

**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, 2011

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, \$.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 Accelerated filer

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

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

As of June 30, 2011, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$2.4 billion based on the closing sale price as reported on the New York Stock Exchange.

As of February 24, 2012, there were 37,945,707 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to its 2012 Annual Meeting of Stockholders are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this Annual Report of Form 10-K. The registrant intends to file this Proxy Statement with the Securities and Exchange Commission within 120 days of the end of the fiscal year to which this Annual Report on Form 10-K relates.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

- our history of losses;
- our inability to obtain operating and development capital;
- a prolonged recession in the national economy and adverse economic conditions in the retail sector;
- our inability to compete effectively;
- our directors may be involved or have interests in other businesses, including real estate activities and investments;
- our inability to control certain of our properties due to the joint ownership of such property and our inability to successfully attract desirable strategic partners;
- potential conflicts with GGP (as defined below) arising from agreements with GGP with respect to certain of our assets;
- risks associated with our spin-off from GGP not qualifying as a tax-free distribution for U.S. federal income tax purposes;
- substantial stockholders having influence over us, whose interests may be adverse to ours or other stockholders; and
- the other risks described in Item 1A. “Risk Factors.”

PART I

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

ITEM 1. BUSINESS

OVERVIEW

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

Unlike most real estate companies which are limited in their activities because they have elected to be taxed as a real estate investment trust, we have no restrictions on our operating activities or types of services that we can offer. We believe our structure provides the greatest flexibility for maximizing the value of our real estate portfolio. As of December 31, 2011, our consolidated debt equaled approximately 17.9% of our total assets and we had \$227.6 million of cash on hand.

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

We are pursuing development opportunities for a number of our assets that were previously postponed due to lack of liquidity resulting from deteriorating economic conditions, the credit market collapse and the bankruptcy filing of our predecessors, we are also developing plans for other assets for which plans had not yet been developed.

We currently operate our business in three segments: Master Planned Communities, Operating Assets and Strategic Developments. Financial information about each of our segments is presented in Note 15 to our audited financial statements included elsewhere in this Annual Report on Form 10-K.

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

Overview of Business Segments

Master Planned Communities. Our Master Planned Communities segment primarily consists of the development and sale of residential and commercial land, primarily in large-scale projects. After acquiring our partner’s 47.5% economic interest in The Woodlands Operating Company, L.P. and subsidiaries, TWPCPC Holdings, LP and subsidiaries and TWLDC Holdings, L.P. and subsidiaries (collectively “The Woodlands”) on July 1, 2011, we now wholly own our four master planned communities (The Woodlands, Summerlin, Bridgeland and Maryland). Our master planned community in Maryland includes four separate communities that are collectively referred to as the “Maryland Communities.”

Our Master Planned Communities include over 14,000 acres of land remaining to be sold. Residential sales, which are made primarily to home builders, include standard and custom parcels as well as high density (*e.g.*, condominium, town homes and apartments) parcels designated for detached and attached single- and multi-

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family homes, ranging from entry-level to luxury homes. Commercial sales include land parcels designated for retail, office, resort, services and other for-profit activities, as well as those parcels designated for use by government, schools and other not-for-profit entities.

Operating Assets. Our Operating Assets segment contains 26 properties and investments, consisting primarily of commercial mixed-use, retail and office properties that currently are generating revenue. The assets include nine mixed use and retail properties, six office properties (one of which includes several individual buildings), a resort and conference center, a 36-hole golf and country club, six equity investments and three other operating assets. We believe that there are opportunities to redevelop or reposition many of these assets, primarily the retail properties, to increase operating performance. These opportunities will require new capital investment and vary in complexity and scale. The redevelopment opportunities range from minimal disruption to the property to the partial or full demolition of existing structures for new construction. Beginning with the consolidation of The Woodlands in 2011, this segment also includes the commercial properties located at The Woodlands, which consist primarily of newly-constructed or stabilized office, retail and golf properties, and a resort and conference center.

Strategic Developments. Our Strategic Developments segment is made up of near, medium and long-term development projects for 19 of our real estate properties. We believe most of these 19 assets will require substantial future development to achieve their highest and best use. We are in various stages of creating or executing strategic plans for many of these assets based on market conditions and availability of capital. In addition to the permitting and approval process attendant to almost all large-scale real estate developments of this nature, we will likely need to obtain financing to realize a development plan for one or more of these assets.

The chart below presents our assets by reportable segment.



* An equity or cost method investment

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Master Planned Communities

Our Master Planned Communities segment consists of the development and sale of residential and commercial land, primarily in large-scale projects in and around Las Vegas, Nevada; Houston, Texas; and Columbia, Maryland. Summerlin and the Maryland Communities are additionally divided into regions or projects as described below in each of the separate community narratives. Revenues are derived primarily from the sale of finished lots and undeveloped pads to both residential and commercial developers. Additional revenues are earned through participations with builders in their sales of finished homes to homebuyers. Revenues and net income are affected by factors such as: (1) the availability to purchasers of construction and permanent mortgage financing at acceptable interest rates; (2) consumer and business confidence; (3) regional economic conditions in the areas surrounding the projects; (4) employment levels; (5) levels of homebuilder inventory; (6) other factors generally affecting the homebuilder business and sales of residential properties; (7) availability of saleable land for particular uses; and (8) our decisions to sell, develop or retain land.

Our Master Planned Communities are located in geographic markets which are experiencing different rates of recovery following the housing market decline that started in 2007. Our communities in Houston, Texas, have benefited from companies relocating to Houston and the expansion of energy sector companies. The Las Vegas, Nevada market is recovering more slowly and our Summerlin master planned community is experiencing more variability in sales pace and volume compared to our Houston communities. As a business venture, development of master planned communities requires expertise in large-scale, long-range land use planning, residential and commercial real estate development, sales and other special skills. The development of our large scale master planned communities requires decades of investment and a continual focus on the changing market dynamics surrounding these communities. We believe that the long-term value of our master planned communities remains strong because of their competitive and dominant positioning, our expertise and flexibility in land use planning and the fact that we have substantially completed the entitlement process within our communities.

The following table summarizes our master planned communities as of December 31, 2011:

Community	Location	Ownership (%)	Total Gross Acres(a)	People Living in Community (Approx. No.)	Remaining Saleable Acres(b)				Remaining Saleable Residential Lots(c)	Projected Community Sell-Out Date
					Residential (c)	Commercial (d)	Total	Other Acres		
Summerlin	Las Vegas, NV	100.0	22,500	100,000	5,880	891	6,771	—	38,684	2039
Bridgeland	Houston, TX	100.0	11,400	4,750	3,797	1,226	5,023	—	18,900	2036
Maryland										
Columbia	Howard County	100.0	14,200	100,000	—	—	—	35(e)	—	2018(g)
Gateway	Howard County	100.0	630	—	—	121	121	—	—	2017
Emerson	Howard County	100.0	520	2,200	2	68	70	—	28	2017
Fairwood	Prince George's County	100.0	1,100	2,500	—	11	11	24	—	2013
The Woodlands	Houston, TX	100.0(f)	28,400	101,000	1,164	961	2,125	—	3,669	2022
Total			78,750	310,450	10,843	3,278	14,121	59	61,281	

- (a) Encompasses all of the land located within the borders of the master planned community, including parcels already sold, saleable parcels and non-saleable areas, such as roads, parks and recreation and conservation areas.
- (b) Includes only parcels that are intended for sale or joint venture. The mix of intended use, as well as the amount of remaining saleable acres, are primarily based on assumptions regarding entitlements and zoning of the remaining project and are likely to change over time as the master plan is refined. Remaining saleable acres are estimates.
- (c) Includes standard, custom and high density residential land parcels. Standard residential lots are designed for detached and attached single- and multi-family homes, of a broad range, from entry-level to luxury homes. At Summerlin and The Woodlands, we have designated certain residential parcels as custom lots as their premium price reflects their larger size and other distinguishing features – such as being within a gated community, having golf course access, or being located at higher elevations. High density residential includes townhomes, apartments and condominiums. Reflected are the remaining residential acres and lots associated with those acres.
- (d) 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.

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- (e) Reflects the number of net developable acres in raw land and subdivided land parcel available for new development, but which we currently intend to hold. During 2011, we contributed approximately 4.2 acres (Columbia Parcel D) to a joint venture to construct an apartment building on the site.
- (f) Prior to July 1, 2011 our economic ownership interest was 52.5%. On July 1, 2011, we acquired the remaining 47.5% of the economic ownership of The Woodlands from our partner.
- (g) We currently intend to develop this land surrounding the Columbia Town Center. The data represents our estimated redevelopment completion date.

Summerlin (Las Vegas, Nevada)

Spanning the western rim of the Las Vegas Valley and located approximately nine miles from downtown Las Vegas, our 22,500 acre Summerlin master planned community is comprised of planned and developed villages and offers suburban living with accessibility to the Las Vegas Strip. For much of its 20-year history, Summerlin has consistently ranked in the Robert Charles Lesser annual poll of Top Ten Master Planned Communities in the nation. With 26 public and private schools, five institutions of higher learning, nine golf courses, and cultural facilities, Summerlin is a fully integrated community. The first residents moved into their homes in 1991. As of December 31, 2011, there were approximately 40,000 homes occupied by approximately 100,000 residents.

Summerlin is comprised of hundreds of neighborhoods located in 19 developed villages with nearly 150 neighborhood and village parks, all connected by a 150-mile long trail system. Summerlin is located adjacent to Red Rock Canyon National Conservation Area, a landmark in southern Nevada, which has become a world-class hiking and rock climbing destination and is in close proximity to our Shops at Summerlin Centre development site. Red Rock Casino Resort & Spa, which is adjacent to our site, receives more than one million visitors annually. Summerlin contains approximately 1.7 million square feet of developed retail space, 3.2 million square feet of developed office space and three hotel properties containing approximately 1,400 hotel rooms, as well as health and medical centers, including Summerlin Hospital and the Nevada Cancer Institute.

Summerlin is divided into three separate regions or projects known as Summerlin North, Summerlin West and Summerlin South. Summerlin North is fully developed. In Summerlin South, we are entitled to develop 740 acres of commercial property with no square footage restrictions, 354 acres of which are owned by third parties or already committed to commercial development. We also have entitlements for an additional 19,000 units yet to be developed in Summerlin South. In Summerlin West, we are entitled to develop 5.85 million square feet of commercial space on up to 508 acres of which 100,000 square feet have already been developed through the construction of a grocery store anchored shopping center. We are also entitled to develop 30,000 residential units in Summerlin West, approximately 25,000 of which remain to be developed. Summerlin does not currently utilize all of its remaining entitlements for residential units. The total residential units reflected in the chart on page 4 represents Summerlin's best estimate of the units that will be developed on its remaining land, based on economic conditions now and expected in the future; however, market forces could change these assumptions. As of December 31, 2011, Summerlin had approximately 5,880 residential acres and 891 commercial acres remaining to be sold. Summerlin's population upon completion of the project is expected to be approximately 220,000 residents.

Bridgeland (Houston, Texas)

Bridgeland is a master planned community near Houston, Texas consisting of approximately 11,400 acres, and was 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 1,375 homes occupied by approximately 4,750 residents as of December 31, 2011. Bridgeland's conceptual plan includes four villages – Lakeland Village, Parkland Village, Prairieland Village and Creekland Village – plus a town center mixed-use district and a carefully designed network of trails totaling over 60 miles that will provide pedestrian connectivity to distinct residential villages and neighborhoods and recreational, educational, cultural, employment, retail, religious and other offerings. Bridgeland's first five neighborhoods are located in Lakeland Village. These neighborhoods offer a unique home buying experience that includes two convenient model home parks showcasing 18 models by ten of Houston's top builders. Bridgeland has many home sites that enjoy views of

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water, buried power lines to maximize the views of open space and water, fiber-optic technology, brick-lined terrace walkways and brick, stone and timber architecture. The prices of the homes range from approximately \$170,000 to more than \$1.0 million. Lakeland Village is approximately 60% completed. The Lakeland Activity Center, the first of several planned activity complexes to be constructed as development progresses and more residents move to Bridgeland, opened in May 2007. The complex is anchored by a 6,000 square foot community center and features a water park with three swimming pools, two lighted tennis courts and a state-of-the-art fitness room. A grand promenade wrapping around Lake Bridgeland offers a boat dock, canoes, kayaks, sailboats and paddleboats. Bridgeland is expected to feature more than 3,000 acres of waterways, lakes, trails, parks and open spaces, as well as an expansive town center with room for employment, retail, educational and entertainment facilities.

Bridgeland's conceptual plan includes a 900-acre town center mixed-use district. The conceptual plan contemplates that the town center will be located adjacent to the expansion of State Highway 99 (the "Grand Parkway"), which is an approved 180 mile circumferential highway traversing seven counties and providing access to southwest, west, northwest, north and northeast Houston. Segment E of the Grand Parkway will be a 15-mile four-lane controlled access toll road with intermittent frontage roads from Interstate 10 to Highway 290 through Harris County. Segment E will provide direct access to the portion of Bridgeland designated for the town center. Construction on Segment E began in October 2011 and is estimated to be completed by the end of 2013 or beginning of 2014.

We anticipate that the Bridgeland community will eventually accommodate more than 20,000 homes and 65,000 residents, and we believe that it is poised to be one of the top master planned communities in the nation. As more fully described below, we are leveraging the 37 years of master planned community development experience of The Woodlands organization to develop and market Bridgeland. As of December 31, 2011, Bridgeland had approximately 3,797 residential acres and 1,226 commercial acres remaining to be sold.

Maryland Communities

Our Maryland communities consist of four distinct projects:

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

Columbia

Columbia, located in Howard County, Maryland, is an internationally recognized model of a successful master planned community developed in the 1960's. As of December 31, 2011, Columbia was home to approximately 100,000 people. Columbia's full range of housing options is located in ten distinct, self-contained villages. Each village is comprised of several neighborhoods, a shopping center and community and recreational facilities. In Columbia Town Center's downtown, 1.6 million square feet of office space is located close to shopping, restaurants and entertainment venues.

In 2005, the U.S. Government enacted the Base Alignment and Closure Act ("BRAC") resulting in the relocation of governmental agencies to the 5,000 acre Fort Meade military base. Fort Meade is located approximately 11 miles from the Columbia Town Center. According to published reports, Fort Meade is the largest single employer of Howard County residents, with more than 10,000 employed, and directly or indirectly supports approximately 170,000 jobs in the region. Since 2005, Fort Meade's workforce has expanded from 34,000 to 56,000 employees, with BRAC accounting for just 5,800 of the 22,000 new positions. Recent news reports estimate that the relocation of military personnel due to BRAC created demand for 1.3 million square feet of new space to Fort Meade, and some estimates indicate that another 5.6 million square feet of space may be developed

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in the future, including growth of the Cyber Command headquarters. By 2015, the overall workforce on the base is expected to exceed 65,000 primarily because of the base's role in cyber security and protecting the U.S.'s information technology assets from foreign threats. Between 2007 and 2015, 8,800 new job holders and 5,500 new households are expected to come into Howard County because of the Fort Meade growth.

We own approximately 35 net acres of land in Columbia which we expect to develop. The land currently consists of raw land and subdivided land parcels readily available for new development. During 2011, we contributed over four acres of land to the Columbia Parcel D joint venture. We are developing a 375 unit apartment building on this land with a local partner as more fully described under Strategic Developments. In addition, we own five office properties comprising 300,000 square feet collectively referred to as the Columbia Office Properties as more fully described under Operating Assets as well as surface and structured parking and dedicated open space. We believe there is a significant opportunity to redevelop this portion of the master planned community in the future. During 2010, we received entitlements to develop up to 5,500 new residential units, approximately one million square feet of retail, approximately five million square feet of commercial office space and 640 hotel rooms.

In November 2010, we entered into development agreements with GGP that provide for the division of properties between our Company and GGP in an area within the mall ring road adjacent to The Mall in Columbia which is owned by GGP. The development agreements contain the key terms, conditions, responsibilities and obligations with respect to the future development of this area within the greater Downtown Columbia Redevelopment District. The agreements designate us as the preferred residential and commercial developer, and provide us with a five-year right of first offer and a subsequent six-month purchase option to acquire seven office buildings and associated parking lots, totaling approximately 22 acres.

Gateway

Gateway is a 630-acre premier master planned corporate community located in a high traffic area in Howard County, Maryland. Gateway offers quality office space in a campus setting with approximately 121 commercial acres remaining to be sold as of December 31, 2011.

Emerson

Emerson is a substantially completed master planned community located in Howard County, Maryland and consists of approximately 520 acres. The first residents moved into their homes in 2002. There were approximately 975 homes occupied by approximately 2,200 residents as of December 31, 2011.

Emerson offers a wide assortment of single-family and townhome housing opportunities by some of the region's top homebuilders, and is located in one of Maryland's top-performing public school districts. As of December 31, 2011, we had approximately two residential acres and 68 commercial acres remaining to be sold. The remaining land is fully entitled for build-out, subject to meeting local requirements for subdivision and land development permits. In addition, 28 of our townhouse lots are under contract for approximately \$3.9 million to builders and scheduled to close in stages through 2012. As of December 31, 2011, we have sold 58 townhouse lots for an aggregate price of \$7.3 million.

Fairwood

Fairwood is a fully developed master planned community located in Prince George's County, Maryland, consisting of approximately 1,100 acres. As of December 31, 2011, 11 commercial acres were available for sale. The first residents moved into their single-family homes in 2002. There were approximately 1,100 homes occupied by approximately 2,500 residents on December 31, 2011. Fairwood consists of single-family and townhouse lots, as well as undedicated open space and two historic houses. In addition to the commercial acres remaining to be sold, we own a few undedicated open space parcels, and 24 acres of unsubdivided land which cannot be developed as long as the nearby airport is operating.

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The Woodlands (Houston, Texas)

The Woodlands is a mixed-use master planned community situated 27 miles north of Houston and consists of 28,400 acres. The Woodlands is a self-contained community that integrates recreational amenities, residential neighborhoods, commercial office space, retail shops and entertainment venues. Home site sales began in 1974. As of December 31, 2011, we estimated that there were approximately 38,000 homes occupied by approximately 101,000 residents and more than 1,755 businesses providing employment for approximately 49,960 people.

Approximately 28% of The Woodlands is dedicated to green space, including parks, pathways, open spaces, golf courses and forest preserves. The population of The Woodlands is projected to be approximately 130,000 by 2020. The Woodlands has full or partial ownership interests in commercial properties totaling 434,328 square feet of office space, 203,282 square feet of retail and service space and 865 rental apartment units. We also own and operate a 440 room resort and conference center facility and a 36-hole golf and country club. These commercial properties are more fully described under Operating Assets. As of December 31, 2011, The Woodlands had approximately 1,164 acres of unsold residential land, representing approximately 3,669 lots, and approximately 961 acres of unsold land for commercial use.

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

On July 1, 2011, we acquired our former partner's 47.5% economic interest in The Woodlands and now own 100% of the master planned community. After the acquisition of our partner's interest, we consolidated management of Bridgeland and The Woodlands. Our strategy is to leverage The Woodlands' 37-plus years of master planned community development experience to replicate the success of The Woodlands at Bridgeland, which is in the early stages of its development life cycle.

Operating Assets

We own 26 assets consisting of nine retail properties, six office properties, a resort and conference center, an exclusive golf and country club, six equity investments in commercial properties and three other assets currently generating revenues. We believe, based on a variety of factors, that there are opportunities to redevelop or reposition several of these assets, primarily the retail properties, to improve their operating performance. These factors include, but are not limited to the following: (1) existing and forecasted demographics surrounding the property; (2) competition related to existing and/or alternative uses; (3) existing entitlements of the property and our ability to change them, compatibility of the physical site with proposed uses; and (4) environmental considerations, traffic patterns and access to the properties. We believe that, subject to obtaining all necessary consents and approvals, these assets have the potential for future growth by means of an improved tenant mix, additional gross leasable area ("GLA"), or repositioning of the asset for alternative use. Our retail operating assets include approximately 2.7 million total square feet of GLA in the aggregate. Redevelopment plans for these assets may include office, retail or residential space, shopping centers, movie theaters, parking complexes and open space. Any future redevelopment will require the receipt of permits, licenses, consents and waivers from various parties and may include a reclassification of the asset to the Strategic Developments segment.

Retail Operating Assets

Ward Centers (Honolulu, Hawaii)

Ward Centers is comprised of approximately 60 acres situated along Ala Moana Beach Park and is within one mile of Waikiki and downtown Honolulu. It is also a ten minute walk from Ala Moana Center, Hawaii's largest shopping center. Ward Centers currently includes a 630,000 square foot shopping district containing six specialty centers and over 135 unique shops, a variety of restaurants and an entertainment center which includes a 16

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screen movie theater. In January 2009, the Hawaii Community Development Authority (“HCDA”) approved a 15-year master plan, which entitles us to develop a mixed-use development encompassing a maximum of 9.3 million square feet, including up to 7.6 million square feet of residential. In January 2011, we executed a development agreement with the HCDA.

During 2011, we completed a 722 stall parking deck that is expected to facilitate the leasing of additional space at Ward Centers and restarted construction of approximately 65,000 square feet of retail space adjacent to the garage. A tenant has already leased and taken possession of approximately 36,000 square feet of this new space. Ward Centers also includes approximately 374,000 square foot of industrial and office properties.

In September 2011, we entered into a \$250.0 million credit facility to support the redevelopment plan for Ward Centers. The loan initially funded \$212.5 million to refinance three existing mortgage loans and for closing costs. Prior to December 31, 2011, we borrowed an additional \$7.5 million to fund capital expenditures at the property.

South Street Seaport (New York, New York)

South Street Seaport is comprised of two landmarked historic buildings, one non-historic structure and one pavilion shopping mall located on Pier 17 on the East River in Manhattan. We also lease 24,000 square feet for sublet to retailers at the base of an adjacent 1.1 million square foot office tower. All of the property except the office tower retail space is subject to a lease with the City of New York. The total property includes 301,086 square feet of space, substantially all of which is retail.

