) Borrower shall (i) use commercially reasonable efforts to cause each Sales Agent to manage the marketing and sales of Residential Units in accordance with the applicable Sales Agency Agreement, each in the best interests of the Property consistent with the sale of the Residential Units using sound business judgment, (ii) diligently perform and observe all of the material terms, covenants and conditions of each Sales Agency Agreement on the part of Borrower to be performed and observed, subject to any applicable notice, grace, and cure periods, (iii) promptly notify Lender of any default under any Sales Agency Agreement of which it is aware, (iv) promptly deliver to Lender a copy of each final financial statement, business plan, capital expenditures plan, development plan, report and any other material written information, as applicable, received by it under each Sales Agency Agreement and, upon request by Lender, shall cause each Sales Agent to provide Lender with reports in regard to the sales of Residential Units at the Property, in such form and detail as reasonably requested by Lender and (v) promptly enforce the performance and observance of all the covenants required to be performed and observed by each Sales Agent under the applicable Sales Agency Agreement. If Borrower shall default in the performance or observance of any term, covenant or condition of any Sales Agency Agreement on the part of Borrower to be performed or observed after the expiration of any applicable grace and cure periods pertaining thereto, then, without limiting Lender's other rights or remedies under this Agreement or the other Loan Documents, and without waiving or releasing Borrower from any of its Obligations hereunder or under any Sales Agency Agreement, as applicable, Lender shall have the right after written notice thereof to Borrower, but shall be under no obligation, to pay any sums and to perform any act as may be appropriate to cause all the terms, covenants and conditions of such Sales Agency Agreement, on the part of Borrower to be performed or observed.

(c) Borrower shall not (i) surrender, terminate, cancel, modify, renew or extend any Sales Agency Agreement except as otherwise permitted under this Agreement or the Loan Documents, (ii) except to the extent expressly set forth below, enter into any other agreement relating to the management, leasing, sale or operation of the Property with Sales Agent or any other Person, (iii) consent to the assignment by any Sales Agent of its interest under any Sales Agency Agreement other than in favor of Lender pursuant to the Loan Documents, (iv) in writing waive or release any of its rights and remedies under any Sales Agency Agreement, except immaterial waivers or releases as may be in the best interests of the sale of the Residential Units using sound business judgment, or (v) do any act which would relieve any Sales Agent under any Sales Agency Agreement, except immaterial waivers or releases as may be in the best interests of the sale of the Residential Units using sound business judgment, in each case without the express written consent of Lender.

(d) Subject to Lender's prior written approval, Borrower shall be permitted to enter Sales Agency Agreements with Sales Agents, provided that such agreements are at arms length. In connection with the execution of any Sales Agency Agreement, Borrower and the applicable Sales Agent shall enter into an assignment of sales agency agreement and subordination of sales agency fees substantially in the form of the Assignment of Sales Agency Agreement.

5.1.44 Development Agreement.

(a) Each Development Agreement is in full force and effect.

(b) Each Borrower shall (i) cause each Developer to cause the development of the Property in accordance with the applicable Development Agreement, (ii) diligently perform and observe all of the material terms, covenants and conditions of the applicable Development Agreement on the part of Borrower to be performed and observed, subject to any applicable notice, grace, and cure periods, (iii) promptly notify Lender of any default under any Development Agreement of which it is aware, (iv) promptly deliver to Lender a copy of each final financial statement, business plan, capital expenditures plan, development plan, report and any other material written information, as applicable, received by it under each Development Agreement and, upon request by Lender, and (v) promptly enforce the performance and observance of all the covenants required to be performed and observed by each Developer under the applicable Development Agreement. If Borrower shall default in the performance or observance of any term, covenant or condition of any Developer Agreement on the part of Borrower to be performed or observed after the expiration of any applicable grace and cure periods pertaining thereto, then, without limiting Lender's other rights or remedies under this Agreement or the other Loan Documents, and without waiving or releasing Borrower from any of its Obligations hereunder or under any Development Agreement, as applicable, Lender shall have the right after written notice thereof to Borrower, but shall be under no obligation, to pay any sums and to perform any act as may be appropriate to cause all the terms, covenants and conditions of such Development Agreement, on the part of Borrower to be performed or observed.

(c) Borrower shall not (i) surrender, terminate, cancel, modify, renew or extend any Development Agreement except as otherwise permitted under this Agreement or the Loan Documents, (ii) consent to the assignment by any Developer of its interest under any Development Agreement other than in favor of Lender pursuant to the Loan Documents, (iii) in writing waive or release any of its rights and remedies under any Development Agreement, except immaterial waivers or releases as may be in the best interests of the sale of the Residential Units using sound business judgment, or (iv) do any act which would relieve any Developer under any Development Agreement, in each case without the express written consent of Lender.

Section 5.2 Negative Covenants. From the date hereof until payment and performance in full of the Obligations, Borrower covenants and agrees with Lender that it will not do, directly or indirectly, any of the following:

5.2.1 Operation of Property.

(a) Borrower shall not, without Lender's prior consent (which consent shall not be unreasonably withheld), except to the extent expressly permitted herein: (i) surrender, terminate or cancel any Management Agreement; provided, that Borrower may, without Lender's consent, replace the Manager so long as the replacement manager is a Qualified Manager pursuant to a Replacement Management Agreement; (ii) reduce or consent to the reduction of the term of the Management Agreement; (iii) increase or consent to the increase of the amount of any charges or fees under the Management Agreement; or (iv) otherwise modify, change, supplement, alter or amend, or waive or release any of its rights and remedies under, the Management Agreement in any material respect.

(b) Following the occurrence and during the continuance of an Event of Default, Borrower shall not exercise any rights, make any decisions, grant any approvals or

otherwise take any action under the Management Agreement without the prior written consent of Lender, which consent may be granted, conditioned or withheld in Lender's sole discretion.

5.2.2 Liens. Borrower shall not create, incur, assume or suffer to exist any Lien on any portion of the Property or permit any such action to be taken, except for Permitted Encumbrances; provided, however, after prior notice to Lender, Borrower, at its own expense, may contest by appropriate legal proceeding, promptly initiated and conducted in good faith and with due diligence, the amount or validity or application in whole or in part of any mechanic's or materialmen's liens; provided that (a) no Default or Event of Default has occurred and remains uncured; (b) such proceeding shall be permitted under, and be conducted in accordance with, the provisions of any other instrument to which Borrower is subject and shall not constitute a default thereunder and such proceeding shall be conducted in accordance with all applicable statutes, laws and ordinances; (c) neither the Property nor any part thereof or interest therein will be in danger of being sold, forfeited, terminated, cancelled or lost; (d) Borrower shall promptly upon final determination thereof pay the amount of any claim resulting in such Lien, together with all costs, interest and penalties which may be payable in connection therewith; (e) such proceeding shall suspend the collection of any claims resulting in such contested Lien; and (f) Borrower shall furnish such security as may be required in the proceeding, or as may be reasonably requested by Lender, to insure the payment of any claim resulting in such contested Lien, together with all interest and penalties thereon.

5.2.3 Dissolution. Borrower shall not (a) engage in any dissolution, liquidation, consolidation or merger with or into any other business entity, (b) engage in any business activity not related to the ownership and operation of the Property, (c) transfer, lease or sell, in one transaction or any combination of transactions, the assets or all or substantially all of the properties or assets of Borrower except to the extent permitted by the Loan Documents (unless such transfer or sale will result in the indefeasible repayment in full of the Loan), (d) modify, amend, waive or terminate its organizational documents or its qualification and good standing in any jurisdiction, or (e) cause or allow Pledgor to (i) dissolve, wind up or liquidate or take any action, or omit to take any action, as a result of which Pledgor would be dissolved, wound up or liquidated in whole or in part, or (ii) amend, modify, waive or terminate the certificate of formation or operating agreement of Pledgor, in each case, without obtaining the prior consent of Lender. Notwithstanding anything to the contrary, subject to Lender's approval in Lender's sole and absolute discretion, Pledgor's organizational documents may be amended to permit the admission of one or more non-voting members at such Pledgor-level.

5.2.4 Change in Business. Borrower shall not enter into any line of business other than the ownership, operation, acquisition, disposition, development, leasing and management of the Property (including providing services in connection therewith), or make any material change in the scope or nature of its business objectives, purposes or operations, or undertake or participate in activities other than as permitted or contemplated by this Agreement.

5.2.5 Debt Cancellation. Borrower shall not cancel or otherwise forgive or release any claim or debt (other than termination of Leases or Unit Sale Contracts in accordance herewith) owed to Borrower by any Person, except for adequate consideration and in the ordinary course of Borrower's business.

5.2.6 Zoning. Borrower shall not initiate or consent to any zoning reclassification of any portion of the Property or seek any variance under any existing zoning ordinance, use or permit the use of any portion of the Property in any manner that could result in such use becoming a non-conforming use under any zoning ordinance or any other applicable land use law, rule or regulation or amend or modify, or terminate the Zoning Approvals, in each case, without the prior written consent of Lender.

5.2.7 No Joint Assessment. Borrower shall not suffer, permit or initiate the joint assessment of all or any portion of the Property with (a) any other real property constituting a tax lot separate from the Property, or (b) any portion of the Property which may be deemed to constitute personal property, or any other procedure whereby the Lien of any Taxes that may be levied against such personal property shall be assessed or levied or charged to the Property.

5.2.8 Principal Place of Business and Organization. Borrower shall not change its principal place of business set forth in the introductory paragraph of this Agreement without first giving Lender at least thirty (30) days' prior notice. Borrower shall not change the place of its organization as set forth in Section 4.1.28 without the consent of Lender, which consent shall not be unreasonably withheld. Upon Lender's request, Borrower shall execute and deliver additional financing statements, security agreements and other instruments which may be necessary to effectively evidence or perfect Lender's security interest in the Property as a result of such change of principal place of business or place of organization.

5.2.9 ERISA. Borrower shall not engage in any transaction which would cause any obligation, or action taken or to be taken, hereunder (or the exercise by Lender of any of its rights under the Note, this Agreement or the other Loan Documents) to be a Prohibited Transaction.

(a) Borrower further covenants and agrees to deliver to Lender such certifications or other evidence from time to time throughout the term of the Loan, as may be reasonably requested by Lender in its sole discretion that (i) Borrower is not an "employee benefit plan" as defined in Section 3(3) of ERISA, which is subject to Title I of ERISA, or a "governmental plan" within the meaning of Section 3(32) of ERISA; (ii) Borrower is not subject to any state statute regulating investments of, or fiduciary obligations with respect to, governmental plans, in either case, subjecting Lender to liability for a violation of ERISA, the Code, a state statute or similar law; and (iii) one or more of the following circumstances is true:

(i) equity interests in Borrower are publicly offered securities, within the meaning of 29 C.F.R. §2510.3-101(b)(2);

(ii) less than twenty-five percent (25%) of each outstanding class of equity interests in Borrower is held by "benefit plan investors" within the meaning of 29 C.F.R. §2510.3-101(f)(2);

(iii) Borrower qualifies as an "operating company" or a "real estate operating company" within the meaning of 29 C.F.R. §2510.3-101(c) or (e); or

- (iv) the Loan meets the requirements of PTE 95-60, 90-1, 84-14 or similar exemption.

5.2.10 Transfers.

(a) Borrower acknowledges that Lender has examined and relied on the experience of Borrower and its general partners, members, principals and (if Borrower is a trust) beneficial owners, as applicable, in owning and operating properties such as the Property in agreeing to make the Loan, and will continue to rely on Borrower's ownership of the Property as a means of maintaining the value of the Property as security for repayment of the Debt and the performance of the Other Obligations. Borrower acknowledges that Lender has a valid interest in maintaining the value of the Property so as to ensure that, should Borrower default in the repayment of the Debt or the performance of the Other Obligations contained in the Loan Documents, Lender can recover the Debt by a sale of the Property.

(b) Without the prior written consent of Lender, and except to the extent otherwise set forth in this Section 5.2.10, Borrower shall not, and shall not permit any Restricted Party to, (i) sell, convey, mortgage, grant, bargain, encumber, pledge, assign, grant options with respect to, or otherwise transfer or dispose of (in each case, directly or indirectly, voluntarily or involuntarily, by operation of law or otherwise, and whether or not for consideration or of record) the Property or any part thereof or any legal or beneficial interest therein, directly or indirectly, at any tier of ownership, except as otherwise expressly permitted under this Agreement, (ii) permit a Sale or Pledge of any interest in any Restricted Party, directly or indirectly, at any tier of ownership except as otherwise expressly permitted under this Agreement (any of the actions in the foregoing clauses (i) or (ii), a "Transfer"), or (iii) suffer or permit any such Transfer described in this Section 5.2.10 to occur by or in a Restricted Party, directly or indirectly, at any tier of ownership, in each case, other than (A) the leasing of space in the Improvements to Tenants pursuant to Leases entered into in accordance with the provisions of Section 5.1.21 hereof, (B) Permitted Transfers, (C) Permitted Encumbrances, (D) sales of Residential Units or Commercial Units pursuant to Qualified Sales Agreements permitted under this Agreement, and (E) any Transfer by Borrower or Pledgor to Lender or its designee or other Transfer resulting from the exercise by Lender of its rights and remedies under the Loan Documents, including without limitation, the pledge by Pledgor and the exercise of remedies by Lender under such Pledge Agreement. Notwithstanding the foregoing, a Transfer shall not include any condemnation or temporary taking of the Property or, for purposes of Section 3.1(c)(ix), an involuntary lien or encumbrance of the Property or any direct or indirect owner of the Property.

(c) A Transfer shall include, but not be limited to, (i) an installment sales agreement wherein Borrower agrees to sell the Property, or any part thereof, for a price to be paid in installments; (ii) an agreement by Borrower leasing all or substantially all of the Property or all or substantially all of a building located on the Property for other than actual occupancy by a space tenant thereunder, or a sale, assignment or other transfer of, or the grant of a security interest in, Borrower's right, title and interest in and to any Leases or any Rents; (iii) if a party is a corporation, any merger, consolidation or Sale or Pledge of such corporation's stock or the creation or issuance of new stock; (iv) if a party is a limited or general partnership or joint venture, any merger or consolidation or the change, removal, resignation or addition of a general partner or the Sale or Pledge of the partnership interest of any general partner or any profits or proceeds

relating to such partnership interest, or the Sale or Pledge of limited partnership interests or any profits or proceeds relating to such limited partnership interest or the creation or issuance of new limited partnership interests; (v) if a party is a limited liability company, any merger or consolidation or the change, removal, resignation or addition of a managing member or non-member manager (or if no managing member, any member) or the Sale or Pledge of the membership interest of a managing member (or if no managing member, any member) or any profits or proceeds relating to such membership interest, or the Sale or Pledge of non-managing membership interests or the creation or issuance of new non-managing membership interests; (vi) if a party is a trust or nominee trust, any merger, consolidation or the Sale or Pledge of the legal or beneficial interest in such party or the creation or issuance of new legal or beneficial interests; or (vii) the removal or the resignation of the Manager (including, without limitation, an Affiliated Manager) other than in accordance with Section 5.1.23 hereof.

(d) [Intentionally Blank]

(e) Lender shall not be required to demonstrate any actual impairment of its security or any increased risk of default hereunder in order to declare the Debt immediately due and payable upon a Transfer prohibited hereunder without Lender's consent. This provision shall apply to every Transfer prohibited hereunder regardless of whether voluntary or not, or whether or not Lender has consented to any previous Transfer.

5.2.11 Budgets and Schedules. Except as expressly permitted hereunder, Borrower shall expend funds only in accordance with the Construction Budget, the Annual Budget and in accordance with the applicable Plans and Specifications, and any reallocation of any category or Line Items in the Construction Budget shall be done in accordance with the provisions of this Agreement. Except as expressly permitted hereunder, Borrower shall not amend, modify or supplement the Construction Budget or the Annual Budget without the prior written consent of Lender. Except as otherwise provided in this Agreement, Borrower shall expend funds only in accordance with the Construction Budget, the Annual Budget and in accordance with the applicable Plans and Specifications, and any reallocation of any category or Line Items in the Construction Budget shall be done in accordance with the provisions of this Agreement.

5.2.12 Special Purpose Entity/Separateness.

(a) Each of Borrower and Pledgor is and shall continue to be a Special Purpose Entity.

(b) Any assumptions made in any non-consolidation opinion required to be delivered in connection with the Loan Documents subsequent to the Insolvency Opinion (an "**Additional Insolvency Opinion**"), including, but not limited to, any exhibits attached thereto, shall be true and correct in all respects. Borrower will comply with (and each of Pledgor and Principal have complied and Borrower will cause each of Pledgor and Principal to comply with) all of the assumptions made with respect to Borrower (or Pledgor or Principal, as applicable) in the Insolvency Opinion. Borrower will comply with all of the assumptions made with respect to Borrower, Pledgor, and Principal in any Additional Insolvency Opinion. Each entity other than Borrower, Pledgor and Principal with respect to which an assumption shall be made in any Additional Insolvency Opinion will comply with all of the assumptions made with respect to it in any Additional Insolvency Opinion. Borrower covenants that in connection with any Additional

Insolvency Opinion delivered in connection with this Agreement it shall provide an updated certification regarding compliance with the facts and assumptions made therein. Borrower shall provide Lender with five (5) Business Days' prior written notice prior to the removal of an Independent Director of any of Borrower or Pledgor.

5.2.13 Embargoed Person; OFAC. As of the date hereof and at all times throughout the term of the Loan, including after giving effect to any Transfers permitted pursuant to the Loan Documents, (a) none of the funds or other assets of Borrower, Pledgor, Principal and Guarantor constitute property of, or are beneficially owned, directly or indirectly, by any Embargoed Person; (b) no Embargoed Person has any interest of any nature whatsoever in Borrower, Pledgor, Principal or Guarantor, as applicable, with the result that the investment in Borrower, Pledgor, Principal or Guarantor, as applicable (whether directly or indirectly), is prohibited by law or the Loan is in violation of law; and (c) none of the funds of Borrower, Pledgor, Principal or Guarantor, as applicable, have been derived from any unlawful activity with the result that the investment in Borrower, Pledgor, Principal or Guarantor, as applicable (whether directly or indirectly), is prohibited by law or the Loan is in violation of law. Neither Borrower, Pledgor, Principal nor Guarantor is (or will be) a Person with whom Lender is restricted from doing business under OFAC regulations (including those persons named on OFAC's Specially Designated and Blocked Persons list) or under any statute, executive order (including the September 24, 2001 #13224 Executive Order Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism), or other governmental action and is not and shall not engage in any dealings or transactions or otherwise be associated with such Persons. In addition, to help the U.S. Government fight the funding of terrorism and money laundering activities, the U.S.A. Patriot Act (and the regulations thereunder) requires the Lender to obtain, verify and record information that identifies its customers. Borrower shall provide the Lender with any additional information that the Lender deems necessary from time to time in order to ensure compliance with the U.S.A. Patriot Act and any other applicable Legal Requirements concerning money laundering and similar activities.

5.2.14 Contracts. Borrower shall not enter into, amend, modify, supplement or terminate any Major Contract, or appoint or change any Sales Agent, General Contractor, Borrower's Architect, any Major Contractor or any Major Subcontractor without the prior written consent of Lender, not to be unreasonably withheld, conditioned or delayed. Borrower shall deliver to Lender copies of all Major Contracts entered into after the Closing Date promptly following execution thereof. So long as there is no outstanding Event of Default, Borrower shall have the right to exercise all legal remedies with respect to all Contracts (other than termination), provided that Borrower shall not settle any claim with respect to any of the foregoing without Lender's prior written approval, not to be unreasonably withheld, conditioned or delayed.

5.2.15 Affiliate Transaction. Borrower shall not enter into any new Affiliate Contract, or amend, modify or terminate any Affiliate Contract approved by Lender, in each case without Lender's prior written approval in each instance, which may be given or withheld in its sole discretion.

5.2.16 General Contractor's Agreement; Sales Agency Agreement. Except as otherwise permitted under this Agreement or the Loan Documents, Borrower shall not (i) surrender, terminate, cancel, or modify, renew or extend any Sales Agency Agreement or the

General Contractor's Agreement, (ii) enter into any other agreement relating to the management, leasing, sale, development or operation of the Property with General Contractor, any Sales Agent or any other Person, (iii) consent to the assignment by any Sales Agent or General Contractor of its interest under any Sales Agency Agreement or the General Contractor's Agreement, as applicable, other than in favor of Lender pursuant to the Loan Documents, (iv) waive or release in writing any of its rights and remedies under any Sales Agency Agreement and/or the General Contractor's Agreement, or (v) do any act which would relieve the General Contractor from its obligations under the General Contractor's Agreement or any Sales Agent under any Sales Agency Agreement, in each case without the express written consent of Lender, which consent shall not be unreasonably withheld, conditioned, or delayed.

5.2.17 Distributions. So long as any Obligations are outstanding but subject to Section 2.8.2(l), Borrower shall not make any distribution, payment on account of, or set apart assets for, a sinking or other analogous fund for the purchase, redemption, defeasance, retirement or other acquisition of any equity or ownership interest of Borrower, whether now or hereafter outstanding, or make any other distribution in respect thereof, either directly or indirectly, whether in cash or property or in obligations of Borrower; it being agreed by Borrower that in no event shall any proceeds, rents, revenues or other receipts derived from the Property be re-invested in the Property (unless derives from rental of Commercial Units and not from sales of Units) or distributed to Borrower, Guarantor or any of their Affiliates before all Obligations of Borrower and Guarantor under the Loan Documents have been indefeasibly paid in full.

5.2.18 REAs. Borrower shall not, without the prior written consent of Lender, modify the REA.

Section 5.3 Management Agreement Covenants.

5.3.1 From and after Substantial Completion, Borrower shall (i) promptly perform and/or observe all of the covenants and agreements required to be performed and observed by it under the Management Agreement prior to the expiration of any applicable grace or cure periods; (ii) promptly notify Lender of any default under the Management Agreement of which it is aware; (iii) promptly deliver to Lender a copy of each final financial statement, business plan, capital expenditures plan, default notice or report received by it under the Management Agreement; and (iv) promptly enforce the performance and observance of all of the covenants and agreements required to be performed and/or observed by Manager under the Management Agreement if in the best interests of the Project using sound business judgment.

5.3.2 Borrower shall not enter into, or cause or knowingly permit any Person to enter into, any rental management agreement or other arrangement with respect to rental of Residential Units for transient occupancy, unless the form and substance of such agreement shall have been approved by Lender and is in compliance with the Condominium Act and all Legal Requirements.

Section 5.4 Environmental Covenants. Borrower covenants and agrees that: (A) all uses and operations on or of the Property, whether by Borrower or any other Person, shall be in compliance with all Environmental Statutes and permits issued pursuant thereto; (B) there shall be no Releases of Hazardous Substances in, on, under or from the Property, except those that are both

(i) in compliance with all Environmental Statutes and with permits issued pursuant thereto and (ii) fully disclosed to Lender in writing; (C) there shall be no Hazardous Substances in, on, or under the Property, except those that are both (i) in compliance with all Environmental Statutes and with permits issued pursuant thereto and (ii) fully disclosed to Lender in writing; (D) Borrower shall keep the Property free and clear of all liens and other encumbrances imposed pursuant to any Environmental Statute, whether due to any act or omission of Borrower or any other Person; (E) Borrower shall, at its sole cost and expense, perform any environmental site assessment or other investigation of environmental conditions in connection with the Property, by an environmental consultant reasonably approved by Lender pursuant to any reasonable written request of Lender (including, but not limited to, sampling, testing and analysis of soil, water, air, building materials, and other materials and substances whether solid, liquid or gas), and share with Lender the reports and other results thereof, and Lender shall be entitled to rely on such reports and other results thereof; (F) Borrower shall, at its sole cost and expense, comply with all reasonable written requests of Lender to (i) effectuate Remediation or obtain a no further action letter for any condition (including, but not limited to, a Release of any Hazardous Substances) in, on, under or from the Property, in full compliance of Environmental Statutes or reasonably required by Lender based upon recommendations and observations of an independent environmental consultant approved by Lender, (ii) comply with any Environmental Statute, (iii) comply with any directive from any Governmental Authority, and (iv) take any other reasonable action necessary or appropriate for protection of human health or the environment; (G) Borrower shall not do, and shall use commercially reasonable efforts to prevent any Tenant or other user of the Property from doing, any act that materially increases the dangers to human health or the environment, poses an unreasonable risk of harm to any Person (whether on or off the Property), impairs or may impair the value of the Property, is contrary to any requirement of any insurer, constitutes a public or private nuisance, constitutes waste, or violates any covenant, condition, agreement or easement applicable to the Property; (H) Borrower shall use commercially reasonable efforts to enforce the applicable provisions of the Leases in order to prevent Tenants or other users of the Property from taking any action that violates any applicable Environmental Statute, impairs or may impair the value of the Property, constitutes a public or private nuisance, constitutes waste or violates any covenant, condition, agreement or easement applicable to the Property; and (I) Borrower shall immediately notify Lender in writing of (i) any presence or Release or threatened Release of Hazardous Substances in, on, under, from or migrating towards the Property, (ii) any non-compliance with any Environmental Statutes related in any way to the Property, (iii) any actual or potential imposition of a lien or other encumbrances against the Property imposed pursuant to any Environmental Statute (iv) any required or proposed Remediation of environmental conditions relating to the Property, and/or (v) any written or oral notice or other communication of which any Borrower becomes aware from any source whatsoever (including, but not limited to, a Governmental Authority) relating in any way to Hazardous Substances or Remediation thereof, possible liability of any Person pursuant to any Environmental Statute, other environmental conditions in connection with the Property, the discovery of any occurrence or condition on any real property adjoining or in the vicinity of the Property that could cause the Property or any actual or potential administrative or judicial proceedings in connection with anything referred to in this Section 5.4.

Section 5.5 Development Agreement Covenants. Borrower shall (i) promptly perform and/or observe all of the covenants and agreements required to be performed and observed by it

under the Development Agreement and do all things necessary to preserve and to keep unimpaired its material rights thereunder prior to the expiration of any applicable grace or cure period thereunder; (ii) promptly notify Lender of any default beyond applicable grace and cure periods under the Development Agreement of which it is aware; (iii) promptly deliver to Lender a copy of each final financial statement, business plan, capital expenditures plan, default notice and report received by it under the Development Agreement; and (iv) promptly enforce the performance and observance of all of the covenants and agreements required to be performed and/or observed under the Development Agreement in the best interests of the Project using sound business judgment.

Section 5.6 Labor Matters. Borrower shall (i) not enter into or otherwise permit the Property to be affected by any collective bargaining agreements without the prior written consent of Lender, not to be unreasonably withheld, and (ii) not consent to enter into any collective bargaining agreements unless required by applicable law. Neither Borrower nor Manager shall take any action that would trigger a withdrawal liability to any Multiemployer Plan or any Pension Plan.

Section 5.7 Intellectual Property Covenants.

5.7.1 Borrower (either itself or through licensees) will (i) use each Trademark owned by Borrower in order to maintain such Trademark in full force free from any claim of abandonment for non-use; and (ii) not (and not permit any licensee thereof to) do any act or knowingly omit to do any act whereby any such Trademark may become invalidated or impaired in any way.

5.7.2 Borrower will notify Lender promptly if it knows, or has reason to know, that any Trademark owned by Borrower may become forfeited, unenforceable, abandoned or dedicated to the public, or of any adverse determination or development (including, without limitation, the institution of, or any such determination or development in, any proceeding in the United States Patent and Trademark Office or any court or tribunal in any state or country) regarding such Borrower's ownership of, or the validity or enforceability of, any such Trademark or such Borrower's right to register the same or to own and maintain the same.

5.7.3 Whenever Borrower, either by itself or through any agent, employee, licensee or designee, shall submit or file an application for the registration of any Trademark (including, without limitation, any domain name), Borrower shall notify Lender, within sixty (60) days of the submission or filing of any such application, and shall execute and deliver, and have recorded with the appropriate Governmental Authority or domain name registry, any and all agreements, instruments, documents, and papers as Lender may request to evidence the Lender's security interest therein.

5.7.4 Borrower will take all reasonable and necessary steps, at Borrower's sole cost and expense, including, without limitation, in any proceeding before any Governmental Authority or domain name registry or dispute resolution authority, to maintain, pursue, and defend each Trademark application (and to obtain the relevant registration) and to maintain and defend each Trademark registration owned by Borrower, including, without limitation, filing of applications for renewal, affidavits of use and affidavits of incontestability.

5.7.5 In the event that any Trademark owned by Borrower is infringed, misappropriated or otherwise violated by a third party, Borrower shall (i) at Borrower's sole cost and expense, take such actions as are reasonably appropriate under the circumstances to enforce and protect such Trademark; and (ii) promptly notify the Lender after it learns of such infringements, misappropriation or violation.

5.7.6 Anything contained herein to the contrary notwithstanding, upon the occurrence and during the continuation of an Event of Default:

(a) upon written demand from Lender, Borrower shall grant, assign, convey or otherwise transfer to Lender an absolute assignment of all Borrower's right, title and interest-in and to all Trademarks owned by Borrower, including the right to sue for past, present and future infringements, and shall execute and deliver to the Lender such documents as are necessary or appropriate to carry out the intent and purposes of this Agreement (provided that no such grant, assignment, conveyance or other transfer shall occur with respect to the Trademarks to the extent that, and solely during the period in which, such grant, assignment, conveyance or other transfer would impair the validity or enforceability of relevant intent-to-use trademark applications under applicable federal law);

(b) Lender shall have the right (but not the obligation) to bring suit or otherwise commence any action or proceeding in the name of Borrower, Lender or otherwise, in Lender's sole discretion, to enforce such Trademarks, in which event Borrower shall, at the request of Lender, do any and all lawful acts and execute any and all documents required by Lender in aid of such enforcement, and, to the extent that Lender shall elect not to bring suit to enforce any Trademark as provided in this Section, Borrower agrees to use all reasonable measures, whether by action, suit, proceeding or otherwise, to prevent the infringement or other violation of any of Borrower's rights in the Trademarks by others and for that purpose agrees to diligently maintain any action, suit or proceeding against any Person so infringing as shall be necessary to prevent such infringement or violation; and

(c) Lender shall have the right to notify, or require Borrower to notify, any obligors with respect to amounts due or to become due to Borrower in respect of any such Trademark, of the existence of the security interest created herein, to direct such obligors to make payment of all such amounts directly to Lender, and, upon such notification and at the expense of Borrower, to enforce collection of any such amounts and to adjust, settle or compromise the amount or payment thereof, in the same manner and to the same extent as Borrower might have done.

5.7.7 Borrower hereby grants to Lender, an irrevocable, non-exclusive license (exercisable only during the continuance of an Event of Default and without payment of royalty or other compensation to such Borrower) to use, operate under, license, or sublicense any Trademark now owned or hereafter acquired by Borrower, subject only to sufficient rights to quality control and inspection in favor of Borrower to avoid the risk of invalidation of said Trademarks.

5.7.8 Borrower hereby irrevocably constitutes and appoints Lender and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of Borrower and in the name of

Borrower or in its own name, in each case, from time to time after the occurrence and during the continuance of any Event of Default, in Lender's sole discretion, for the purpose of carrying out the terms of this Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Agreement, and, without limiting the generality of the foregoing, Borrower hereby gives Lender the power and right, on behalf of Borrower, without notice to or assent by Borrower, to, during the continuance of an Event of Default, in the case of any Trademarks and Trademark Licenses, execute and deliver, and have recorded, any and all agreements, instruments, documents and papers as Lender may request to evidence Lender's security interest in such Trademarks and Trademark Licenses and the goodwill and general intangibles of Borrower relating thereto or represented thereby.

ARTICLE VI

INSURANCE; CASUALTY; CONDEMNATION

Section 6.1 Insurance.

(a) Borrower shall obtain and maintain, or cause to be maintained, insurance for Borrower, the Condominium Board (as applicable) and the Property providing at least the following coverages:

(i) After Substantial Completion, comprehensive "All Risk" or "Special Form" insurance on the Improvements and the Personal Property (A) in an amount equal to or greater than one hundred percent (100%) of the "Full Replacement Cost", which for purposes of this Agreement shall mean actual replacement value with no deduction for depreciation; (B) containing an agreed amount endorsement with respect to the Improvements and Personal Property waiving all co-insurance provisions, or confirmation that co-insurance does not apply; and (C) providing for no deductible in excess of Twenty-five Thousand and No/100 Dollars (\$25,000.00) for all such insurance coverage, with exceptions for catastrophic perils, sublimits associated with enhanced coverages, or as reasonably approved by Lender based on market conditions at the time of placement. In addition, Borrower shall obtain: (w) flood hazard insurance in an amount as approved by Lender, but in no event less than Fifty Million and No/100 Dollars (\$50,000,000.00) per each Property, or as otherwise reasonably approved by Lender based on market conditions at the time of placement; (x) earthquake insurance in amounts and in form and substance satisfactory to Lender but in no event less than One Hundred Million and No/100 Dollars (\$100,000,000.00) per each Property, or as otherwise reasonably approved by Lender based on market conditions at the time of placement; (y) windstorm named storm insurance in amounts and in form and substance satisfactory to Lender but in no event less than Fifty Million and No/100 Dollars (\$50,000,000.00) per each Property, or as otherwise reasonably approved by Lender based on market conditions at the time of placement; and (z) tsunami insurance if not otherwise included above, in amounts and in form and substance satisfactory to Lender, but in no event less than Fifty Million and No/100 Dollars (\$50,000,000.00) per each Property, or as otherwise

reasonably approved by Lender based on market conditions at the time of placement; provided that the insurance pursuant to clauses (w), (x), (y) and (z) hereof shall be on coverage terms (and not deductibles) consistent with the comprehensive "All Risk" or "Special Form" insurance policy required under this subsection (i);

(ii) After Substantial Completion, commercial general liability insurance, including coverage provided by a broad form comprehensive general liability endorsement and coverage against claims for personal injury, bodily injury, death or property damage occurring upon, in or about the Property, such insurance (A) to be on the so-called "occurrence" form with a combined limit of not less than Two Million and No/100 Dollars (\$2,000,000.00) in the aggregate and One Million and No/100 Dollars (\$1,000,000.00) per occurrence (and, if on a blanket policy, containing a "Per Location Aggregate" endorsement); (B) to continue at not less than the aforesaid limit until reasonably required to be changed by Lender in writing by reason of changed economic conditions making such protection inadequate; (C) add Lender as an additional insured on a primary and non-contributory basis; and (D) to cover at least the following hazards: (1) premises and operations; (2) products and completed operations on an "if any" basis; (3) independent contractors; (4) blanket contractual liability for insured contracts; and (5) contractual liability covering, to the maximum extent permitted by law, Borrower's obligation to indemnify Lender as required under this Agreement;

(iii) After Substantial Completion, rental loss and/or business income interruption insurance (A) with loss payable to Lender; (B) covering all risks required to be covered by the insurance provided for in subsection (i) above; (C) containing an extended period of indemnity endorsement which provides that after the physical loss to the Improvements and Personal Property has been repaired, the continued loss of income will be insured until such income either returns to the same level it was at prior to the loss, or the expiration of eighteen (18) months from the date that the Property is repaired or replaced and operations are resumed, whichever first occurs, and notwithstanding that the policy may expire prior to the end of such period; and (D) for loss of Rents in an amount equal to one hundred percent (100%) of the projected Gross Income from Operations for a period of eighteen (18) months from the date of such Casualty (assuming such Casualty had not occurred) and notwithstanding that the policy may expire at the end of such period. The amount of such loss of Rents or business income insurance shall be determined prior to the date hereof and at least once each year thereafter based on Borrower's reasonable estimate from the Property for the succeeding eighteen (18) month period. Borrower may request the periods stipulated within this section be reduced to twelve (12) months based on market conditions at the time of placement, subject to review and approval of Lender. Notwithstanding anything to the contrary in Section 2.7 hereof, all proceeds payable to Lender pursuant to this subsection shall be held by Lender and shall be applied at Lender's sole discretion to (I) the Debt, or (II) Operating Expenses approved by Lender in its sole discretion; provided, however, that nothing herein contained shall be deemed

to relieve Borrower of its obligations to pay the Debt, except to the extent such amounts are actually paid out of the proceeds of such business income insurance;

(iv) At all times during which the Properties are undergoing major construction, and only if the above property and liability coverage forms do not otherwise apply, (A) general and excess/umbrella liability insurance in the amount of One Hundred and Two Million and No/100 Dollars (\$102,000,000.00) per occurrence and One Hundred and Two Million and No/100 Dollars (\$102,000,000.00) in the aggregate (per each Property) covering claims related to the construction operations at each Property, with no exclusions as respects Explosion, Collapse and Underground coverage. Such coverage obligation may be fulfilled via an Owner or Contractor Controlled Insurance Program (OCiP or CCIP) and shall be endorsed to provide products and completed operations insurance coverage for a period extending through the statute of limitations and/or repose in the state of Hawaii (at the time of the execution of this loan agreement, such period is defined as ten (10) years) and shall include Lender as an additional insured for on-going and completed operations on a primary and non-contributory basis with respect to any insurance or self-insurance carried by Lender; and (B) the property insurance provided for in subsection (i) above written on a so-called builder's risk completed value form to include cover for materials, machinery and supplies whether onsite, in-transit or stored off-site and including the foundations and other below-ground property (1) on a non-reporting basis, (2) against all risks and with the same minimum sublimit thresholds insured against pursuant to subsection (i) above, (3) including permission to occupy the Properties, (4) with an agreed amount endorsement waiving co-insurance provision, or confirmation that co-insurance does not apply, (5) with a maximum AOP deductible of Fifty Thousand and No/100 Dollars (\$50,000.00) with exceptions for catastrophic perils, sublimits associated with enhanced coverages, or as reasonably approved by Lender, (6) with a limit of no less than the value of the construction contract plus delay in opening (soft costs) coverage of no less than the per Project amount approved by Lender based on a portion of reasonably anticipated ongoing expenses in the event of a delay, and (7) naming Lender as Mortgagee/Loss Payee;

(v) Worker's compensation insurance with respect to any employee of those performing construction activities (including General Contractor and subcontractors) subject to the statutory limits of the state in which the Property is located, and employer's liability insurance with a limit of at least One Million and No/100 Dollars (\$1,000,000.00) per accident and per disease per employee, and after Substantial Completion of construction activities, worker's compensation insurance and employer's liability insurance with a limit of at least One Million and No/100 Dollars (\$1,000,000.00) per accident and per disease per employee with respect to any employee of the Borrower working or any operations on or about the Property, or in connection with the Property or its operation (if applicable);

(vi) Comprehensive boiler and machinery/equipment breakdown insurance, if applicable, in amounts as shall be reasonably required by Lender on terms consistent with the commercial property insurance policy required under

subsections (i) and (iv) above (coverage required under this section is applicable both during construction activities and post-construction);

(vii) Motor vehicle liability coverage for all owned and non-owned vehicles, including rented and leased vehicles containing minimum limits per occurrence of not less than One Million and No/100 Dollars (\$1,000,000.00) (coverage required under this section is applicable both during construction activities and post-construction);

(viii) After Substantial Completion, umbrella insurance in an amount not less than One Hundred Million and No/100 Dollars (\$100,000,000.00) per occurrence and in the aggregate on terms consistent with the commercial general liability insurance policy required under subsection (ii) above;

(ix) Contractor's Pollution Liability coverage, including coverage for mold, any clean up and remediation activities, in an amount of no less than Ten Million and No/100 Dollars (\$10,000,000.00) per occurrence and in the aggregate with a deductible of no greater than One Hundred Thousand and No/100 Dollars (\$100,000.00). Such policy shall be in place during construction operations and solely with respect to completed operations, for a period beginning on the inception date and ending ten (10) years thereafter and shall include Lender as an Additional Insured;

(x) Property insurance required under subsections (i) and (iv) herein shall include ordinance or law coverage to compensate for the cost of demolition and rebuilding of the undamaged portion of the Property along with any increased cost of construction in amounts not less than Five Million and No/100 Dollars (\$5,000,000.00), or as otherwise approved by Lender based on market conditions at the time of placement (coverage required under this section is applicable both during construction activities and post-construction);

(xi) The commercial property policy (including business income), general liability course of construction (liability, property and delay coverages), workers' compensation, umbrella or excess liability and pollution liability insurance required under Sections 6.1(a)(i), (ii), (iii), (iv), (v), (viii) and (ix) above shall cover perils of terrorism and acts of terrorism and Borrower shall maintain commercial property and business income insurance for loss resulting from perils and acts of terrorism on terms (including amounts) consistent with those required under Sections 6.1(a)(i), (ii), (iii), (iv), (v), (viii) and (ix) above at all times during the term of the Loan so long as Lender determines that either (I) prudent owners of real estate comparable to the Property are maintaining same or (II) prudent institutional lenders (including, without limitation, investment banks) to such owners are requiring that such owners maintain such insurance provided, however, that in the event that TRIPRA or a subsequent statute is no longer in effect, Borrower shall not be required to expend more than two hundred percent (200%) of total property insurance premiums exclusive of earthquake, wind and flood premium in place for the Property for Terrorism Insurance in any future year

("Terrorism Cap") and if the cost of such Terrorism Insurance exceeds the Terrorism Cap, Borrower shall purchase the maximum amount of Terrorism Insurance available with funds equal to the Terrorism Cap;

(xii) After Substantial Completion, in addition to the coverages required above, and only if the Property and Liability coverage forms do not otherwise apply, Borrower shall procure or cause to be procured and maintained (A) general and excess liability coverage in an amount of no less than Ten Million and No/100 Dollars (\$10,000,000.00) per occurrence and in the aggregate to cover any/all condominium management firms, associations, or other condominium association members at the Property; (B) workers' compensation with limits stipulated via statute and employer's liability of no less than One Million and No/100 Dollars (\$1,000,000.00) per accident and per disease per employee; (C) a fidelity bond in the amount no less than Two Million and No/100 Dollars (\$2,000,000.00), or the maximum value of funds that will be in the custody of the Condominium or its management agent at any one time (whichever is less), and (D) Directors & Officers insurance with limits of not less than Three Million and No/100 Dollars (\$3,000,000.00) per claim. The coverage and limit requirements contained within this section are based on market conditions at the time of placement and subject to the review and reasonable approval of Lender. In addition to the foregoing, if the Property and Liability coverages do not otherwise apply, Borrower shall purchase and maintain (or cause to be purchased and maintained) such insurance coverage as required by all other applicable Condominium Declarations for the Property. In the event of a conflict between the insurance requirements of this Agreement and the insurance requirements of other applicable Condominium Declarations for the Property, the most stringent requirements shall prevail provided that Borrower's continuous and intentional failure to maintain a material portion of any such required coverages shall constitute an Event of Default notwithstanding any such reasonable action by Borrower.

(xiii) During construction activities, all firms engaged in a Design or Design-Assist Capacity shall be required to maintain Professional Liability/E&O coverage in the amount of One Million and No/100 Dollars (\$1,000,000.00) per occurrence or claim and in the aggregate. The limits required of the Architect of Record, however, shall be Five Million and No/100 Dollars (\$5,000,000.00) per occurrence or claim and in the aggregate. In the event a firm does not maintain such required limits during construction activities, an Owner's Protective Professional Indemnity policy placed by Borrower shall satisfy the insurance required in this section (xiii).

(xiv) All liability policies required within this section shall contain no residential, condominium or habitational exclusions applicable to the Property; and

(xv) Upon sixty (60) days' notice, such other reasonable insurance and in such reasonable amounts as Lender from time to time may reasonably request against such other insurable hazards, which at the time are commonly insured

against for properties similar to the Property located in or around the region in which the Property is located.

(b) All insurance provided for in Section 6.1(a) shall be obtained under valid and enforceable policies (collectively, the "Policies" or in the singular, the "Policy"), and shall be subject to the reasonable approval of Lender as to insurance companies, amounts, deductibles, loss payees and insureds. The Policies shall be issued by financially sound and responsible insurance companies authorized to do business in the state and having a claims paying ability rating of "A-" or better (and the equivalent thereof) by A.M. Best. For multi-layered policies, if four (4) or fewer insurance companies issue the Policies, then at least seventy-five percent (75%) of the insurance coverage represented by the Policies must be provided by insurance companies with a claims paying ability rating of "A-" or better by A.M. Best, with no carrier below "B+" or if five (5) or more insurance companies issue the Policies, then at least sixty percent (60%) of the insurance coverage represented by the Policies must be provided by insurance companies with a claims paying ability rating of "A-" or better by A.M. Best, with no carrier below "B+". Prior to the expiration of the Policies theretofore furnished to Lender, ACORD 25 certificates of insurance and ACORD 28 Evidence of Commercial Property Insurance evidencing the Policies accompanied by evidence from Borrower's insurance broker reasonably satisfactory to Lender that the coverage shown on such ACORD forms is in full force and effect as stated, that Lender will receive thirty (30) days prior notice of any cancellation or non-renewal and containing evidence of payment of the premiums due thereunder (the "Insurance Premiums"), shall be delivered by Borrower to Lender.