During December 2011, we entered into a letter of intent with the New York City Economic Development Corporation which enables us to pursue redevelopment plans for the South Street Seaport. The City of New York is the lessor and the letter of intent describes the business terms of future amendments to the lease, the first of which must be finalized by June 30, 2012. The amendments to the lease will be effective upon achievement of certain development milestones, but generally become effective after all approvals have been obtained to begin construction. Once they are finalized, lease amendments will, among other things, eliminate any supplemental or participation rent the City of New York would be entitled to under the existing lease. Certain of the amendments also will permit us, subject to obtaining necessary approvals from other constituencies, to renovate the Pier 17 building. We will assume all Pier 17 maintenance obligations as part of the amendment to permit the Pier 17 renovation. The letter of intent also sets several milestones for the Pier 17 renovation, including a construction commencement date for Pier 17 no later than June 30, 2013. We agreed to pay approximately \$1.1 million of the maintenance costs for the East River Esplanade maintenance, which is part of the South Street Seaport, over a five-year period as consideration for entering into the letter of intent. This obligation will continue to exist regardless of whether the lease is amended. Please refer to Note 14 of the audited financial statements for more information regarding the letter of intent.

Landmark Mall (Alexandria, Virginia)

Currently anchored by Macy’s and Sears, Landmark Mall is an 879,262 square foot shopping mall located in affluent Alexandria, Virginia. This mall is located just nine miles west of Washington, D.C. and the Pentagon, and is within approximately one mile of public rail service on D.C.’s metro blue line. Following a re-zoning effort that allows for the development of up to 5.5 million square feet, Landmark Mall has the potential to be developed into a dynamic destination for shopping, dining, working and living. Any redevelopment of Landmark Mall will be dependent upon the Company reaching agreements with existing anchor tenants.

Park West (Peoria, Arizona)

Park West is a 249,168 square foot open-air shopping, dining and entertainment destination in Peoria, Arizona. Park West is approximately one mile northwest of the Arizona Cardinals’ football stadium and the Phoenix Coyote’s hockey arena. Park West has an additional 100,000 square feet of available development rights as permitted for retail, restaurant and hotel uses.

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Rio West Mall (Gallup, New Mexico)

Rio West Mall is located in Gallup, New Mexico. This 514,023 square foot shopping center is the only enclosed regional shopping center within a 125 mile radius, and is easily accessed from I-40 and historic Route 66.

Riverwalk Marketplace (New Orleans, Louisiana)

Riverwalk Marketplace is located along the Mississippi River in downtown New Orleans. The 193,874 square foot shopping center is comprised of more than 100 local and national retail shops, restaurants and entertainment venues. It is adjacent to the New Orleans Memorial Convention Center and the Audubon Aquarium of the Americas.

Cottonwood Square (Salt Lake City, Utah)

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

20 & 25 Waterway Avenue (The Woodlands, Texas)

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

Waterway Garage Retail (The Woodlands, Texas)

Waterway Garage Retail is attached to The Waterway Square Garage located within The Woodlands Town Center. The property totals 21,260 square feet and was completed in 2011 is currently available for lease.

Office Operating Assets

110 N. Wacker (Chicago, Illinois)

We own a 99% joint venture interest in an entity that has a ground leasehold interest in the land underlying a 226,000 square foot office building located at 110 N. Wacker Drive in downtown Chicago. The ground lease expires in 2055 and the building is 100% leased to a subsidiary of GGP through October 2019. GGP has several options to extend their lease through the duration of the ground lease. We have the right to terminate GGP's lease with six months' notice following the expiration of the initial term in 2019.

We receive 100% of the annual lease payments made by the subsidiary of GGP. The amount totals approximately \$6.1 million. As part of our joint venture agreement, we remit a monthly payment of \$31,250 to our partner through May 1, 2013.

Columbia Office Properties (Columbia, Maryland)

We own four office buildings and are a master tenant of a fifth office building. The office building ground lease has a 2020 initial expiration and a 2060 final expiration date, including market renewal options. The buildings comprise approximately 300,000 square feet in the heart of downtown Columbia including: (1) American City Building (master tenant); (2) the Columbia Association Building; (3) the Columbia Exhibit Building; (4) the Ridgley Building; and (5) the Columbia Regional Building. This group also contains the Merriweather Post Pavilion, an outdoor amphitheater and concert venue. Both the Columbia Regional Building and Merriweather Post Pavilion were designed by Frank Gehry. Columbia, Maryland is located 14 miles from the Baltimore Beltway and 17 miles from the Washington Beltway.

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4 Waterway Square (The Woodlands, Texas)

4 Waterway Square is a nine-story Class A office building located within The Woodlands Town Center. The property totals 218,551 square feet and was completed in 2010.

9303 New Trails (The Woodlands, Texas)

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

1400 Woodloch Forest Drive (The Woodlands, Texas)

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

2201 Lake Woodlands Drive (The Woodlands, Texas)

2201 Lake Woodlands Drive is a two-story Class C office building located in the East Shore commercial district of The Woodlands. The property totals 24,024 square feet and was completed in 1994.

Resort and Conference Center and Country Club Operating Assets

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

The Woodlands Resort and Conference Center is located approximately two miles south of The Woodlands Town Center. The property operates 440 hotel rooms, has 60,000 square feet of meeting space and the latest phase was completed in 2002. For the year ended December 31, 2011, the property generated revenue per available room of \$95.73.

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. It contains an 18-hole Jack Nicklaus Signature Golf Course and an 18-hole Tom Fazio Championship Course, in addition to two clubhouses, spa, tennis, and fitness facilities.

Equity Investments and Other Operating Assets

Waterway Square Garage (The Woodlands, Texas)

The wholly owned Waterway Square Garage, located within The Woodlands Town Center, is a five-story parking garage that contains 1,942 parking spaces and 21,260 square foot of retail space. The garage was completed in 2009 and the retail space is classified under our Operating Assets segment.

The Millennium Waterway Apartments (The Woodlands, Texas)

We have an 83.55% economic interest in a 393-unit apartment building located within The Woodlands Town Center. The property was completed in 2010 as a partnership with The Dinerstein Companies. We account for our interest in The Millennium Waterway Apartments as a non-consolidated investment using the equity method.

Forest View/Timbermill Apartments (The Woodlands, Texas)

Forest View apartments is a 216 unit, multi-family rental community developed in 1994 under the Federal Low-income Housing Tax Credit Program ("FLHTCP"). Timbermill apartments is a 256 unit multi-family rental community developed in 1993 under the FLHTCP. We have 50% cash flow interest in these investments as well as receive a five percent management fee. These investments are under contract for sale, and we expect to receive proceeds in the amount of \$8.6M.

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Interest in Head Acquisition (Hexalon)

We own 100% of the ownership interests in Hexalon Real Estate, LLC (“Hexalon”). Hexalon owns a 1.42% interest in Head Acquisition, LP, a joint venture between GGP, Simon Property Group, L.P. and Westfield Group. The partnership owns certain retail mall interests. Hexalon receives a quarterly preferred interest distribution from Head Acquisition, L.P. which totaled approximately \$321,000 in 2011. The entity possesses significant tax attributes that we could utilize to reduce future taxable income. These attributes are expected to reduce our tax liability by approximately \$75.5 million (net of a valuation allowance as of December 31, 2011), subject to potential offset provided in the Tax Matters Agreement between us and GGP. Our annual taxable income will determine how our tax liability is reduced each year. This tax attribute carries over indefinitely until it is fully utilized.

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 132,050 square feet and various phases were constructed between the late 1980’s and 2002.

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

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

The property’s majority owner and operator is a subsidiary of Universal Health Services, Inc. (“UHS”), one of the largest healthcare management companies in the nation. UHS and our predecessors formed a joint venture to build and manage the hospital. Our predecessors contributed the land and UHS provided the funds to build the hospital. The ownership structure entitles us to a pro rata share of the cumulative undistributed profit in the hospital. We typically receive a distribution one time per year during the first quarter. During 2011, we received a \$3.9 million distribution, of which approximately \$2.0 million was related to 2010 and \$1.9 million was deferred from prior years due to the renovation and expansion of the hospital noted above.

Interest in Stewart Title (The Woodlands, Texas)

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

Note Approximating Office Lease Payments

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

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

We are entitled to receive residual payments from the Professional Golfers’ Association of America (the “PGA”) with respect to two golf courses, the TPC Summerlin and the TPC Las Vegas, through October 31, 2021. We

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receive 75% of the net operating profits and 90% of all profits from membership sales at TPC Summerlin until such time as the original investment in the courses of \$23.5 million has been recouped, which is projected to occur no sooner than 2015. As of December 31, 2011, the remaining balance on our investment is approximately \$6.6 million, approximately \$4.3 million greater than our \$2.3 million net book value at December 31, 2011. 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 October 31, 2021, the termination date of the agreement with the PGA. The TPC Summerlin is an 18-hole private championship course designed by golf course architect Bobby Weed with player consultant Fuzzy Zoeller. TPC Las Vegas is an 18-hole public championship course designed by golf course architect Bobby Weed with player consultant Raymond Floyd. These courses represent the only two golf courses in Nevada that are owned and operated by the PGA Tour.

Strategic Developments

Our Strategic Developments segment is made up of near, medium and long-term real estate properties and development projects. At present, we believe these assets will require substantial future development to achieve their highest and best use. We are in the process of creating strategic plans for each of these assets based on market conditions and availability of capital. The new plans may differ significantly from our predecessors. To be able to realize a development plan for any of these assets, in addition to the permitting and approval process attendant to almost all large-scale real estate developments of this nature, we will likely need to obtain financing.

The following table summarizes our strategic development projects as of December 31, 2011:

Asset	Location	GLA	Size (Acres)	Net Book Value, December 31, 2011 (Millions)	Acquisition Year
Ala Moana Condo Project	Honolulu, HI	—	—	\$ 22.9	2002
Bridges at Mint Hill	Charlotte, NC	—	162	12.6	2007
Columbia Parcel D	Columbia, MD	—	4	3.0	—
3 Waterway Square	Houston, TX	232,774(a)	0.825	0.2	2012
Alameda Plaza	Pocatello, ID	190,341	22	2.3	2002
AllenTowne	Allen, TX	—	238	25.4	2006
Century Plaza	Birmingham, AL	169,072	63	4.5	1997
Circle T Ranch and Power Center	Dallas/Ft. Worth, TX	—	279	18.0	2005
Cottonwood Mall	Holladay, UT	6,600	54	19.6	2002
Elk Grove Promenade	Elk Grove, CA	—	100	5.5	2003
Fashion Show Air Rights	Las Vegas, NV	—	—	—	2004
Kendall Town Center	Kendall, FL	—	75	17.5	2004
Lakemoor (Volo) Land	Lakemoor, IL	—	40	0.3	1995
Maui Ranch Land	Maui, HI	—	10	—	2002
Nouvelle at Natick	Natick, MA	—	—	0.1	2007
Redlands Promenade	Redlands, CA	—	10	2.8	2004
The Shops at Summerlin Centre	Las Vegas, NV	—	106	35.8	2004
Village at Redlands	Redlands, CA	—	5	6.8	2004
West Windsor	West Windsor, NJ	—	658	20.7	2004
Total		<u>598,787</u>	<u>1,827</u>	<u>\$ 198.0</u>	

(a) 3 Waterway Square development was announced in October 2011. After the announcement, the building size was increased to 232,774 square feet from 192,000 square feet due to strong market demand. Construction is expected to begin during the first quarter 2012.

Ala Moana Tower Condo Project (Honolulu, Hawaii)

We own the rights to develop a residential condominium tower over a parking structure at Ala Moana Center in Honolulu, Hawaii pursuant to a condominium property regime declaration. The declaration permits the construction of a first-class residential tower with approximately 18 stories, and requires, among other things, that the scope of work for the residential tower project will include certain street-level and sewer improvements. The plans and specifications for the residential tower project will be subject to GGP's review and reasonable approval per the declaration.

During October 2011, our Company and two local developers formed a joint venture to explore the development of the luxury condominium tower. We and an entity jointly owned by the two development partners each own 50% of the venture. Unanimous consent of the partners is required for all major decisions and the partners will equally fund all pre-development costs relating to the project. The venture is responsible for all pre-development activities, as well as for obtaining construction financing for the project. The venture also intends to raise third party capital to fund up to 80% of the equity required for the project. Our partner's joint venture entity has committed to contribute at least 10% of the required equity and we will obtain a 10% equity interest in the venture in exchange for our contribution of the condominium rights. We have retained the right to sell the condominium rights any time prior to obtaining a commitment from third party equity investors to fund up to 80% of the required equity capital. In the event we sell the condominium rights to a third party prior to completing the third-party equity raise, our partners would be entitled to 20% of the net sale proceeds in excess of the sum of \$47.5 million, and the actual amount of pre-development costs incurred prior to such sale. Our book value of the Ala Moana condominium rights was \$22.9 million as of December 31, 2011.

Bridges at Mint Hill (Charlotte, North Carolina)

This property consists of vacant land located southeast of Charlotte, North Carolina, in the middle of some of the fastest growing areas in the Charlotte region. The parcel is approximately 162 acres and consists of 120 developable acres and is currently zoned for approximately 997,000 square feet of retail, hotel and commercial development. The land is divided by a small stream known as Goose Creek. The current zoning plan contemplates connecting the two resulting parcels with two bridges over the creek. Development will require construction of internal roadways, connecting bridges, expansion of roads and an installation of a force main (offsite) and pump station (onsite) for sewer utility. The Mint Hill parcel is adjacent to a 52-acre parcel owned by a Charlotte-based regional developer. The developer's parcel has been approved for up to 270,000 square feet of space and is expected to be anchored by three to five junior box retailers.

During 2011, we entered into a joint venture with the owner of land adjacent to our property to develop a shopping center on our properties. The parties have agreed to contribute their respective properties free of any encumbrances to the venture by October 31, 2012. Our partner's land is currently encumbered by a \$4.5 million mortgage. If the appraised fair market value of our partner's land as of the contribution date is equal to or greater than \$4.5 million and the mortgage has not been repaid, then we will be required to contribute \$4.5 million cash to the venture (in addition to our land) to repay the mortgage. If the appraised fair market value is less than \$4.5 million, then we must contribute the greater of \$3.0 million or the appraised fair market value of the land. Our partner would then be required to contribute cash equal to the difference between the outstanding mortgage amount and our cash contribution, and in no event more than \$1.5 million. Our initial ownership in the venture is 79.0%, and our ownership percentage could increase to 90.5% if we are required to make the \$4.5 million cash contribution. Please refer to Note 6 of our audited financial statements included elsewhere in this Annual Report on Form 10-K for more information regarding this joint venture.

The joint venture entity entered into a development agreement with an affiliate of our partner, and both our partner and the Company will act as leasing agents for the project. We will fund the venture's capital needs for operating expenses and development costs. Such amounts will be senior to the initial contributed capital and will accrue at 12% per annum compounded return.

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3 Waterway Square (The Woodlands, Texas)

In late October 2011, we announced the construction of a new nine-story, 192,000 square foot office building that will be located in The Woodlands Town Center adjacent to the 4 Waterway Square office building. Subsequent to the announcement of the 3 Waterway Square office building, due to high demand for Class A office space in The Woodlands, the building size was recently increased to eleven stories and will now total 232,774 square feet. Approximately 67.0% of the space has been leased as of February 17, 2012, and average net base rent for the first year is expected to be in excess of \$26.00 per square foot. The building is expected to cost approximately \$51.4 million to construct (excluding our estimated land value and pre-existing garage allocation). We closed on a \$43.3 million non-recourse construction loan for 3 Waterway Square in the first quarter of 2012.

Alameda Plaza (Pocatello, Idaho)

Alameda Plaza is located in Pocatello, Idaho at the intersection of Yellowstone Park Highway and Alameda Road. The 22-acre site contains 190,341 square feet of mostly vacant retail space. We are exploring a potential sale of this asset.

AllenTowne (Allen, Texas)

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

Century Plaza (Birmingham, Alabama)

Century Plaza is located on the eastern side of Birmingham, Alabama, on U.S. Route 78 (Crestwood Blvd.) near Interstate 20, across from Eastwood Village. In May 2009, the mall was shuttered. The site consists of approximately 63 acres with 750,000 of GLA.

Columbia Parcel D (Columbia, Maryland)

In October 2011, we entered into a joint venture with a local developer to construct an approximate 375 unit Class A apartment building with approximately 10,000 square feet of ground floor retail space in downtown Columbia, Maryland. We contributed its 4.2 acre site, having a \$3.0 million book value, to the joint venture. The transaction values the Company's land at \$53,500 per to-be-constructed unit, or \$20.1 million, based on 375 units. The Company and its partner each own 50% of the venture, and unanimous consent of the partners is required for all major decisions. We are responsible for obtaining certain entitlements for the project, and our partner will provide construction and property management services, including the funding and oversight of pre-development activities and obtaining construction financing. Our partner, with limited exceptions, is required to cover any project cost overruns and to provide all guarantees or other recourse obligations as may be required under the construction financing. At any time after the stabilization of the property, either us or our partner may offer to sell the project to an unrelated third party, subject to the other party's right of first refusal. When the venture closes on the construction loan and upon completion of certain other conditions, including obtaining all of the necessary entitlements, completed site development and construction plans, and an approved project budget, the partner will be required to contribute cash to the venture which, after valuing the our contributed land at \$53,500 per unit and considering total expected project costs less financing proceeds, will enable the venture to make a cash distribution to the us to equalize the partners' capital accounts. We have the right to purchase its partner's equity interest in the venture for \$10.00 if the conditions noted above have not been met by October 27, 2013, so long as such failure was not caused by us.

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

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

Cottonwood Mall (Holladay, Utah)

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

Kendall Town Center (Kendall, Florida)

Kendall Town Center is part of a 158-acre site located at the intersection of North Kendall Drive and SW 158th, approximately 20 miles southwest of downtown Miami. A 31 acre parcel was sold to Baptist Hospital in March 2008, and a 282,000 square foot hospital with 133 beds, along with a 62,000 square foot medical office building, opened in 2011. In 2011, we sold 5 acres and 18 acres in 2009. Those parcels are expected to include a 120 room hotel with ancillary office and retail, office space and a senior housing development. We own the remaining 75 acres, which are currently entitled for 621,300 square feet of retail, 60,000 square feet of office space, and a 50,000 square foot community center.

Elk Grove Promenade (Elk Grove, California)

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

Fashion Show Air Rights (Las Vegas, Nevada)

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

Lakemoor (Volo) Land (Lakemoor, Illinois)

This 40-acre vacant land parcel is located on Route 12 which is located 50 miles north of Chicago in a growing suburb. The project has no utilities in place, but is located near two planned regional centers.

Maui Ranch Land (Maui, Hawaii)

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

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Nouvelle at Natick Condominium (Natick, Massachusetts)

Nouvelle at Natick is a full service luxury condominium community comprised of 215 residences located in the Natick Collection in the Boston suburb of Natick, Massachusetts. Nouvelle at Natick's amenities include a 4,000 square foot private club, a 2,800 square foot fitness center and a 1.2-acre rooftop garden with winding boardwalks, native grasses, flowers and trees. During 2011, 57 units were sold for \$22.1 million. Two units remain for sale as of December 31, 2011.

Redlands Promenade (Redlands, California)

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

The Shops at Summerlin Centre (Las Vegas, Nevada)

Construction of The Shops at Summerlin Centre began in 2008, but was delayed due to changing market conditions. The development project fronts Interstate 215 between Sahara Drive and Charleston Boulevard approximately nine miles west of the Las Vegas Strip. Originally planned for approximately 1.5 million square feet of retail and office development, the 106 acre parcel is part of a 1,300 acre mixed-use town center for the Summerlin Master Planned Community. The project has the potential to be developed with retail, office, hotel and multifamily residential. We are evaluating alternative designs for a mixed use project on this site that should incorporate many of the infrastructure improvements made by our former parent. We are also soliciting anchor and in-line retailer interest in the project.

Village at Redlands (Redlands, California)

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

West Windsor (West Windsor, New Jersey)

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

Competition

The nature and extent of the competition we face depends on the type of property involved. With respect to our master planned communities, we compete with other landholders and residential and commercial property developers in the development of properties within Las Vegas, Nevada and 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;
- the recreational and cultural amenities available within the communities;
- the commercial centers in the communities, including those 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.

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

With respect to malls and development projects, 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. With respect to our mixed-use development projects, we also will be required to compete for financing.

Environmental Matters

Under various federal, state and local laws and regulations, an owner of real estate is liable for the costs of removal or remediation of certain hazardous or toxic substances on such real estate. These laws often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. The costs of remediation or removal of such substances may be substantial, and the presence of such substances, or the failure to promptly remediate such substances, may adversely affect the owner's ability to sell such real estate or to borrow using such real estate as collateral. In connection with our ownership and operation of our properties, we, or the relevant joint venture through which the property is owned, may be potentially liable for such costs.

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. Phase I environmental assessments typically include a historical review, a public records review, a site visit and interviews, but do not include soil sampling or subsurface investigations. To date, 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 developed). 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. In addition, 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 may not have sufficient liquidity to comply with such statutes and regulations or to address such conditions and may be required to halt or defer such development projects. 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 predecessors' operating results or competitive position in the past, but could have such an effect on our operating results or competitive position in the future.

Employees

As of December 31, 2011, we had approximately 835 employees.

Available Information

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

ITEM 1A. RISK FACTORS

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

Risks Related to our Business

We have a history of losses and may not be profitable in the future.

Prior to November 9, 2010, our historical combined financial data was carved-out from the financial information of GGP. This data shows that had we been a stand-alone company, we would have had a history of losses. We cannot assure you that we will achieve sustained profitability going forward. For the years ended December 31, 2010 and 2009, we incurred losses from continuing operations of \$69.2 million and \$702.9 million, respectively. The losses from continuing operations subsequent to our spin-off from GGP were primarily due to significant impairment losses due to revised operating strategies by the new management team for certain of our assets and warrant liability expenses related to our sponsors and new management team. In addition, for the years ended December 31, 2010 and 2009, net cash used in operating activities was \$67.9 million and \$17.9 million, respectively, whereas for the year ended December 31, 2011, cash provided by operations was \$86.5 million. If we cannot improve our profitability or generate positive cash flow from our operating activities, the trading value of our common stock may decline.