(c) Any insurance provided for in Section 6.1(a) may be on a separate Policy, a blanket insurance Policy, or a combination thereof, provided that any blanket insurance Policy shall specifically allocate to the Property the amount of coverage from time to time required hereunder or shall otherwise provide the same protection as would a separate Policy insuring only the Property in compliance with the provisions of Section 6.1(a).

(d) All Policies provided for or contemplated by Section 6.1(a), except for the Policies referenced in Section 6.1(a)(v) and (xiii), shall name Borrower as the insured or as an additional insured and Lender (and its successors and assigns) as Mortgagee and/or Loss Payee for Property coverages and Additional Insured for liability coverages, as its interests may appear, and in the case of property, boiler and machinery, flood and earthquake insurance, shall contain a standard non-contributing mortgagee clause in favor of Lender providing that the loss thereunder shall be payable to Lender.

(e) All Policies provided for in Section 6.1(a) and naming Borrower as the insured shall contain clauses or endorsements to the effect that, or otherwise provide that: (i) no act or negligence of Borrower, or anyone acting for Borrower, or of any tenant or other occupant, or failure to comply with the provisions of any Policy, which might otherwise result in a forfeiture of the insurance or any part thereof, shall in any way affect the validity or enforceability of the insurance insofar as Lender is concerned (except with respect to liability policies which shall not contain a clause or endorsement to the effect that, or otherwise provide that an act or negligence of such parties shall in any way affect the validity or enforceability of the insurance insofar as Lender is concerned); (ii) the Policies shall not be canceled without at least thirty (30) days' notice to

Lender, except for non-payment of premium which shall be ten (10) days; and (iv) Lender shall not be liable for any Insurance Premiums thereon or subject to any assessments thereunder.

(f) Copies of Policies provided for in Section 6.1(a) shall be required to be provided to Lender upon reasonable request. If at any time after such request Lender is not in receipt of written evidence that all Policies are in full force and effect, Lender shall have the right, without notice to Borrower, to take such action as Lender deems necessary to protect its interest in the Property, including, without limitation, the obtaining of such insurance coverage as Lender in its sole discretion deems appropriate per the terms of this Agreement. All premiums incurred by Lender in connection with such action or in obtaining such insurance and keeping it in effect shall be paid by Borrower to Lender upon demand and, until paid, shall be secured by the Security Instrument and shall bear interest at the Default Rate.

(g) To the extent the same are not in effect as of the Closing Date, Borrower covenants and agrees that: (i) within five (5) Business Days after the Closing Date, Borrower shall revise the hard and soft costs limits for the Builder's Risk coverage on the Ala Moana Property to levels approved by Lender in its sole and absolute discretion; (ii) within twenty (20) Business Days after the Closing Date, Borrower shall deliver to Lender the 100% payment and performance bonds (except as expressly set forth on Schedule XI hereto) including a dual obligee rider flowing to Lender, from both General Contractors, (iii) within ten (10) Business Days after the Closing Date, add terrorism coverage to the OCIP for the Ala Moana Property and the Contractor's Pollution Liability policies either included in the policies or provided via a stand-alone basis; (iv) not later than December 15, 2014, implement an OCIP for the Auahi Property with limits, terms and conditions in substantially the same form as the OCIP for the Ala Moana Property (inclusive of terrorism coverage which can either be included in the policies or provided via a stand-alone basis) and acceptable to Lender; and (v) not later than December 15, 2014, bind Builder's Risk coverage on the Auahi Property with limits, terms and conditions in substantially the same form as for the Ala Moana Property Builder's Risk coverage (inclusive of terrorism coverage which can either be included in the policies or provided via a stand-alone basis) and acceptable to Lender.

Section 6.2 Casualty. If the Property shall be damaged or destroyed, in whole or in part, by fire or other casualty (a "**Casualty**"), Borrower shall (a) give prompt notice of such damage to Lender, and (b) unless Lender fails to make Net Proceeds available for Restoration in violation of this Agreement, promptly commence and diligently prosecute the completion of Restoration so that the Property resembles, as nearly as possible, the condition the Property was in immediately prior to such Casualty, with such alterations as may be reasonably approved by Lender and otherwise in accordance with Section 6.4. Unless Lender fails to make Net Proceeds available for Restoration in violation of this Agreement, Borrower shall pay all costs of such Restoration whether or not such costs are covered by insurance. Lender may, but shall not be obligated to make proof of loss if not made promptly by Borrower. In addition, Lender may participate in (and have reasonable approval rights over) any settlement discussions with any insurance companies with respect to any Casualty in which the Net Proceeds or the costs of completing Restoration are equal to or greater than One Million Five Hundred Thousand and No/100 Dollars (\$1,500,000.00) (the "**Casualty Threshold**") and Borrower shall deliver to Lender all instruments required by Lender to permit such participation.

Section 6.3 Condemnation . Borrower shall promptly give Lender notice of the actual or threatened (in writing) commencement of any proceeding in respect of Condemnation, and shall deliver to Lender copies of any and all papers served in connection with such proceedings. Lender may participate in any such proceedings, and Borrower shall from time to time deliver to Lender all instruments reasonably requested by Lender to permit such participation. Borrower shall, at its expense, diligently prosecute any such proceedings (to the extent such proceedings are not diligently prosecuted by the Condominium Board in accordance with the Condominium Documents), and shall consult with Lender, its attorneys and experts, and reasonably cooperate with them in the carrying on or defense of any such proceedings. Notwithstanding any taking by any public or quasi-public authority through Condemnation or otherwise (including, but not limited to, any transfer made in lieu of or in anticipation of the exercise of such taking), Borrower shall continue to perform the Obligations at the time and in the manner provided in this Agreement and the other Loan Documents and the Outstanding Principal Balance shall not be reduced until any Award shall have been actually received and applied by Lender, after the deduction of expenses of collection, to the reduction or discharge of the Obligations. Lender shall not be limited to the interest paid on the Award by the applicable Governmental Authority, but shall be entitled to receive out of the Award interest at the rate or rates provided herein or in the Note. If the Property or any portion thereof is taken by a Governmental Authority, Borrower shall promptly commence and diligently prosecute Restoration (to the extent such Restoration is not commenced and diligently prosecuted to completion by the Condominium Board in accordance with the Condominium Documents) and otherwise comply with the provisions of Section 6.4. If the Property or any portion thereof is sold, through foreclosure or otherwise, prior to the receipt by Lender of the Award, Lender shall have the right, whether or not a deficiency judgment on the Note shall have been sought, recovered or denied, to receive the Award, or a portion thereof sufficient to pay the Debt. Notwithstanding the foregoing or in any of the other Loan Documents, with respect to any Condemnation pursuant to the proceeding described on Schedule XII that would not reasonably be expected to impair the Project in any material respect, and in which the portion of the Project included in such Condemnation is a de minimis portion of the aggregate amount of real property beneficially owned by Guarantor and its Affiliates that is the subject of such Condemnation proceeding, Lender shall not participate in a manner that would unreasonably interfere with a global resolution of such Condemnation proceeding between Guarantor and its Affiliates and the applicable condemning authority, and provided that Guarantor and Borrower have reasonably consulted with Lender regarding the allocation of any award that is part of such global resolution, Guarantor and its Affiliates may allocate such award among the affected properties in Guarantor's commercially reasonable discretion (which shall be conclusive and binding absent manifest error).

Section 6.4 Restoration. The following provisions shall apply in connection with any Restoration:

(a) If the Net Proceeds shall be less than the Casualty Threshold and the costs of completing Restoration shall be less than the Casualty Threshold, the Net Proceeds will be disbursed by Lender to Borrower upon receipt; provided that all of the conditions set forth in Section 6.4(b)(i) are met and Borrower delivers to Lender a written undertaking to expeditiously commence and to satisfactorily complete with due diligence Restoration in accordance with the terms of this Agreement.

(b) If the Net Proceeds are equal to or greater than the Casualty Threshold, but less than twenty percent (20%) of the original principal balance of the Loan or the costs of completing Restoration is equal to or greater than the Casualty Threshold, but less than twenty percent (20%) of the original principal balance of the Loan, the Net Proceeds will be held by Lender and Lender shall make the Net Proceeds available for Restoration in accordance with the provisions of this Section 6.4. The term "**Net Proceeds**" for purposes of this Section 6.4 shall mean: (i) the net amount of all insurance proceeds received by Lender pursuant to Section 6.1 (a)(i), (iv), (vi), (ix) and (x) as a result of such damage or destruction, after deduction of Lender's reasonable costs and expenses (including, but not limited to, reasonable counsel costs and fees), if any, in collecting same ("**Insurance Proceeds**"), or (ii) the net amount of the Award, after deduction of Lender's reasonable costs and expenses (including, but not limited to, reasonable counsel costs and fees), if any, in collecting same ("**Condemnation Proceeds**"), whichever the case may be.

(i) The Net Proceeds shall be made available to Borrower for Restoration upon the approval of Lender in its reasonable discretion that the following conditions are met:

(A) no Default or Event of Default shall have occurred and be continuing;

(B) (1) in the event the Net Proceeds are Insurance Proceeds, less than twenty-five percent (25%) of the total floor area of the affected building has been damaged, destroyed or rendered unusable as a result of such Casualty, or (2) in the event the Net Proceeds are Condemnation Proceeds, less than ten percent (10%) of the land constituting the parcel that is taken, and such land is located along the perimeter or periphery of such parcel, and no material portion of the Improvements is located on such land;

(C) Borrower shall commence Restoration as soon as reasonably practicable (but in no event later than sixty (60) days after such Casualty or Condemnation, whichever the case may be, occurs) and shall diligently pursue the same to satisfactory completion;

(D) Lender shall be satisfied that any operating deficits, including all scheduled payments of principal and interest under the Note, which will be incurred with respect to the Property as a result of the occurrence of any such Casualty or Condemnation, whichever the case may be, will be covered out of (1) the Net Proceeds, (2) the insurance coverage referred to in Section 6.1(a)(iii), if applicable, or (3) by other funds of Borrower, including funds that are available in the Escrow Funds for completion of the Project, if applicable;

(E) Lender shall be satisfied that Restoration will be completed on or before the earliest to occur of (1) six (6) months prior to the then applicable Maturity Date, (2) the earliest date required for such completion under the terms of any Leases, (3) such time as may be required under all

applicable Legal Requirements in order to repair and restore the Property to the condition it was in immediately prior to such Casualty or to as nearly as possible the condition it was in immediately prior to such Condemnation, as applicable, or (4) the expiration of the insurance coverage referred to in Section 6.1(a)(iii);

(F) the Property and the use thereof after Restoration will be in compliance with and permitted under all applicable Legal Requirements;

(G) Restoration shall be done and completed by Borrower in an expeditious and diligent fashion and in compliance with all applicable Legal Requirements;

(H) such Casualty or Condemnation, as applicable, does not result in the loss of access to any portion of the Property or the related Improvements that cannot be restored as part of the Restoration;

(I) any disbursement of Net Proceeds shall be subject to all conditions for Disbursements set forth herein;

(J) Borrower shall deliver, or cause to be delivered, to Lender a signed detailed budget approved in writing by Borrower's architect or engineer stating the entire estimated cost of completing Restoration, which budget shall be acceptable to Lender;

(K) the Net Proceeds together with any cash or cash equivalent deposited by Borrower with Lender are sufficient in Lender's discretion to cover the cost of Restoration;

(L) the Liens in favor of Lender shall not be impaired as a result of such casualty or condemnation; and

(M) Lender shall be satisfied that the Restoration will be completed in accordance with any requirements under the Condominium Documents.

Notwithstanding the foregoing provisions of this Section 6.4(b)(i), from and after the date of the closing of the first sale of a Residential Unit in accordance with the terms of this Agreement to a third party purchaser that is not an Affiliate of Borrower or Guarantor, the Net Proceeds shall be made available to Borrower for Restoration if and to the extent the same is required pursuant to the terms of the Condominium Documents, such Restoration to be conducted in accordance with the provisions of this Agreement (including, without limitation, the provisions of clauses (F), (G), (I), (J), (L) and (M) of this Section 6.4(b)(i) and the remaining provisions of this Section 6.4(b)(i) and Condominium Documents.

(ii) The Net Proceeds shall be paid directly to Lender for deposit in an interest-bearing account (the "**Net Proceeds Account**") and, until disbursed in accordance with the provisions of this Section 6.4(b), shall, subject to Legal Requirements, constitute additional security for the Debt and the Other Obligations. The Net Proceeds shall be disbursed by Lender to, or as directed by, Borrower from time to time during the course of Restoration, upon receipt of evidence satisfactory to Lender that (A) all materials installed and work and labor performed (except to the extent that they are to be paid for out of the requested disbursement) in connection with Restoration have been paid for in full, and (B) there exist no notices of pendency, stop orders, mechanic's or materialmen's liens or notices of intention to file same, or any other liens or encumbrances of any nature whatsoever on the Property or any portion thereof which (1) have not either been fully bonded to the satisfaction of Lender and discharged of record or in the alternative fully insured to the satisfaction of Lender by the Title Company, or (2) are not being contested in accordance with the terms of Section 5.2.2 hereof.

(iii) All plans and specifications required in connection with Restoration shall be subject to prior review and acceptance in all respects by Lender and by an independent consulting engineer selected by Lender (the "**Casualty Consultant**"). Lender shall have the use of the plans and specifications and all permits, licenses and approvals required or obtained in connection with Restoration. The identity of the contractors, subcontractors and materialmen engaged in Restoration, as well as the contracts under which they have been engaged, shall be subject to prior review and reasonable acceptance by Lender and the Casualty Consultant. All reasonable costs and expenses actually incurred by Lender in connection with making the Net Proceeds available for Restoration including, without limitation, reasonable counsel fees and disbursements and the Casualty Consultant's fees, shall be paid by Borrower.

(iv) In no event shall Lender be obligated to make disbursements of the Net Proceeds in excess of an amount equal to the costs actually incurred from time to time for work in place as part of Restoration, as certified by the Casualty Consultant, minus the Retention Amount. The term "**Retention Amount**" shall mean, as to each contractor, subcontractor or materialman engaged in Restoration, an amount equal to ten percent (10%) of the costs actually incurred for work in place as part of Restoration, as certified by the Casualty Consultant, until fifty percent (50%) of Restoration by any such party has been completed; provided, that Borrower shall not be obligated to withhold any additional retention amount with respect to the remaining fifty percent (50%) of Restoration by such party, but shall retain the initial retention amount until Restoration has been completed by such party, including any Punchlist Items (it being acknowledged and agreed that at no time until Restoration has been completed by such party shall the retention amount with respect to such party be less than five percent (5%)); provided, further, that the Retention Amount shall in no event, and notwithstanding anything to the contrary set forth above in this Section 6.4(b), be less than the amount actually held back by Borrower from contractors, subcontractors and materialmen engaged in Restoration. The Retention Amount shall not be released until the Casualty

Consultant certifies to Lender that Restoration has been completed in accordance with the provisions of this Section 6.4(b) and that all approvals necessary for the re-occupancy and use of the Property have been obtained from all appropriate Governmental Authorities, and Lender receives evidence satisfactory to Lender that the costs of Restoration have been paid in full or will be paid in full out of the Retention Amount; provided, however, that Lender will release the portion of the Retention Amount being held with respect to any contractor, subcontractor or materialman engaged in Restoration as of the date upon which the Casualty Consultant certifies to Lender that the contractor, subcontractor or materialman has satisfactorily completed all work and has supplied all materials in accordance with the provisions of the contractor's, subcontractor's or materialman's contract, the contractor, subcontractor or materialman delivers the lien waivers and evidence of payment in full of all sums due to the contractor, subcontractor or materialman as may be reasonably requested by Lender or by the Title Company issuing the Title Insurance Policy, and Lender receives an endorsement to the Title Insurance Policy insuring the continued priority of the lien of the related Security Instrument and evidence of payment of any premium payable for such endorsement. If required by Lender, the release of any such portion of the Retention Amount shall be approved by the surety company, if any, which has issued a payment or performance bond with respect to the applicable contractor, subcontractor or materialman.

(v) Lender shall not be obligated to make disbursements of the Net Proceeds more frequently than once every calendar month.

(vi) If at any time the Net Proceeds or the undisbursed balance thereof shall not, in the opinion of Lender in consultation with the Casualty Consultant, be sufficient to pay in full the balance of the costs which are estimated by the Casualty Consultant to be incurred in connection with the completion of Restoration that Borrower is required to perform (excluding any restoration by Tenants), Borrower shall deposit the deficiency (the "**Net Proceeds Deficiency**") with Lender before any further disbursement of the Net Proceeds shall be made. The Net Proceeds Deficiency deposited with Lender shall be held by Lender and shall be disbursed for costs actually incurred in connection with Restoration on the same conditions applicable to the disbursement of the Net Proceeds, and until so disbursed pursuant to this Section 6.4(b) shall constitute additional security for the Debt and the Other Obligations.

(vii) The excess, if any, of the Net Proceeds and the remaining balance, if any, of the Net Proceeds Deficiency deposited with Lender after the Casualty Consultant certifies to Lender that Restoration has been completed in accordance with the provisions of this Section 6.4(b), and the receipt by Lender of evidence satisfactory to Lender that all costs incurred in connection with Restoration have been paid in full, shall be remitted by Lender to Borrower; provided no Event of Default shall have occurred and shall be continuing.

(c) If Net Proceeds are (i) equal to or greater than twenty percent (20%) of the original principal amount of the Loan, or (ii) not required to be made available for Restoration (due

to Borrower's inability to satisfy the conditions set forth in Section 6.4(b)(i) or otherwise), then in any such event all Net Proceeds may be retained and applied by Lender in accordance with Section 2.4.2 hereof toward reduction of the Outstanding Principal Balance whether or not then due and payable in such order, priority and proportions as Lender in its sole discretion shall deem proper, or, in the sole discretion of Lender, the same may be paid, either in whole or in part, to Borrower for such purposes as Lender shall approve, in its sole discretion. No prepayment charge, Breakage Costs or Yield Maintenance Premium shall be payable by Borrower by reason of a Casualty or Condemnation.

(d) In the event of foreclosure of the Security Instrument, or other transfer of title to the Property in extinguishment in whole or in part of the Debt all right, title and interest of Borrower in and to the Policies that are not blanket Policies then in force concerning the Property and all proceeds payable thereunder shall thereupon vest in the purchaser at such foreclosure or Lender or other transferee in the event of such other Transfer of title.

ARTICLE VII RESERVE FUNDS

Section 7.1 Tax and Insurance Escrow.

7.1.1 Tax and Insurance Escrow Funds. Commencing on the first Payment Date after the date on which Substantial Completion occurs, Borrower shall either (i) draw from the undisbursed Loan proceeds and use such funds to pay or (ii) if there are no undisbursed Loan proceeds, to the extent permitted pursuant to the terms hereof, pay to Lender on each Payment Date (a) one-twelfth (1/12) of the Property Taxes that Lender estimates will be payable during the next ensuing twelve (12) months in order to accumulate with Lender sufficient funds to pay all such Property Taxes at least thirty (30) days prior to their respective due dates, and (b) one-twelfth (1/12) of the Insurance Premiums that Lender estimates will be payable for the renewal of the coverage afforded by the Policies upon the expiration thereof in order to accumulate with Lender sufficient funds to pay all such Insurance Premiums at least thirty (30) days prior to the expiration of the Policies (the foregoing amounts so deposited with Lender are hereinafter called the "**Tax and Insurance Escrow Funds**" and the account in which such amounts are held shall hereinafter be referred to as the "**Tax and Insurance Escrow Account**"). At Lender's option, the Tax and Insurance Escrow Account shall be maintained as a Subaccount of the Cash Management Account or be an account maintained by Servicer either at Servicer or at an Eligible Institution. Notwithstanding the previous requirements of this Section 7.1.1, Lender shall waive Borrower's obligations to pay to Lender on each such Payment Date the payment described in clause (b) of this Section 7.1.1, for so long as the following conditions are met (any of which may be waived, in Lender's sole and absolute discretion): (i) no Event of Default has occurred and is continuing hereunder, (ii) the insurance coverage for the Property is included in a blanket policy insuring multiple properties and held by Borrower or an entity that Controls Borrower, which blanket policy is acceptable to Lender in its sole discretion, (iii) Borrower binds all applicable insurance prior to the then current expiration date of the blanket policy described in clause (ii) hereof, (iv) Guarantor shall satisfy all net worth and liquidity covenants set forth in the Guaranty (if any), and (v) Borrower provides Lender evidence of renewal policies prior to the then current expiration date of the applicable policy (the conditions contained in the foregoing clauses (i)

through (iv), collectively, the “**Insurance Escrow Funds Waiver Conditions**”). If, at any time, Borrower fails to meet any of the Insurance Escrow Funds Waiver Conditions (and Lender has not opted to waive such condition in its sole and absolute discretion), commencing with the next applicable Payment Date and continuing on each Payment Date until such time as all Insurance Escrow Funds Waiver Conditions have again been met, Borrower shall deposit an amount equal to the product of (x) the resulting fraction where (A) the numerator is one (1), and (B) the denominator is the number of Payment Dates then remaining in the then current calendar year, and (y) the amount of Insurance Premiums that Lender reasonably estimates will be payable to obtain and subsequently retain policies of insurance which meet the requirements of Section 6.1 hereof. In addition to the foregoing, if Borrower fails to renew the policy or policies described in clause (ii) hereof by the date which is seven (7) days prior to the expiration thereof, Borrower agrees to notify Lender of such failure, and to keep Lender reasonably apprised of all developments in connection therewith, and if, following such notice, Lender reasonably believes that Borrower will be unable to bind the policy or policies described in clause (ii) prior to the expiration thereof, then Lender shall have the right, without notice to Borrower, to take such action as Lender deems necessary to protect its interest in the Property, including, without limitation, the obtaining of such insurance coverage as Lender in its sole discretion deems appropriate. All premiums incurred by Lender in connection with such action or in obtaining such insurance and keeping it in effect shall be paid by Borrower to Lender upon demand and, until paid, shall be secured by the Security Instrument and shall bear interest at the Default Rate.

7.1.2 Disbursements from Tax and Insurance Escrow Funds. Provided no Default or Event of Default has occurred and is continuing, Lender will apply the Tax and Insurance Escrow Funds to payments of Property Taxes and Insurance Premiums required to be made by Borrower pursuant to Section 5.1.2 hereof and under the Security Instrument. In making any payment relating to the Tax and Insurance Escrow Funds, Lender may do so according to any bill, statement or estimate procured from the appropriate public office (with respect to Property Taxes) or insurer or agent (with respect to Insurance Premiums), without inquiry into the accuracy of such bill, statement or estimate or into the validity of any Tax, assessment, sale, forfeiture, Tax lien or title or claim thereof. If the amount of the Tax and Insurance Escrow Funds shall exceed the amounts due for Property Taxes and Insurance Premiums pursuant to Section 5.1.2 hereof, Lender shall, in its sole discretion, return any excess to Borrower or credit such excess against future payments to be made to the Tax and Insurance Escrow Account. Any amount remaining in the Tax and Insurance Escrow Account after the Debt has been paid in full shall be returned to Borrower. In allocating such excess, Lender may deal with the Person shown on the records of Lender to be the owner of the Property. If at any time Lender reasonably determines that the Tax and Insurance Escrow Funds are not or will not be sufficient to pay Property Taxes and Insurance Premiums by the due dates thereof, Lender shall notify Borrower of such determination and Borrower shall increase its monthly payments to Lender by the amount that Lender estimates is sufficient to make up the deficiency at least thirty (30) days prior to the due date of the Property Taxes and/or thirty (30) days prior to the expiration of the Policies, as the case may be.

Section 7.2 Excess Cash Reserve Funds. In the event that cash management described in Section 2.7.2 hereof is then in effect, all Excess Cash shall be collected by Lender and all such amounts shall be held by Lender as additional security for the Obligations (amounts so held shall be hereinafter referred to as the “**Excess Cash Reserve Funds**” and the account to which such amounts are held shall hereinafter be referred to as the “**Excess Cash Reserve Account**”). At

Lender's option, the Excess Cash Reserve Account shall be maintained as a Subaccount of the Cash Management Account or be an account maintained by Servicer either at Servicer or at an Eligible Institution.

Section 7.3 Intentionally Blank.

Section 7.4 Reserve Funds, Generally.

(a) Borrower (i) hereby grants to Lender a first priority security interest in all of the Reserve Funds and any and all monies now or hereafter deposited in each Reserve Account as additional security for payment and performance of the Obligations and (ii) will take all actions necessary to maintain in favor of Lender a perfected first priority security interest in the Reserve Funds, including, without limitation, filing or authorizing Lender to file UCC-1 financing statements and continuations thereof. Until expended or applied in accordance herewith, the Reserve Funds shall constitute additional security for the Obligations.

(b) Upon the occurrence and during the continuance of an Event of Default, Lender may, in addition to any and all other rights and remedies available to Lender, apply any sums then present in any or all of the Reserve Funds to the reduction of the Outstanding Principal Balance in any order in its sole discretion.

(c) Borrower shall not further pledge, assign or grant any security interest in any Reserve Fund or the monies deposited therein or permit any Lien or encumbrance to attach thereto, or any levy to be made thereon, or any UCC-1 financing statements, except those naming Lender as the secured party, to be filed with respect thereto.

(d) The Reserve Funds shall not constitute trust funds and may be commingled with other monies held by Lender. No earnings or interest on the Reserve Funds shall be payable to Borrower. Neither Lender nor any Servicer that at any time holds or maintains the Reserve Funds shall have any obligation to keep or maintain such Reserve Funds or any funds deposited therein in interest bearing accounts. If Lender or any Servicer elects in its sole and absolute discretion to keep or maintain any Reserve Funds or any funds deposited therein in an interest bearing account, (i) such funds shall not be invested except in Permitted Investments, and (ii) all interest earned or accrued thereon shall be for the benefit of and be retained by Lender or any Servicer. Lender shall not be responsible and shall have no liability whatsoever for the rate of return earned or losses incurred on the investment of any Reserve Funds in Permitted Investments.

(e) Borrower shall indemnify Lender and hold Lender harmless from and against any and all actions, suits, claims, demands, liabilities, losses, damages, obligations and costs and expenses (including litigation costs and reasonable attorneys' fees and expenses) arising from or in any way connected with the Reserve Funds or the performance of the obligations for which the Reserve Funds were established. Borrower shall assign to Lender all rights and claims Borrower may have against all Persons supplying labor, materials or other services which are to be paid from or secured by the Reserve Funds; provided, however, that Lender may not pursue any such right or claim, unless an Event of Default has occurred and remains uncured.

ARTICLE VIII

DEFAULTS

Section 8.1 Event of Default.

- (a) Each of the following events shall constitute an event of default hereunder (an “ **Event of Default**”):
- (i) if any portion of the Debt is not paid when due (including, without limitation, the failure of Borrower to repay the entire outstanding principal balance of the Note in full on the Maturity Date) or any other amount under Section 2.7.2(b)(i) through (v) is not paid in full on each Payment Date; provided, however, that Borrower shall have a five (5) Business Day grace period following the date when due for all payments that are not due on a Payment Date;
 - (ii) if any of the Property Taxes or Other Charges are not paid when the same are due and payable (unless Lender is paying such Property Taxes pursuant to Section 7.1), subject to the provisions of Section 2.7.3 and Section 5.1.2 hereof;
 - (iii) if the Policies are not kept in full force and effect, or if copies of the certificates evidencing the Policies (or certified copies of the Policies if requested by Lender) are not delivered to Lender within thirty (30) days after written request therefor; provided, however, there shall be no Event of Default under this Section 8.1(a) (iii) if: (x) sufficient funds exist in the Tax and Insurance Escrow Account to pay all premiums and any other amounts owing with respect to such Policies, and (y) in violation of this Agreement, Lender fails to release such funds in order to pay same;
 - (iv) if Borrower or Pledgor, as applicable, Transfers or otherwise encumbers any portion of the Property, the Collateral or the Pledged Collateral in violation of the provisions of this Agreement, or Article 6 (Due on Sale/Encumbrance) of the Security Instrument or any Transfer is made in violation of the provisions of Section 5.2.10 hereof;
 - (v) if any representation or warranty made by Borrower herein or in any other Loan Document, or in any report, certificate, financial statement or other instrument, agreement or document furnished to Lender shall have been false or misleading in any material respect as of the date the representation or warranty was made or deemed remade; provided, however, that if Borrower did not have actual knowledge at the time of such representation or warranty that such representation or warranty was false or misleading in any material respect, the same is immaterial and non-recurring, and the fact underlying such representation or warranty are capable of being conformed to the representation or warranty as made, the same shall not be an Event of Default hereunder if same is cured within ten (10) Business Days after the earlier to occur of (x) written notice from Lender or (y) Borrower become aware of same;
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(vi) if the representation and warranty contained in Section 4.1.37 regarding the tax classification of Borrower as a Disregarded Entity is false or misleading at any time;

(vii) if Borrower, Pledgor, Developer or Guarantor shall (i) make an assignment for the benefit of creditors or (ii) generally not be paying its debts as they become due;

(viii) if a receiver, liquidator or trustee shall be appointed for Borrower, Pledgor or Developer, or if Borrower, Pledgor or Developer, as applicable, shall be adjudicated bankrupt or insolvent, or if any petition for bankruptcy, reorganization or arrangement pursuant to federal bankruptcy law, or any similar federal or state law, shall be filed by or against, consented to, or acquiesced in by, Borrower, Pledgor or Developer, as applicable, or if any proceeding for the dissolution or liquidation of Borrower, Pledgor or Developer, as applicable, shall be instituted; provided, however, if such appointment, adjudication, petition or proceeding was involuntary and not consented to by Borrower, Pledgor or Principal, as applicable, upon the same not being discharged, stayed or dismissed within ninety (90) days;

(ix) if Guarantor or any guarantor or indemnitor under any guaranty or indemnity issued in connection with the Loan shall make an assignment for the benefit of creditors or if a receiver, liquidator or trustee shall be appointed for Guarantor or any guarantor or indemnitor under any guarantee or indemnity issued in connection with the Loan or if Guarantor or such other guarantor or indemnitor shall be adjudicated a bankrupt or insolvent, or if any petition for bankruptcy, reorganization or arrangement pursuant to federal bankruptcy law, or any similar federal or state law, shall be filed by or against, consented to, or acquiesced in by, Guarantor or such other guarantor or indemnitor, or if any proceeding for the dissolution or liquidation of Guarantor or such other guarantor or indemnitor shall be instituted; provided, however, if such appointment, adjudication, petition or proceeding was involuntary and not consented to by Guarantor or such other guarantor or indemnitor, upon the same not being discharged, stayed or dismissed within ninety (90) days; provided, further, however, it shall be at Lender's option to determine whether any of the foregoing shall be an Event of Default;

(x) if Borrower attempts to assign its rights under this Agreement or any of the other Loan Documents or any interest herein or therein in contravention of the Loan Documents;

(xi) if Borrower breaches any representation, warranty or covenant contained in Sections 4.1.30, Section 5.4 or any of its respective negative covenants contained in Section 5.2 or any covenant contained in Section 5.1.11 hereof;

(xii) with respect to any term, covenant or provision set forth herein which specifically contains a notice requirement or grace period, if Borrower shall be in default under such term, covenant or condition after the giving of such notice or the expiration of such grace period;

(xiii) if any of the assumptions contained in the Insolvency Opinion delivered to Lender in connection with the Loan, or in any Additional Insolvency Opinion delivered subsequent to the closing of the Loan, is or shall become untrue in any material respect, unless such matter is cured within ten (10) days after the earlier of (x) Borrower's knowledge of same or (y) notice to Borrower from Lender;

(xiv) if a material default has occurred and continues beyond any applicable cure period under the Management Agreement (or any Replacement Management Agreement) and if such default permits the Borrower thereunder to terminate or cancel the Management Agreement (or any Replacement Management Agreement) and Borrower fails to comply with Section 5.1.23 hereof;

(xv) if Borrower shall continue to be in Default under any of the terms, covenants or conditions of Section 9.1 hereof, or fails to cooperate with Lender in connection with a Securitization pursuant to the provisions of Section 9.1 hereof, for three (3) days after written notice to Borrower from Lender;

(xvi) if Borrower shall continue to be in Default under any of the other terms, covenants or conditions of this Agreement not specified in subsections (i) through (xiv) above or (xvii) through (xx) below, for ten (10) days after notice to Borrower from Lender, in the case of any Default which can be cured by the payment of a sum of money, or for thirty (30) days after notice from Lender in the case of any other Default; provided, however, that if such non-monetary Default is susceptible of cure, but cannot reasonably be cured within such thirty (30) day period and provided further that Borrower shall have commenced to cure such Default within such thirty (30) day period and thereafter diligently and expeditiously proceeds to cure the same, such thirty (30) day period shall be extended for such time as is reasonably necessary for Borrower in the exercise of due diligence to cure such Default, such additional period not to exceed ninety (90) days;

(xvii) Borrower defaults in the performance of any covenant or obligation required to be performed by it under the Condominium Documents beyond expiration of any grace or cure periods expressly provided for in the Condominium Documents with respect to such default and such default is not cured by Borrower within ten (10) days of notice thereof from Lender, provided that, if such default is not monetary in nature and cannot be cured within such ten (10) day period, and Borrower shall have commenced to cure such default within said ten (10) day period and thereafter diligently and expeditiously proceeds to cure the same, such ten (10) day period shall be extended for such time as is reasonably necessary for Borrower in the exercise of due diligence to cure such default, such additional period not to exceed ninety (90) days;

(xviii) Borrower defaults in the performance of any material covenant or obligation required to be performed by it under the Escrow Agreement or Tri-Party Agreement beyond expiration of any grace or cure periods expressly provided for

in the Escrow Agreement or Tri-Party Agreement with respect to such default and such default is not cured by Borrower within ten (10) days of notice thereof from Lender, provided that, if such default is not monetary in nature and cannot be cured within such ten (10) day period, and Borrower shall have commenced to cure such default within said ten (10) day period and thereafter diligently and expeditiously proceeds to cure the same, such ten (10) day period shall be extended for such time as is reasonably necessary for Borrower in the exercise of due diligence to cure such default, such additional period not to exceed ninety (90) days;

(xix) Borrower defaults in the performance of any material covenant or obligation required to be performed by it under the Architect's Agreement, the General Contract, the REAs, or five or more Unit Purchase Agreements beyond expiration of any grace or cure periods expressly provided for in such Agreement with respect to such default and such default is not cured by Borrower within ten (10) days of notice thereof from Lender, provided that, if such default is not monetary in nature and cannot be cured within such ten (10) day period, and Borrower shall have commenced to cure such default within said ten (10) day period and thereafter diligently and expeditiously proceeds to cure the same, such ten (10) day period shall be extended for such time as is reasonably necessary for Borrower in the exercise of due diligence to cure such default, such additional period not to exceed ninety (90) days; or

(xx) if there shall be default under any of the other Loan Documents not specified in clauses (i) through (xix) above, beyond any applicable cure periods contained in such documents, if any, whether as to Borrower, Guarantor, Pledgor, any Restricted Party, the Property or any other Person, or if any other such event shall occur or condition shall exist, if the effect of such default, event or condition is to accelerate the maturity of any portion of the Debt or to permit Lender to accelerate the maturity of all or any portion of the Debt in accordance with the Loan Documents.

(b) Upon the occurrence and thereafter during the continuance of an Event of Default (other than an Event of Default described in clauses (a)(vi), (a)(vii) or (a)(viii) above) and at any time thereafter, in addition to any other rights or remedies available to it pursuant to this Agreement and the other Loan Documents or at law or in equity, Lender may take such action, without notice or demand, that Lender deems advisable to protect and enforce its rights against Borrower and in and to the Property, including, without limitation, declaring the Obligations to be immediately due and payable, and Lender may enforce or avail itself of any or all rights or remedies provided in the Loan Documents against Borrower and the Property, including, without limitation, all rights or remedies available at law or in equity; and upon the occurrence and thereafter during the continuance of any Event of Default described in clauses (a)(vi), (a)(vii) or (a)(viii) above, the Debt and all Other Obligations of Borrower hereunder and under the other Loan Documents shall immediately and automatically become due and payable, without notice or demand, and Borrower hereby expressly waives any such notice or demand, anything contained herein or in any other Loan Document to the contrary notwithstanding.

8.1.1 Remedies.

(a) Upon the occurrence and thereafter during the continuance of an Event of Default, all or any one or more of the rights, powers, privileges and other remedies available to Lender against Borrower under this Agreement or any of the other Loan Documents executed and delivered by, or applicable to, Borrower or at law or in equity may be exercised by Lender at any time and from time to time, whether or not all or any of the Debt shall be declared due and payable, and whether or not Lender shall have commenced any foreclosure proceeding or other action for the enforcement of its rights and remedies under any of the Loan Documents. Any such actions taken by Lender shall be cumulative and concurrent and may be pursued independently, singularly, successively, together or otherwise, at such time and in such order as Lender may determine in its sole discretion, to the fullest extent permitted by law, without impairing or otherwise affecting the other rights and remedies of Lender permitted by law, equity or contract or as set forth herein or in the other Loan Documents. Without limiting the generality of the foregoing, Borrower agrees that if an Event of Default is continuing (i) Lender shall not be subject to any "one action" or "election of remedies" law or rule, and (ii) all liens and other rights, remedies or privileges provided to Lender shall remain in full force and effect until Lender has exhausted all of its remedies against the Property and the Security Instrument has been foreclosed, sold and/or otherwise realized upon in satisfaction of the Debt or the Obligations have been paid in full.

(b) With respect to Borrower and the Property, nothing contained herein or in any other Loan Document shall be construed as requiring Lender to resort to the Property for the satisfaction of any of the Debt in any preference or priority, and Lender may seek satisfaction out of the Property, or any part thereof, in its absolute discretion in respect of the Debt. In addition, Lender shall have the right from time to time to partially foreclose the Security Instrument in any manner and for any amounts secured by the Security Instrument then due and payable as determined by Lender in its sole discretion, including, without limitation, the following circumstances: (i) in the event Borrower defaults beyond any applicable grace period in the payment of one or more scheduled payments of principal and interest, Lender may foreclose the Security Instrument to recover such delinquent payments or (ii) in the event Lender elects to accelerate less than the entire Outstanding Principal Balance, Lender may foreclose the Security Instrument to recover so much of the Debt as Lender may accelerate and such other sums secured by the Security Instrument as Lender may elect. Notwithstanding one or more partial foreclosures, the Property shall remain subject to the Security Instrument to secure payment of sums secured by the Security Instrument and not previously recovered.

(c) Lender shall have the right from time to time to sever the Note and the other Loan Documents into one or more separate notes, mortgages and other security documents (the "**Severed Loan Documents**") in such denominations as Lender shall determine in its sole discretion for purposes of evidencing and enforcing its rights and remedies provided hereunder. Borrower shall execute and deliver to Lender from time to time, promptly after the request of Lender, a severance agreement and such other documents as Lender shall reasonably request in order to effect the severance described in the preceding sentence, all in form and substance reasonably satisfactory to Lender. Borrower hereby absolutely and irrevocably appoints Lender as its true and lawful attorney, coupled with an interest, in its name and stead to make and execute all documents necessary or desirable to effect the aforesaid severance, Borrower ratifying all that its said attorney shall do by virtue thereof; provided, however, Lender shall not make or execute any such documents under such power until three (3) days after notice has been given to Borrower by

Lender of Lender's intent to exercise its rights under such power. Except as may be required in connection with a Securitization pursuant to Section 9.1 hereof, (i) Borrower shall not be obligated to pay any costs or expenses incurred in connection with the preparation, execution, recording or filing of the Severed Loan Documents, and (ii) the Severed Loan Documents shall not contain any representations, warranties or covenants not contained in the Loan Documents and any such representations and warranties contained in the Severed Loan Documents will be given by Borrower only as of the Closing Date.

(d) Lender shall have the right from time to time to partially foreclose the Security Instrument in any manner and for any amounts secured by the Security Instrument then due and payable as determined by Lender in its sole discretion, including the following circumstances: (i) in the event Borrower defaults beyond any applicable grace period in the payment of one or more scheduled payments of principal and/or interest, Lender may foreclose the Security Instrument to recover such delinquent payments, or (ii) in the event Lender elects to accelerate less than the entire Outstanding Principal Balance, Lender may foreclose the Security Instrument to recover so much of the Debt as Lender may accelerate and such other sums secured by the Security Instrument as Lender may elect. Notwithstanding one or more partial foreclosures, the Property shall remain subject to the Security Instrument to secure payment of sums secured by the Security Instrument and not previously recovered.

(e) Any amounts recovered from the Property or any other collateral for the Loan after an Event of Default may be applied by Lender toward the payment of any interest and/or principal of the Loan and/or any other amounts due under the Loan Documents in such order, priority and proportions as Lender in its sole discretion shall determine.

(f) If an Event of Default exists, Lender may (directly or by its agents, employees, contractors, engineers, architects, nominees, attorneys or other representatives), but without any obligation to do so and without notice to Borrower and without releasing Borrower from any obligation hereunder, cure the Event of Default in such manner and to such extent as Lender may deem necessary to protect the security hereof. Subject to Tenant' rights under the Leases, and Unit Purchasers, Lender (and its agents, employees, contractors, engineers, architects, nominees, attorneys or other representatives) are authorized to enter upon the Property to cure such Event of Default, and Lender is authorized to appear in, defend, or bring any action or proceeding reasonably necessary to maintain, secure or otherwise protect the Property or any portion thereof or the priority of the Lien granted by the Security Instrument.

(g) Lender may appear in and defend any action or proceeding brought with respect to the Property or any portion thereof and may bring any action or proceeding, in the name and on behalf of Borrower, which Lender, in its sole discretion, decides should be brought to protect its interest in the Property. Lender shall, at its option, be subrogated to the Lien of any mortgage or other security instrument discharged in whole or in part by the Obligations, and any such subrogation rights shall constitute additional security for the payment of the Obligations.

(h) As used in this Section 8.1.1, a "foreclosure" shall include, without limitation, a power of sale.

8.1.2 Remedies Cumulative; Waivers. The rights, powers and remedies of Lender under this Agreement shall be, subject to Section 3.1, cumulative and not exclusive of any other right, power or remedy which Lender may have against Borrower pursuant to this Agreement or the other Loan Documents, or existing at law or in equity or otherwise. Lender's rights, powers and remedies may be pursued singularly, concurrently or otherwise, at such time and in such order as Lender may determine in Lender's sole discretion. No delay or omission to exercise any remedy, right or power accruing upon an Event of Default shall impair any such remedy, right or power or shall be construed as a waiver thereof, but any such remedy, right or power may be exercised from time to time and as often as may be deemed expedient. A waiver of one Default or Event of Default with respect to Borrower shall not be construed to be a waiver of any subsequent Default or Event of Default by Borrower or to impair any remedy, right or power consequent thereon.

8.1.3 Construction Related Remedies. Upon the occurrence and thereafter during the continuance of an Event of Default:

(a) Right to Stop Disbursing Funds. In addition to any other rights and remedies which Lender may have pursuant to this Agreement and the other Loan Documents (but subject to the terms of the Guaranty applicable to the Guarantor's right to access Undisbursed Loan proceeds and Escrow Funds) or pursuant to law or equity, and without limitation thereof, (i) so long as a Monetary Default, other material Default, or an Event of Default shall exist, Lender may decline to make all or any portion of such further Disbursements of any unadvanced portion of the Loan as Lender may elect and/or (ii) so long as an Event of Default shall exist, any or all obligations of Lender under this Agreement, at the option of Lender, shall cease and terminate; provided, however, Lender may make all or any portion of any Disbursements of any unadvanced portion of the Loan so long as any such Monetary Default, other material Default, or an Event of Default shall exist without thereby becoming obligated to make all or a portion of any other or further Disbursements of any unadvanced portion of the Loan or waiving Lender's right to exercise any of Lender's rights and remedies pursuant to any one or more of the Loan Documents or as may be available at law or equity.