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

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

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

The successful execution of our business strategy will require us to obtain substantial amounts of operating and development capital. Sources of such capital could include bank borrowings, public and private offerings of debt or equity, or sale of certain assets and joint ventures with one or more third parties. In recent years, it has been difficult for companies with substantial profitable operating histories to source capital for real estate development and acquisition projects, as well as basic working capital needs. Although the capital markets have shown signs of improving, we may be unable to obtain financing in the future and financing we are able to secure may only be available on unfavorable terms.

A prolonged recession in the national economy, or a further downturn in national or regional economic conditions, could adversely impact our business.

The collapse of the housing market, together with the crisis in the credit markets, have resulted in prolonged high unemployment, a lower gross domestic product and reduced consumer spending. During such times, potential customers often defer or avoid real estate purchases due to the substantial costs involved, causing land and other real estate prices to significantly decline. Significantly tighter lending standards for borrowers are also having a significant negative effect on demand. A record number of homes are in foreclosure and forced sales by homeowners under distressed economic conditions are significantly contributing to the high levels of inventories of lots available for sale in some of our master planned communities.

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

We do not know how long the downturn in the residential and commercial real estate markets will last or when real estate markets will return to more stable and predictable conditions. High unemployment, lack of consumer confidence and other adverse conditions in the current economic environment could significantly delay a recovery in real estate markets. Our business may suffer until market conditions improve. If market conditions were to worsen, the demand for our real estate products could further decline, negatively impacting our earnings, cash flow and liquidity. A prolonged low growth or recessionary period could have a material adverse effect on our business, results of operations and financial condition.

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

Our business objective in our Strategic Developments segment is to develop and redevelop our properties, which we may be unable to do if we do not have or cannot obtain sufficient capital to proceed with planned development, redevelopment or expansion activities. In addition, the construction costs of a project, including labor and materials may exceed original estimates or available financings. 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.

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

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

Our Master Planned Communities segment is highly dependent on homebuilders.

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

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Our results of operations in our Operating Assets and Strategic Developments segments are subject to significant fluctuation by various factors that are beyond our control.

Our results of operations in our Operating Assets and Strategic Developments segments 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 plant closings, material relocation by residents industry slowdowns, increased unemployment, lack of availability of consumer credit, levels of consumer debt, housing market conditions, adverse weather conditions, natural disasters and other factors;
- local real estate conditions, such as an oversupply of, or a reduction in demand for, retail space or retail goods, and the availability and creditworthiness of current and prospective tenants;
- perceptions by retailers or shoppers of the safety, convenience and attractiveness of the retail property;
- the convenience and quality of competing retail properties and other retailing options such as the internet;
- our ability to lease space, collect rent and attract new tenants; and
- tenant rental rates, which may decline for a variety of reasons, including the impact of co-tenancy provisions in lease agreements with certain tenants.

A decline in our results of operations in our Operating Assets and Strategic Developments segments could have a negative impact on the trading price of our common stock.

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

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

Significant competition could have an adverse effect on our business.

The nature and extent of the competition we face depends on the type of property involved. 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 operations, financial condition or results of operations.

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, investment banking firms and private institutional investors.

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

We currently have and intend to enter into further 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 or have other adverse consequences. We cannot control the ultimate outcome of any decision made, which may be detrimental to our interests. Some of our interests, such as the Summerlin Medical Hospital Center, are controlled entirely by our partners.

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

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

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

Although we did not record any impairment charges in 2011, we recorded impairment charges of \$503.4 million and \$680.3 million for the years ended December 31, 2010 and 2009, respectively. If market conditions were to continue to deteriorate, and the recoverable values for our real estate inventory and other project land were to fall below the book value of these assets, we could be required to take additional write-downs of the book value of those assets and such write-downs could be material.

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

As of December 31, 2011, our consolidated debt was approximately \$606.5 million, of which \$7.0 million is recourse. Our share of the debt of our Real Estate Affiliates is \$43.7 million. Our indebtedness, particularly if increased over time, could have important consequences, including:

- limiting our ability to borrow additional amounts for working capital, capital expenditures, debt service requirements, execution of business strategy or other purposes;
- limiting our ability to use operating cash flow in other areas of the business or to pay dividends;
- increasing our vulnerability to general adverse economic and industry conditions, including increases in interest rates, particularly given that certain indebtedness bears interest at variable rates;

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- limiting our ability to capitalize on business opportunities, reinvest in and develop their properties, and to react to competitive pressures and adverse changes in government regulation;
- limiting our ability, or increasing the costs, to refinance indebtedness; and
- giving secured lenders the ability to foreclose on assets.

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

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

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

Changes in our income tax estimates could affect our profitability.

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

We may not realize the value of our tax assets.

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

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, in 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.

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

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

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

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

We may face potential successor liability.

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

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

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

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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.

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 are located in coastal regions, and would therefore be affected by increases in sea levels, the frequency or severity of hurricanes and tropical storms, or environmental disasters, whether such events are caused by global climate changes or other factors.

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.

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

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.

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

M.B. Capital Partners and certain of its affiliates (collectively, "M.B. Capital"), Pershing Square Capital Management, L.P. ("Pershing Square") and Brookfield Retail Holdings LLC ("Brookfield") beneficially own 11.2%, 9.4% and 6.4%, respectively, of our outstanding common stock (excluding shares issuable upon the

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exercise of warrants). Under the terms of our stockholder agreements, Pershing Square currently has the ability to designate three members of our board of directors, and Brookfield currently has the ability to designate one member. As of December 31, 2011, there is no Brookfield designee on 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 M.B. Capital, Pershing Square, Brookfield and other substantial stockholders may make some transactions more difficult or impossible without the support of these stockholders, or more likely with the support of these stockholders. The interests of our substantial stockholders could conflict with or differ from the interests of our other stockholders. For example, the concentration of ownership held by M.B. Capital, Pershing Square and Brookfield, even if these stockholders are not acting in a coordinated manner, could allow M.B. Capital, Pershing Square and Brookfield to influence our policies and strategy and could delay, defer or prevent a change of control or impede a merger, takeover or other business combination that may otherwise be favorable to us and our other stockholders.

Certain of our directors have interests in GGP that may be adverse to our interests, limiting how we conduct business with GGP.

Pershing Square holds material economic interests in GGP. Accordingly, we expect that a number of our directors may have, or appear to have, conflicting interests relating to us and GGP. It may be important for us to do business with GGP in the future or to supplement or amend the initial agreements between us and the reorganized GGP as circumstances change. Actual or perceived conflicts of interest may decrease the effectiveness of our board of directors in dealing with GGP. For example, directors with helpful expertise may be required or decide to recuse themselves from deliberation or voting on matters involving GGP, and certain transactions in our best interests may not be pursued at all because of the risk of an appearance of a conflict or other considerations.

Risks Related to Spin-off.

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

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

If the spin-off does not qualify as a tax-free distribution under Section 355 of the Internal Revenue Code, then GGP and its subsidiaries may be required to pay substantial U.S. federal income taxes, and we may be obligated to indemnify GGP and its subsidiaries for such taxes.

In connection with our spin-off, GGP received a private letter ruling from the IRS to the effect that the spin-off transactions qualified as tax-free to GGP and its subsidiaries for U.S. federal income tax purposes. A private letter ruling from the IRS generally is binding on the IRS. Such IRS ruling does not establish that the spin-off satisfied every requirement for a tax-free spinoff, and the parties have relied solely on the advice of counsel for comfort that such additional requirements are satisfied.

The IRS ruling is based on, among other things, certain representations and assumptions as to factual matters made by GGP. The failure of any factual representation or assumption to be true, correct and complete in all

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material respects could adversely affect the validity of the IRS ruling at the time of and subsequent to the spin-off. In addition, the IRS ruling is based on current law and cannot be relied upon if current law changes with retroactive effect. If the spin-off were to be treated as taxable, GGP and holders of GGP's common stock may be faced with significant tax liability with respect to the spin-off.

We entered into a Tax Matters Agreement with GGP, pursuant to which GGP may be held liable for the cost of the failure of the spin-off to qualify as a tax-free distribution if GGP caused such failure, whether by an action taken before or after the spin-off. If we caused such failure, whether by an action taken before or after the spin-off, we could be liable for such costs. If the cause for the failure cannot be determined or was not caused by a single party, then we and GGP will share such liability based on relative market capitalization. Moreover, although we have agreed to share certain tax liabilities with GGP, we may be liable at law to a taxing authority for some of these tax liabilities and, if GGP were to default on their obligations to us, we would be responsible for the entire amount of these liabilities.

In connection with the spin-off we entered into several agreements with GGP with respect to certain of our assets and we may have conflicts with GGP which could adversely affect our business.

We may have economic or business interests that are divergent from GGPs in relation to a particular asset, and we may have disagreements with GGP with respect to how these assets are managed and developed in the future.

Risks Related to Our Common Stock

The trading price of our common stock may fluctuate widely.

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

- our quarterly or annual earnings, or those of other comparable companies;
- actual or anticipated fluctuations in our operating results and other factors related to our business;
- announcements by us or our competitors of significant acquisitions or dispositions;
- the failure of securities analysts to cover our common stock;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- the operating and stock price performance of other comparable companies;
- our ability to implement our business strategy;
- our tax payments;
- our ability to raise capital;
- overall market fluctuations; and
- general economic conditions.

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

Provisions in our certificate of incorporation, our by-laws, Delaware law, stockholder 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;

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

Additionally, our certificate of incorporation imposes certain restrictions on the direct or indirect transferability of our securities to assist in the preservation of our valuable tax attributes (generally consisting of (1) approximately \$400 million of suspended federal income tax deductions and (2) a relatively high federal income tax basis in our assets), including, subject to certain exceptions, that until such time as our board of directors determines that it is no longer in our best interests to continue to impose such restrictions (i) no person or entity may acquire or accumulate the Threshold Percentage (as defined below) or more (as determined under tax law principles governing the application of section 382 of the Internal Revenue Code) of our securities, and (ii) no person owning directly or indirectly (as determined under such tax law principles) on the date of our spin-off, after giving effect to the spin-off plan, the Threshold Percentage or more of our securities may acquire additional securities of ours. Notwithstanding the restrictions in our certificate of incorporation, no assurance can be given regarding our ability to preserve our tax attributes. Threshold Percentage means, in the case of (i) our common stock, 4.99% of the number of outstanding shares of our common stock and (ii) any other class of our equity, 4.99% of each such class.

We have also implemented a so-called poison pill by adopting our stockholders rights agreement. The poison pill assists in the preservation of our valuable tax attributes by significantly increasing the costs that would be incurred by an unwanted third party acquirer if such party owns or announces its intent to commence a tender offer for the Threshold Percentage or more of our securities. The stockholder rights agreement will automatically terminate if not approved by our stockholders at our 2012 Annual Meeting of Stockholders and otherwise expires on March 14, 2015. All of these provisions could limit the price that investors might be willing to pay in the future for shares of our common stock.

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

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

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

Brookfield is subject to restrictions on its ability to sell our common stock and its warrants to acquire our common stock. After these restrictions expire, shares held by Brookfield may be sold in the public markets. The price of our common stock may drop significantly when such restrictions expire. In addition, certain of our substantial stockholders, including Brookfield and Pershing Square, have the right to purchase the number of our shares as necessary to allow the stockholder to maintain its proportionate ownership interests on a fully diluted basis, for so long as the stockholder beneficially owns at least 5% of our outstanding common stock on a fully-diluted basis.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive offices are located in Dallas, Texas where we lease approximately 21,710 square feet under an arrangement that expires in 2021. We also maintain offices at certain of our properties as well as in Houston, Texas and in Los Angeles, California. We believe our present facilities are sufficient to support our operations.

Our Master Planned Communities and our Strategic Developments assets are described above in Item 1. Business "Overview of Business Segments". The tables below summarize certain metrics of the properties within our Operating Assets segment as of December 31, 2011. Leases with our tenants at our real property retail operating asset locations within our Operating Assets segment generally include base rent and common area maintenance charges:

Property	Location	Year Ended December 31, 2011									
		Existing Gross Leasable Area	Size (Acres)	Net Book Value, December 31, 2011 (Millions)	Average Annual Tenant Sales per Square Foot(a)	Mall and Other Rental NOI (000)(b)	Average Sum of Rent and Recoverable Common Area Costs per Square Foot(c)	Occupancy Cost(d)	NOI Margin(e)	Acquisition Year	
Ward Centers	Honolulu, HI	1,004,781(f)	60	\$ 348.8	\$ 542	\$ 21,481	\$ 62	11.4%	54.1%	2002	
South Street Seaport	New York, NY	301,086(g)	11	5.9	530	5,650	68	12.8%	32.5%	2004	
Landmark Mall	Alexandria, VA	440,325(h)	22	23.8	276	737	35	12.7%	15.0%	2004	
Park West	Peoria, AZ	249,168	48	79.6	291	576	23	7.9%	18.1%	2006	
Rio West	Gallup, NM	333,077(g)(i)	50	11.0	169	1,319	20	11.8%	39.0%	1981(j)	
Riverwalk Marketplace	New Orleans, LA	193,874(g)	11	12.0	252	418	37	14.7%	6.7%	2004	
Cottonwood Square	Salt Lake City, UT (k)	77,079(l)	21	5.1	n.a.	380	n.a.	n.a.	64.0%	2002	
20/25 Waterway Avenue	The Woodlands, TX	49,972	1	12.2	385	1,310	44	11.4%	68.3%	2011	
Waterway Garage Retail	The Woodlands, TX (m)	21,260(n)	—	9.4	n.a.	7	n.a.	n.a.	10.2%	2011	
Total		<u>2,670,622</u>	<u>224</u>	<u>\$ 507.8</u>		<u>\$ 31,878</u>					

- (a) Average Annual Tenant Sales per Square Foot includes only inline tenants and excludes anchors, outparcels and specialty leasing tenants. The calculation is the sum of all comparable sales for the year ending December 31, 2011 for tenants that are contractually obligated to submit sales data, divided by the comparable square footage for the same period. We include in our calculations of comparable sales and comparable square footage, properties that have been owned and operated for the entire time during the twelve month period and exclude properties at which significant physical or merchandising changes have been made. Inline Tenants are defined as any tenant operating under a lease agreement that is less than 30,000 square feet and whereby the landlord maintains or operates the building for the leasehold premises.
- (b) Mall and Other Rental NOI includes mall and other rental revenue and expenses according to U.S. GAAP, excluding straight-line rent, market lease amortization, depreciation and other amortization expense. (See Operating Asset NOI and EBT table under the Operating Assets Segment in Item 7)
- (c) Average Sum of Rent and Recoverable Common Area Costs per Square Foot is calculated as the sum of total rent and tenant recoveries for the year ending December 31, 2011 for the tenant base used to calculate (h) Average Annual Tenant Sales per Square Foot, divided by the total square footage occupied by the above mentioned tenant base.
- (d) Occupancy Cost is calculated by dividing (c) Average Sum of Rent and Recoverable Common Area Costs per Square Foot by (a) Average Annual Tenant Sales per Square Foot.

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- (e) NOI Margin is calculated by dividing NOI by total contractual and other property revenue.
(f) Excludes 153,928 square feet related to ground leases of which we are the lessor.
(g) All of the project is on a ground lease where we are the ground lessee.
(h) Excludes 438,937 square feet in project that is owned and occupied by Sears and Macy's.
(i) Excludes 180,946 square feet of outparcel improvements in project currently owned by tenant.
(j) Reflects the year that Rio West Mall opened.
(k) Cottonwood Square is not required to report tenant sales.
(l) 41,612 square feet of the Existing Gross Leasable Area is part of a ground lease where we are the ground lessee. This space is currently leased but not occupied. The ground lease payments are paid by the current lessee directly to the ground lessor.
(m) Property opened July 1, 2011. Property has one retail tenant and is not required to report sales data.
(n) Ground floor retail space attached to the Waterway Square Garage.

The following table summarizes certain metrics of our Operating Assets other than retail Operating Assets as of December 31, 2011:

Asset	Economic Ownership %	Property Type	Sqr. Feet / Keys	% Leased	Year Complete	Net Book Value, December 31, 2011 (Millions)
4 Waterway Square	100%	Office	218,551	98.8%	2010	\$ 59.0
9303 New Trails	100%	Office	97,705	100.0%	2008	14.5
2201 Lake Woodlands Drive	100%	Office	24,024	100.0%	1994	4.0
1400 Woodloch Forest	100%	Office	95,667	98.1%	1981	11.6
110 N. Wacker (Chicago, IL)	100%	Office	226,000	100.0%	1957	23.6
Columbia Office Properties (a)	100%	Office	300,000	89.3%	1969/1972	29.5
The Woodlands Resort & Conf. Center	100%	Hotel	440 keys	—	2002	47.8
The Woodlands Parking Garages	100%	Garage	2,988 spaces	—	2008/2009	3.3
The Club at Carlton Woods	100%	Country Club	36 holes	—	2001	14.6
Arizona 2 Office Lease	100%	Note	—	—	—	n.a.
Millennium Waterway Apartments	84%	Apartments	393 keys	95.0%	2010	22.0
Forest View / Timbermill Apartments	50%	Apartments	472 keys	94.5%	1993/1995	11.7
Stewart Title of Montgomery Company	50%	Title Company	—	—	—	3.6
Woodlands Sarofim #1 Ltd.	20%	Industrial	132,050	93.0%	late 1980s	2.5
Summerlin Hospital Medical Center	7%	Hospital	—	—	1997	4.1
Head Acquisition (Hexalon)	1%	Retail	—	—	2002	5.4
Golf Courses at Summerlin and TPC Las Vegas	Participation	Golf	—	—	—	2.3
Total Net Book Value						\$ 259.5

- (a) % Leased is computed based on the weighted average square feet of each office building. At December 31, 2011 the occupancies of each building were as follows: American City Building – 99.2%; Columbia Association Building – 100%; Columbia Exhibit Building – 100%; Ridgely Building – 39.4%; Columbia Regional Building – 100%.

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

	Occupancy as of December 31, 2011	Annual Weighted Average Occupancy Rates(a)				
		2011	2010	2009	2008	2007
Retail:						
Ward Centers (b) (c)	83.0%	86.5%	86.6%	85.9%	88.4%	90.7%
South Street Seaport	90.6%	89.7%	89.7%	91.3%	92.6%	91.9%
Landmark Mall (d)	76.5%	73.7%	76.0%	85.5%	87.9%	80.6%
Park West (e)	64.9%	64.6%	62.5%	63.6%	85.4%	59.9%
Rio West	93.3%	90.8%	91.8%	92.4%	96.3%	92.5%
Riverwalk Marketplace	91.1%	89.9%	87.9%	84.5%	69.3%	53.5%
Cottonwood Square (f)	79.8%	73.8%	78.2%	73.8%	91.6%	95.7%
20/25 Waterway Avenue Retail (g)	97.5%	91.7%	64.2%	51.8%	75.1%	49.6%
Waterway Garage Retail (h)	19.3%	19.3%	n.a.	n.a.	n.a.	n.a.
Office:						
4 Waterway Square Office (i)	98.8%	59.8%	25.7%	n.a.	n.a.	n.a.
9303 New Trails Office (j)	100.0%	78.8%	73.8%	52.4%	29.4%	n.a.
1400 Woodloch Forest	98.1%	78.3%	94.2%	100.0%	98.8%	99.5%
110 N. Wacker	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Columbia Office Properties (k)	89.3%	89.3%	89.9%	89.9%	89.9%	96.5%
2201 Lake Woodlands Drive (l)	100.0%	100.0%	100.0%	100.0%	n.a.	n.a.

n.a. – not available

- (a) Occupancy rates represent the weighted average occupancy for the year divided by total GLA.
- (b) In prior years 871,200 square feet of Maui ranch land had been included in the calculation of Annual Weighted Average Occupancy Rates. The occupancy rates reflected in this table have been adjusted to now exclude the above mentioned Maui ranch land as part of the calculation for all years.
- (c) Excludes 153,928 square feet related to ground leases of which we are the lessor.
- (d) Loss of permanent and specialty tenants in 2010 due to potential redevelopment. Excludes 438,937 square feet of anchor owned improvements as well as 120,000 square feet of anchor space that is leased but not occupied.
- (e) Partially opened in 2007, the 2008 occupancy rate reflects a lower GLA due to the timing of space added on-line. Full GLA was achieved in 2009.
- (f) Includes 41,612 square feet of retail space leased through March 2013 that is currently unoccupied.
- (g) 25 Waterway opened in February 2007 and 20 Waterway opened in May 2009.
- (h) Waterway Garage Retail Opened in July 2011.
- (i) 4 Waterway Square opened in January 2010.
- (j) From January 1, 2010 through October 15, 2011, 9,969 square feet, representing 10.2% of total GLA, was occupied by The Woodlands. From October 15, 2011 through January 2012, when The Woodlands moved out of the space, The Woodlands' occupancy at this property was reduced to 5,914 square feet, or 6.1% of total GLA.
- (k) Average Weighted Average Occupancy Rates are computed based on the weighted average square feet of each office building. At December 31, 2011 the occupancies of each building were as follows: American City Building – 99.2%; Columbia Association Building – 100%; Columbia Exhibit Building – 100%; Ridgely Building – 39.4%; Columbia Regional Building – 100%.
- (l) The Woodlands acquired 2201 Lake Woodlands Drive in late 2008.

ITEM 3. LEGAL PROCEEDINGS

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

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 Prices of Common Stock***

The following table shows the high and low sales prices of the Company's common stock on the New York Stock Exchange (the "NYSE"), as reported in the consolidated transaction reporting system for each quarter of fiscal 2011 and the fourth quarter of 2010. Prior to our spin-off in November 2010, there was no public market for our common stock. The Company's common stock is traded on the NYSE under the symbol "HHC".