(b) Right to Complete. In addition to any other rights and remedies which Lender may have under this Agreement and the other Loan Documents or pursuant to law or equity, and without limitation thereof, after the occurrence of any Event of Default and upon acceleration of the Loan, Lender may enter upon the Property and into possession of the Property and any other Property (and exclude Borrower and any other persons therefrom) and cause Final Completion of the construction of the Project in accordance with the Plans and Specifications in all material respects, with such changes therein as Lender may from time to time deem appropriate (provided that Borrower's obligations hereunder (and Guarantor's obligations under the Completion Guaranty) shall not include (i) any increases in the total cost of Final Completion caused solely as a result of alterations to the Project that are not in accordance with the Plans and Specifications in all material respects and that are performed by or at the direction of Lender following an Event of Default or (ii) any increases in the total cost of Final Completion caused solely by Lender's intentional misconduct or gross negligence), all at the sole risk, cost and expense of Borrower. Lender shall have the right, at any and all times, in its sole discretion to discontinue any work commenced by Lender with respect to the construction of the Project or to change any course of action undertaken by it and shall not be bound by any limitations or

requirements of time whether set forth herein or otherwise. Upon acceleration of the Loan, Lender shall have the right and power (but shall not be obligated) to assume all or any portion of the obligations of Borrower under any or all Project documents as Lender may elect and to take over and use all or any part or parts of the labor, materials, supplies and equipment contracted for by or on behalf of Borrower, whether or not previously incorporated into the Property. In connection with any portion of the construction of the Project undertaken by Lender pursuant to the provisions of this Section 8.1.3, Lender may do any or all of the following as Lender, in its sole discretion, may elect:

(i) engage builders, general contractors, general and trade contractors, suppliers, architects, engineers, inspectors and others for the purpose of furnishing labor, materials, equipment and fixtures in connection with the construction of the Improvements;

(ii) amend, modify or terminate any then existing contracts between Borrower and any of the persons described in the preceding clause (i);

(iii) pay, settle or compromise all bills or claims which may become Liens against the Property, or which have been or may be incurred in any manner in connection with the construction of the Project or for the discharge of liens, encumbrances or defects in the title of the Property; and

(iv) take such other action (including the employment of watchmen and the taking of other measures to protect the Property) or refrain from acting under this Agreement as Lender may in its sole and absolute discretion from time to time determine without any limitation whatsoever.

(c) Sums Advanced. Borrower shall be liable to Lender for all sums paid or incurred for the construction of the Project pursuant to the provisions of this Section 8.1.3 (except to the extent it is determined by a court of competent jurisdiction, beyond right of appeal, that such liabilities arose solely and directly out of the gross negligence or willful misconduct of Lender or any increases in the total cost of Final Completion caused solely as a result of alterations to the Project that are not in accordance with the Plans and Specifications in all material respects other than alterations to the Project that are required to be made to comply with Legal Requirements, Unit Sale Contracts or the Condominium Documents and that are performed by or at the direction of Lender following an Event of Default), all of which shall be paid by Borrower to Lender upon demand with interest at the Default Rate to the date of payment to Lender, and all of the foregoing sums, including such interest at the Default Rate, shall be deemed and shall constitute Disbursements under this Agreement and be evidenced by the Note and secured by the Security Documents.

ARTICLE IX
SPECIAL PROVISIONS

Section 9.1 Transfer of Loan.

(a) Securitization. Lender may, at any time, sell, transfer or assign this Agreement, the Note, the Security Instrument and the other Loan Documents, and any or all servicing rights with respect thereto, or grant participations therein (the "**Securities**") (such sales, transfers, assignments and/or participations, collectively, a "**Securitization**"). Lender may forward to each purchaser, transferee, assignee, servicer, participant or investor in such participations or Securities (collectively, the "**Investor**") or any Rating Agency rating such Securities, each prospective Investor, and any organization maintaining databases on the underwriting and performance of commercial mortgage loans, all documents and information which Lender now has or may hereafter acquire relating to the Loan or to Borrower, any Guarantor or the Property, whether furnished by Borrower, any Guarantor or otherwise, as Lender determines necessary or desirable, including, without limitation, financial statements relating to Borrower, Guarantor, the Property and any Tenant at the Property. Borrower irrevocably waives any and all rights it may have under law or in equity to prohibit such disclosure, including but not limited to any right of privacy. Any assignee shall be treated as a Lender for all purposes hereunder. Any purchaser of a participation interest shall be entitled to the benefits of Section 2.11 and Section 5.1.24 as if it were a Lender hereunder (subject to the requirements and limitations therein, including the requirements under Section 2.11(e) (it being understood that the documentation required under Section 2.11(e) shall be delivered to the participating Lender). **NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED HEREIN, LENDER SHALL HAVE NO RIGHT TO ISSUE MORTGAGE PASS-THROUGH CERTIFICATES OR OTHER SECURITIES EVIDENCING A BENEFICIAL INTEREST IN A RATED OR UNRATED PUBLIC OFFERING OR PRIVATE PLACEMENT OR ENGAGE IN ANY OTHER CMBS OR SIMILAR SECURITIZATION OF THE LOAN.**

(b) Register. Lender, acting solely for this purpose as an agent of Borrower, shall maintain at its office a register for the recordation of the names and addresses of any party to whom it assigns a portion of the Loan (for purposes of this Section 9.1(b) and Section 9.1(c), each a "**Lender**" and collectively, the "**Lenders**"), and principal amounts (and stated interest) of the portion of the Loan owing to, each Lender pursuant to the terms hereof from time to time (the "**Register**"). The entries in the Register shall be conclusive absent manifest error, and Borrower and Lenders shall treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(c) Participant Register. Each Lender that sells a participation shall, acting solely for this purpose as an agent of Borrower, maintain a register on which it enters the name and address of each participant and the principal amounts (and stated interest) of each participant's interest in the Loans or other obligations under the Loan Documents (the "**Participant Register**"); provided that no Lender shall have any obligation to disclose all or any portion of the Participant Register (including the identity of any participant or any information relating to a participant's

interest in any commitments, loans, or its other obligations under any Loan Document) to any Person except to the extent that such disclosure is necessary to establish that such commitment, loan, or other obligation is in registered form under Section 5f.103-1(c) of the United States Treasury regulations. The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary.

Section 9.2 Cooperation. Borrower, agrees (and agrees to cause Guarantor) to cooperate with Lender (and agrees to cause their respective officers and representatives to cooperate) in connection with any transfer made or any Securities created pursuant to this Article IX, including, without limitation, the taking, or refraining from taking, of such action as may be necessary to satisfy all of the conditions of any Investor, the delivery of an estoppel certificate required in accordance with Section 5.1.15 hereof and such other documents as may be reasonably requested by Lender, and the execution of amendments to this Agreement, the Note, the Security Instrument and other Loan Documents and Borrower's organizational documents as reasonably requested by Lender; provided that (i) Borrower shall be reimbursed for its reasonable costs and expenses in connection with its obligations under this Section 9.2 and Lender shall bear its own costs and expenses under this Section 9.2 and (ii) no changes to the Loan Documents shall be required which will result in an increase in the aggregate debt or monthly debt service payments. Borrower shall also furnish and Borrower and Guarantor consent to Lender furnishing to such Investors or prospective Investors or any Rating Agency any and all information concerning the Property, the Leases, the financial condition of Borrower and Guarantor as may be requested by Lender, any Investor, any prospective Investor or any Rating Agency in connection with any sale, transfer or participations or Securities and shall indemnify the Indemnified Parties against, and hold the Indemnified Parties harmless from, any losses, claims, damages or liabilities (collectively, the "**Liabilities**") to which any such Indemnified Parties may become subject insofar as the Liabilities arise out of or are based upon any untrue statement or allegedly untrue statement of any material fact contained in a Disclosure Document or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated in the Disclosure Document or necessary in order to make the statements in the Disclosure Document, in light of the circumstances under which they were made, not misleading and agreeing to reimburse the Indemnified Parties for any legal or other expenses reasonably incurred by each of them in connection with investigating or defending the Liabilities; provided, however, that Borrower will be liable in any such case under this Section 9.2 only to the extent that any such loss, claim, damage or liability arises out of or is based upon any such untrue statement or omission made therein in reliance upon and in conformity with information furnished to Lender by or on behalf of Borrower in connection with the preparation of the Disclosure Document or in connection with the underwriting or closing of the Loan, including, without limitation, financial statements of Borrower, operating statements and rent rolls with respect to the Property. This indemnity agreement will be in addition to any liability which Borrower may otherwise have and shall survive the termination of the Security Instrument and the satisfaction and discharge of the Debt.

Section 9.3 Servicer. At the option of Lender, the Loan may be serviced by a master servicer, primary servicer, special servicer and/or trustee (any such master servicer, primary servicer, special servicer, and/or trustee, together with its agents, nominees or designees, are collectively referred to as "**Servicer**") selected by Lender and Lender may delegate all or any

portion of its responsibilities under this Agreement and the other Loan Documents to Servicer pursuant to a pooling and servicing agreement, servicing agreement, special servicing agreement or other agreement providing for the servicing of one or more mortgage loans (collectively, the "**Servicing Agreement**") between Lender and Servicer. Borrower shall be responsible for any reasonable set up fees or any other initial costs relating to or arising under the Servicing Agreement, but Borrower shall not be responsible for payment of the regular monthly master servicing fee or trustee fee due to Servicer under the Servicing Agreement or any fees or expenses required to be borne by, and not reimbursable to, Servicer. Notwithstanding the foregoing, Borrower shall promptly reimburse Lender on demand for (a) interest payable on advances made by Servicer with respect to delinquent debt service payments (to the extent interest at the Default Rate actually paid by Borrower in respect of such payments are insufficient to pay the same) or expenses paid by Servicer or trustee in respect of the protection and preservation of the Property or any portion thereof (including, without limitation, on account of Basic Carrying Costs), (b) all costs and expenses, liquidation fees, workout fees, special servicing fees, operating advisor fees or any other similar fees payable by Lender to Servicer which may be due and payable under the Servicing Agreement (whether on a periodic or a continuing basis) as a result of an Event of Default under the Loan, the Loan becoming specially serviced, the commencement or continuance of any enforcement action of any kind with respect to the Loan or any of the Loan Documents, a refinancing or a restructuring of the credit arrangements provided under this Agreement in the nature of a "work-out" of the Loan Documents, or any Bankruptcy Action involving Borrower, Pledgor, Principal, Guarantor or any of their respective principals or Affiliates, (c) all costs and expenses of any Property inspections and/or Appraisals (or any updates to any existing inspection or Appraisal) that Servicer or the trustee may be required to obtain (other than the cost of regular annual inspections required to be borne by Servicer under the Servicing Agreement), and (d) all costs and expenses relating to or arising from any special requests made by Borrower or Guarantor during the term of the Loan including, without limitation, in connection with a prepayment, defeasance, assumption or modification of the Loan.

Section 9.4 Restructuring of Loan.

(a) Lender, without in any way limiting Lender's other rights hereunder, in its sole and absolute discretion, shall have the right at any time to require Borrower to restructure the Loan into additional multiple notes (which may include component notes and/or senior and junior notes), to re-allocate principal among component notes and/or senior and junior notes and/or to create participation interests in the Loan, which restructuring may include the restructuring of a portion of the Loan to one or more of the foregoing or to one or more mezzanine loans (the "**New Mezzanine Loan**") to the direct or indirect owners of the equity interests in Borrower, secured by a pledge of such interests, the establishment of different interest rates and debt service payments for the Loan, and the New Mezzanine Loan and the payment of the Loan, and the New Mezzanine Loan in such order of priority as may be designated by Lender; provided that (i) the total principal amounts of the Loan (including any component notes), and the New Mezzanine Loan shall equal the total principal amount of the Loan immediately prior to the restructuring, (ii) except in the case of the occurrence of an Event of Default or a default beyond all notice and cure periods under the New Mezzanine Loan, the weighted average interest rate of the Loan and the New Mezzanine Loan, if any, shall, in the aggregate, equal the Interest Rate, (iii) except in the case of the occurrence of an Event of Default and/or a default beyond all notice and cure periods under the

New Mezzanine Loan, the aggregate debt service payments on the Loan and the New Mezzanine Loan shall equal the aggregate debt service payments which would have been payable under.

(b) Borrower shall cooperate with all reasonable requests of Lender in order to restructure the Note, the Loan and/or to create a New Mezzanine Loan, if applicable, and shall, upon ten (10) Business Days' written notice from Lender, which notice shall include the forms of documents for which Lender is requesting execution and delivery, (i) execute and deliver such documents, including, without limitation, in the case of any New Mezzanine Loan, a mezzanine note, a mezzanine loan agreement, a pledge and security agreement and a mezzanine deposit account agreement, (ii) cause Borrower's counsel to deliver such legal opinions, and (iii) create such a bankruptcy remote borrower under the New Mezzanine Loan as, in each of the cases of clauses (i), (ii) and (iii) above, shall be reasonably required by Lender and required by any Rating Agency in connection therewith, all in form and substance reasonably satisfactory to Lender, including, without limitation, the severance of this Agreement, the Security Instrument and the other Loan Documents if requested; provided, however, that following any such amendments required by Lender (A) the total principal amounts of the Loan (including any component notes), and the New Mezzanine Loan shall equal the total principal amount of the Loan immediately prior to the restructuring, (B) except in the case of the occurrence of an Event of Default or a default beyond all notice and cure periods under the New Mezzanine Loan, the weighted average interest rate of the Loan and the New Mezzanine Loan, if any, shall, in the aggregate, equal the Interest Rate, and (C) except in the case of the occurrence of an Event of Default and/or a default beyond all notice and cure periods under the New Mezzanine Loan, the aggregate debt service payments on the Loan and the New Mezzanine Loan shall equal the aggregate debt service payments which would have been payable under the Loan had the restructuring not occurred.

(c) Lender shall be responsible for Borrower's and Lender's costs and expenses incurred in connection with the restructuring transactions contemplated by this Section 9.4.

(d) In the event Borrower fails to execute and deliver such documents described in this Section 9.4 to Lender within ten (10) Business Days' following such written notice by Lender, and Lender sends a second notice to Borrower with respect to the delivery of such documents containing a legend clearly marked in not less than fourteen (14) point bold face type, underlined, in all capital letters "POWER OF ATTORNEY IN FAVOR OF LENDER DEEMED EFFECTIVE FOR EXECUTION AND DELIVERY OF DOCUMENTS IF NO RESPONSE WITHIN 10 BUSINESS DAYS", Borrower hereby absolutely and irrevocably appoints Lender as its true and lawful attorney, coupled with an interest, in its name and stead to make and execute all documents necessary or desirable to effect such transactions, Borrower ratifying all that such attorney shall do by virtue thereof, if Borrower fails to execute and deliver such documents within ten (10) Business Days of delivery of such second notice. It shall be an Event of Default if Borrower fails to comply with any of the terms, covenants or conditions of this Section 9.4 after the expiration of ten (10) Business Days after delivery of the second notice thereof.

Section 9.5 Lender as Agent. So long as no Event of Default has occurred and is continuing, Lender agrees that (i) to the extent any portion of the Loan is participated, syndicated or otherwise transferred, Initial Lender shall serve as the "administrative agent" with respect to the Loan and will oversee the general administration of the Loan, subject to any usual and customary

approval rights that may be granted to other lenders hereunder from time to time and (ii) with respect to any requests for approval hereunder, Borrower shall only be required to make such requests to Initial Lender.

ARTICLE X

MISCELLANEOUS

Section 10.1 Survival. This Agreement and all covenants, agreements, representations and warranties made herein and in the certificates delivered pursuant hereto shall survive the making by Lender of the Loan and the execution and delivery to Lender of the Note, and shall continue in full force and effect so long as all or any of the Obligations are outstanding and unpaid, unless a longer period is expressly set forth herein or in the other Loan Documents. Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the legal representatives, successors and assigns of such party. All covenants, promises and agreements in this Agreement, by or on behalf of Borrower, shall inure to the benefit of the legal representatives, successors and assigns of Lender.

Section 10.2 Lender's Discretion. Whenever pursuant to this Agreement, Lender exercises any right given to it to approve or disapprove, or any arrangement or term is to be satisfactory to Lender, the decision of Lender to approve or disapprove or to decide whether arrangements or terms are satisfactory or not satisfactory shall (except as is otherwise specifically herein provided) be in the sole discretion of Lender and shall be final and conclusive. Notwithstanding anything to the contrary contained herein or in any of the other Loan Documents, during the existence of an Event of Default under this Agreement or any of the other Loan Documents, any consent, approval or decision of Lender that is herein or therein provided to be in the "reasonable" discretion of Lender, or words of similar import, shall instead be deemed to be subject to the sole and absolute discretion of Lender.

Section 10.3 Governing Law.

(a) THIS AGREEMENT WAS NEGOTIATED IN THE STATE OF NEW YORK, THE LOAN WAS MADE BY LENDER AND ACCEPTED BY BORROWER IN THE STATE OF NEW YORK, AND THE PROCEEDS OF THE LOAN DELIVERED PURSUANT HERETO WERE DISBURSED FROM THE STATE OF NEW YORK, WHICH STATE THE PARTIES IRREVOCABLY AND UNCONDITIONALLY AGREE HAS A SUBSTANTIAL RELATIONSHIP TO THE PARTIES AND TO THE UNDERLYING TRANSACTION EMBODIED HEREBY, AND IN ALL RESPECTS, INCLUDING, WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE, EACH AND ALL OF THIS AGREEMENT, THE NOTE, THE OTHER LOAN DOCUMENTS, AND THE OBLIGATIONS ARISING HEREUNDER AND THEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND PERFORMED IN SUCH STATE (WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS) AND ANY APPLICABLE LAW OF THE UNITED STATES OF AMERICA, EXCEPT THAT AT ALL TIMES THE ATTACHMENT, CREATION, PERFECTION, AND

ENFORCEMENT OF THE LIENS AND SECURITY INTERESTS CREATED UNDER THE SECURITY INSTRUMENT AND THE ASSIGNMENT OF LEASES IN FAVOR OF LENDER IN RESPECT OF RENTS, REAL PROPERTY AND/OR PERSONAL PROPERTY SHALL BE GOVERNED BY AND CONSTRUED ACCORDING TO THE LAW OF THE STATE IN WHICH SUCH REAL PROPERTY IS LOCATED, IT BEING UNDERSTOOD THAT, TO THE FULLEST EXTENT PERMITTED BY THE LAW OF SUCH STATE, THE LAW OF THE STATE OF NEW YORK SHALL GOVERN THE CONSTRUCTION, VALIDITY AND ENFORCEABILITY OF THIS AGREEMENT, THE NOTE AND THE LOAN AND ALL OF THE OBLIGATIONS ARISING HEREUNDER OR THEREUNDER. TO THE FULLEST EXTENT PERMITTED BY LAW, BORROWER HEREBY UNCONDITIONALLY AND IRREVOCABLY WAIVES ANY CLAIM TO ASSERT THAT THE LAW OF ANY OTHER JURISDICTION GOVERNS THIS AGREEMENT, THE NOTE AND/OR THE LOAN, AND THIS AGREEMENT, THE NOTE AND THE LOAN SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK PURSUANT TO SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW. IT IS HEREBY ACKNOWLEDGED AND AGREED THAT THE ESTABLISHMENT AND MAINTENANCE OF THE CONDOMINIUM SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE CONDOMINIUM ACT.

(b) ANY LEGAL SUIT, ACTION OR PROCEEDING AGAINST BORROWER OR LENDER ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE NOTE, ANY OTHER LOAN DOCUMENT OR THE ATTACHMENT, CREATION, PERFECTION, OR ENFORCEMENT OF THE LIENS AND SECURITY INTERESTS CREATED UNDER THE SECURITY INSTRUMENT AND THE ASSIGNMENT OF LEASES SHALL BE INSTITUTED IN ANY FEDERAL OR STATE COURT LOCATED IN NEW YORK, INCLUDING WITHOUT LIMITATION, ANY STATE OR FEDERAL COURT LOCATED IN THE COUNTY OF NEW YORK, OR, AT LENDER'S OPTION, HAWAII, INCLUDING WITHOUT LIMITATION, ANY STATE OR FEDERAL COURT LOCATED IN THE COUNTY IN WHICH THE REAL PROPERTY ENCUMBERED BY THE SECURITY INSTRUMENT IS LOCATED, AND BORROWER AND LENDER WAIVE ANY OBJECTIONS WHICH THEY MAY NOW OR HEREAFTER HAVE BASED ON VENUE AND/OR FORUM NON CONVENIENS OF ANY SUCH SUIT, ACTION OR PROCEEDING, AND BORROWER HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY SUCH COURT IN ANY SUIT, ACTION OR PROCEEDING. BORROWER DOES HEREBY DESIGNATE AND APPOINT:

Corporation Service Company
1180 Avenue of the Americas, Suite 210
New York, NY 10036

AS ITS AUTHORIZED AGENT TO ACCEPT AND ACKNOWLEDGE ON ITS BEHALF SERVICE OF ANY AND ALL PROCESS WHICH MAY BE SERVED IN ANY SUCH SUIT, ACTION OR PROCEEDING IN ANY FEDERAL OR STATE COURT, AND AGREES THAT SERVICE OF PROCESS UPON SAID AGENT AT SAID ADDRESS AND NOTICE OF SAID SERVICE MAILED OR DELIVERED TO BORROWER IN THE MANNER PROVIDED HEREIN SHALL BE DEEMED IN EVERY RESPECT EFFECTIVE SERVICE OF PROCESS

UPON BORROWER IN ANY SUCH SUIT, ACTION OR PROCEEDING INCLUDING WITHOUT LIMITATION THOSE IN THE STATE OF NEW YORK. BORROWER (I) SHALL GIVE PROMPT NOTICE TO LENDER OF ANY CHANGED ADDRESS OF ITS AUTHORIZED AGENT HEREUNDER, (II) MAY AT ANY TIME AND FROM TIME TO TIME DESIGNATE A SUBSTITUTE AUTHORIZED AGENT WITH AN OFFICE IN NEW YORK, NEW YORK (WHICH SUBSTITUTE AGENT AND OFFICE SHALL BE DESIGNATED AS THE PERSON AND ADDRESS FOR SERVICE OF PROCESS), AND (III) SHALL PROMPTLY DESIGNATE SUCH A SUBSTITUTE IF ITS AUTHORIZED AGENT CEASES TO HAVE AN OFFICE IN NEW YORK, NEW YORK OR IS DISSOLVED WITHOUT LEAVING A SUCCESSOR. NOTHING CONTAINED HEREIN SHALL AFFECT THE RIGHT OF LENDER TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST BORROWER IN ANY JURISDICTION.

Section 10.4 Modification, Waiver in Writing. No modification, amendment, extension, discharge, termination or waiver of any provision of this Agreement, or of the Note, or of any other Loan Document, nor consent to any departure by Borrower therefrom, shall in any event be effective, unless the same shall be in a writing signed by the party against whom enforcement is sought, and then such waiver or consent shall be effective only in the specific instance, and for the purpose, for which given. Except as otherwise expressly provided herein, no notice to, or demand on Borrower, shall entitle Borrower to any other or future notice or demand in the same, similar or other circumstances.

Section 10.5 Delay Not a Waiver. Neither any failure nor any delay on the part of Lender in insisting upon strict performance of any term, condition, covenant or agreement, or exercising any right, power, remedy or privilege hereunder, or under the Note or under any other Loan Document, or any other instrument given as security therefor, shall operate as or constitute a waiver thereof, nor shall a single or partial exercise thereof preclude any other future exercise, or the exercise of any other right, power, remedy or privilege. In particular, and not by way of limitation, by accepting payment after the due date of any amount payable under this Agreement, the Note or any other Loan Document, Lender shall not be deemed to have waived any right either to require prompt payment when due of all other amounts due under this Agreement, the Note or the other Loan Documents, or to declare a default for failure to effect prompt payment of any such other amount.

Section 10.6 Notices. All notices, consents, approvals and requests required or permitted hereunder or under any other Loan Document shall be given in writing and shall be effective for all purposes if hand delivered or sent by (a) certified or registered United States mail, postage prepaid, return receipt requested or (b) expedited prepaid delivery service, either commercial or United States Postal Service, with proof of attempted delivery, addressed as follows (or at such other address and Person as shall be designated from time to time by any party hereto, as the case may be, in a notice to the other parties hereto in the manner provided for in this Section 10.6):

If to Lender: BREDS II Mortgage Corp.

c/o Blackstone Real Estate Debt Strategies
345 Park Avenue
New York, New York 10154
Attention: Randall Rothschild

With copies to: c/o Blackstone Real Estate Debt Strategies
345 Park Avenue
New York, New York 10154
Attention: Thomas Ruffing

Gibson, Dunn & Crutcher LLP
2029 Century Park East
Los Angeles, CA 90067-3026
Attention: Jesse Sharf

If to Borrower: c/o The Howard Hughes Corporation
13355 Noel Road, 22nd Floor
Dallas, Texas 75240
Attention: President

With a copy to: c/o The Howard Hughes Corporation
13355 Noel Road, 22nd Floor
Dallas, Texas 75240
Attention: General Counsel

A notice shall be deemed to have been given: in the case of hand delivery, at the time of delivery; in the case of registered or certified mail, when delivered or the first attempted delivery on a Business Day; or in the case of expedited prepaid delivery, upon the first attempted delivery on a Business Day. Any failure to deliver a notice by reason of a change of address not given in accordance with this Section 10.6, or any refusal to accept a notice, shall be deemed to have been given when delivery was attempted. Any notice required or permitted to be given by any party hereunder or under any other Loan Document may be given by its respective counsel. Additionally, any notice required or permitted to be given by Lender hereunder or under any other Loan Document may also be given by the Servicer.

Section 10.7 Trial by Jury. BORROWER AND LENDER HEREBY AGREE NOT TO ELECT A TRIAL BY JURY OF ANY ISSUE TRIABLE OF RIGHT BY JURY, AND WAIVES ANY RIGHT TO TRIAL BY JURY FULLY TO THE EXTENT THAT ANY SUCH RIGHT SHALL NOW OR HEREAFTER EXIST WITH REGARD TO THE LOAN DOCUMENTS, OR ANY CLAIM, COUNTERCLAIM OR OTHER ACTION ARISING IN CONNECTION THEREWITH. THIS WAIVER OF RIGHT TO TRIAL BY JURY IS GIVEN KNOWINGLY AND VOLUNTARILY BY BORROWER AND LENDER, AND IS INTENDED TO ENCOMPASS INDIVIDUALLY EACH INSTANCE AND EACH ISSUE AS TO WHICH THE RIGHT TO A TRIAL BY JURY WOULD OTHERWISE ACCRUE. LENDER IS HEREBY AUTHORIZED TO FILE A COPY OF THIS PARAGRAPH IN ANY PROCEEDING AS CONCLUSIVE EVIDENCE OF THIS WAIVER BY BORROWER AND LENDER.

Section 10.8 Headings. The Article and/or Section headings and the Table of Contents in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

Section 10.9 Severability. Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

Section 10.10 Preferences. Lender shall have the continuing and exclusive right to apply or reverse and reapply any and all payments by Borrower to any portion of the Debt. To the extent Borrower makes a payment or payments to Lender, which payment or proceeds or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then, to the extent of such payment or proceeds received, the Obligations hereunder or part thereof intended to be satisfied shall be revived and continue in full force and effect, as if such payment or proceeds had not been received by Lender.

Section 10.11 Waiver of Notice. Borrower hereby expressly waives, and shall not be entitled to, any notices of any nature whatsoever from Lender except with respect to matters for which this Agreement or the other Loan Documents specifically and expressly provide for the giving of notice by Lender to Borrower and except with respect to matters for which Borrower is not, pursuant to applicable Legal Requirements, permitted to waive the giving of notice.

Section 10.12 Remedies of Borrower. In the event that a claim or adjudication is made that Lender or its agents have acted unreasonably or unreasonably delayed acting in any case where by law or under this Agreement or the other Loan Documents Lender or such agent, as the case may be, has an obligation to act reasonably or promptly, Borrower agrees that neither Lender nor its agents shall be liable for any monetary damages, and Borrower's sole remedies shall be limited to commencing an action seeking injunctive relief or declaratory judgment. The parties hereto agree that any action or proceeding to determine whether Lender has acted reasonably shall be determined by an action seeking declaratory judgment. Further, it is agreed Lender shall not be in default under this Agreement, or under any other Loan Document, unless a written notice specifically setting forth the claim of Borrower shall have been given to Lender within thirty (30) days after Borrower first had knowledge of the occurrence of the event which Borrower alleges gave rise to such claim and Lender does not remedy or cure the default, if any there be, promptly thereafter. Failure to give such notice shall constitute a waiver of such claim.

Section 10.13 Expenses; Indemnity.

(a) Borrower covenants and agrees to pay or, if Borrower fails to pay, to reimburse, Lender upon receipt of notice from Lender for all costs and expenses (including reasonable attorneys' fees and disbursements) incurred by Lender in connection with (i) the preparation, negotiation, execution and delivery of this Agreement and the other Loan Documents and the consummation of the transactions contemplated hereby and thereby and all the costs of furnishing all opinions by counsel for Borrower (including without limitation any opinions

requested by Lender as to any legal matters arising under this Agreement or the other Loan Documents with respect to the Property or any portion thereof); (ii) Borrower's ongoing performance of and compliance with Borrower's respective agreements and covenants contained in this Agreement and the other Loan Documents on its part to be performed or complied with after the Closing Date, including, without limitation, confirming compliance with environmental and insurance requirements; (iii) Lender's ongoing performance and compliance with all agreements and conditions contained in this Agreement and the other Loan Documents on its part to be performed or complied with after the Closing Date; (iv) the negotiation, preparation, execution, delivery and administration of any consents, amendments, waivers or other modifications to this Agreement and the other Loan Documents and any other documents or matters requested by Lender; (v) securing Borrower's compliance with any requests made pursuant to the provisions of this Agreement; (vi) the filing and recording fees and expenses, title insurance and reasonable fees and expenses of counsel for providing to Lender all required legal opinions, and other similar expenses incurred in creating and perfecting the Liens in favor of Lender pursuant to this Agreement and the other Loan Documents; (vii) enforcing or preserving any rights, either in response to third-party claims or in prosecuting or defending any action or proceeding or other litigation, in each case against, under or affecting Borrower, this Agreement, the other Loan Documents, the Property or any portion thereof, or any other security given for the Loan; and (viii) enforcing any obligations of or collecting any payments due from Borrower under this Agreement, the other Loan Documents or with respect to the Property or any portion thereof (including any fees and expenses reasonably incurred by or payable to Servicer or a trustee in connection with the transfer of the Loan to a special servicer upon Servicer's anticipation of a Default or Event of Default, liquidation fees, workout fees, special servicing fees, operating advisor fees or any other similar fees and interest payable on advances made by the Servicer with respect to delinquent debt service payments or expenses of curing Borrower's defaults under the Loan Documents), or in connection with any refinancing or restructuring of the credit arrangements provided under this Agreement in the nature of a "work-out" or of any insolvency or bankruptcy proceedings or any other amounts required under Section 9.3; provided, however, that Borrower shall not be liable for the payment of any such costs and expenses to the extent the same arise by reason of the gross negligence, illegal acts, fraud or willful misconduct of Lender. Any cost and expenses due and payable to Lender may be paid from any amounts in the Clearing Account or the Cash Management Account, as applicable.

(b) Borrower shall indemnify, defend and hold harmless the Indemnified Parties from and against any and all Losses that may be imposed on, incurred by, or asserted against any Indemnified Party in any manner relating to or arising out of (i) any breach by Borrower of its Obligations under, or any material misrepresentation by Borrower contained in, this Agreement or the other Loan Documents, or (ii) the use or intended use of the proceeds of the Loan (the liabilities, losses, costs, expenses and other matters described in this subparagraph (b), collectively, the "**Indemnified Liabilities**"); provided, however, that Borrower shall not have any obligation to an Indemnified Party hereunder to the extent that such Indemnified Liabilities arise from the gross negligence, illegal acts, fraud or willful misconduct of such Indemnified Party. To the extent that the undertaking to indemnify, defend and hold harmless set forth in the preceding sentence may be unenforceable because it violates any law or public policy, Borrower shall pay the maximum portion that it is permitted to pay and satisfy under applicable law to the payment and satisfaction of all Indemnified Liabilities incurred by the Indemnified Parties.

(c) Borrower covenants and agrees to pay or, if Borrower fails to pay, to reimburse Lender for, any fees and expenses incurred by any Rating Agency in connection with any Rating Agency review of the Loan, the Loan Documents or any transaction contemplated thereby or any consent, approval, waiver or confirmation obtained from such Rating Agency pursuant to the terms and conditions of this Agreement or any other Loan Document and Lender shall be entitled to require payment of such fees and expenses as a condition precedent to the obtaining of any such consent, approval, waiver or confirmation.

(d) Borrower shall indemnify, defend and hold harmless each Indemnified Party against any Losses to which each such Indemnified Party may become subject (i) in connection with any indemnification to the Rating Agencies in connection with issuing, monitoring or maintaining the Securities and (ii) insofar as such Losses so incurred arise out of or are based upon any untrue statement of any material fact in any information provided by or on behalf of the Borrower or Guarantor to the Rating Agencies, if any (the "**Covered Rating Agency Information**") or arise out of or are based upon the omission to state a material fact in the Covered Rating Agency Information required to be stated therein or necessary in order to make the statements in the Covered Rating Agency Information, in light of the circumstances under which they were made, not misleading.

Section 10.14 Schedules Incorporated. The Schedules annexed hereto are hereby incorporated herein as a part of this Agreement with the same effect as if set forth in the body hereof.

Section 10.15 Offsets, Counterclaims and Defenses. Any assignee of Lender's interest in and to this Agreement, the Note and the other Loan Documents shall take the same free and clear of all offsets, counterclaims or defenses, which are unrelated to such documents that Borrower may otherwise have against any assignor of such documents, and no such unrelated counterclaim or defense shall be interposed or asserted by Borrower in any action or proceeding brought by any such assignee upon such documents, and any such right to interpose or assert any such unrelated offset, counterclaim or defense in any such action or proceeding is hereby expressly waived by Borrower.

Section 10.16 No Joint Venture or Partnership; No Third Party Beneficiaries.

(a) Borrower and Lender intend that the relationships created hereunder and under the other Loan Documents be solely that of borrower and lender. Nothing herein or therein is intended to create a joint venture, partnership, tenancy-in-common, or joint tenancy relationship between Borrower and Lender nor to grant Lender any interest in the Property other than that of mortgagee, beneficiary or lender.

(b) This Agreement and the other Loan Documents are solely for the benefit of Lender and Borrower and nothing contained in this Agreement or the other Loan Documents shall be deemed to confer upon anyone other than Lender and Borrower any right to insist upon or to enforce the performance or observance of any of the Obligations contained herein or therein. All conditions to the obligations of Lender to make the Loan hereunder are imposed solely and exclusively for the benefit of Lender and no other Person shall have standing to require satisfaction of such conditions in accordance with their terms or be entitled to assume that Lender will refuse to

make the Loan in the absence of strict compliance with any or all thereof and no other Person shall under any circumstances be deemed to be a beneficiary of such conditions, any or all of which may be freely waived in whole or in part by Lender if, in Lender's sole discretion, Lender deems it advisable or desirable to do so.

Section 10.17 Publicity. All news releases, publicity or advertising by Borrower or its Affiliates through any media intended to reach the general public that refers to the Loan Documents or the financing evidenced by the Loan Documents, to Lender or any of its Affiliates, shall be subject to the prior approval of Lender. None of the Borrower or any of its Affiliates shall publicly disclose or file any Loan Document without the prior approval of Lender (except that this Loan Agreement, exclusive of the exhibits and schedules hereto, may be publicly filed to the extent required by applicable securities laws and regulations of the Securities Exchange Commission).

Section 10.18 Waiver of Marshalling of Assets. To the fullest extent permitted by law, Borrower, for itself and its successors and assigns, waives all rights to a marshalling of the assets of Borrower, Borrower's partners and others with interests in Borrower, and of the Property, or to a sale in inverse order of alienation in the event of foreclosure of the Security Instrument, and agrees not to assert any right under any laws pertaining to the marshalling of assets, the sale in inverse order of alienation, homestead exemption, the administration of estates of decedents, or any other matters whatsoever to defeat, reduce or affect the right of Lender under the Loan Documents to a sale of the Property for the collection of the Debt without any prior or different resort for collection or of the right of Lender to the payment of the Debt out of the net proceeds of the Property in preference to every other claimant whatsoever.

Section 10.19 Waiver of Counterclaim. Borrower hereby waives the right to assert a counterclaim, other than a compulsory counterclaim, in any action or proceeding brought against it by Lender or its agents.

Section 10.20 Conflict; Construction of Documents; Reliance. In the event of any conflict between the provisions of this Agreement and those of any of the other Loan Documents, the provisions of this Agreement shall control. The parties hereto acknowledge that they were represented by competent counsel in connection with the negotiation, drafting and execution of the Loan Documents and that such Loan Documents shall not be subject to the principle of construing their meaning against the party that drafted same. Borrower acknowledges that, with respect to the Loan, Borrower shall rely solely on its own judgment and advisors in entering into the Loan without relying in any manner on any statements, representations or recommendations of Lender or any Affiliate of Lender. Lender shall not be subject to any limitation whatsoever in the exercise of any rights or remedies available to it under any of the Loan Documents or any other agreements or instruments that govern the Loan by virtue of the ownership by it or any parent, subsidiary or Affiliate of Lender of any equity interest any of them may acquire in Borrower, and Borrower hereby irrevocably waives the right to raise any defense or take any action on the basis of the foregoing with respect to Lender's exercise of any such rights or remedies. Borrower acknowledges that Lender engages in the business of real estate financings and other real estate transactions and investments that may be viewed as adverse to or competitive with the business of Borrower or its Affiliates.

Section 10.21 Brokers and Financial Advisors. Other than the payment of any and all commissions or similar fees owed to Jones Lang LaSalle (the "**Broker**") in connection with the transactions contemplated by this Agreement, Borrower hereby represents that it has dealt with no financial advisors, brokers, underwriters, placement agents, agents or finders in connection with the transactions contemplated by this Agreement. Borrower hereby agrees to indemnify, defend and hold Lender harmless from and against any and all claims, liabilities, costs and expenses of any kind (including Lender's attorneys' fees and expenses) in any way relating to or arising from a claim by Broker or any other Person that such Person acted on behalf of Borrower or Lender in connection with the transactions contemplated herein. The provisions of this Section 10.21 shall survive the expiration and termination of this Agreement and the payment of the Debt.

Section 10.22 Prior Agreements. This Agreement and the other Loan Documents contain the entire agreement of the parties hereto and thereto in respect of the transactions contemplated hereby and thereby, and all prior agreements among or between such parties, whether oral or written, including, without limitation, the letter agreement dated September 15, 2014 between Blackstone Real Estate Special Situations Advisors L.L.C. (an affiliate of Lender) and accepted by Grant Herlitz as President on behalf of Borrower and Guarantor (an affiliate of Borrower), are superseded by the terms of this Agreement and the other Loan Documents.

Section 10.23 Cumulative Rights. All of the rights of Lender under this Agreement hereunder and under each of the other Loan Documents, and any other agreement now or hereafter executed in connection herewith or therewith, shall be cumulative and may be exercised singly, together, or in such combination as Lender may determine in its sole judgment.

Section 10.24 Counterparts. This Agreement may be executed in several counterparts, each of which when executed and delivered is an original, but all of which together shall constitute one instrument. In making proof of this Agreement, it shall not be necessary to produce or account for more than one such counterpart that is executed by the party against whom enforcement of this Agreement is sought.

Section 10.25 Time Is of the Essence. Time is of the essence of each provision of this Agreement and the other Loan Documents.

Section 10.26 Consent of Holder. Wherever this Agreement refers to Lender's consent or discretion or other rights, such references to Lender shall be deemed to refer to any holder of the Loan. The holder of the Loan may from time to time appoint a trustee or Servicer, and Borrower shall be entitled to rely upon written instructions executed by a purported officer of the holder of the Loan as to the extent of authority delegated to any such trustee or Servicer from time to time and determinations made by such trustee or Servicer to the extent identified as within the delegated authority of such trustee or Servicer, unless and until such instructions are superseded by further written instructions from the holder of the Loan.

Section 10.27 Successor Laws. Any reference in this Agreement to any statute or regulation shall be deemed to include any successor statute or regulation.

Section 10.28 Performance by Borrower and Lender; Reliance on Third Parties. Lender may perform any of its responsibilities hereunder through one or more agents, attorneys or

independent contractors. In addition, Lender may conclusively rely upon the advice or determinations of any such agents, attorneys or independent contractors in performing any discretionary function under the terms of this Agreement. Wherever this Agreement refers to Borrower's obligation to cause action by Pledgor or Guarantor regarding the observance, performance or satisfaction of any term, provision, covenant or condition contained herein, such obligation with respect to Borrower shall be interpreted to mean that Borrower shall not suffer or permit such party to fail to observe, perform or satisfy any such term, provision or covenant contained herein.

Section 10.29 Joint and Several Liability; Right of Contribution. If more than one Person has executed this Agreement as "Borrower," the representations, covenants, warranties and obligations of all such Persons hereunder shall be joint and several. Each entity that constitutes Borrower (for purposes of this Section 10.29 only, each a "Borrower" and collectively, "Borrowers") acknowledges and agrees that it shall be jointly and severally liable for the Loan and all other Obligations arising under this Agreement and/or any of the other Loan Documents. In furtherance thereof, each Borrower acknowledges and agrees as follows:

(a) For the purpose of implementing the joint borrower provisions of the Loan Documents, each Borrower hereby irrevocably appoints each other Borrower as its agent and attorney-in-fact for all purposes of the Loan Documents, including the giving and receiving of notices and other communications.

(b) To induce Lender to make the Loan, and in consideration thereof, each Borrower hereby agrees to indemnify Lender against, and hold Lender harmless from, any and all liabilities, expenses, losses, damages and/or claims of damage or injury asserted against Lender by any Borrower or by any other Person arising from or incurred by reason of (i) reliance by Lender on any requests or instructions from any Borrower, or (ii) any other action taken by Lender in good faith with respect to this Agreement or the other Loan Documents.

(c) Each Borrower acknowledges that the liens and security interests created or granted herein and by the other Loan Documents will secure the Obligations of all Borrowers under the Loan Documents and, in full recognition of that fact, each Borrower consents and agrees that Lender may, at any time and from time to time, without notice or demand, and without affecting the enforceability or security hereof or of any other Loan Document:

(i) agree with any Borrower to supplement, modify, amend, extend, renew, accelerate, or otherwise change the time for payment or the terms of the Obligations or any part thereof, including any increase or decrease of the rate(s) of interest thereon;

(ii) agree with any Borrower to supplement, modify, amend or waive, or enter into or give any agreement, approval or consent with respect to, the Obligations or any part thereof or any of the Loan Documents or any additional security or guaranties, or any condition, covenant, default, remedy, right, representation or term thereof or thereunder;

- (iii) accept new or additional instruments, documents or agreements in exchange for or relative to any of the Loan Documents or the Obligations or any part thereof;
- (iv) accept partial payments on the Obligations;
- (v) receive and hold additional security or guaranties for the Obligations or any part thereof;
- (vi) release, reconvey, terminate, waive, abandon, subordinate, exchange, substitute, transfer and enforce any security for or guaranties of the Obligations, and apply any security and direct the order or manner of sale thereof as Lender, in its sole and absolute discretion, may determine;
- (vii) release any Person or any guarantor from any personal liability with respect to the Obligations or any part thereof; or
- (viii) settle, release on terms satisfactory to Lender or by operation of applicable laws or otherwise liquidate or enforce any Obligations and any security therefor or guaranty thereof in any manner, consent to the transfer of any such security and bid and purchase at any sale; and consent to the merger, change or any other restructuring or termination of the corporate existence of any Borrower or any other Person, and correspondingly restructure the obligations of such Borrower or other Person, and any such merger, change, restructuring or termination shall not affect the liability of any Borrower or the continuing existence of any lien or security interest hereunder, or under any other Loan Document to which any Borrower is a party, or the enforceability hereof or thereof with respect to all or any part of the Obligations.