	Common Stock Price Range		Dividends Per Share
	High	Low	
Year Ended December 31, 2011			
Fourth Quarter	\$49.67	\$35.51	\$ —
Third Quarter	\$66.42	\$41.53	\$ —
Second Quarter	\$76.83	\$56.86	\$ —
First Quarter	\$71.94	\$49.00	\$ —
Year Ended December 31, 2010			
Fourth Quarter (Since November 5, 2010)	\$56.25	\$31.00	\$ —

Number of Holders of Record

As of February 15, 2012, there were 2,630 shareholders of record of the Company's common stock.

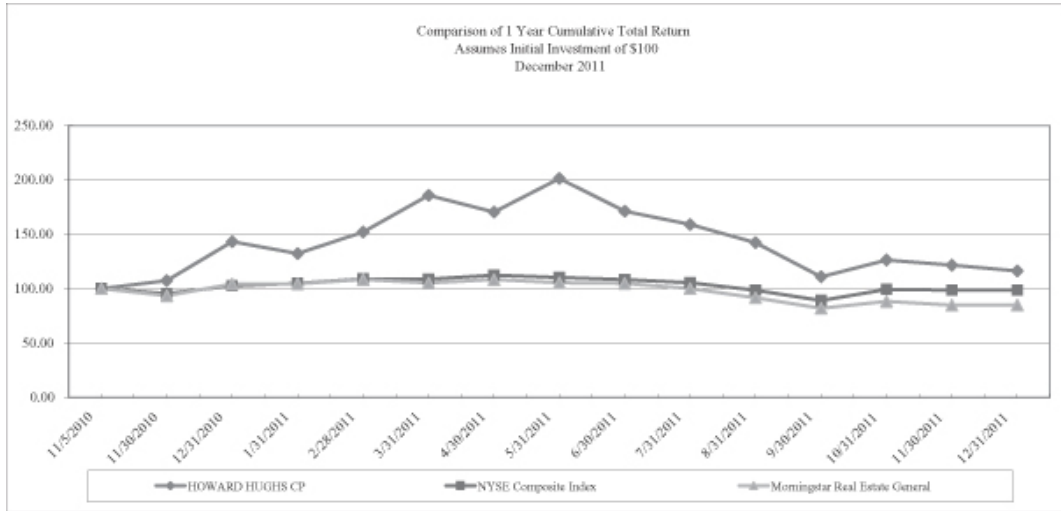
No dividends have been declared or paid in 2011 or 2010. Any future determination related to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including future earnings, capital requirements, financial condition and future prospects and other factors the board of directors may deem relevant.

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Performance Graph

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

- \$100 was invested on November 5, 2010 in the Company's common stock, the NYSE Composite Index and the Morningstar Real Estate – General Index.
- Dividends have been reinvested subsequent to the initial investment.



ITEM 6. SELECTED FINANCIAL DATA

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

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

The selected historical financial data as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010, and 2009 has been derived from our audited consolidated and combined financial statements, which are included elsewhere in this Annual Report on Form 10-K. The selected historical combined financial data as of and for the year ended December 31, 2008 was derived from our audited combined financial statements which are not included in this Annual Report on Form 10-K. The selected historical combined financial statements as of December 31, 2007 and for the year ended December 31, 2007 were derived from our unaudited combined financial statements which are not included in this Annual Report on Form 10-K. Our spin-off did not change the carrying value of our assets and liabilities with the exception of our debt which was recorded at fair value. Operations for 2010 are presented as the aggregation of the combined results from January 1, 2010 to November 9, 2010 and the consolidated results from November 10, 2010 to December 31, 2010.

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

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 financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K.

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	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(In thousands, except per share amounts)				
Operating Data:					
Revenues	\$ 275,691	\$ 142,719	\$ 136,348	\$ 172,507	\$ 260,498
Depreciation and amortization	(16,782)	(16,563)	(19,841)	(18,421)	(22,995)
Provisions for impairment	—	(503,356)	(680,349)	(52,511)	(125,879)
Other property operating costs	(231,444)	(134,667)	(128,833)	(141,392)	(196,121)
Interest (expense) income, net	9,876	(2,053)	712	1,105	1,504
Early extinguishment of debt	(11,305)	—	—	—	—
Reorganization items	—	(57,282)	(6,674)	—	—
Warrant liability gain (loss)	101,584	(140,900)	—	—	—
Benefit from (provision for) income taxes	18,325	633,459	23,969	(2,703)	10,643
Investment in real estate affiliate basis adjustment	(6,053)	—	—	—	—
Equity in income (loss) of Real Estate Affiliates	8,578	9,413	(28,209)	23,506	68,451
Income (loss) from continuing operations	148,470	(69,230)	(702,877)	(17,909)	(3,899)
Discontinued operations-loss on dispositions	—	—	(939)	—	—
Net income (loss)	148,470	(69,230)	(703,816)	(17,909)	(3,899)
Allocation to noncontrolling interests	(1,290)	(201)	204	(100)	(101)
Net income (loss) attributable to common stockholders	<u>\$ 147,180</u>	<u>\$ (69,431)</u>	<u>\$ (703,612)</u>	<u>\$ (18,009)</u>	<u>\$ (4,000)</u>
Basic Earnings (Loss) Per Share:					
Continuing operations	\$ 3.88	\$ (1.84)	\$ (18.64)	\$ (0.48)	\$ (0.11)
Discontinued operations	—	—	(0.02)	—	—
Total basic income (loss) per share	<u>\$ 3.88</u>	<u>\$ (1.84)</u>	<u>\$ (18.66)</u>	<u>\$ (0.48)</u>	<u>\$ (0.11)</u>
Diluted Earnings (Loss) Per Share:					
Continuing operations	\$ 1.17	\$ (1.84)	\$ (18.64)	\$ (0.48)	\$ (0.11)
Discontinued operations	—	—	(0.02)	—	—
Total diluted income (loss) per share	<u>\$ 1.17</u>	<u>\$ (1.84)</u>	<u>\$ (18.66)</u>	<u>\$ (0.48)</u>	<u>\$ (0.11)</u>
Cash dividends per common share	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Cash Flow Data:					
Operating activities	\$ 86,508	\$ (67,899)	\$ (17,870)	\$ (50,699)	\$ (52,041)
Investing activities	(39,680)	(111,829)	(21,432)	(300,201)	(146,208)
Financing activities	(103,944)	461,206	37,543	348,424	183,073
	As of December 31,				
	2011	2010	2009	2008	2007
	(In thousands)				
Balance Sheet Data:					
Investments in real estate-cost	\$2,653,215	\$2,311,520	\$2,822,692	\$3,367,032	\$2,924,611
Total assets	3,395,149	3,022,707	2,905,227	3,443,956	3,024,827
Total debt	606,477	318,660	342,833	358,467	373,036
Total equity	2,329,599	2,179,107	1,503,520	1,985,815	1,610,672

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 on Form 10-K. This discussion contains forward-looking statements that involve risks, uncertainties, assumptions and other factors, including those described in Part I, "Item 1A. Risk Factors" and elsewhere in this Annual Report on Form 10-K. These factors could cause our actual results in 2012 and beyond to differ materially from those expressed in, or implied by, those forward-looking statements. You are cautioned not to place undue reliance on this information which speaks only as of the date of this report. We are not obligated to update this information, whether as a result of new information, future events or otherwise, except to the extent we are required to do so in connection with our obligation to file periodic reports with the SEC.

All references to numbered Notes are to specific footnotes to our Consolidated and Combined Financial Statements included in this Annual Report on Form 10-K and which descriptions are incorporated into the applicable response by reference. The following discussion should be read in conjunction with such Consolidated and Combined Financial Statements and related Notes.

Overview

The Howard Hughes Corporation's mission is to be the preeminent developer and operator 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, 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 ("MPC's"), 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 have no restrictions on our operating activities or types of services that we can offer, which we believe provides us with flexibility for maximizing the value of our real estate portfolio.

Master Planned Community development has a significant impact to 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.

We believe many of our assets require re-positioning to maximize their value. In addition, we are pursuing development opportunities for a number of our assets that were previously postponed due to lack of liquidity resulting from deteriorating economic conditions, the credit market collapse and the bankruptcy filing of our predecessors. We are also developing plans for other assets for which no formal plans had been previously developed.

The development and re-development process for each specific asset can be complex and take from several months to several years prior to the commencement of actual construction. Each local market must be studied, the highest and best use of the land and improvements determined, entitlements and permits obtained, architectural designs made, construction drawings and plans completed, tenant commitments secured, and sources of capital committed. During this period, these activities generally have very little impact on our financial statements relative to the activity and effort involved in the pre-development process.

During 2011, we assessed our assets to identify the best repositioning opportunities, conducted pre-development activities for many of those opportunities and, in certain cases, partnered with local developers to conduct

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development activities for the related asset. We are also in the process of creating development plans for several of our assets, determining how to finance their re-development or completion and how to maximize their long term value potential. In addition, we implemented leasing strategies that preserve the flexibility to re-develop operating assets that currently generate cash flows and are re-development candidates, such as Ward Centers, the South Street Seaport and Riverwalk Marketplace. To preserve flexibility, we frequently do not sign long term leases or we otherwise require provisions allowing us to terminate the leases prior to their expiration. These restrictions are typically unattractive to retailers and may negatively impact our rental revenues during this period.

Significant operating and development milestones achieved during 2011 include the following:

- We generated a \$32.3 million increase in MPC land sales revenue for 2011, a 25% increase compared to 2010 (on a “same store basis” assuming The Woodlands was consolidated by us during both periods);
- We acquired our former partner’s 47.5% economic interest in The Woodlands. The transaction enabled us to internalize and leverage The Woodlands’ well-regarded master planned community development team, access attractive commercial development activities in The Woodlands’ Town Center and control of unsold residential and commercial land and cash flowing commercial real estate assets;
- We accelerated lot sales and realized price increases at Bridgeland. Lot sales and average price per lot for 2011 increased by 10% to 318 lots and 1.9% to \$53,000 per lot, respectively, compared with 2010;
- We closed on new or renewal leases totaling 258,480 square feet of space, excluding leases with terms of one year or less, for certain of our retail operating properties, while maintaining the flexibility to redevelop these properties;
- We completed leasing of 4 Waterway Square, a 218,551 square foot office building in The Woodlands. Average net rent per square foot is \$25.36;
- We pre-leased over 67.0% of 3 Waterway Square, a 232,774 square foot office building that will be constructed in 2012 at average net rents per square foot of \$26.16 and at a total cost to build estimated to be \$51.4 million (exclusive of land value and pre-existing garage allocation);
- We completed a 722 stall parking garage at Ward Centers and delivered a 35,744 square foot adjacent retail shell to a new tenant;
- We entered into a letter of intent with the Economic Development Corporation of the City of New York to modify the ground lease to permit the redevelopment of Pier 17 and the option to pursue a mixed use development of the uplands area of South Street Seaport;
- We partnered with a local development team to explore the construction of an approximately 210 unit condominium tower above the Nordstrom Parking garage at Ala Moana Center in Honolulu, HI. We equally own the venture with our partner. The venture values our condominium rights at \$47.5 million, which is a 107.4% premium to our \$22.9 million book value at December 31, 2011;
- We entered into a joint venture with a local developer to construct an approximate 375 unit Class A apartment building with 10,000 square feet of retail space on a 4.2 acre site we own at the Columbia Town Center. This site is named Columbia Parcel D. We equally own the venture with our partner. The venture values our land at approximately \$20.1 million, which is a 570.0% premium to our aggregate \$3.0 million book value at December 31, 2011;
- We formed a joint venture and entered into a development agreement with the owner of land adjacent to our Bridges at Mint Hill site to explore development of a shopping center on our combined properties. The project is entitled for 1.2 million square feet of retail development; and
- We closed on an aggregate \$334.0 million of non-recourse mortgage financings generating approximately \$73.6 million of liquidity and future borrowing capacity. This amount includes a \$250.0 million financing for Ward Centers which repaid three separate securitized mortgages totaling

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approximately \$208.7 million. This new five-year financing will provide flexibility to redevelop Ward Centers in phases and also created \$37.5 million of excess proceeds capacity that can be drawn down and reinvested into the property, subject to cash flow coverage tests. We obtained a \$55.0 million first mortgage loan which refinanced approximately \$13.1 million of mortgage debt and is secured by the 4 Waterway Square and 9303 New Trails office buildings. The excess proceeds were used to repay credit facility debt and for working capital. We also refinanced \$29.0 million of mortgage debt secured by the 110 N. Wacker office building with a \$29.0 million mortgage maturing in 2019.

Results of Operations

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

The Woodlands operating results for historical periods when this investment was a Real Estate Affiliate are now presented on a consolidated basis for the purposes of this Management Discussion and Analysis and segment reporting, in order to provide comparability between periods for analyzing operating results. We continue to reconcile the segment presentation to reported EBT (as defined below). Our other Real Estate Affiliates, including equity investments owned by The Woodlands, primarily represent entities that are accounted for using the equity or cost method as appropriate.

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 ("EBT"). Management believes that EBT provides useful information about our operating performance.

We define EBT as net income (loss) from continuing operations excluding general and administrative expenses, corporate interest income and depreciation expense, investment in real estate basis adjustment, benefit from income taxes, warrant liability gain (loss), reorganization items and the effects of the previously mentioned items within our equity in earnings (loss) from Real Estate Affiliates. We present 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. We believe that the inclusion of certain adjustments to net income (loss) from continuing operations to calculate EBT is appropriate to provide additional information to investors because EBT therefore excludes certain non-recurring and non-cash items, including reorganization items related to the bankruptcy, which we believe are not indicative of our core operating performance.

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

- does not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;
- does not reflect income taxes that we may be required to pay;
- does not reflect any cash requirements for replacement of depreciated or amortized assets or that these assets have different useful lives; and
- does not reflect limitations on, or costs related to, transferring earnings from our Real Estate Affiliates to us.

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See Note 15 of our audited financial statements for additional information about our segments and a reconciliation of EBT to net income (loss) attributable to common stockholders.

Operating Assets Net Operating Income

We believe that net operating income (“NOI”) is a useful supplemental measure of the performance of our Operating Assets. We define NOI as property specific revenues (rental income, tenant recoveries and other income) less expenses (real estate taxes, repairs and maintenance, marketing and other property expenses) and excluding the operations of properties held for disposition. NOI also excludes straight line rents, market lease amortization, impairments, depreciation, ground rent and other amortization expense.

Because NOI excludes general and administrative expenses, interest expense, impairments, depreciation and amortization, gains and losses from property dispositions, allocations to non-controlling interests, reorganization items, strategic initiatives, provision for income taxes, discontinued operations and extraordinary items, the Company believes that it provides a performance measure that, when compared year over year, reflects the revenues and expenses directly associated with owning and operating real estate properties and the impact on operations from trends in occupancy rates, rental rates, and operating costs. The Company uses NOI to evaluate its operating performance on a property-by-property basis because NOI allows the Company to evaluate the impact that factors such as lease structure, lease rates and tenant base, which vary by property, have on the Company’s operating results, gross margins and investment returns.

In addition, we believe that NOI provides useful information to the investors about the performance of our Operating Assets. However, due to the exclusions noted above, NOI should only be used as an alternative measure of the financial performance of such assets and not as an alternative to GAAP operating income (loss) or net income (loss) available to common stockholders. For reference, and as an aid in understanding our computation of NOI, a reconciliation of NOI to EBT has been presented in the Operating Assets segment discussion below and a reconciliation of EBT to consolidated operating income (loss) from continuing operations as computed in accordance with GAAP has been presented in Note 15.

Year Ended December 31, 2011, 2010 and 2009

Master Planned Communities Segment

MPC revenues vary between years based on economic conditions and several factors such as location, development density and commercial or residential use, among others. Reported GAAP earnings results may differ significantly from actual cash flows generated principally because cost of sales for GAAP purposes is a reduction from earnings and is derived from margins calculated using carrying values, projected future improvements and other capitalized costs in relation to future land sale revenues. Carrying values generally represent acquisition costs and improvements incurred by us and our predecessors in prior periods and may also have been previously written down through impairment charges. Expenditures for improvements in the current period are capitalized and therefore generally would not be reflected in the income statement in the current year.

MPC Sales Summary

		Land Sales			Acres Sold			Number of Lots/Units			Price per acre			Price per lot		
		Year Ended December 31, 2011														
		2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009
		(\$ in thousands)														
Residential Land Sales																
Columbia	Single family - detached	\$ 1,480	\$ 2,400	\$ 500	1.4	1.9	1.0	7	12	4	\$1,040	\$1,275	\$ 531	\$211	\$200	\$125
	Townhomes	5,538	3,031	3,006	1.8	1.7	2.0	39	29	33	—	—	—	142	105	91
	High/mid apartments	—	—	3,125	—	—	8.0	—	—	164	—	—	379	—	—	19
	Single family - detached (Fairwood)	—	—	15,000	—	—	239.0	—	—	636	—	—	63	—	—	24
Bridgeland	Single family - detached	16,707	15,123	10,239	63.2	58.2	41.0	318	289	204	265	259	251	53	52	50
Summerlin	Single family - detached	30,247	8,909	—	83.5	17.0	—	419	95	—	362	519	—	72	94	—
	Custom lots	679	2,253	550	1.0	1.9	—	2	4	1	694	1,204	1,618	340	563	550
The Woodlands	Single family - detached	76,362	66,272	47,917	210.4	181.3	135.0	826	737	557	363	366	354	92	90	86
	Single family - attached	1,235	1,063	—	3.0	3.5	—	46	52	—	409	304	—	27	20	—
	Subtotal	132,248	99,051	80,337	364.3	265.5	426.0	1,657	1,218	1,599						
Commercial Land Sales																
Summerlin	Retail	—	—	4,564	—	—	4.0	—	—	—	—	—	1,047	—	—	—
	Not-for-profit	3,616	—	—	16.1	—	—	—	—	—	225	—	—	—	—	—
Bridgeland	Not-for-profit	—	1,600	741	—	20.0	15.0	—	—	—	—	80	50	—	—	—
The Woodlands	Office and other	6,213	10,597	3,603	14.0	21.3	49.0	—	—	—	449	497	74	—	—	—
	Apartments and assisted living	1,839	4,879	7,150	5.0	12.5	19.0	—	—	—	348	392	370	—	—	—
	Retail	6,365	5,843	674	12.0	20.2	3.0	—	—	—	547	290	261	—	—	—
	Hotel	—	2,331	3,379	—	3.2	5.0	—	—	—	—	719	672	—	—	—
	Subtotal	18,033	25,250	20,111	47.1	77.2	95.0									
Total acreage sales revenue		150,281	124,301	100,448												
Deferred revenue		(481)	3,994	(3,409)												
Deferred revenue - Woodlands		6,161	—	—												
Special Improvement District revenue		5,420	749	248												
Total segment Land sale revenues		161,381	129,044	97,287												
Less: Real Estate Affiliates land sales revenue		(47,879)	(90,986)	(62,724)												
Total land sales revenue - GAAP basis		<u>\$113,502</u>	<u>\$ 38,058</u>	<u>\$ 34,563</u>												

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Total segment land sales have increased to \$161.4 million for the year ended December 31, 2011 from \$129.0 million and \$97.3 million for the years ended December 31, 2010 and 2009, respectively. Revenues for Bridgeland, Summerlin and The Woodlands have increased each year since 2009. Columbia is nearly sold out, and has just 202 remaining saleable acres as of December 31, 2011. Excluding a \$15.0 million land sale transaction during 2009, Columbia's sales have also increased each year since 2009.

In 2011, we sold 364 residential acres compared to 266 and 426 in 2010 and 2009, respectively. Acres sold in 2009 include the bulk sale of 239 acres at our Fairwood project in Columbia. This transaction represented nearly all of the remaining saleable land at Fairwood. These acreage sales represented approximately 1,657 lot sales for 2011, compared to 1,218 and 963 (excluding Fairwood) for the years ended December 31, 2010 and 2009, respectively. Lot sales from The Woodlands and Bridgeland communities from 2009 to 2011 represent 85.1% of all MPC lot sales during that three year time period. During 2011, residential lot sales for The Woodlands and Bridgeland increased 10.5% and 10.0%, respectively, over 2010, while residential lot sales in 2010 increased by 41.7% and 41.6%, respectively, over 2009. In 2011, The Woodlands' average lot prices increased by 4.3% to \$88,986 and Bridgeland's average price per lot increased by 1.9% to \$53,000 over this same period. The Woodlands' average lot price decreased by 8.0% for the year ended December 31, 2010 compared to 2009, and Bridgeland's average lot prices increased by 4.3% during the same period.

Commercial land sales at The Woodlands decreased by 39.0% to \$14.4 million for 2011 compared to 2010 while commercial sales in 2010 increased by 59.7% as compared to 2009. The decrease principally reflects a change in strategy for The Woodlands since we acquired a controlling interest in 2011. In prior years, ownership favored generating cash from commercial land sales to deliver dividends to the parent companies. We believe that the commercial land, especially within and surrounding The Woodlands Town Center, is poised for strategic growth and we may develop and hold properties in this desirable area. We believe that through controlling a greater share of the commercial development within The Woodlands, we can better serve our customers and generate premium rents by doing so.

Bridgeland had no commercial land sales during 2011. We expect minimal commercial sales until new home sales generate a critical mass of demand for local commercial retail, office and lodging properties.

The Houston, Texas area has benefitted from a strong energy sector. According to the Bureau of Labor Statistics ("BLS"), the area's unemployment rate at the end of 2011 was approximately 7.6%, nearly one percentage point lower than the 8.5% national average. ExxonMobil is constructing a large corporate campus on a 400 acre site just south of The Woodlands. The site is expected to include approximately 20 buildings, representing 3 million square feet of space. According to several reports, ExxonMobil expects to begin relocating employees into this new location starting in 2014 and ending in 2015. We believe that the direct and indirect jobs related to this relocation will have a significantly positive impact on The Woodlands and Bridgeland due to increased housing demand, as well as commercial space needs for companies servicing ExxonMobil. As of December 31, 2011 The Woodlands has approximately 3,669 residential lots remaining, which represents approximately six years of expected future sales. Bridgeland, which is in its early stages of development, has approximately 18,900 lots remaining to be developed, representing an estimated 25 years of expected future sales.