(d) Upon the occurrence of and during the continuance of any Event of Default, Lender may enforce this Agreement and the other Loan Documents independently as to each Borrower and independently of any other remedy or security Lender at any time may have or hold in connection with the Obligations, and in collecting on the Loan it shall not be necessary for Lender to marshal assets in favor of any Borrower or any other Person or to proceed upon or against and/or exhaust any other security or remedy before proceeding to enforce this Agreement and the other Loan Documents. Each Borrower expressly waives any right to require Lender, in connection with Lender's efforts to obtain repayment of the Loan and Other Obligations, to marshal assets in favor of any Borrower or any other Person or to proceed against any other Person or any collateral provided by any other Person, and agrees that Lender may proceed against any Persons and/or collateral in such order as it shall determine in its sole and absolute discretion in connection with Lender's efforts to obtain repayment of the Loan and other Obligations. Lender may file a separate action or actions against each Borrower to enforce the Obligations, whether action is brought or prosecuted with respect to any other security or against any other Person, or whether any other Person is joined in any such action or actions. Each Borrower agrees that Lender, each Borrower and/or any other Person may deal with each other in connection with the Obligations or otherwise, or alter any contracts or agreements now or hereafter existing among any of them, in any manner whatsoever, all without in any way altering or affecting the security of this

Agreement or the other Loan Documents. The rights of Lender hereunder and under the other Loan Documents shall be reinstated and revived, and the enforceability of this Agreement and the other Loan Documents shall continue, with respect to any amount at any time paid on account of the Obligations, which thereafter shall be required to be restored or returned by Lender as a result of the bankruptcy, insolvency or reorganization of any Borrower or any other Person, or otherwise, all as though such amount had not been paid. The enforceability of this Agreement and the other Loan Documents at all times shall remain effective even though any or all Obligations, or any other security or guaranty therefor, may be or hereafter may become invalid or otherwise unenforceable as against any Borrower or any other Person and whether or not any Borrower or any other Person shall have any personal liability with respect thereto. Each Borrower expressly waives any and all defenses to the enforcement of its Obligations under the Loan Documents now or hereafter arising or asserted by reason of (i) any disability or other defense of any Borrower or any other Person with respect to the Obligations, (ii) the unenforceability or invalidity of any security or guaranty for the Obligations or the lack of perfection or continuing perfection or failure of priority of any security for the Obligations, (iii) the cessation for any cause whatsoever of the liability of any Borrower or any other Person (other than by reason of the full and final payment and performance of all Obligations), (iv) any failure of Lender to marshal assets in favor of any of the Borrowers or any other Person, (v) any failure of Lender to give notice of sale or other disposition of any Collateral or Pledged Collateral for the Obligations to Borrower or Pledgor or to any other Person or any defect in any notice that may be given in connection with any such sale or disposition, (vi) any failure of Lender to comply in any non-material respect with applicable laws in connection with the sale or other disposition of any collateral or other security for any Obligation, (vii) any act or omission of Lender or others that directly or indirectly results in or aids the discharge or release of any Borrower or of any other Person or of any of the Obligations or any other security or guaranty therefor by operation of law or otherwise, (viii) any law that provides that the obligation of a surety or guarantor must neither be larger in amount nor in other respects more burdensome than that of the principal or which reduces a surety's or guarantor's obligation in proportion to the principal obligation, (ix) any failure of Lender to file or enforce a claim in any bankruptcy or similar proceeding with respect to any Person, (x) the election by Lender, in any bankruptcy or similar proceeding of any Person, of the application or non-application of Section 1111(b)(2) of the Bankruptcy Code, (xi) any extension of credit or the grant of any lien under Section 364 of the Bankruptcy Code except to the extent otherwise provided in this Agreement, (xii) any use of cash collateral under Section 363 of the Bankruptcy Code, (xiii) any agreement or stipulation with respect to the provision of adequate protection in any bankruptcy or similar proceeding of any Person, (xiv) the avoidance of any lien or security interest in favor of Lender securing the Obligations for any reason, or (xv) any bankruptcy or similar proceeding commenced by or against any Person, including any discharge of, or bar or stay against collecting, all or any of the Obligations (or any interest thereon) in or as a result of any such proceeding.

(e) Borrowers represent and warrant to Lender that they have established adequate means of obtaining from each other, on a continuing basis, financial and other information pertaining to their respective businesses, operations and condition (financial and otherwise) and their respective properties, and each now is and hereafter will be completely familiar with the businesses, operations and condition (financial and otherwise) of the other and their respective properties. Each Borrower hereby expressly waives and relinquishes any duty on the part of Lender to disclose to such Borrower any matter, fact or thing related to the businesses,

operations or condition (financial or otherwise) of the other Borrowers or the other Borrowers' properties, whether now known or hereafter known by Lender during the life of this Agreement. With respect to any of the Obligations, Lender need not inquire into the powers of any Borrower or the officers, employees or other Persons acting or purporting to act on such Borrower's behalf.

(f) EACH BORROWER WARRANTS AND AGREES THAT EACH OF THE WAIVERS AND CONSENTS SET FORTH HEREIN IS MADE WITH FULL KNOWLEDGE OF ITS SIGNIFICANCE AND CONSEQUENCES, WITH THE UNDERSTANDING THAT EVENTS GIVING RISE TO ANY DEFENSE WAIVED MAY DIMINISH, DESTROY OR OTHERWISE ADVERSELY AFFECT RIGHTS THAT EACH OTHERWISE MAY HAVE AGAINST THE OTHER, AGAINST LENDER OR OTHERS, OR AGAINST ANY COLLATERAL. IF ANY OF THE WAIVERS OR CONSENTS HEREIN IS DETERMINED TO BE CONTRARY TO ANY APPLICABLE LAW OR PUBLIC POLICY, SUCH WAIVERS AND CONSENTS SHALL BE EFFECTIVE TO THE MAXIMUM EXTENT PERMITTED BY LAW.

(g) Right of Contribution. Subject to the provisions of Section 10.29(f) above, in order to provide for just and equitable contribution among the Borrowers, in connection with the execution of the Loan Documents, the Guarantor has agreed that if any Borrower satisfies some or all of the Obligations (a "**Funding Borrower**"), the Funding Borrower shall be entitled to contribution from the other Borrower(s) that have positive Maximum Net Worth (as defined below) for all payments made by the Funding Borrower in satisfying the Obligations, so that each Borrower that remains obligated under the Loan Document at the time that a Funding Borrower makes such payment (a "**Remaining Borrower**") and has a positive Maximum Net Worth shall bear a portion of such payment equal to the percentage that such Remaining Borrower's Maximum Net Worth bears to the aggregate Maximum Net Worth of all Remaining Borrowers that have positive Maximum Net Worth.

As used herein, "**Net Worth**" means, with respect to any Borrower, the amount, as of the respective date of calculation, by which the sum of a Person's assets (including subrogation, indemnity, contribution, reimbursement and similar rights that such Borrower may have), determined on the basis of a "fair valuation" or their "fair saleable value" (whichever is the applicable test under Section 548 and other relevant provisions of the Bankruptcy Code and the relevant state fraudulent conveyance or transfer laws), is greater than the amount that will be required to pay all of such Person's debts, in each case matured or unmatured, contingent or otherwise, as of the date of calculation, but excluding liabilities arising under the Loan Documents and excluding, to the maximum extent permitted by Applicable Law with the objective of avoiding rendering such Person insolvent, liabilities subordinated to the Obligations arising out of loans or advances made to such Person by any other Person. "**Maximum Net Worth**" means, with respect to any Borrower, the greatest of the Net Worths of such Borrower calculated as of the following dates: (A) the date on which such Person becomes a Borrower, and (B) the date on which such Borrower expressly reaffirms its obligations under the Loan Documents. The meaning of the terms "fair valuation" and "fair saleable value" and the calculation of assets and liabilities shall be determined and made in accordance with the relevant provisions of the Bankruptcy Code and applicable state fraudulent conveyance or transfer laws.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their duly authorized representatives, all as of the day and year first above written.

BORROWER:

1108 AUAHI, LLC,
a Delaware limited liability company

BY: /s/ Grant Herlitz
Name: Grant Herlitz
Title: President

1118 ALA MOANA, LLC,
a Delaware limited liability company

BY: /s/ Grant Herlitz
Name: Grant Herlitz
Title: President

[SIGNATURES CONTINUE ON FOLLOWING PAGE]

[Signature Page – Loan Agreement]

LENDER:

BREDS II MORTGAGE CORP.,
a Delaware corporation

By: /s/ Randall Rothschild
Name: Randall Rothschild
Title: Authorized signatory

[Signature Page – Loan Agreement]

THE HOWARD HUGHES CORPORATION

RESTRICTED STOCK AGREEMENT FOR NONEMPLOYEE DIRECTORS

WHEREAS, [Insert Name] (the "Grantee") is a director 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 (the "Compensation Committee") on [Insert Date] (the "Date of Grant"); and

WHEREAS, pursuant to the Company's Amended and Restated 2010 Incentive Plan (the "Plan"), and subject to the terms and conditions thereof and the terms and conditions of this agreement (the "Agreement"), the Company has granted to the 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 the 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 the 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. The Grantee shall have the right to vote the Restricted Shares. Upon vesting of the Restricted Shares pursuant to the terms and conditions of this Agreement, 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 Shares; and (y) shall receive any additional Restricted Shares that the 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 the Grantee, except to the Company, until the Restricted Shares have become nonforfeitable in accordance with Sections 3 and 4 hereof; provided, however, that the Grantee's rights with respect to such Restricted Shares may be transferred by will or pursuant to the laws of descent and distribution. Any purported transfer in violation of the provisions of this Section 2 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 hereof, the Restricted Shares covered by this Agreement shall become nonforfeitable as follows: 100% of the Restricted Shares covered by this Agreement on the earlier of: (i) the date of the Company's annual meeting of stockholders in [Insert Immediately Following Year]; or (ii) June

1, **[Insert Immediately Following Year]** (in either case, such date, the "Vesting Date"); provided that the Grantee continuously serves as a director of the Company until the Vesting Date.

4. Accelerated Vesting of Restricted Shares Notwithstanding the provisions of Section 3 hereof, the Restricted Shares covered by this Agreement or any substitute award may become nonforfeitable earlier than the time provided in such section if any of the following circumstances apply:

(a) Death or Disability: The Grantee dies while serving as a director of the Company or the Grantee's service as a director of the Company is terminated because the Grantee becomes Disabled. For purposes of this Agreement, "Disabled" shall mean as a result of injury or sickness, the Grantee is unable for period of 180 days to perform with reasonable continuity his or her duties as a director of the Company in the usual or customary way.

(b) Change of Control: A Change of Control of the Company occurs while the Grantee is a director of the Company and, in connection with such Change of Control, the successor corporation does not Assume the award under this Agreement or the Grantee does not continue to serve as a director of the successor corporation (or, if the successor corporation is a subsidiary, the parent corporation). If the successor corporation Assumes the award under this Agreement and the Grantee continues to serve as a director of the successor corporation (or, if the successor corporation is a subsidiary, the parent corporation) until the Vesting Date, then no such acceleration shall apply.

For purposes of this Agreement, the award under this Agreement shall be deemed "Assumed" following a Change of Control if the following conditions are met:

- (i) the award is converted into a replacement award covering a number of shares of the entity effecting the Change of Control (or a successor or parent corporation), as determined in a manner substantially similar to the treatment of an equal number of Restricted Shares covered by the award; provided, that to the extent that any portion of the consideration received by holders of the Company common stock in the Change of Control transaction is not in the form of the common stock of such entity (or a successor or parent corporation), the number of shares covered by the replacement award shall be based on the average of the high and low selling prices of the common stock of such entity (or a successor or parent corporation) on the established stock exchange on the trading day immediately preceding the date of the Change of Control;
- (ii) the replacement award contains provisions for scheduled vesting and treatment on termination of employment that are no less favorable to the Grantee than the underlying award being replaced, and all other terms of the replacement award (other than the security and number of shares represented by the replacement award) are substantially similar to the underlying award; and

- (iii) the security represented by the replacement award is of a class that is publicly held and widely traded on an established stock exchange.

5. Forfeiture of Awards. Except to the extent the Grantee's rights to receive the Restricted Shares covered by this Agreement have become nonforfeitable pursuant to Sections 3 or 4 hereof, the Grantee's rights to receive the Restricted Shares covered by this Agreement shall be forfeited automatically and without further notice on the date that the Grantee ceases to serve as a director of the Company prior to the Vesting Date for any reason other than as described in Section 4. In the event that the Grantee becomes an employee of the Company or any of its subsidiaries immediately upon ceasing to be a director of the Company, the Restricted Shares held by the Grantee on such date will not be affected and the Grantee's service as an employee shall be treated as service as a director for purposes of this Agreement.

6. Retention of Shares. During the period in which the restrictions on transfer and risk of forfeiture provided in Sections 2 and 5 above are in effect, the Restricted Shares covered by this grant shall be either: (a) represented by certificates retained by the Company, together with the accompanying stock power signed by the Grantee and endorsed in blank; or (b) 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 set forth herein.

7. 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.

8. 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 the 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.

9. 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 the Grantee under this Agreement without the Grantee's consent; further, provided, that the 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.

10. 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.

11. 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.

12. 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 the Grantee, and the successors and assigns of the Company.

13. 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 ___ day of _____. 201_.

THE HOWARD HUGHES CORPORATION

The undersigned hereby acknowledges receipt of an executed

By: _____
Name:
Title:

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.

GRANTEE

5

Name:

Date:

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 (the "Compensation Committee") on [Insert Date];

WHEREAS, the date of grant is [Insert Date] ("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 and 4 hereof. Any 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 Shares.

3. Vesting of Restricted Shares. Subject to the terms and conditions of Section 4 of this Agreement, the Restricted Shares covered by this Agreement shall become nonforfeitable as follows:

(a) 50% of the Restricted Shares covered by this Agreement shall vest on December 31, 2018; and (b) 50% of the Restricted Shares covered by this Agreement shall vest in accordance with the vesting scheduled based on the total shareholder return as set forth on Exhibit A (the "Company-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 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, 2013 then: (a) 50% of the Restricted Shares covered by this Agreement shall vest on December 31, 2018; and (b) a percentage of the Company-based Vesting Component shall vest on December 31, 2018 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.

4. 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 in the employ of the Company or a Subsidiary prior to December 31, 2018.

5. Retention of Shares. During the period in which the restrictions on transfer and risk of forfeiture provided in Sections 3 and 4 of this Agreement are in effect, the Restricted Shares covered by this grant shall be either: (a) represented by certificates retained by the Company, together with the accompanying stock power signed by Grantee and endorsed in blank; or (b) 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 set forth herein.

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 ____ day of _____, 2014.

THE HOWARD HUGHES CORPORATION

The undersigned Grantee hereby acknowledges receipt of an executed original

By: _____
Name:
Title:

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.

GRANTEE

Name:

Date: _____

EXHIBIT A
COMPANY-BASED VESTING SCHEDULE

<u>Total Shareholder Return</u>	<u>Vesting %</u>
0.00% to 88.36%	0%
88.37% to 105.91%	25%
105.92% to 124.63%	50%
124.64% to 156.51%	75%
156.52% +	100%

The Company-based Vesting Component of each Award shall vest on the fifth anniversary of the grant date of such Award according to the schedule above; provided, that the Company achieves the corresponding total shareholder return ("TSR") target. TSR is calculated using the following formula: $TSR = (Price_{end} - Price_{begin} + Dividends) / Price_{begin}$. \$73.02, the closing price per share of the Company as of December 31, 2012, shall be used as the $Price_{begin}$ for the purpose of calculating TSR. A TSR target is deemed satisfied if the highest 30 trading day volume weighted average share price (which shall be based on the daily closing price of the Company's common stock as reported in the consolidated transaction reporting system) represents a TSR that meets or exceeds such target during the period from January 1, 2018 through December 31, 2018.¹

By way of example, if the highest 30 trading day volume weighted average share price of Company stock equals \$167.49 (inclusive of dividends, if any) during the period between January 1, 2018 and December 31, 2018 (which represents a TSR of 129.38% using the following formula: $(\$167.49 - \$73.02) / \$73.02$), then 75% of the Company-based Vesting Component of an Award shall vest on the fifth anniversary of the grant date of such Award; provided, that all other vesting requirements are met.

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 Amended and Restated 2010 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.

1. If a Grantee is terminated by the Company for any reason, except for cause after 48 months of employment from December 31, 2013, as provided in Section 3 of the Agreement, prior to the passing of 30 trading days in 2018, the Company shall use the volume weighted average share price for the first 30 trading days of 2018 when calculating TSR.

THE HOWARD HUGHES CORPORATION**LIST OF SUBSIDIARIES**

<u>Entity</u>	<u>Jurisdiction</u>
10 CCC, LLC	Delaware
10/20/30 CCC Parking Deck, LLC	Delaware
20 CCC, LLC	Delaware
30 CCC, LLC	Delaware
40 CCC, LLC	Delaware
40 CCC Parking Deck, LLC	Delaware
50 CCC, LLC	Delaware
50/60/70 CCC Parking Deck, LLC	Delaware
60 CCC, LLC	Delaware
70 CC, LLC	Delaware
3 Waterway Holdings, LLC	Texas
4 Waterway Holdings, LLC	Delaware
20 & 25 Waterway Holdings, LLC	Delaware
70 CC, LLC	Delaware
80 South, LLC	Delaware
85 South Street LLC	Delaware
110 Holding, LLC	Delaware
110 Wacker, LLC	Delaware
117 Beekman Street Holdings, LLC	Delaware
170 Retail Associates, Ltd.	Texas

170 Retail Holding, LLC	Delaware
988 Halekauwila, LLC	Delaware
1108 Auahi, LLC	Delaware
1118 Ala Moana, LLC	Delaware
1240 Ala Moana, LLC	Delaware
3831 TF Holding Company, LLC	Delaware
1701 Lake Robbins, LLC	Delaware
9303 New Trails Holdings, LLC	Delaware
ACB Parking Business Trust	Maryland
Alameda Plaza, LLC	Delaware
AllenTowne Mall, LLC	Delaware
American City Building Business Trust	Maryland
Anaha Management Development Company, LLC	Delaware
Angels Entertainment, LLC	Delaware
Beverage Operations, Inc.	Texas
Bridgeland Construction, LLC	Delaware
Bridgeland Development, LP	Maryland
Bridgeland Holding Company, Inc.	Delaware
Bridgeland Management Development Company, LLC	Delaware
Bridges at Mint Hill, LLC	Delaware
Bridges at Mint Hill Member, LLC	Delaware
Carlton Woods Holdings, LLC	Delaware
Century Plaza L.L.C.	Delaware
Clover Acquisitions LLC	Delaware

Columbia Management Development Company, LLC	Delaware
Cottonwood Mall, LLC	Delaware
Cottonwood Square, LLC	Delaware
CSPV Holdings, LLC	Delaware
Cypress LA, LLC	Delaware
Discovery Property Company, LLC	Delaware
DLV/HHPI Summerlin, LLC	Delaware
Elk Grove Management Development Company, LLC	Delaware
Elk Grove Town Center L.L.C.	Delaware
Elk Grove Town Center, L.P.	Delaware
Emerson Land Business Trust	Maryland
Emerson Land, LLC	Delaware
Fairwood Commercial Development Holding, LP	Maryland
Fairwood Commercial Development Limited Partnership	Maryland
Fairwood Commercial Front Foot Benefit Company, LLC	Maryland
FV-93 Limited	Texas
Gateway Overlook III Business Trust	Maryland
GG DR, L.L.C.	Illinois
Greengate Mall, Inc.	Pennsylvania
Harper's Choice Business Trust	Maryland
Hexalon Real Estate, LLC	Delaware
HF Holding Company, LLC	Delaware
HF Management Development Company, LLC	Delaware
HH Hawaii Development Company, LLC	Delaware
HH New York Development Company, LLC	Delaware

HH One Hughes Landing, LLC	Delaware
HH Wacker Acquisition Company, LLC	Delaware
HHC-Alameda Development Manager, LLC	Delaware
HHC Travel, LLC	Delaware
HHMK Development, LLC	Delaware
HL Amenities Holdings, LLC	Delaware
HL Champion Holding Company, LLC	Delaware
HL Multi-Family Holdings, LLC	Delaware
HL Restaurant Row, LLC	Delaware
HL Retail Row, LLC	Delaware
HL-Hotel Holding Company, LLC	Delaware
Howard Hughes Management, Co. LLC	Delaware
Howard Hughes Management Services Company, LLC	Delaware
Howard Hughes Properties, Inc.	Nevada
HRD Parking Deck Business Trust	Maryland
HRD Parking, Inc.	Maryland
Kai Investments, LLC	Delaware
Kapiolani Residential LLC	Delaware
Kendall Management Development Company, LLC	Delaware
Kewalo Harbor Development Company, LLC	Delaware
Kewalo Harbor Management Company, LLC	Delaware
Kewalo Harbor, LLC	Hawaii
Kewalo Makai, LLC	Hawaii
KR Holdings, LLC	Delaware
Lakeland Village Holding Company, LLC	Delaware

Land Trust No. 89433	Hawaii
Land Trust No. 89434	Hawaii
Land Trust No. FHB-TRES 200601	Hawaii
Land Trust No. FHB-TRES 200602	Hawaii
Landmark Mall L.L.C.	Delaware
Landmark Management Development Company, LLC	Delaware
LRVC Business Trust	Maryland
Marginal Street Development, LLC	Delaware
Merchantwired Interest, Inc.	Maryland
Merchant Wired, LLC	Delaware
Merriweather Post Business Trust	Maryland
Millennium Woodlands Phase II, LLC	Delaware
Millennium Woodlands Phase II Member, LLC	Delaware
Natick Residence LLC	Delaware
Oakland Ridge Industrial Development Corporation	Maryland
One Hughes Landing, LLC	Delaware
Parcel C Business Trust	Maryland
Parcel C Development LLC	Delaware
Parcel C Property LLC	Delaware
Parcel D Business Trust	Maryland
Parcel D Development LLC	Delaware
Parcel D Property LLC	Delaware
Parke West, LLC	Delaware
Price Development TRS, Inc.	Delaware
Princeton Land, LLC	Delaware

Princeton Management Development Company, LLC	Delaware
Red Rock Investment, LLC	Nevada
Redlands Land Acquisition Company, LLC	Delaware
Redlands Land Acquisition Company, LP	Delaware
Rio West L.L.C.	Delaware
Riva Row Woodlands Member, LLC	Delaware
Riverwalk Marketplace (New Orleans), LLC	Delaware
Riverwalk Operating Company, LLC	Delaware
SAV Nevada, LLC	Delaware
Seaport Development Holdings, LLC	Delaware
Seaport Management Development Company, LLC	Delaware
Seaport Marketplace Theatre, LLC	Maryland
Seaport Marketplace, LLC	Maryland
South Street Seaport Limited Partnership	Maryland
Stewart Title of Montgomery County Inc.	Texas
Stone Lake, LLC	Maryland
Summerlin Baseball Club Member, LLC	Delaware
Summerlin Centre, LLC	Delaware
Summerlin Centre Apartments, LLC	Delaware
Summerlin Corporation	Delaware
Summerlin Development, LLC	Delaware
Summerlin Development Management Company, LLC	Delaware
Summerlin Hospital Medical Center, L.P.	Delaware
Summerlin Las Vegas Baseball Club, LLC	Delaware

Summerlin North GP, LLC	Delaware
Summerlin Operating Company, LLC	Delaware
Summerlin Restaurant, LLC	Delaware
Summerlin South GP, LLC	Delaware
The Downtown Columbia Partnership, Inc.	Maryland
The Howard Hughes Company, LLC	Delaware
The Howard Hughes Corporation	Delaware
The Howard Research And Development Corporation	Maryland
The Hughes Corporation	Delaware
The Shops At Summerlin North, LP	Delaware
The Shops at Summerlin South, LP	Delaware
The Woodlands Beverage, Inc.	Texas
The Woodlands Brokerage, LLC	Texas
The Woodlands Commercial Brokerage Company, L.P.	Texas
The Woodlands Commercial Properties Company, LP	Texas
The Woodlands Corporation	Delaware
The Woodlands Custom Residential Sales, LLC	Texas
The Woodlands Custom Sales, LP	Texas
The Woodlands GL Holdings, LLC	Delaware
The Woodlands Holding Company, Inc.	Delaware
The Woodlands Hotel Management Company, LLC	Delaware
The Woodlands Land Development Company, L.P.	Texas
The Woodlands Management Development Company, LLC	Delaware
The Woodlands Operating Company, L.P.	Texas

Three Hughes Landing, LLC	Delaware
Town Center Development Company GP, L.L.C.	Texas
Town Center Development Company, L.P.	Texas
Town Center East Business Trust	Maryland
Town Center East Parking Lot Business Trust	Maryland
TWC Commercial Properties, LLC	Delaware
TWC Commercial Properties LP	Delaware
TWC Land Development, LLC	Delaware
TWC Land Development LP	Delaware
TWC Operating, LLC	Delaware
TWC Operating LP	Delaware
TWCPC Holdings GP, L.L.C.	Texas
TWCPC Holdings, L.P.	Texas
TWLDC Holdings GP, L.L.C.	Texas
TWLDC Holdings, L.P.	Texas
Victoria Ward Center L.L.C.	Delaware
Victoria Ward Entertainment Center L.L.C.	Delaware
Victoria Ward Services, Inc.	Delaware
Victoria Ward, Limited	Delaware
Volo Land, LLC	Delaware
VW Condominium Development, LLC	Delaware
Waiea Management Development Company, LLC	Delaware
Ward Condominium Holdings, LLC	Delaware
Ward Gateway Tower #1, LLC	Delaware
Ward Gateway Tower #2, LLC	Delaware

Ward Gateway-Industrial-Village, LLC	Delaware
Ward Management Development Company, LLC	Delaware
Ward Plaza-Warehouse, LLC	Delaware
Ward Village CK Holdings, LLC	Delaware
Ward Village Holding Company	Delaware
Ward Village Operating Company, LLC	Delaware
Ward Village Properties, LLC	Delaware
Waterway Ave Partners, L.L.C.	Texas
Waterway Hotel Holdings, LLC	Delaware
WECCR General Partnership	Texas
WECCR, Inc.	Texas
West Kendall Holdings, LLC	Maryland
Westlake Retail Associates, Ltd.	Texas
Westlake Retail Holding, LLC	Delaware
Wincopin Restaurant Business Trust	Maryland
Woodlands Office Equities-95, LLC	Texas
Woodlands Sarofim #1, Ltd.	Texas
WPC 17-RRA, LLC	Delaware
WRCC Holdings, LLC	Delaware

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-3 No. 333-184466), of The Howard Hughes Corporation, and
- (2) Registration Statements (Form S-8 No. 333-170431, Form S-8 No. 333-170432, Form S-8 No. 333-171909, and Form S-8 No. 333-171910) pertaining to the 2010 Amended and Restated Incentive Plan of The Howard Hughes Corporation;

of our reports dated March 2, 2015, with respect to the consolidated financial statements and schedule of The Howard Hughes Corporation, and the effectiveness of internal control over financial reporting of The Howard Hughes Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2014.

/s/ Ernst & Young LLP

Dallas, Texas
March 2, 2015

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-170431, 333-170432, 333-171909 and 333-171910 on Form S-8 and Registration Statement No 333-184466 on Form S-3 of our report dated February 28, 2013, relating to the consolidated financial statements, and financial statement schedule as it relates to information included therein as of and for the year ended December 31, 2012, of The Howard Hughes Corporation and subsidiaries (the "Company"), appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2014.

/s/ Deloitte & Touche LLP

Dallas, Texas
March 2, 2015



TRUSTA

An Accountancy Corporation
Member Crowe Horwath International

Bishop Square
Pauahi Tower, Suite 1700
1003 Bishop Street
Honolulu, Hawaii 96813 USA 1
1 (808) 524-8080 Tel
1 (808) 524-8081 Fax
www.trusta.us

Consent of Independent Accountant

We consent to the incorporation by reference in Registration Statement Nos. 333-170431, 333- 170432, 333-171909, 333-171910 on Form S-3 and in Registration Statement No. 333-184466 in Form S-3 of our report dated February 24, 2015, relating to our audits of the financial statements of KR Holdings, LLC as of December 31, 2014 and 2013, and for the years ended December 31, 2014 and 2013 that appears in this Annual Report on Form 10-K of the Company for the year ended December 31, 2014. The statement of income and members' equity and statement of cash flows for the year end December 31, 2012 is unaudited.

A handwritten signature of the word "TRUSTA" in blue ink, with a horizontal line above the letters.

TRUSTA, An Accountancy Corporation
Honolulu, Hawaii
March 2, 2015

POWER OF ATTORNEY

Each of the undersigned hereby constitutes and appoints David R. Weinreb as the undersigned's true and lawful attorney and agent, with full power of substitution and resubstitution for the undersigned and in the undersigned's name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K of The Howard Hughes Corporation for the year ended December 31, 2014 and any and all amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney and agent full power and authority to do any and all acts and things necessary or advisable to be done, as fully and to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all that said attorney and agents, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

/s/ William Ackman
William Ackman

/s/ R. Scot Sellers
R. Scot Sellers

/s/ Adam Flatto
Adam Flatto

/s/ Steven Shepsman
Steven Shepsman

/s/ Jeffrey Furber
Jeffrey Furber

/s/ Burton M. Tansky
Burton M. Tansky

/s/ Gary Krow
Gary Krow

/s/ Mary Ann Tighe
Mary Ann Tighe

/s/ Allen Model
Allen Model

Dated: March 2, 2015.

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

I, David R. Weinreb, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 2, 2015

/s/ David R. Weinreb

David R. Weinreb
Chief Executive Officer

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

I Andrew C. Richardson, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 2, 2015

/s/ Andrew C. Richardson
Andrew C. Richardson
Chief Financial Officer

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

In connection with the filing of the Annual Report on Form 10-K of The Howard Hughes Corporation, a Delaware Corporation (the "Company"), for the period ended December 31, 2014, 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; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for periods expressed in the report.

/s/ DAVID R. WEINREB

David R. Weinreb
Chief Executive Officer
March 2, 2015

/s/ ANDREW C. RICHARDSON

Andrew C. Richardson
Chief Financial Officer
March 2, 2015

KR HOLDINGS, LLC AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014, 2013, and 2012

KR HOLDINGS, LLC AND SUBSIDIARY
Honolulu, Hawaii

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014, 2013, and 2012

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INDEPENDENT AUDITOR'S REPORT

To the Members
KR Holdings, LLC
Honolulu, Hawaii

We have audited the accompanying consolidated financial statements of KR Holdings, LLC and its subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, the related consolidated statements of income and members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting principles in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KR Holdings, LLC and its subsidiary as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with generally accepted accounting principles in the United States of America.

Other Matter

The accompanying statements of income and members' equity, and cash flows for the year ended December 31, 2012 were not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion or any other form of assurance on them.

A handwritten signature in blue ink that reads "TRUETA". The letters are bold and slightly slanted, with a horizontal line above the "T" and "A".

An Accountancy Corporation

Honolulu, Hawaii
February 24, 2015

KR HOLDINGS, LLC AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Cash	\$ 11,413,072	\$ 4,289,147
Restricted cash	16,279,738	47,953,286
Accounts receivable	8,064,921	63,595,971
Advances	-	2,982,647
Prepaid commissions	-	420,000
Real estate held for development and sale	1,722,121	2,146,644
Total assets	<u>\$ 37,479,852</u>	<u>\$ 121,387,695</u>
Liabilities and Members' Equity		
Liabilities		
Accounts payable	\$ 6,764,097	\$ 12,575,285
Accrued expenses	6,238,949	-
Accrued commissions	955,444	8,527,472
Accrued interest	678,400	7,030,797
Deferred revenues	1,035,800	-
Other liabilities	3,000,000	-
Notes payable	-	40,000,000
Total liabilities	<u>18,672,690</u>	<u>68,133,554</u>
Members' equity	<u>18,807,162</u>	<u>53,254,141</u>
Total liabilities and members' equity	<u>\$ 37,479,852</u>	<u>\$ 121,387,695</u>

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

KR HOLDINGS, LLC AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME AND MEMBERS' EQUITY
Years Ended December 31, 2014, 2013, and 2012

	2014	2013	Unaudited 2012
Revenues			
Sales of real estate	\$ 201,024,894	\$ 131,191,878	\$ -
Cost of Units Sold	158,006,102	111,440,939	-
Gross profit	43,018,792	19,750,939	-
Other Income			
Interest income	1,612	3,202	-
Net Income	43,020,404	19,754,141	-
Members' Equity			
Beginning of year	53,254,141	-	-
Contributions	-	64,250,000	-
Distributions	(77,467,383)	(30,750,000)	-
End of year	\$ 18,807,162	\$ 53,254,141	\$ -

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

KR HOLDINGS, LLC AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2014, 2013, and 2012

	2014	2013	Unaudited 2012
Cash Flows From Operating Activities			
Net income	\$ 43,020,404	\$ 19,754,141	\$ -
Adjustments to reconcile net income to net cash flows provided by (used in) operating activities:			
Amortization of loan fees	1,401,833	983,778	-
Capital expenditures for real estate held for development and sale	(157,581,579)	(43,945,647)	-
Cost of units sold	156,604,269	94,957,506	-
Net changes:			
Restricted cash	31,673,548	(14,603,927)	-
Accounts receivable	55,531,050	(63,595,971)	-
Advances	2,982,647	(2,982,647)	-
Advances with related parties		(1,355,060)	(2,901,609)
Prepaid commissions	420,000	(360,000)	(60,000)
Accounts payable	(5,811,188)	11,988,889	586,396
Accrued expenses	6,238,949	-	-
Accrued commissions	(7,572,028)	8,527,472	-
Accrued interest	(6,352,397)	7,030,797	-
Pre-sale deposits	-	(33,349,359)	-
Deferred revenues	1,035,800	-	-
Other liabilities	3,000,000	-	-
Net cash provided by (used in) operating activities	<u>124,591,308</u>	<u>(16,950,028)</u>	<u>(2,375,213)</u>
Cash Flows From Financing Activities			
Proceeds from notes payable	90,181,986	37,400,000	2,600,000
Principal payments on notes payable	(130,181,986)	-	-
Loan fees paid	-	(2,385,612)	-
Contributions	-	16,750,000	-
Distributions	(77,467,383)	(30,750,000)	-
Net cash flows provided by (used in) financing activities	<u>(117,467,383)</u>	<u>21,014,388</u>	<u>2,600,000</u>
Net increase in cash	7,123,925	4,064,360	224,787
Cash			
Beginning cash	4,289,147	224,787	-
Ending cash	<u>\$ 11,413,072</u>	<u>\$ 4,289,147</u>	<u>\$ 224,787</u>
Supplemental Disclosures			
Cash paid for interest	<u>\$ 13,690,001</u>	<u>\$ -</u>	<u>\$ -</u>
Noncash investing and financing activities Contribution of equity interests	<u>\$ -</u>	<u>\$ 47,500,000</u>	<u>\$ -</u>

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

KR HOLDINGS, LLC AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014, 2013, and 2012

NOTE 1 - Summary of Significant Accounting Policies

Nature of Business

KR Holdings, LLC and Kapiolani Residential, LLC, its wholly-owned subsidiary, (collectively, the "Company"), both Delaware limited liability companies, were established on September 17, 2012 and October 22, 2010, respectively. The Company is primarily engaged in the development and sale of a 206-unit luxury residential condominium tower (the "ONE Ala Moana Project"). The ONE Ala Moana Project is located at 1555 Kapiolani Boulevard in Honolulu, Hawaii and is situated adjacent to the Ala Moana Center. Construction began in April 2013 and was completed in December 2014 with the majority of the condominium units being sold as of December 31, 2014.

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and are presented in conformity with generally accepted accounting principles in the United States of America.

Principles of Consolidation

The consolidated financial statements include the accounts of KR Holdings, LLC ("KRH"), an investment holdings company, and Kapiolani Residential, LLC ("KRL"), its wholly-owned subsidiary and the developer of the ONE Ala Moana Project. All significant intercompany accounts and transactions have been eliminated during consolidation.

Use of Estimates

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual amounts could differ from those estimates.

Cash and Cash Equivalents

Highly liquid investments with maturities on their purchase dates of three months or less are classified as cash equivalents.

Restricted Cash

Restricted cash consists of pre-sale deposits held in escrow with Title Guaranty Escrow Services, Inc. (Note 5) and a cash reserve for construction costs.

KR HOLDINGS, LLC AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014, 2013, and 2012

Revenue Recognition

Revenues from real estate development held for sale are recognized when the ONE Ala Moana Project is complete and individual units are sold. For units sold prior to the completion of the ONE Ala Moana Project, revenue allocable to performance after the sale is deferred utilizing the percentage-of-completion method, which is based on the percentage of costs incurred to date to estimated total costs of the ONE Ala Moana Project. This method is used as management considers total costs incurred to be the best available measure of progress on the ONE Ala Moana Project.

Real Estate Held for Development and Sale and Cost Recognition

Development rights, construction, and amenities costs associated with the ONE Ala Moana Project are capitalized as real estate held for development and sale at the lower of its carrying amount or fair value less costs to sell. Real estate taxes and interest costs incurred during the construction period are capitalized. Capitalized interest is based on qualified expenditures and interest rates in place during the construction period. Capitalized costs recorded as real estate held for development and sale are allocated to individual units based on their relative sales value. All other costs are expensed when incurred.

The Company reviews real estate held for development and sale when events or circumstances indicate that the carrying amount may not be recoverable and the asset is written down to its fair value. Impairment losses are recognized as a charge to expense.

Selling Costs

Direct selling costs that relate to units sold are capitalized and allocated to cost of units sold when the related revenues are recognized. Other selling costs are expensed as incurred.

Accounts Receivable

Accounts receivable are recorded at the amount of revenue recognized less nonrefundable pre sale deposits received and an allowance for doubtful accounts, if necessary. The receivable balance is due upon completion of each unit.

The allowance for doubtful accounts is estimated by management based on a review of the individual buyer, experience, and current economic and business conditions. An allowance for doubtful accounts was not provided as of December 31, 2014 and 2013 as management believed that all amounts were collectible.

KR HOLDINGS, LLC AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014, 2013, and 2012

Income Taxes

KRL is treated as a disregarded entity for income tax purposes and its profit and loss flow through to KRH. KRH is treated as a partnership for income tax purposes. Accordingly, the Company's profits and losses flow through to the respective members and the respective members are subject to federal and state taxation rather than the Company.

The Company recognizes the consolidated financial statement effects of tax positions when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Management considers the facts, circumstances, and information available to determine whether or not a tax position has met the more-likely-than-not recognition threshold. The tax benefit is recognized at the largest amount that is more than 50% likely to be realized upon ultimate settlement. Management evaluated its tax position for the years ended December 31, 2014, 2013, and 2012, and determined that it has no unrecognized tax benefits requiring financial statement recognition. The federal and state statutes of limitations remain open for the years ended December 31, 2012 through 2014.

The Company classifies interest related to its tax positions as interest expense and penalties as general and administrative expenses, if any.

Concentration of Credit Risk

The Company maintains its cash in bank deposit accounts insured by the Federal Deposit Insurance Corporation ("FDIC"). Cash balances in excess of FDIC limits as of December 31, 2014 and 2013 were \$27,437,510 and \$51,987,133, respectively, which included restricted cash of \$16,279,738 and \$47,953,286, correspondingly.

NOTE 2 - Acquisition

On May 15, 2013, KRH acquired KRL in a business combination whereby: (a) The Hughes Corporation contributed its sole membership interest in KRL valued at \$47,500,000 to KRH in exchange for a 50% membership interest and cash distribution of \$30,750,000; (b) MK Kapiolani, LLC contributed \$16,750,000 for the remaining 50% membership interest in KRH; (c) KRH received \$40,000,000 in mezzanine financing; and (d) KRH secured its remaining construction financing for \$132,000,000. The Hughes Corporation is a subsidiary of The Howard Hughes Corporation, and MK Kapiolani, LLC members are ultimately affiliates of BlackSand Capital, Kobayashi Group and The MacNaughton Group.

A description of assets acquired and liabilities assumed at fair value are as follows :

KR HOLDINGS, LLC AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014, 2013, and 2012

Assets acquired:	
Restricted cash	\$ 33,349,359
Real estate held for development and sale	<u>48,815,000</u>
Total assets acquired	82,164,359
Liabilities assumed:	
Payable to affiliates	1,315,000
Pre-sale deposits	<u>33,349,359</u>
Total liabilities assumed	<u>34,664,359</u>
Net assets acquired	<u>\$ 47,500,000</u>

NOTE 3 - Real Estate Held for Development and Sale

Real estate held for development and sale consisted of the following as of December 31:

	<u>2014</u>	<u>2013</u>
Construction	\$ 156,467,683	\$ 29,828,837
Land and development rights	48,815,000	48,815,000
Capitalized interest	14,368,401	7,030,797
Project management	8,429,549	3,253,059
Architect and engineering	6,638,835	4,807,908
Other development costs	5,903,197	4,526,971
Financing costs	2,418,130	2,393,587
Fees and permits	2,071,035	2,050,520
Marketing	1,741,972	1,289,756
Sales office	1,073,199	1,063,676
	<u>247,927,001</u>	<u>105,060,111</u>
Allocated to cost of units sold	<u>(246,204,880)</u>	<u>(102,913,467)</u>
Real estate held for development and sale	<u>\$ 1,722,121</u>	<u>\$ 2,146,644</u>

During the years ended December 31, 2014 and 2013, the Company capitalized interest, including profit participation, of \$7,337,604 and \$7,030,797, respectively. Capitalized interest expensed in cost of sales was of \$7,157,725 and \$6,979,377, respectively.

NOTE 4 - Loan Fees

Loan fees incurred and capitalized as of December 31, 2014 and 2013 amounted to \$2,385,612. Amortization of loan fees using the straight-line basis during the years ended December 31, 2014 and 2013 were \$1,401,834 and \$983,778, respectively.

KR HOLDINGS, LLC AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014, 2013, and 2012

NOTE 5 - Pre-Sale Deposits

The ONE Ala Moana Project pre-sale deposits held in escrow with Title Guaranty Escrow Services, Inc. as of December 31, 2014 and 2013 amounted to \$8,696,489 and \$67,595,908, respectively, of which \$25,357,378 and \$19,642,622 were expended for pre-development and development costs in the corresponding years. Pre-sales deposits were applied against accounts receivable upon becoming nonrefundable.

NOTE 6 - Notes Payable

On May 15, 2013, the Company secured construction financing for \$132,000,000 under a variable LIBOR interest rate arrangement. The loan is secured by the ONE Ala Moana Project and all other assets of the Company, including a completion guaranty and limited guaranty by principals of The MacNaughton Group and the Kobayashi Group, and limited guaranty by The Howard Hughes Corporation. The loan matures on May 15, 2016 with a one-year extension option.

During 2014, the Company's construction draws amounted to \$90,181,986, all of which were repaid on November 19, 2014 with interest of \$925,392. The interest rate during the loan period ranged from 3.15% to 3.16%.

On September 17, 2012, the Company secured two \$20,000,000 non-recourse mezzanine financing arrangements for the ONE Ala Moana Project. These loans are secured by the membership interests in the KRL. The mezzanine financing arrangements bear a blended interest rate of 12% before participation in residual profits. As of December 31, 2014 and 2013, notes payable consists of the two mezzanine financing arrangements as follows:

	<u>2014</u>	<u>2013</u>
13% note payable with profits participation rights due on April 30, 2018 with a one-year extension option	\$ -	\$ 20,000,000
11% note payable with profits participation rights due on April 30, 2018 with a one-year extension option	-	20,000,000
	<u>\$ -</u>	<u>40,000,000</u>

The two mezzanine financing arrangements were paid in full on November 19, 2014 with stated interest of \$7,631,992. Residual profits participation paid during the year ended December 31, 2014 amounted to \$5,132,617. Residual profits participation accrued as of December 31, 2014 was \$678,400.

KR HOLDINGS, LLC AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014, 2013, and 2012

NOTE 7 - Related Party Transactions

Management

HHMK Development, LLC is the sole manager of the Company, and responsible for managing the development of the ONE Ala Moana Project. MK Kapiolani, LLC and The Hughes Corporation each owns a 50% membership interest in HHMK Development, LLC. The Company is required to pay management fees equal to \$252,827 per month but not more than \$6,067,850 in aggregate. Management fees for the years ended December 31, 2014, and 2013 amounted to \$3,033,925 and \$2,161,264, respectively. Management fees payable to HHMK Development, LLC as of December 31, 2014 and 2013 were \$252,827.

NOTE 8 - Contingencies

Due to the inherent nature and risks of uncertainties in real estate development, the Company may incur unanticipated cost related to the ONE Ala Moana Project. It is possible that a change in estimate may occur as a result of a future event which may have a material effect on the consolidated financial statements.

NOTE 9 - Subsequent Events

In preparing these consolidated financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through February 24, 2015, the date the consolidated financial statements were available to be issued.