Our acquisition of our partner's interest in The Woodlands has allowed us to integrate The Woodland's operations into our company. We also consolidated the management teams of The Woodlands and Bridgeland and expect that we can leverage The Woodlands' 37-plus years of development experience to Bridgeland's benefit.

Residential land sales at our Summerlin community improved to \$30.9 million for the year ended December 31, 2011, compared to \$11.2 million and \$0.6 million for the years ended December 31, 2010 and 2009, respectively. The Las Vegas residential market continues to be challenging. According to the BLS, the Las Vegas, NV area unemployment rate was approximately 12.5% at the end of 2011, four percentage points higher than the national average. New home closings in the overall market were down approximately 30% in 2011 compared to 2010 and

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increased 2% in 2010 compared to 2009. The increase from 2009 to 2010 was caused primarily by the federal tax incentive for first-time homebuyers. The housing market has been burdened by foreclosures, short-sales, downward price pressures and a significant percentage of the population in their current homes having negative equity. A total of 3,894 home closings were recorded in 2011, the lowest in 23 years, down from its peak of nearly 39,000 units in 2005. Additionally, the median price for a new home was \$212,250 in 2011, down from over \$330,000 at the top of the market. Due to uncertain local economic conditions and the continued challenging housing market, it remains difficult to predict homebuilder demand. From September to December 2011, we had two builders that did not close on contracts representing \$18.8 million of potential revenues for 212 lots in 2011, and \$4.8 million of potential revenues representing 56 lots in 2012. The builders forfeited approximately \$1.8 million of deposits to us for not closing on the lots.

In early 2012 builder activity at Summerlin has begun to increase. Year to date through February 28, 2012, Summerlin has entered into residential lot sale contracts with four homebuilders for 153 lots and two superpad sites representing approximately \$22.5 million of revenues if all of the sales are completed. Approximately \$21.2 million of the sales are scheduled to occur in 2012, with the remaining \$1.3 million scheduled for 2013.

Major Items of Revenues and Expenses

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Master Planned Communities (*)			
Land sales	\$ 161,382	\$ 129,044	\$ 97,287
Builder price participation	4,924	6,901	8,976
Other land sale revenues	17,732	15,186	15,520
Total revenues	184,038	151,131	121,783
Cost of sales - land	94,040	73,133	51,235
Land sales operations	36,505	45,192	47,460
Provisions for impairments	—	405,331	52,766
Depreciation and amortization	48	128	146
Interest, net	(3,562)	(7,094)	(4,522)
Total expenses	127,031	516,690	147,085
Venture partner share of The Woodlands EBT	(6,202)	(14,434)	(8,837)
MPC EBT	\$ 50,805	\$ (379,993)	\$ (34,139)

(*) Our master planned communities segment includes revenues and expenses related to The Woodlands at 100%. On July 1, 2011, we acquired our partner's equity interest. As a result of the acquisition, we now consolidate The Woodlands operations. Prior to the acquisition, The Woodlands was accounted for using the equity method. For a detailed breakdown of EBT, refer to Note 15.

Land sales increased \$32.3 million for the year ended December 31, 2011 as compared to the year ended December 31, 2010. The increase for the year ended December 31, 2010 as compared to 2009 was \$31.8 million. These year to year increases were due to factors described more fully above.

Builder price participation represents the contractual percentage we collect from builder home settlements. Generally the percentage ranges from one to two percent of the home price, but can vary by contract and by community. Builder price participation has declined in each year as home settlements have slowed in Summerlin and home sales in Bridgeland and Summerlin are at lower price points producing lower builder price participation. The decline is also impacted by a change in strategy at The Woodlands. During 2010 land sales contracts were restructured to eliminate price participation in exchange for a greater fixed lot sale price. Participation amounts collected at lot closing are considered to be a part of land sales revenue.

Other revenue for the year ended December 31, 2011 is \$17.7 million. It is comprised of \$5.2 million of ground maintenance revenue and \$3.2 million of energy easement fees from The Woodlands. Also included are \$2.6 million of home owner's association fees and \$1.8 million of income from contract defaults from Summerlin and

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\$0.8 million in revenue recognized as a result of a reduction in a contingent purchase price obligation to a former owner at Bridgeland. The balance is made up of several income items from all of our communities. Some of these items are transfer fees, advertising fees, ground rent and interest income.

Other revenue for the year ended December 31, 2011 increased \$2.5 million as compared to 2010 primarily because of the \$1.8 million collected from contract defaults from Summerlin and \$0.8 million of revenue recognized as a result of a reduction in a contingent purchase price obligation at Bridgeland. These items were not present in 2010. The amount for the year ended December 31, 2010 as compared to 2009 is consistent.

Land sales margins were 41.7%, 43.3% and 47.3% for the periods ended December 31, 2011, 2010 and 2009, respectively. The decrease in the 2011 margin as compared to 2010 was principally caused by higher cost percentage attributed to The Woodlands sales in the third and fourth quarters of 2011. The majority of The Woodlands third and fourth quarter cost of sales reflected the finished lots at the fair value established in connection with our July 1, 2011 acquisition of our partner's interest. Once the approximately 577 acquired finished lots are sold, The Woodlands margins are expected to return to levels approximating 44.0%. Also, Summerlin sales, which have a lower margin than Bridgeland and The Woodlands, comprised a larger portion of total sales for 2011 than in 2010. The decline in the margins from 2009 to 2010 was due to the majority of our sales occurring in Bridgeland, Columbia and The Woodlands in 2009. Summerlin sold one custom lot and one commercial lot in 2009. Costs of land sales is based on carrying values of the lots sold and varies by community based on historical purchase price of the land and improvements made, and to be made, by us, less any impairment charges previously recorded on the land.

Land sales operations costs decreased \$8.7 million for the year ended December 31, 2011 as compared to the year ended December 31, 2010, and decreased \$2.3 million for the year ended December 31, 2010 as compared to 2009. The decrease in 2011 as compared to 2010 is principally due to approximately \$6.6 million of real estate tax savings in our Summerlin project as a result of a successful tax appeal, in addition to approximately \$2.6 million of reduced net legal costs related to development matters in our Summerlin and Bridgeland communities. During 2011, we collected approximately \$0.8 million of settlements which reduced our overall net legal costs. The decrease in land sales operations costs from 2009 to 2010 is primarily related to management efforts to reduce payroll and overhead costs, marketing and other land related costs during a sluggish economy.

Master Planned Communities recorded impairment charges of \$345.9 million for Summerlin South and \$59.4 million for Columbia and Gateway in 2010, and \$52.8 million for Fairwood in 2009. There were no impairment charges in 2011. The detail of these impairment charges are described below.

Interest, net reflects the amount of interest that is capitalized at the project level. The decrease is related to lower company interest costs for the year ended December 31, 2011 due to our current debt structure as compared to our Predecessors for the years ended December 31, 2010 and 2009.

In addition to EBT for the Master Planned Communities, management believes that certain investors measure the value of the assets in this segment based on their annual contribution to liquidity and capital available for investment. Accordingly, the following table sets forth MPC Net Contribution for the years ended 2011, 2010 and 2009. MPC Net Contribution is defined as MPC EBT, plus MPC cost of sales, provisions for impairment and depreciation and amortization, and reduced by MPC development and acquisition expenditures.

MPC Net Contribution

	Year Ended December 31,		
	2011	2010	2009
MPC EBT (*)	\$50,805	\$(379,993)	\$(34,139)
Plus:			
Cost of sales - land	82,672	49,504	40,163
Provisions for impairments	—	405,331	52,766
Depreciation and amortization	26	75	92
Less:			
MPC land/residential development and acquisitions expenditures	89,169	57,138	61,226
MPC Net Contribution	<u>\$44,334</u>	<u>\$ 17,779</u>	<u>\$ (2,344)</u>

(*) Our master planned communities segment includes revenues and expenses related to The Woodlands Partnerships. On July 2, 2011, we acquired our partner's equity interest. As a result of the acquisition, we now consolidate The Woodlands' operations into our consolidated financial statements. Prior to such acquisitions, we accounted for The Woodlands using the equity method. For a detailed breakdown of EBT, refer to Note 15.

The improvement in MPC Net Contribution during 2011 compared to 2010 and 2009 is primarily attributable to increased land sales and the results of efforts to reduce operational costs. 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 EBT to consolidated operating income (loss) from continuing operations as computed in accordance with GAAP has been presented in Note 15.

Operating Assets Segment

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

Operating Assets NOI and EBT

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Operating Assets			
Retail			
Ward Centers	\$ 21,481	\$ 22,980	\$ 22,152
South Street Seaport (a)	5,650	4,238(b)	4,862
Rio West Mall (a)	1,319	1,897	2,039
Landmark Mall (a)	737	1,619	2,472
Riverwalk Marketplace (a)	418	579	492
Cottonwood Square	380	484	507
Park West	576	366	138
20/25 Waterway Avenue	1,310	674	387
Waterway Garage Retail	7	—	—
Total Retail	31,878	32,837	33,049
Office			
110 N. Wacker	6,115	6,628	4,988
Columbia Office Properties (c)	2,649	2,657	2,836
4 Waterway Square	1,639	15	(214)
9303 New Trails (d)	742	706	482
1400 Woodloch Forest	649	1,036	554
2201 Lake Woodlands Drive	332	322	308
Total Office	12,126	11,364	8,954
The Woodlands Resort and Conference Center	7,726	4,379	5,302
Total Retail, Office, Resort and Conference Center	51,730	48,580	47,305
The Club at Carlton Woods	(5,126)	(3,885)	(5,348)
The Woodlands Parking Garages	(1,204)	(1,049)	(180)
The Woodlands Ground leases	403	337	303
Other Properties	1,410	3,396	2,461
Total Other	(4,517)	(1,201)	(2,764)
Total Operating Assets NOI	47,213	47,379	44,541
Straight-line lease amortization	918	183	(124)
Provisions for impairment	—	(80,923)	(50,964)
Early extinguishment of debt	(11,305)	—	—
Depreciation and amortization	(20,309)	(23,461)	(26,482)
Equity in earnings from Real Estate Affiliates	3,926	(338)	2,172
Interest, net	(10,850)	(17,179)	(14,146)
Less: Partners' share of Operating Assets EBT	(91)	1,945	2,864
Operating assets EBT (100% Owned)	\$ 9,502	\$ (72,394)	\$ (42,139)
Operating Assets NOI - Equity and Cost Method Investments			
Millennium Waterway Apartments	\$ 2,571	\$ (157)	\$ (388)
Woodlands Sarofim # 1	1,489	1,572	1,490
Stewart Title (title company)	1,069	1,222	1,422
Forest View/Timbermill Apartments	1,826	1,610	1,467
Total NOI - equity investees of December 31, 2011	6,955	4,247	3,991
Adjustments to NOI (e)	(3,862)	(1,937)	(533)
Equity Method Investments EBT	3,093	2,310	3,458
Less: Joint Venture Partner's Share of EBT	(3,061)	(2,648)	(2,573)
Equity in earnings from Real Estate Affiliates	32	(338)	885
Distributions from Summerlin Hospital Investment	3,894	—	1,287
Equity in earnings from Real Estate Affiliates	\$ 3,926	\$ (338)	\$ 2,172
Company's Share of Equity Method Investments NOI			
Millennium Waterway Apartments	\$ 2,148	\$ (131)	\$ (324)
Woodlands Sarofim # 1	298	314	298
Stewart Title (title company)	535	611	711
Forest View/Timbermill Apartments	913	805	734
Total NOI - equity investees of December 31, 2011(c)	\$ 3,894	\$ 1,599	\$ 1,419

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	Economic Ownership	December 31, 2011	
		Debt	Cash
(In thousands)			
Millennium Waterway Apartments	83.55%	\$ 47,175	\$ 2,733
Woodlands Sarofim #1	20.00%	7,087	811
Stewart Title (title company)	50.00%	—	426
Forest View/Timbermill Apartments	50.00%	5,708	1,258

- (a) Straight-line ground rent amortization was excluded from 2010 and 2009 amounts to conform to the 2011 presentation and to be consistent with the exclusion of straight-line revenues.
- (b) Includes a provision for bad debt of \$1.2 million related to a single tenant.
- (c) Amounts relating to an operating lease in which we are the lessee and the related sublease income totaling \$0.1 million and less than \$0.1 million for 2010 and 2009, respectively, and which were included in Columbia Operating Properties for 2011, 2010 and 2009, were reclassified to general and administrative expenses to conform to the 2011 presentation.
- (d) Since November 2009, a portion of The Woodlands' staff has occupied from approximately 5,900 square feet to almost 10,000 square feet of this building.
- (e) Adjustments to NOI include straight-line and market lease amortization, depreciation and amortization and non-real estate taxes.

Retail Properties

Ward Centers NOI for 2011 decreased by approximately \$1.5 million compared to 2010 primarily due to lower rental revenue of \$0.6 million (principally as a result of a bankrupt tenant), higher compensation, legal, travel and other non-recoverable costs of \$0.9 million and higher energy costs of \$0.5 million. These negative variances were partially offset by lower bad debt expense of \$0.7 million due to the collection of aged receivables. The \$0.8 million increase in NOI for 2010 compared to 2009 is primarily due to new specialty leasing tenants taking occupancy in late 2009 and early 2010.

South Street Seaport NOI for 2011 increased by \$1.4 million compared to 2010. The increase was primarily the result of new leasing and new kiosk cart rental revenue of approximately \$1.4 million in addition to \$1.2 million of tenant receivable collections for which a reserve was established in prior years, partially offset by approximately \$1.2 million of higher expenses, including \$0.4 million higher professional and legal fees in 2011 as compared to 2010.

Rio West Mall's NOI for 2011 decreased by \$0.6 million as compared to 2010 primarily due to the bankruptcy of two major tenants, as well as increased overhead and property management costs. Some leasing terms were adjusted to a gross rents basis resulting in excess occupancy costs being absorbed by the property and not passed on to the tenants.

Riverwalk Marketplace's NOI for 2011 decreased by \$0.2 million compared to 2010 primarily due to a one-time tenant settlement of \$0.4 million received during 2010. This decrease was partially offset by higher specialty leasing revenues and higher tenant recoveries in 2011.

Landmark Mall's NOI for 2011 decreased by \$0.9 million primarily because of increased vacancies and a change from base minimum rents to percent lieu for certain tenants who are having financial difficulties. Occupancy costs for tenants on percent in lieu of rents leases are generally not recoverable, resulting in our absorbing a greater percentage of the property's operating costs. The \$0.9 million decrease in NOI for the year ended December 31, 2010 compared to 2009 resulted from one of the mall's anchor tenants vacating.

Park West's NOI for 2011 improved by \$0.2 million over 2010 principally as a result of lower property taxes from lower assessed property values in 2011. This operating asset continues to suffer from a weak market and its occupancy was 64.9% at December 31, 2011. We are focused on attracting tenants who can drive increased traffic during the day and evening, such as entertainment concepts. If we are unsuccessful at increasing occupancy and traffic, many of our existing tenants may be unable to continue to occupy their leased spaces because their sales volumes will likely be inadequate to support their operating costs.

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20 and 25 Waterway Avenue and Waterway Garage Retail were completed in 2007 and 2009, respectively and are located at The Woodlands. As of December 31, 2011, 20 and 25 Waterway Avenue are 100% leased and are expected to reach stabilized annual NOI of approximately \$1.6 million in the first quarter of 2012.

Waterway Garage Retail is 19.3% leased. Before retail properties are fully leased and have stabilized, we do not think yearly comparisons are informative.

Office Properties

All of the office properties listed in the NOI schedule, except for 110 N. Wacker and the Columbia Office Properties, are located in The Woodlands.

110 N. Wacker NOI increased in 2010 primarily due to an increase in the tenant's rental rate effective in November 2009.

4 Waterway Square was completed in 2010 and is 98.9% leased as of December 31, 2011. The asset is expected to reach stabilized annual NOI of \$5.5 million in the second quarter of 2012. Before office properties are fully leased and have stabilized, we do not think yearly comparisons are informative.

9303 New Trails is 100% leased as of December 31, 2011. The asset is expected to reach stabilized annual NOI of \$1.8 million in the second quarter 2012. From November 2009 through January 2012, we occupied a portion of the office space ranging from 5,914 square feet to 9,969 square feet, which represents 6.1% and 10.2% respectively, of the total building square footage; however, we moved into another third party owned asset in January 2012.

Other

The Woodlands Resort and Conference Center's \$3.3 million increase in NOI for 2011 compared to 2010 is due primarily to higher overall revenue per available room (which is the average daily room rate multiplied by average occupancy), which increased 16.0% to \$95.73 compared to \$82.52 for the same period in the prior year. Increased business activity and improving economic conditions at The Woodlands and surrounding areas, including higher commercial occupancies, are driving increased revenue and NOI as compared to 2010. Revenue per available room also increased by 6.9% in 2010 from \$77.16 in 2009, but the increased revenues were more than offset by higher fixed costs in 2010.

The Club at Carlton Woods (the "Club") is a 36-hole golf and country club at The Woodlands with 565 total members as of December 31, 2011. We estimate the Club requires approximately 800 members to achieve break-even NOI, and therefore we expect to incur NOI losses into the foreseeable future. The Club's NOI loss increased by \$1.2 million to \$5.1 million for the year ended December 31, 2011, however, 2010 NOI includes approximately \$1.6 million of income relating to inactive lot incentives. The incentives were built into the total sales price of the lots and purchasers of homes at the Club, and the purchasers of such lots receive credit toward membership initiation fees at the Club. They have 60 days after closing on the home purchase to do so. The inactive lot incentive amount represents unused credits that had accumulated over the years. Excluding these credits, 2010 NOI loss would have been \$5.4 million.

The Club's revenues and expenses are included in other property and rental revenues, and other property operating costs. Such amounts were \$11.4 million and \$16.5 million, respectively, for the year ended December 31, 2011, \$9.4 million and \$14.9 million, respectively, for the years ended December 31, 2010, and \$9.4 million and \$14.7 million, respectively, for the year ended December 31, 2009.

The Woodlands Parking Garages comprise nearly 3,000 parking spaces in two separate parking structures. The Waterway Square Garage (1,942 spaces) is located in The Woodlands Town Center and has excess parking

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capacity for future commercial development. Woodloch Forest garage has approximately 1,000 total spaces with 300 spaces available for future adjacent office development. Until such development is undertaken, we anticipate the excess capacity to generate losses. NOI decreased by \$0.9 million for the year ended December 31, 2010 compared to 2009 primarily because the Waterway Square Garage was put into service in the fourth quarter of 2009. Prior to being put into service no costs would have been expensed.

Partially Owned

The Millennium Waterway Avenue Apartments are approximately 95.4% leased as of December 31, 2011, and had an average occupancy of 74.6% for 2011. The apartments were in their initial lease-up period during 2011 and we expect these apartments to reach annual NOI of approximately \$4.6 million during 2012.

Major Items of Revenues and Expenses

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Operating Assets (*)			
Minimum rents	\$ 72,405	\$ 69,937	\$ 70,267
Resort and conference center revenues	34,850	28,850	29,314
Other rental and property revenues	41,318	41,874	39,281
Total revenues	148,573	140,661	138,862
Rental property real estate taxes	11,924	12,148	11,267
Rental property maintenance costs	6,758	7,225	5,827
Resort and conference center operations	27,012	24,471	23,842
Other property operating costs	54,748	47,491	51,213
Provisions for doubtful accounts	—	1,760	2,296
Provisions for impairment	—	80,923	50,964
Depreciation and amortization	20,309	23,461	26,482
Interest, net	10,850	17,183	14,146
Early Extinguishment of debt	11,305	—	—
Equity in Earnings from Real Estate Affiliates	(3,926)	338	(2,172)
Total expenses	138,980	215,000	183,865
Venture partner share of The Woodlands EBT	(91)	1,945	2,864
Operating Assets EBT	<u>\$ 9,502</u>	<u>\$ (72,394)</u>	<u>\$ (42,139)</u>

(*) For a detailed breakdown of our Operating Assets segment EBT, refer to Note 15. Such amounts include The Woodlands at 100%.

Minimum rents increased \$2.5 million in 2011 compared to 2010 primarily due to 4 Waterway Square reaching full stabilization in 2011.

Resort and conference center revenues for 2011 are up as discussed above due to a 4.4% increase in the average daily room rate as well as an 11.1% increase in occupancy as compared to 2010. Resort and conference center operations expenses increased as a result of higher occupancy.

Other property operating costs increased \$7.3 million to \$54.7 million for the year ended December 31, 2011 compared to 2010, and decreased by \$3.7 million in 2010 compared to the year ended December 31, 2009. These costs generally include recoverable and non-recoverable costs relating to our properties, with the exception of real estate taxes and maintenance costs which are shown separately. The principal reasons for the increase in

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2011 compared to 2010 were, a \$0.5 million increase related to certain insurance costs \$0.5 million of increased legal costs recorded at our properties, \$0.8 million of higher utilities costs, and \$1.5 million related to increased operating costs at the Club. The \$3.7 million decrease in other property operating costs from 2009 to 2010 was primarily attributable to lower building lease back rent for The Woodlands of 2.5 million which expired in 2009.

Depreciation expense decreased \$1.8 million at Riverwalk and \$1.1 million at Landmark as a result of impairment charges in prior years offset somewhat by increased depreciation expense at Ward Centers of \$1.3 million, principally relating to putting the new parking garage in service during 2011. Depreciation expense for The Woodlands' operating assets decreased by \$1.4 million due to the assets being remeasured at fair value as of the date of acquisition. The \$3.0 million decrease in depreciation expense from 2009 to 2010 is primarily a result of impairment taken during 2009 and 2010.

The provision for bad debts in 2010 included \$1.2 million relating to a single tenant at South Street Seaport. In 2011, the tenant agreed to a payment plan which requires payment of current amounts when due and payment of past due balances. As of December 31, 2011 the tenant has substantially complied with the agreement resulting in a favorable variance for 2011 as compared to 2010.

In 2011, interest expense decreased from prior year primarily due to the refinancing at Ward Centers. In 2010, GGP allocated interest expense of \$2.7 million to Ward Centers as part of their corporate allocations. Additionally, the early extinguishment of debt amount of \$11.3 million in 2011 resulted from the debt refinancing at Ward Centers in the third quarter.

We received distributions of \$3.9 million from our Summerlin Hospital cost investment in the first quarter of 2011. We did not receive a distribution in 2010. Dividends by Summerlin Hospital are typically made one time per year; however, no dividends were paid in 2010 principally due to a capital project at the hospital. Approximately \$2.0 million of the amount received in the first quarter of 2011 relates to calendar year 2010. The remaining \$1.9 million relates to periods prior to 2010 which were deferred pending completion of the capital project.

Strategic Developments Segment

Our Strategic Development assets generally require substantial future development to achieve their highest and best use. Most of the properties in this segment generate no revenues. Our expenses relating to these assets are primarily related to carrying costs, such as property taxes and insurance, and other ongoing costs relating to maintaining the assets in their current condition. If we decide to redevelop a Strategic Development asset, we would expect that, upon completion of redevelopment, the asset would be reclassified to the Operating Assets segment and NOI would become an important measure of its operating performance.

Major Items of Revenues and Expenses

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Strategic Developments (*)			
Minimum rents	\$ 917	\$ 1,015	\$ 1,902
Condominium unit sales	22,067	1,139	—
Other rental and property revenues	1,877	363	(2,262)
Total revenues	24,861	2,517	(360)
Condominium unit cost of sales	14,465	1,000	—
Rental and other property operations	6,528	10,540	8,400
Provisions for impairment	—	17,101	576,618
Depreciation and amortization	234	212	2,104
Interest, net	323	34	(2,725)
Equity in Earnings from Real Estate Affiliates	—	—	19,046
Total expenses	21,550	28,887	603,443
Strategic Developments EBT	<u>\$ 3,311</u>	<u>\$ (26,370)</u>	<u>\$ (603,803)</u>

(*) For a detailed breakdown of our Strategic Developments segment of EBT, refer to Note 15.

During 2011, Nouvelle at Natick sold 57 condominium units and there are two remaining for sale as of December 31, 2011. These sales were a significant source of cash flow for 2011 which will not be replicated in 2012.

The increase in other rental and property revenues for 2011 as compared to 2010 is primarily due to the sale of two ancillary parcels of land, aggregating approximately 4.6 acres, at the Kendall Town Center property which occurred in the third quarter of 2011. In 2009, Kendall Town Center sold land parcels at a \$3.9 million loss. This loss was partially offset by other income from various Strategic Development properties.

Rental and other property operations decreased in 2011 as compared to 2010 primarily due to a \$1.3 million property tax refund resulting from a tax protest associated with our Elk Grove development which occurred in the first quarter of 2011. Rental property operations increased \$2.1 million in 2010 as compared to 2009, as certain costs such as overhead that were previously capitalized were expensed as development efforts on all of the properties in our Strategic Developments segment were postponed.

Certain Significant Consolidated and Combined Expenses

The following table contains certain significant expenses on a consolidated and combined basis that are not otherwise included within the segment analyses. Variances related to income and expenses included in NOI or EBT are explained within the segment variance discussion contained within this Item 7 using the combined consolidated and proportionate share of our non-consolidated Real Estate Affiliates revenues and expenses associated with the related segment. Significant variances for combined expenses not included in NOI or EBT are described below.

(In thousands)	Year Ended December 31,		
	2011	2010	2009
General and administrative	\$ (35,182)	\$ (21,538)	\$ (23,023)
Provisions for impairment	—	(503,356)	(680,349)
Depreciation and amortization	(16,782)	(16,563)	(19,841)
Interest income	9,876	369	1,689
Interest expense	—	(2,422)	(977)
Early extinguishment of debt	(11,305)	—	—
Warrant liability gain (loss)	101,584	(140,900)	—
Investment in real estate affiliate basis adjustment	(6,053)	—	—
Benefit for income taxes	18,325	633,459	23,969
Equity in earnings from Real Estate Affiliates	8,578	9,413	(28,209)
Reorganization items	—	(57,282)	(6,674)

We did not become a public company and did not operate as an entity separate from GGP until November 9, 2010; therefore, our 2010 and 2009 financial results reflect allocations made by GGP for general and administrative expenses based on actual costs incurred, or are based upon our percentage of GGP's total assets and revenues. Since our separation from GGP, we have been operating as an independent public company and have been building our organization to analyze, create and implement development plans for our assets. On July 1, 2011, we consolidated the operations of The Woodlands, increasing our employee base from 190 employees to 835 employees at December 31, 2011. For these reasons, we do not believe that current year general and administrative expenses are comparable to prior year amounts.

Our general and administrative costs for 2011 totaled \$35.2 million, of which \$5.7 million was attributable to The Woodlands. General and administrative expenses of \$29.5 million, excluding The Woodlands, increased by \$8.0 million over 2010, principally due to infrastructure growth and our becoming an independent public company on November 9, 2010. Non-equity based compensation costs totaled approximately \$18.1 million and non-cash stock compensation costs totaled \$3.2 million for the year ended December 31, 2011. If all corporate personnel employed as of December 31, 2011 and whose compensation is included in general & administrative expenses had been employed as of January 1, 2011, we estimate our cash compensation costs would have been approximately \$22.6 million for 2011. For 2011, our consulting, transitional services, recruiting and temporary staffing costs were approximately \$3.0 million. Many of these costs relate to our transition to an independent public company and the building of infrastructure. We expect these costs to be significantly lower in 2012. Legal, accounting, internal audit and other professional services totaled \$5.7 million for 2011. The remaining \$5.2 million of costs primarily represent occupancy, travel, IT infrastructure and public company costs.

Reorganization items under the bankruptcy filings are expense or income items that were incurred or realized as a result of the bankruptcy filings under Chapter 11. These items include professional fees and similar types of expenses incurred directly related to the bankruptcy filings, gains or losses resulting from activities of the reorganization process, including gains related to recording the mortgage debt at fair value upon emergence from bankruptcy and interest earned on cash accumulated by the debtors. Due to the consummation of the reorganization plan in November 2010, no items were classified as reorganization items in 2011. See Note 1 – Reorganization items for additional detail.

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Emergence initiatives, included in general and administrative costs, for the year ended December 31, 2009 consist of professional fees for restructuring that were incurred prior to the filing for protection under the Bankruptcy Code of certain of our subsidiaries. Similar costs incurred after filing for protection under the Bankruptcy Code are recorded as reorganization items.

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 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. As of December 31, 2011 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. We recorded \$503.4 million and \$680.3 million of impairment charges for the years ended December 31, 2010 and 2009, respectively.

We are focused on maximizing value for stockholders. To achieve this, we seek to implement strategies that increase the value of an asset, not necessarily the aggregate of its future undiscounted cash flows. As such, a given strategy may result in an accounting impairment charge even though we believe that such strategy will maximize the value of the asset.

Master Planned Communities Impairments

Impairment charges to our master planned communities totaled \$405.3 million and \$52.8 million for the years ended December 31, 2010 and 2009, respectively. There were no impairments recorded for the year ended December 31, 2011. Large master planned community assets by their nature have characteristics that may create a wider range of outcomes in an impairment analysis compared to other types of real estate such as office, retail and industrial facilities. Unlike operating real estate, master planned community assets have extended life cycles that may last 20 to 40 years and have few long-term contractual cash flows (such as operating lease revenue). Further, the majority of the master planned community assets generally have minimal to no residual values because of their liquidating characteristics and 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.

Our master planned communities comprise thousands of acres that include distinct communities. Our management team may implement development strategies for those communities that are different than those planned by our predecessors. Such strategies vary from those of our predecessors and may warrant separate impairment evaluation for regions or projects within a single master planned community if we believe the cash flows for those assets are independent from other regions or projects within the community. Separating master planned communities into multiple entities for impairment testing may result in a different accounting conclusion than if the community was evaluated as a whole; however, the accounting has no impact on economic value or fair value.

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Our two remaining developable Summerlin regions (South and West) are separated for impairment testing because their characteristics and future business plans are distinct. In December 2010, we modified our business plans for Summerlin South based on our expectation to: (1) replace high density product with low density product; (2) change the strategy from developing and selling finished lots to the sale of undeveloped pads; and (3) reduce saleable acre assumptions for a high-end village having significant topography and development challenges. As a result, projected undiscounted future cash flows for Summerlin South were less than its then carrying value and this asset was impaired as of December 31, 2010. We recorded a \$345.9 million pre-tax charge to write down Summerlin South to its estimated \$203.3 million fair value at December 31, 2010.

At December 31, 2010, we also recorded \$56.8 million and \$2.6 million pre-tax impairment charges for the Columbia and Gateway, Maryland properties, respectively. Columbia was written down to a \$34.8 million fair value based on a ten-year land sale program for the future mixed-use development of 4.9 million square feet. For the year ended December 31, 2009, we recorded a \$52.8 million pre-tax impairment charge for the Fairway, Maryland property.

Operating Assets Impairments

There were no impairments recorded for the year ended December 31, 2011. Operating property pre-tax impairments within our Operating Assets segment totaled \$80.4 million and \$51.0 million for the years ended December 31, 2010 and 2009, respectively. Riverwalk Marketplace and Landmark properties were impaired by \$56.0 million and \$24.4 million, respectively, and their estimated fair values were \$10.2 million and \$23.8 million, respectively, as of December 31, 2010. Riverwalk was evaluated based on our current plan to reposition and hold the asset for an 11-year period, and we applied an 8.5% discount rate to the estimated future cash flows and derived a residual value on the leasehold interest using a 8.5% capitalization rate. The Landmark property impairment is based on an appraisal which incorporates many factors including, but not limited to, physical condition, location, demographics and retail market condition. For the year ended December 31, 2009, we took a \$27.3 million pre-tax impairment charge relating to the Landmark property. We have not yet created a specific re-development plan for this asset.

Strategic Developments Impairments

There were no impairments recorded for the year ended December 31, 2011. Strategic Developments properties pre-tax impairments totaled \$17.0 million and \$600.3 million for the year ended December 31, 2010 and 2009, respectively. Century Plaza Mall (Birmingham, AL) and Nouvelle at Natick (Natick, MA) properties were impaired by \$12.9 million and \$4.1 million, respectively, and their estimated fair values are \$4.5 million and \$13.4 million, respectively, as of December 31, 2010. Century Plaza Mall is a vacant property for which we do not currently have a re-development plan, and the impairment is based upon our best estimates utilizing, among other things, a broker's opinion of value. Nouvelle is a condominium development for which the estimated fair value is based on discounted cash flow analysis of the remaining units available for sale. The impairments for the year ended December 31, 2009 relate to ten Strategic Development assets. Elk Grove Promenade and The Shops at Summerlin Centre were the largest two impairments at \$175.3 million and \$176.1 million, respectively.

Two regions within our Master Planned Communities had impairment indicators and carrying values in excess of estimated fair value at December 31, 2011. Aggregate undiscounted cash flows for such master planned communities projects significantly exceeded their respective aggregate book values and therefore no impairment provisions were required with respect to such projects at December 31, 2011. The significant assumptions in our Master Planned Communities segment relate to future sales prices of land and future development costs needed to prepare land for sale, over the planned life of the project, which are based, in part, on assumptions regarding sales pace, timing of related development costs, and the impact of inflation and other market factors. With respect to operating properties within our Operating Assets segment at December 31, 2011, there were three operating properties which had impairment indicators. The estimated undiscounted cash flows for such operating properties exceeded their book values by 109%. A significant assumption for these operating properties is our

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future revenue assumption. The combined book value of the three properties is \$115.8 million. A reduction of the estimated undiscounted cash by 10% would result in the impairment of Park West.

The decrease in depreciation and amortization for the years ended December 31, 2011 and 2010, primarily resulted from the decrease in the carrying amount of buildings and equipment due to the impairment charges recorded in 2010 and 2009.

All interest expense for 2011 was capitalized as part of the development costs within the Master Planned Community and Strategic Developments segments in accordance with our capitalized interest policy. We recognized a loss of \$11.3 million during the third quarter of 2011 related to the debt refinancing at Ward Centers. The \$11.3 million represented the unamortized market rate adjustment as of the date of refinancing. Interest expense increased during the year ended December 31, 2010 primarily due to a \$1.9 million increase in the amortization of debt market rate adjustments, partially offset by a \$0.4 million decrease in the amortization of deferred finance costs.

The increase in the benefit for income taxes for the year ended December 31, 2010 was primarily attributable to the creation of certain deferred tax assets prior to separation from GGP as a result of the transfer of certain of our predecessors' REIT assets to taxable entities (for more information see Note 9) and a decrease in deferred tax liabilities due to our impairments, partially offset by a significant increase in valuation allowances compared to the year ended December 31, 2009.

The \$37.6 million increase in our equity in income (loss) of Real Estate Affiliates in 2010 was primarily due to the 2009 recognition of \$10.6 million of impairment on our investment in Circle T as well as the recognition in 2009 by the Circle T venture of impairment of \$38.1 million, of which our share was \$19.0 million. See Note 6 for additional information on our Real Estate Affiliates.

Reorganization items under the bankruptcy filings are expense or income items that were incurred or realized by our predecessors as a result of their bankruptcy. These items include professional fees and similar types of expenses incurred directly related to the bankruptcy filings, gains or losses resulting from activities of the reorganization process, including gains related to recording the mortgage debt at fair value upon emergence from bankruptcy and interest earned on cash accumulated by the our predecessors. See Note 2 – Reorganization Items for additional detail.

Our net loss in 2010 reflects our operations prior to and subsequent to the spin-off from GGP. Income for the period prior to the spin-off, as detailed in the accompanying Statement of Equity, was attributable to GGP and reflects significant income tax benefits from restructuring. For more information see Note 9. The loss subsequent to the spin-off of \$528.5 million is primarily attributable to the impairment charges and warrant liability expense described above.

Liquidity and Capital Resources

Our primary sources of cash for 2011 include cash flow from land sales in our Master Planned Communities segment, cash generated from our operating assets, condominium sales proceeds, net proceeds from asset sales and first mortgage financings secured by our assets. Our primary uses of cash include working capital, overhead, debt repayment, property improvements, pre-development and development costs. We believe that our sources of cash, including existing cash on hand and available credit, will provide sufficient liquidity to meet our existing contracted obligations, and anticipated ordinary course operating expenses for at least the next twelve months. The pursuit of development and re-development opportunities in our Operating Assets and Strategic Developments segments are capital intensive and will require significant additional funding. We intend to raise this 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.

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The negative operating cash flows prior to 2011 presented in this Annual Report on Form 10-K primarily were the result of reorganization items of \$60.0 million and \$2.4 million for the years ended December 31, 2010 and 2009, respectively, as well as costs associated with land/residential development and acquisitions expenditures in our Master Planned Communities segment of \$57.1 million and \$61.2 million for the years ended December 31, 2010 and 2009, respectively. The funds for these expenditures came from GGP and are reflected in our consolidated and combined statement of cash flows in change in GGP investment, net.

As of December 31, 2011, our consolidated debt was approximately \$606.5 million of which approximately \$7.0 million is recourse. We have \$52.2 million of required amortization or initial debt maturities in 2012, of which approximately \$36.1 million may be extended beyond 2012. In addition, as of December 31, 2011, our share of the debt of our Real Estate Affiliates was approximately \$43.7 million.

On December 5, 2011, we secured a \$55.0 million loan for 4 Waterway Square and 9303 New Trails. Proceeds from the loan were partially used to refinance a \$13.1 million mortgage secured by 9303 New Trails. The excess proceeds were used to partially repay the credit facility at The Woodlands and to increase cash. The loan matures on December 11, 2023 and has a fixed interest rate of 4.88%.

On September 29, 2011, we closed on a \$250.0 million first mortgage financing secured by the Ward Centers in Honolulu, Hawaii, which bears interest at LIBOR plus 2.50%. The loan matures on September 29, 2016, and we entered into an interest rate swap pursuant to which \$143.0 million of the principal balance was fixed at a 3.81% interest rate for the term of the loan. Initial loan proceeds of approximately \$212.5 million were used to repay approximately \$209.5 million of mortgage debt and to fund closing costs. We were advanced an additional \$7.5 million in the fourth quarter of 2011. Also, the loan may be drawn to a maximum \$250.0 million to fund capital expenditures at the property, provided that maximum leverage cannot exceed the lesser of 65% of the property's appraised value and a 10.0% debt yield. At December 31, 2011, the loan had a \$220.0 million outstanding balance.

In March 2011, The Woodlands refinanced a portion of its debt by entering into a \$270.0 million credit facility which matures in 2015 and a \$36.1 million financing which has an initial maturity in 2012. At December 31, 2011, there was approximately \$34.2 million of undrawn borrowing availability under the credit facility.

The following table summarizes our Net Debt on a segment basis. 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 obligations such as our ownership share of cash and cash equivalents and Special Improvement District 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.

<u>Segment Basis (a)</u> (In thousands)	<u>Master Planned Communities</u>	<u>Operating Assets</u>	<u>Strategic Developments</u>	<u>Segment Totals</u>	<u>Non- Segment Amounts</u>	<u>Total December 31, 2011</u>
Mortgages, notes and loans payable	\$ 261,688(b)	\$383,786(c)	\$ 4,541	\$650,015	\$ 147	\$ 650,162
Less: Cash and cash equivalents	(11,902)	(74,553)(d)	—	(86,455)	(144,398)	(230,853)
Special Improvement District receivables	(40,579)	—	—	(40,579)	—	(40,579)
Municipal Utility District receivables	(83,407)	—	—	(83,407)	—	(83,407)
Net debt	<u>\$ 125,800</u>	<u>\$309,233</u>	<u>\$ 4,541</u>	<u>\$439,574</u>	<u>\$(144,251)</u>	<u>\$ 295,323</u>

(a) Refer to Note 15 – Segments in the Notes to the Consolidated Financial Statements.

(b) Includes \$183.0 million Master Credit Facility outstanding balance.

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- (c) Includes our \$43.7 million share of debt of our Real Estate Affiliates.
- (d) Includes our \$3.3 million share of cash and cash equivalents of our Real Estate Affiliates.

Cash flow for the period July 1, 2011 through December 31, 2011 includes the consolidated cash flow of The Woodlands.

Cash Flows from Operating Activities

Net cash provided by operating activities was \$86.5 million for the year ended December 31, 2011, compared to net cash used in operating activities of \$67.9 million for the year ended December 31, 2010, and \$17.9 million for the year ended December 31, 2009.

The approximate \$145.5 million increase in cash provided by operating activities for the year ended December 31, 2011 compared to 2010 is primarily a result of a \$75.4 million increase in master planned community land sales and a \$20.9 million increase in Natick condominium sales for 2011, as well as approximately \$57.3 million of reorganization items in 2010 which were not incurred in 2011. These items were partially offset by an additional \$32.0 million of real estate acquisition and development expenditures in 2011 compared to 2010. The remaining \$24.0 million of the increase in 2011 compared to 2010 is primarily the result of having six months of commercial property income from The Woodlands in 2011 and several other miscellaneous working capital items.

Cash used in operating activities increased by \$50.0 million for the year ended December 31, 2010 compared to 2009. The principal cause of the increase in cash used relates to a \$50.6 million increase in reorganization costs during 2010 compared to 2009.

Cash used for real estate acquisition and development expenditures was \$90.1 million for the year ended December 31, 2011, \$57.1 million for the year ended December 31, 2010, and \$61.2 million for the year ended December 31, 2009.

Net cash provided by certain assets and liabilities, including accounts and notes receivable, prepaid expense and other assets, deferred expenses, and accounts payable and accrued expenses totaled \$34.2 million, \$17.2 million and \$22.5 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Cash Flows from Investing Activities

Net cash used in investing activities was \$39.7 million, \$111.8 million and \$21.4 million for the years ended December 31, 2011, 2010 and 2009, respectively. Cash used for development of real estate and property expenditures was \$44.4 million, \$111.8 million and \$27.7 million for the years ended December 31, 2011, 2010 and 2009, respectively. The 2011 expenditures primarily relate to the 722-space structured garage and land improvements placed in service in the third quarter. Also, in the third quarter of 2011, we received reimbursements from a municipality of \$5.6 million related to our infrastructure improvements for the Elk Grove Promenade strategic development.

Cash Flows from Financing Activities

Net cash used in financing activities was \$103.9 million for the year ended December 31, 2011. Cash used in financing activities for 2011 includes repayment of a \$96.5 million acquisition note relating to the acquisition of our partner's interest in The Woodlands. Net cash provided by financing activities was \$461.2 million for the year ended December 31, 2010 and to \$37.5 million for the year ended December 31, 2009.

Cash provided by financing activities in 2011 of \$304.9 million resulted primarily from \$220.0 million of borrowings relating to the Ward Centers mortgage financing, the \$55.0 million loan for 4 Waterway Square and 9303 New Trails and \$29.0 million for the 110 N. Wacker Drive office building mortgage financing (See Note 7).

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Principal payments on mortgages, notes and loans payable were \$407.0 million, \$22.1 million and \$10.5 million for the years ended December 31, 2011, 2010 and 2009, respectively. We received contributions from GGP of \$216.5 million for the year ended December 31, 2010 and \$50.9 million for the year ended December 31, 2009. In addition, we issued 5.25 million shares of our common stock and warrants to purchase an additional 8.0 million shares of our common stock for an aggregate price of \$250 million.

Contractual Cash Obligations and Commitments

The following table aggregates our contractual cash obligations and commitments as of December 31, 2011:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Subsequent / Other</u>	<u>Total</u>
Long-term debt-principal	\$ 52,166	\$ 31,896	\$ 35,553	\$ 126,670	\$ 232,639	\$ 127,553	\$ 606,477
Interest payments (a)	27,306	24,096	21,760	17,142	13,240	43,689	147,233
Ground lease payments	5,197	5,187	5,205	5,241	4,965	179,235	205,030
Uncertainty in income taxes, including interest (b)	—	—	—	—	—	129,939	129,939
Total	\$ 84,669	\$ 61,179	\$ 62,518	\$ 149,053	\$ 250,844	\$ 480,416	\$ 1,088,679

- (a) Excludes interest expense related to interest payments on special improvements district bonds. Includes obligations under our \$270.0 million credit facility, \$250.0 million credit facility at The Woodlands, \$250.0 million first mortgage on Ward Centers, \$55.0 million secured loan for 4 Water Way Square and 9303 New Trails and \$43.7 million share of debt of our Real Estate Affiliates.
- (b) The remaining uncertainty in income tax liability for which reasonable estimates about timing of payments cannot be made is disclosed within the Subsequent / Other column.

We lease land or buildings at certain properties from third parties. The leases generally provide us with a right of first refusal in the event of a proposed sale of the property by the landlord. 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 \$3.9 million, \$3.5 million and \$3.5 million for 2011, 2010 and 2009, respectively. The amortization of above and below-market ground leases and straight-line rents included in the contractual rent amount, was not significant.

Off-Balance Sheet Financing Arrangements

We do not have any off-balance sheet financing arrangements. We have interests in property owning non-consolidated ventures which have mortgage financing. The financings are non-recourse to us and totaled \$60.0 million at December 31, 2011.

REIT Requirements

In order for Victoria Ward, Limited to remain qualified as a REIT for federal and state income tax purposes, Victoria Ward must 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. See Note 9 for more detail on this entity's ability to remain qualified as a REIT.

Seasonality

Revenues from development, redevelopment or sale of property in our Master Planned Communities segment and Strategic Developments segment are not subject to seasonal variations. Rental income recognized, including overage rent, is higher during the second half of the year for some of our operating assets. As a result, rental revenue production in the Operating Assets segment is generally highest in the fourth quarter of each year. Additionally, some of the retail properties in our Operating Assets segment are subject to seasonal variations, with a significant portion of their sales and earnings occurring during the last two months of the year.

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 period. For example, significant estimates and assumptions have been made with respect to the fair value of assets for measuring impairment; valuation of debt of emerged entities; useful lives of assets; capitalization of development and leasing costs; provision for income taxes; recoverable amounts of receivables and deferred taxes; initial valuations and related amortization periods of deferred costs and intangibles; and cost ratios and completion percentages used for land sales. Actual results could differ from those estimates.

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:

Impairment – Properties, developments in progress 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. The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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. Significant estimates and assumptions have been made with respect to impairment of long-lived assets. Actual results could differ from these assumptions and estimates.

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 pre-development costs, 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, revenues or cash flows, development costs, market factors and the feasibility of development projects.

Impairment indicators for our Operating Assets segment are assessed separately for each property and include, but are not limited to, significant decreases 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 such factors. These factors are subject to uncertainty. A real estate asset is considered to be impaired when its carrying amount cannot be recovered through estimated future

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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.

Recoverable amounts of receivables and deferred tax assets

We make periodic assessments of the collectability of receivables (including those resulting from the difference between rental revenue recognized and rents currently due from tenants) and the recoverability of deferred taxes based on a specific review of the risk of loss on specific accounts or amounts. The receivable analysis places particular emphasis on past-due accounts and considers the nature and age of the receivables, the payment history and financial condition of the payee, the basis for any disputes or negotiations with the payee and other information which may impact collectability. For straight-line rents receivable, the analysis considers the probability of collection of the unbilled deferred rent receivable given our experience regarding such amounts. For deferred tax assets, an assessment of the recoverability of the tax asset considers the current expiration periods of the prior net operating loss carry-forwards or other tax attributes and our estimated future taxable income generated by deferred tax liabilities. The resulting estimates of any allowance or reserve related to the recovery of these items is subject to revision as these factors change and is sensitive to the effects of economic and market conditions on such payees.

Capitalization of development and leasing costs

We capitalize the costs of development and leasing activities of our properties. These costs are incurred both at the property location and at the regional and corporate office levels. The amount of capitalization depends, in part, on the identification and justifiable allocation of certain activities to specific projects and leases. Differences in methodologies of cost identification and documentation, as well as differing assumptions as to the time incurred on projects, can yield significant differences in the amounts capitalized and, as a result, the amount of depreciation recognized.

Revenue recognition and related matters

Revenues from land sales are recognized using the full accrual method provided that various criteria relating to the terms of the transactions and our subsequent involvement with the land sold are met. Revenues relating to transactions that do not meet the established criteria are deferred and recognized when the criteria are met or using the installment or cost recovery methods, as appropriate, in the circumstances. In addition, in certain land sale transactions, we also share in a percentage of the builders' finished home sales revenue, which we term builder's price participation. For land sale transactions in which we are required to perform additional services and incur significant costs after title has passed, revenues and cost of sales are recognized on a percentage of completion basis.

Cost ratios for land sales are determined as a specified percentage of land sales revenues recognized for each master planned community project. The cost ratios used are based on actual costs incurred and estimates of development costs and sales revenues through completion of each project. The ratios are reviewed regularly and revised for changes in sales and cost estimates or development plans. Significant changes in these estimates or development plans, whether due to changes in market conditions or other factors, could result in changes to the cost ratio used for a specific project. The specific identification method is used to determine cost of sales for certain parcels of land, including acquired parcels we do not intend to develop or for which development is complete at the date of acquisition.

Minimum rent revenues are recognized on a straight-line basis over the terms of the related leases. Minimum rent revenues also include amounts collected from tenants to allow the termination of their leases prior to their

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scheduled termination dates and accretion related to above and below-market tenant leases on acquired properties. Straight-line rents receivable represent the current net cumulative rents recognized prior to when billed and collectible as provided by the terms of the leases. Overage rent is recognized on an accrual basis once tenant sales exceed contractual tenant lease thresholds. Recoveries from tenants are established in the leases or computed based upon a formula related to real estate taxes, insurance and other shopping center operating expenses and are generally recognized as revenues in the period the related costs are incurred.

Purchase Price Allocation

Upon the acquisition of real estate properties, we recognize the assets acquired, the liabilities assumed, and any noncontrolling interest as of the acquisition date, measured at their fair values. In allocating the purchase price of each of our properties, management makes assumptions and uses various estimates, including, but not limited to, the estimated useful lives of the assets, the cost of replacing certain assets, discount rates used to determine present values, market rental rates per square foot and the period required to lease the property up to its occupancy at acquisition if it were vacant. Many of these estimates are obtained from independent third party appraisals. However, management is responsible for the source and use of these estimates. A change in these estimates and assumptions could result in the various categories of our real estate assets and/or related intangibles being overstated or understated which could result in an overstatement or understatement of depreciation and/or amortization expense and/or rental revenue. These variances could be material to our financial statements.

Recently Issued Accounting Pronouncements and Developments

New accounting pronouncements have been issued which impact or could impact the prior, current or subsequent years. See Note 2 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 fixed-rate financing in that changes in interest rates will impact the fair value of our fixed-rate financing and with respect to our floating rate financings in that increases in interest rates could adversely affect cash flow. As of December 31, 2011, we had \$468.1 million of variable-rate debt outstanding of which \$172.0 million has been swapped to a fixed-rate. Annual interest expense would increase approximately \$3.0 million for every 1% increase in interest rates on this balance. Generally, our interest expense is capitalizable; therefore, the impact on our Statement of Income (Loss) is expected to be minimal. For additional information concerning our debt, and management's estimation process to arrive at a fair value of our debt as required by GAAP, reference is made to Item 7, the Liquidity and Capital Resources discussion above and to Notes 2 and 7. We seek to manage a portion of our floating rate interest exposure by using interest rates 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, 2011:

(In thousands)	Contractual Maturity Date						Total
	2012	2013	2014	2015	2016	Thereafter	
Mortgages, notes and loans payable	\$52,166	\$31,896	\$35,553	\$126,670	\$232,639	\$127,553	\$606,477
Weighted - average interest rate	4.61%	4.57%	4.52%	4.33%	5.72%	5.74%	

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information with respect to this Item is set forth beginning page F-1.

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, 2011, 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, 2011.

Internal Controls over Financial Reporting

There have been no changes in our internal controls during our most recently completed fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

In making its assessment of the changes in internal controls over financial reporting as of December 31, 2011, our management excluded the evaluation of the disclosure controls and procedures at The Woodlands due to our acquisition of the remaining interest from our former partner on July 1, 2011.

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. Our evaluation of and conclusion on the effectiveness of internal control over financial reporting as of December 31, 2011 did not include the internal controls for the acquisition of The Woodlands, because of the timing of the acquisition, which was completed in July 2011. As of December 31, 2011, this entity constituted approximately \$581.1 million of total assets, \$84.6 million of revenues and \$2.1 million of pre-tax income for the year then ended. In 2012, we will expand our evaluation of the effectiveness of the internal controls over financial reporting to include The Woodlands. 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. Management concluded, based on its assessment, that The Howard Hughes Corporation's internal control over financial reporting was effective as of December 31, 2011. Deloitte & Touche LLP, an independent registered public accounting firm, has audited the Company's internal control over financial reporting as of December 31, 2011, as stated in their report which is included in this Annual Report on Form 10-K.

Attestation Report of the Independent Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of The Howard Hughes Corporation and subsidiaries (the “Company”) as of December 31, 2011, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management’s Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at The Woodlands Operating Company, L.P. and subsidiaries, TWPC Holdings, LP and subsidiaries and TWLDC Holdings, L.P. and subsidiaries (collectively “The Woodlands”), which were acquired on July 1, 2011 and whose financial statements constitute 18.8% and 17.1% of net and total assets, respectively, 30.7% of revenues, and 1.6% of pre-tax income of the consolidated financial statement amounts as of and for the year ended December 31, 2011. Accordingly, our audit did not include the internal control over financial reporting at The Woodlands. The Company’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 by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the 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 Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2011 of the Company and our report dated February 29, 2012 expressed an unqualified opinion on those financial statements and financial statement schedule and included an explanatory paragraph regarding the allocations of certain operating expenses from General Growth properties, Inc included in the Company’s combined financial statements prior to November 9, 2010.

/s/ Deloitte & Touche LLP

Dallas, Texas
February 29, 2012

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 2012 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 2012 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 2012 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 2012 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 2012 Annual Meeting of Stockholders.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- (a) Financial Statements and Financial Statement Schedules.

The consolidated and combined financial statements and schedule listed in the accompanying Index to Consolidated and Combined Financial Statements and Consolidated and Combined Financial Statement Schedule are filed as part of this Annual Report.

- (b) Exhibits.

- (c) 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

February 29, 2012

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	February 29, 2012
/s/ David R. Weinreb _____ David R. Weinreb	Director and Chief Executive Officer (Principal Executive Officer)	February 29, 2012
/s/ Andrew C. Richardson _____ Andrew C. Richardson	Chief Financial Officer (Principal Financial and Accounting Officer)	February 29, 2012
* _____ Adam Flatto	Director	February 29, 2012
* _____ Jeffrey Furber	Director	February 29, 2012
* _____ Gary Krow	Director	February 29, 2012
* _____ Allen Model	Director	February 29, 2012
* _____ R. Scot Sellers	Director	February 29, 2012
* _____ Steven Shepsman	Director	February 29, 2012
* _____ Burton M. Tansky	Director	February 29, 2012
* _____ Mary Ann Tighe	Director	February 29, 2012
*/s/ David R. Weinreb _____ David R. Weinreb Attorney-in-fact		

THE HOWARD HUGHES CORPORATION

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AND CONSOLIDATED AND COMBINED 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 and subsidiaries (the “Company”) as of December 31, 2011 and 2010, and the related consolidated and combined statements of income (loss) and comprehensive income (loss), equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15. 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 and financial statement 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, such consolidated and combined financial statements present fairly, in all material respects, the financial position of The Howard Hughes Corporation and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated and combined financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the financial statements, the combined financial statements of certain entities that were transferred from General Growth Properties, Inc. to the Company on November 9, 2010 (the “HHC Businesses”) include allocations of certain operating expenses from General Growth Properties, Inc. until the entities were transferred to the Company on November 9, 2010. These costs may not be reflective of the actual level of costs which would have been incurred had the HHC Businesses operated as an independent, stand-alone entity separate from General Growth Properties, Inc.

We have also 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, 2011, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 29, 2012 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ Deloitte & Touche LLP

Dallas, Texas
February 29, 2012

THE HOWARD HUGHES CORPORATION

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2011	2010
	(In thousands, except share amounts)	
Assets:		
Investment in real estate:		
Master Planned Community assets	\$ 1,600,074	\$ 1,350,648
Land	236,363	180,976
Buildings and equipment	556,786	336,950
Less: accumulated depreciation	(92,494)	(78,931)
Developments in progress	195,034	293,403
Net property and equipment	2,495,763	2,083,046
Investment in Real Estate Affiliates	64,958	149,543
Net investment in real estate	2,560,721	2,232,589
Cash and cash equivalents	227,566	284,682
Accounts receivable, net	15,644	8,154
Municipal Utility District receivables	86,599	28,103
Notes receivable, net	35,354	38,954
Tax indemnity receivable, including interest	331,771	323,525
Deferred expenses, net	10,338	6,619
Prepaid expenses and other assets	127,156	100,081
Total assets	<u>\$ 3,395,149</u>	<u>\$ 3,022,707</u>
Liabilities:		
Mortgages, notes and loans payable	\$ 606,477	\$ 318,660
Deferred tax liabilities	75,966	78,680
Warrant liabilities	127,764	227,348
Uncertain tax position liability	129,939	140,076
Accounts payable and accrued expenses	125,404	78,836
Total liabilities	<u>1,065,550</u>	<u>843,600</u>
Commitments and Contingencies (see Note 14)		
Equity:		
Preferred stock: \$.01 par value; 50,000,000 shares authorized, none issued	—	—
Common stock: \$.01 par value; 150,000,000 shares authorized, 37,945,707 shares issued and outstanding as of December 31, 2011 and 37,904,506 shares issued and outstanding as of December 31, 2010	379	379
Additional paid-in capital	2,711,109	2,708,036
Accumulated deficit	(381,325)	(528,505)
Accumulated other comprehensive loss	(5,578)	(1,627)
Total stockholders' equity	2,324,585	2,178,283
Noncontrolling interests	5,014	824
Total equity	<u>2,329,599</u>	<u>2,179,107</u>
Total liabilities and equity	<u>\$ 3,395,149</u>	<u>\$ 3,022,707</u>

The accompanying notes are an integral part of these consolidated and combined financial statements.

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

	Year Ended December 31,		
	2011	2010	2009
	(Consolidated)	(Combined)	(Combined)
	(In thousands, except per share amounts)		
Revenues:			
Master Planned Community land sales	\$ 113,502	\$ 38,058	\$ 34,563
Builder price participation	3,816	4,124	5,687
Minimum rents	71,178	66,926	65,653
Tenant recoveries	19,368	18,567	19,642
Condominium unit sales	22,067	1,139	—
Resort and conference center revenues	15,744	—	—
Other land revenues	14,141	5,384	5,747
Other rental and property revenues	15,875	8,521	5,056
Total revenues	<u>275,691</u>	<u>142,719</u>	<u>136,348</u>
Expenses:			
Master Planned Community cost of sales	70,108	23,388	22,020
Master Planned Community operations	28,270	29,041	27,042
Rental property real estate taxes	11,571	14,530	13,813
Rental property maintenance costs	7,493	6,495	5,586
Condominium unit cost of sales	14,465	1,000	—
Resort and conference center operations	13,108	—	—
Other property operating costs	51,247	36,893	34,810
Provision for doubtful accounts	—	1,782	2,539
General and administrative	35,182	21,538	23,023
Provisions for impairment	—	503,356	680,349
Depreciation and amortization	16,782	16,563	19,841
Total expenses	<u>248,226</u>	<u>654,586</u>	<u>829,023</u>
Operating income (loss)	27,465	(511,867)	(692,675)
Interest income	9,876	369	1,689
Interest expense	—	(2,422)	(977)
Early extinguishment of debt	(11,305)	—	—
Warrant liability gain (loss)	101,584	(140,900)	—
Investment in real estate affiliate basis adjustment	(6,053)	—	—
Equity in earnings (loss) from Real Estate Affiliates	8,578	9,413	(28,209)
Income (loss) before taxes and reorganization items	130,145	(645,407)	(720,172)
Benefit from income taxes	18,325	633,459	23,969
Reorganization items	—	(57,282)	(6,674)
Net income (loss) from continuing operations	148,470	(69,230)	(702,877)
Discontinued operations - loss on dispositions	—	—	(939)
Net income (loss)	148,470	(69,230)	(703,816)
Net (income) loss attributable to noncontrolling interests	(1,290)	(201)	204
Net income (loss) attributable to common stockholders	<u>\$ 147,180</u>	<u>\$ (69,431)</u>	<u>\$ (703,612)</u>
Basic Earnings (Loss) Per Share:			
Continuing operations	\$ 3.88	\$ (1.84)	\$ (18.64)
Discontinued operations	—	—	(0.02)
Total basic earnings (loss) per share	<u>\$ 3.88</u>	<u>\$ (1.84)</u>	<u>\$ (18.66)</u>
Diluted Earnings (Loss) Per Share:			
Continuing operations	\$ 1.17	\$ (1.84)	\$ (18.64)
Discontinued operations	—	—	(0.02)
Total diluted earnings (loss) per share	<u>\$ 1.17</u>	<u>\$ (1.84)</u>	<u>\$ (18.66)</u>
Comprehensive Income (Loss), Net of Tax:			
Net income (loss)	\$ 148,470	\$ (69,230)	\$ (703,816)
Other comprehensive income (loss):			
Interest rate swap	(3,351)	—	—
Capitalized swap interest	(600)	—	—
Pension plan adjustment	—	117	1,182
Other comprehensive income (loss)	<u>(3,951)</u>	<u>117</u>	<u>1,182</u>
Comprehensive income (loss)	144,519	(69,113)	(702,634)
Comprehensive (income) loss attributable to noncontrolling interests	(1,290)	(201)	204
Comprehensive income (loss) attributable to common stockholders	<u>\$ 143,229</u>	<u>\$ (69,314)</u>	<u>\$ (702,430)</u>

The accompanying notes are an integral part of these consolidated and combined financial statements.

THE HOWARD HUGHES CORPORATION
CONSOLIDATED AND COMBINED STATEMENTS OF EQUITY

(In thousands, except shares)	Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	GGP Equity	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests in Consolidated Ventures	Total Equity
Balance, January 1, 2009	—	\$ —	\$ —	\$ —	\$ 1,986,938	\$ (2,926)	\$ 1,803	\$1,985,815
Net loss		—	—	—	(703,612)		(204)	(703,816)
Distributions to noncontrolling interests		—	—	—	—	—	(699)	(699)
Other comprehensive income		—	—	—	—	1,182	—	1,182
Contributions from GGP, net		—	—	—	221,038	—	—	221,038
Balance, December 31, 2009	—	\$ —	\$ —	\$ —	\$ 1,504,364	\$ (1,744)	\$ 900	\$1,503,520
Net income (loss)		—	—	(528,505)	459,074	—	201	(69,230)
Distributions to noncontrolling interests		—	—	—	—	—	(277)	(277)
Other comprehensive income		—	—	—	—	117	—	117
Issuance of common stock	37,896,259	379	182,284	—	—	—	—	182,663
Issuance of restricted stock, net of expense	8,247	—	85	—	—	—	—	85
Contributions from GGP prior to the Separation		—	—	—	562,229	—	—	562,229
Transfer from GGP on Effective Date		—	2,525,667	—	(2,525,667)	—	—	—
Balance, December 31, 2010	<u>37,904,506</u>	<u>\$ 379</u>	<u>\$2,708,036</u>	<u>\$ (528,505)</u>	<u>\$ —</u>	<u>\$ (1,627)</u>	<u>\$ 824</u>	<u>\$2,179,107</u>
Net income		—	—	147,180	—	—	1,290	148,470
Adjustment to noncontrolling interests		—	—	—	—	—	3,700	3,700
Acquisitions		—	—	—	—	—	(777)	(777)
Preferred dividend payment on behalf of subsidiary		—	—	—	—	—	(23)	(23)
Interest rate swaps, net of tax \$1,016		—	—	—	—	(3,351)	—	(3,351)
Capitalized swap interest, net of tax \$358		—	—	—	—	(600)	—	(600)
Stock plan activity	41,201	—	3,073	—	—	—	—	3,073
Balance, December 31, 2011	<u>37,945,707</u>	<u>\$ 379</u>	<u>\$2,711,109</u>	<u>\$ (381,325)</u>	<u>\$ —</u>	<u>\$ (5,578)</u>	<u>\$ 5,014</u>	<u>\$2,329,599</u>

The accompanying notes are an integral part of these consolidated and combined financial statements.

THE HOWARD HUGHES CORPORATION
CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2011 (Consolidated)	2010 (Combined)	2009 (Combined)
	(In thousands)		
Cash Flows from Operating Activities:			
Net income (loss)	\$ 148,470	\$ (69,230)	\$(703,816)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:			
Equity in (earnings) loss from Real Estate Affiliates, net of distributions	(4,410)	(9,413)	29,615
Investment in Real Estate Affiliate basis adjustment	6,053	—	—
Provision for doubtful accounts	—	1,782	2,539
Depreciation	14,012	14,582	17,145
Amortization	2,770	1,981	2,696
Amortization of deferred financing costs and debt market rate adjustments	1,771	1,260	978
Amortization of intangibles other than in-place leases	297	174	220
Straight-line rent amortization	(1,060)	(151)	(49)
Deferred income taxes including tax restructuring benefit	(19,200)	(636,117)	(23,120)
Restricted stock and stock option amortization	3,073	—	—
Warrant liability gain (loss)	(101,584)	140,900	—
Loss on dispositions	—	—	939
Provisions for impairment	—	503,356	680,349
Real estate acquisition and development expenditures	(90,078)	(57,138)	(61,226)
Master Planned Community and condominium cost of sales	79,844	24,388	22,019
Reorganization items - finance costs related to emerged entities	—	1,311	2,158
Non-cash reorganization items	—	(2,724)	(11,835)
Net changes *:			
Accounts and notes receivable	27,500	534	(2,487)
Prepaid expenses and other assets	2,036	18,686	24,867
Deferred expenses	404	(2,110)	(1,850)
Accounts payable and accrued expenses	19,502	112	1,941
Other, net	(2,892)	(82)	1,047
Cash provided by (used in) operating activities	<u>86,508</u>	<u>(67,899)</u>	<u>(17,870)</u>
Cash Flows from Investing Activities:			
Cash acquired from The Woodlands acquisition, net of cash consideration	5,493	—	—
Real estate and property expenditures	(44,380)	(111,832)	(27,738)
Reimbursement for infrastructure improvements from municipality	5,560	—	—
Proceeds from dispositions	1,429	—	—
Proceeds from sales of investment properties	—	—	6,392
Investments in Real Estate Affiliates	—	3	(288)
Change in restricted cash	(7,782)	—	202
Cash used in investing activities	<u>(39,680)</u>	<u>(111,829)</u>	<u>(21,432)</u>
Cash Flows from Financing Activities:			
Change in GGP investment, net	—	216,518	50,865
Proceeds from issuance of mortgages, notes and loans payable	304,911	—	—
Principal payments on mortgages, notes and loans payable	(407,027)	(22,109)	(10,465)
Finance costs related to emerged entities	—	(1,311)	(2,158)
Cash distributions paid to preferred stockholders of Victoria Ward, Ltd.	—	—	(12)
Deferred financing costs	(3,828)	—	—
Proceeds from issuance of common stock and warrants to Plan Sponsors	—	251,385	—
Proceeds from issuance of management warrants	2,000	17,000	—
Distributions to noncontrolling interests	—	(277)	(687)
Cash (used in) provided by financing activities	<u>(103,944)</u>	<u>461,206</u>	<u>37,543</u>
Net change in cash and cash equivalents	(57,116)	281,478	(1,759)
Cash and cash equivalents at beginning of year	284,682	3,204	4,963
Cash and cash equivalents at end of year	<u>\$ 227,566</u>	<u>\$ 284,682</u>	<u>\$ 3,204</u>

THE HOWARD HUGHES CORPORATION

	Year ended December 31,		
	2011	2010	2009
	(Consolidated)	(Combined)	(Combined)
(In thousands)			
Supplemental Disclosure of Cash Flow Information:			
Interest paid	\$ 22,158	\$ 21,225	\$ 48,100
Interest capitalized	24,062	19,139	46,976
Reorganization items paid	—	60,007	2,384
Non-Cash Investing and Financing Transactions:			
Reduction in investments in Real Estate Affiliates due to The Woodlands acquisition	(128,764)	—	—
MPC land contributed to Real Estate Affiliate	2,990	—	—
Special Improvement District bond transfers associated with land sales	4,430	1,254	—
Change in accrued liability expenditures included in accounts payable and accrued expenses	—	(89,514)	(15,222)
Change in Contingent Stock Agreement liability	—	(15,000)	178,130
Contribution of tax indemnity receivable plus interest from GGP	—	323,525	—
Settlement/conversion to equity of intercompany payables to GGP	—	37,328	—
Contribution to note receivable from GGP	—	31,386	—
Other non-cash GGP equity transactions	—	(46,528)	2,612
Recognition of note payable in conjunction with land held for development and sale	—	—	6,520
Acquisition note related to The Woodlands (See Note 3)	96,500	—	—
Debt assumed from The Woodlands' acquisition (See Note 3)	296,695	—	—
Prepetition liabilities funded by GGP	3,241	—	—
Mortgage debt market rate adjustment related to emerged entities	—	2,749	11,723

(*) As a result of The Woodlands acquisition and consolidation, changes in certain accounts cannot be derived from the balance sheet because these changes are non-cash related. (See Note 3)

The accompanying notes are an integral part of these consolidated and combined financial statements.

THE HOWARD HUGHES CORPORATION

NOTES TO CONSOLIDATED AND COMBINED 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 create timeless places and memorable experiences that inspire people while driving sustainable, long-term growth and value for our shareholders. We specialize in the development of master planned communities, and ownership, management, and the 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 to hold, after receipt via a tax-free distribution, certain assets of General Growth Properties, Inc. ("GGP") and certain of its subsidiaries (collectively, the "Predecessors") pursuant to their plans of reorganization (the "Plan") under Chapter 11 of the United States Code ("Chapter 11"). Pursuant to the Plan, certain of the assets and liabilities of the Predecessors (the "HHC Businesses") were transferred to us and our common stock was distributed to the holders of GGP's common stock and common units (the "Separation") on a pro-rata basis (approximately 32.5 million shares of our common stock) on GGP's date of emergence from bankruptcy, November 9, 2010 (the "Effective Date"). Also as part of the Plan, approximately 5.25 million shares of our common stock and 8.0 million warrants were purchased by certain of the investors sponsoring the Plan for \$250.0 million. Unless the context otherwise requires, references to "we," "us" and "our" refer to HHC and its subsidiaries.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Combination and Basis of Presentation

The accompanying financial statements for the year ended December 31, 2011 and the balance sheet as of December 31, 2010 reflects the consolidation of the HHC Businesses with HHC, as of such date, with all intercompany balances and transactions between the HHC Businesses eliminated. The accompanying combined financial statements for the periods prior to the Separation have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") on a carve-out basis from the consolidated financial statements of GGP using the historical results of operations and basis of the assets and liabilities of the transferred businesses and including allocations from GGP. This presentation incorporates the same principles used when preparing consolidated financial statements, including elimination of intercompany transactions. The presentation also includes the accounts of the HHC Businesses in which we have a controlling interest. The noncontrolling equity holders' share of the assets, liabilities and operations are reflected in noncontrolling interests within permanent equity. All intercompany balances and transactions between the HHC Businesses have been eliminated. Accordingly, the statements of income (loss) and comprehensive income (loss), equity and cash flows presented for the year ended December 31, 2010 reflect the aggregate of operations, changes in cash flows and equity on a carved-out basis for the period from January 1, 2010 through November 9, 2010 and on a consolidated basis for the period from November 10, 2010 through December 31, 2010.

We were formed for the purpose of receiving, via a tax-free distribution, certain assets and assuming certain liabilities of our predecessors pursuant to the Plan. We conducted no business and had no separate material assets or liabilities until the Separation was consummated. No previous historical financial statements for the HHC Businesses have been prepared and, accordingly, our combined financial statements for periods prior to November 9, 2010 are derived from the books and records of GGP and were carved-out from GGP at a carrying value reflective of the historical cost in GGP records. Our historical financial results reflect allocations for certain corporate expenses which include, but are not limited to, costs related to property management, human resources, security, payroll and benefits, legal, corporate communications, information services and restructuring and reorganizations. Costs of the services, which were approximately \$8.4 million and \$9.9 million for 2010 and

THE HOWARD HUGHES CORPORATION**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**

2009, respectively that were allocated or charged to us were based on either actual costs incurred or a proportion of costs estimated to be applicable to us based on a number of factors, most significantly our percentage of GGP's adjusted revenue and assets and the number of properties. We believe these allocations are reasonable; however, these results do not reflect what our expenses would have been had we been operating as a separate, stand-alone public company. In addition, the HHC Businesses were operated as subsidiaries of GGP, which operates as a real estate investment trust ("REIT"). We operate as a taxable corporation. The carved out combined financial information included in the 2010 and the 2009 financial statements 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 the periods shown or of our future performance as an independent, stand-alone entity.

On July 1, 2011, we acquired our partner's economic interest in TWPC Holdings, L.P., ("The Woodlands Commercial"), The Woodlands Operating Company, L.P. ("The Woodlands Operating") and The Woodlands Land Development Company, L.P. ("The Woodlands MPC", and together with The Woodlands Commercial and The Woodlands Operating, "The Woodlands"), located near Houston, Texas. As a result of the acquisition, we now consolidate The Woodlands' operations in our consolidated financial statements. Prior to such acquisition, we accounted for The Woodlands using the equity method.

In 2011, certain amounts in the December 31, 2010 consolidated balance sheet were reclassified to conform to the current period presentation. We reclassified our Municipal Utility Districts receivables of \$28.1 million to a separate line item from prepaid expenses and other assets. We also reclassified the cost of in-place leases of \$6.1 million from buildings and equipment as well as the related in-place lease accumulated amortization of \$4.5 million from accumulated depreciation to prepaid expenses and other assets.

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.

Investment in Real Estate

Real estate assets are stated at cost less any provisions for impairments. Construction and improvement costs incurred in connection with the development of new properties or the redevelopment of existing properties are capitalized. Real estate taxes and interest costs incurred during development and construction periods are also capitalized. Capitalized interest costs are based on qualified expenditures and interest rates in place during the construction period.

Pre-development costs, that 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 (see also our impairment policies below).

Tenant improvements relating to our operating assets, either paid directly or in the form of construction allowances paid to tenants, are capitalized and depreciated over the shorter of their economic lives or the lease term. Maintenance and repairs are charged to expense when incurred. Expenditures for significant improvements are capitalized.

Depreciation or amortization expense is computed using the straight-line method based upon the following estimated useful lives:

<u>Asset Type</u>	<u>Years</u>
Buildings and improvements	40-45
Equipment, tenant improvements and fixtures	5-10

THE HOWARD HUGHES CORPORATION

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Acquisitions of Properties

We account for business combinations in accordance with Accounting Standards Codification (“ASC”) 805, Business Combinations. The acquisition method of accounting requires that assets acquired and liabilities assumed be recorded at their fair values on the date of a business combination. Our consolidated financial statements and results of operations reflect an acquired business from the completion date of an acquisition. On July 1, 2011, we completed the acquisition of The Woodlands (See Note 3).

Investments in Real Estate Affiliates

We account for investments in joint ventures where we own a non-controlling participating 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 (losses) of such Real Estate Affiliates from the date of acquisition 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. Differences between the carrying amount of our investment in the Real Estate Affiliates and our share of the underlying equity of such Real Estate Affiliates are amortized over lives ranging from five to forty-five years. For cost method investments, we recognize earnings to the extent of distributions received from such investments.

Impairment

The generally accepted accounting principles related to accounting for the impairment or disposal of long-lived assets require that if impairment indicators exist and the undiscounted cash flows expected to be generated by an asset are less than its carrying amount, an impairment provision should be recorded to write down the carrying amount of such asset 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. We review our real estate assets (including those held by our Real Estate Affiliates) for potential impairment indicators whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

THE HOWARD HUGHES CORPORATION

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Impairment indicators for pre-development costs, 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, revenues or cash flows, development costs, market factors and sustainability of development projects.

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. 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, but the impairment will have no impact on cash flow.

With respect to our investment in the Real Estate Affiliates, a series of operating losses of an asset or other factors may indicate that a decrease in value has occurred which is other-than-temporary. The investment in each of the Real Estate Affiliates 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. Accordingly, in addition to the property-specific impairment analysis that we perform on the investment properties, land held for development and sale and developments in progress owned by such joint ventures (as part of our investment property impairment process described above), we also considered the ownership and distribution preferences and limitations and rights to sell and repurchase our ownership interests.

Cash and Cash Equivalents

Highly-liquid investments with maturities at dates of purchase of three months or less are classified as cash equivalents.

Notes Receivable

Notes receivable includes amounts due from builders for previous sold lots, primarily at our Maryland master planned community and a note from GGP received at the Effective Date in connection with the Plan. This GGP note, also known as the Arizona II lease, has a balance of \$25.2 million as of December 31, 2011. The GGP note 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.

Deferred Expenses

Deferred expenses consist principally of financing fees and leasing costs and commissions. Deferred financing fees are amortized to interest expense using the effective interest method (or other methods which approximate the effective interest method) over the terms of the respective financing agreements. Deferred leasing costs and commissions are amortized using the straight-line method over periods that approximate the related lease terms.

THE HOWARD HUGHES CORPORATION

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Deferred expenses in our consolidated balance sheets are shown at cost, net of accumulated amortization, of \$5.7 million as of December 31, 2011 and \$6.6 million as of December 31, 2010.

Sponsor and Management Warrants

On the Effective Date, we issued warrants to purchase 8.0 million shares of our common stock to certain of the sponsors of the Plan (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 is subject to adjustment for future stock dividends, splits or reverse splits of our common stock or certain other events. Approximately 6.1 million warrants are currently exercisable without restriction and approximately 1.9 million warrants are exercisable upon 90 days prior notice for the first 6.5 years after issuance and are subsequently exercisable without notice any time thereafter. The Sponsors Warrants expire on November 9, 2017.

In November 2010 and February 2011, we entered into certain warrant 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. The Management Warrants representing 2,862,687 underlying shares 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 warrant has an exercise price of \$54.50 per share. Generally, the Management Warrants become exercisable in November 2016 and expire by February 2018.

The estimated \$102.6 million fair value for the Sponsors Warrants and estimated \$25.2 million fair value for the Management Warrants as of December 31, 2011, have been recorded as a liability because the holders of these warrants could require HHC to settle such warrants in cash upon a change of control. 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 and, accordingly, warrant liability gains reflecting decreases in value of approximately \$101.6 million were recognized for the year ended December 31, 2011.

Revenue Recognition and Related Matters

Rental Revenue

Operating property revenue consists of minimum rent, percentage rent in lieu of fixed minimum rent, overage rent and tenant recoveries.

Minimum rent revenues are recognized on a straight-line basis over the terms of the related leases and include base minimum rent and percentage rent in lieu of fixed minimum rent. Percentage rent in lieu of fixed minimum rent recognized from tenants for the years ended December 31, 2011, 2010 and 2009 was \$3.9 million, \$3.9 million and \$3.0 million, respectively, and is included in minimum rents in our financial statements. Minimum rent revenues also include amortization related to above and below-market tenant leases on acquired properties.

Straight-line rent receivables, which represent the current net cumulative rents recognized prior to when billed and collectible as provided by the terms of the leases, of \$3.3 million as of December 31, 2011 and \$2.0 million as of December 31, 2010, are included in Accounts receivable, net in our financial statements.

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

THE HOWARD HUGHES CORPORATION**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**

in the lease. Overage rent of approximately \$3.0 million, \$3.4 million, and \$2.7 million for 2011, 2010 and 2009, respectively is included in other rental and property revenues.

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.

We provide an allowance for doubtful accounts against the portion of accounts receivable, including straight-line rents, which is estimated to be uncollectible. Such allowances are reviewed periodically based on our recovery experience. This analysis considers the long-term nature of our leases, as a certain portion of the straight-line rent currently recognizable will not be billed to the tenant until future periods. Our experience relative to unbilled deferred rent receivable is that a certain portion of the amounts recorded as straight-line rental revenue are never collected from (or billed to) tenants due to early lease terminations. For that portion of the otherwise recognizable deferred rent that is not deemed to be probable of collection, an allowance for doubtful accounts has been provided. Accounts receivable in our consolidated and combined balance sheets are shown net of an allowance for doubtful accounts of \$14.4 million as of December 31, 2011 and \$16.3 million as of December 31, 2010. The following table summarizes the changes in allowance for doubtful accounts:

	<u>2011</u>	<u>2010</u> (In thousands)	<u>2009</u>
Balance as of January 1	\$16,277	\$ 16,812	\$21,712
Provision*	—	1,782	2,539
Write-offs	<u>(1,829)</u>	<u>(2,317)</u>	<u>(7,439)</u>
Balance as of December 31	<u>\$14,448</u>	<u>\$ 16,277</u>	<u>\$16,812</u>

* Collection of significantly aged receivables previously reserved resulted in no provision in 2011.

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.

Land and Condominium Sales Revenue

Revenues from land sales are recognized using the full accrual method if various criteria provided by GAAP relating to the terms of the transactions and our subsequent involvement with the land sold are met. Revenues relating to transactions that do not meet the established criteria are deferred and recognized when the criteria are met or using the installment or cost recovery methods. Revenue related to builder participation rights is recognized when collected.

Cost of land sales is determined as a specified percentage of land sales revenues recognized for each community development project. These cost ratios are based on actual costs incurred and estimates of future development costs and sales revenues to completion of each project. The ratios are reviewed regularly and revised for changes in sales and cost estimates or development plans. Significant changes in these estimates or development plans, whether due to changes in market conditions or other factors, could result in changes to the cost ratio used for a specific project. 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. Expenditures in our MPC business to develop land for sale are classified as an

THE HOWARD HUGHES CORPORATION

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

operating activity under real estate acquisition and development expenditures in our consolidated and combined statements of cash flows.

Nouvelle at Natick is a 215 unit residential condominium project, located in Natick, Massachusetts. Pursuant to the Plan, only the unsold units at Nouvelle at Natick on the Effective Date were distributed to us and no deferred revenue or sales proceeds from unit closings prior to the Effective Date were allocated to us. As of December 31, 2011, two units were unsold at Nouvelle at Natick. Income related to unit sales subsequent to the Effective Date is accounted for on a unit-by-unit full accrual method.

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 in effect for the year in which the differences are expected to reverse. 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 many 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, gains with respect to sales of land for single family residences are reported for tax purposes under 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.

Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding. Diluted EPS is computed after adjusting the numerator and denominator of the basic EPS computation for the effects of all potentially dilutive common shares. The dilutive effect of options and 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 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.

In connection with the Separation on November 9, 2010, GGP distributed to its stockholders 32.5 million shares of our common stock and approximately 5.25 million shares were purchased by certain investors sponsoring the Plan. This share amount is used in the calculation of basic and diluted EPS for the year ended December 31, 2010 and 2009 as our common stock was not traded prior to November 9, 2010 and there were no dilutive securities in the prior periods.

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NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Information related to our EPS calculations is summarized as follows:

(In thousands, except per share amounts)	Years Ended December 31,		
	2011	2010	2009
Basic EPS:			
Numerator:			
Income (loss) from continuing operations	\$ 148,470	\$ (69,230)	\$ (702,877)
Net income attributable to noncontrolling interest	(1,290)	(201)	204
Income (loss) attributable to common stockholders	147,180	(69,431)	(702,673)
Discontinued operations - net of tax	—	—	(939)
Net income (loss) attributable to common stockholders	<u>\$ 147,180</u>	<u>\$ (69,431)</u>	<u>\$ (703,612)</u>
Denominator:			
Weighted average number of common shares outstanding - basic	37,908	37,726	37,716
Diluted EPS:			
Numerator:			
Net income (loss) attributable to common stockholders	\$ 147,180	\$ (69,431)	\$ (703,612)
Less: warrant liability gain	101,584	—	—
Adjusted net income (loss) available to common stockholders	<u>\$ 45,596</u>	<u>\$ (69,431)</u>	<u>\$ (703,612)</u>
Denominator:			
Weighted average number of common shares outstanding - basic	37,908	37,726	37,716
Restricted stock and stock options	—	—	—
Warrants	1,074	—	—
Weighted average number of common shares outstanding - diluted	<u>38,982</u>	<u>37,726</u>	<u>37,716</u>
Basic Earnings (Loss) Per Share			
Income (loss) from continuing operations attributable to common stockholders	\$ 3.88	\$ (1.84)	\$ (18.64)
Discontinued operations attributable to common stockholders	—	—	(0.02)
Net income (loss) attributable to common stockholders	<u>\$ 3.88</u>	<u>\$ (1.84)</u>	<u>\$ (18.66)</u>
Diluted Earnings (Loss) Per Share			
Income (loss) from continuing operations attributable to common stockholders	\$ 1.17	\$ (1.84)	\$ (18.64)
Discontinued operations attributable to common stockholders	—	—	(0.02)
Net income (loss) attributable to common stockholders	<u>\$ 1.17</u>	<u>\$ (1.84)</u>	<u>\$ (18.66)</u>

Stock options of 715,137 and restricted stock of 42,553 as of December 31, 2011 and 10,683,726 sponsor and management warrants outstanding as of December 31, 2010 were not included in the computation of diluted EPS above because to do so would have been anti-dilutive.

Stock Plans

We apply the provisions 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

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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 our stock at the date of grant.

Fair Value Measurements

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

	December 31, 2011			December 31, 2010			
	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:							
Interest rate swap	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Liabilities							
Warrants	127,764	—	—	127,764	—	—	227,348
Interest rate swaps	4,367	—	4,367	—	—	—	—

The valuation of warrants is based on an option pricing valuation model. The inputs to the model include the fair value of the stock related to the warrants, exercise price of the warrants, term, expected volatility, risk-free interest rate and dividend yield.

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):

	December 31	
	2011	2010
	(In thousands)	
Beginning of year	\$ 227,348	\$ —
Warrant liability loss (gain)	(101,584)	140,900
Purchases	2,000	86,448
End of year	\$ 127,764	\$ 227,348

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The following tables summarize our assets and liabilities that were measured at fair value on a non-recurring basis as a result of the properties being impaired:

<u>2011</u>	<u>Total Fair Value Measurement</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total Loss Year Ended December 31, 2011</u>
			(In thousands)		
Investment in Real Estate Affiliates	\$ 128,764 (a)	\$ —	\$ —	\$ 128,764 (a)	\$ 6,053 (b)
<p>(a) Represents the fair value of our previously held equity investment in The Woodlands as of the acquisition date. The fair value was derived from the fair value of the assets and liabilities acquired in The Woodlands acquisition, which is further discussed in Note 3. As of the acquisition date, The Woodlands financial condition and results of operations were consolidated.</p> <p>(b) Represents the loss on remeasurement of our previously held equity investment in The Woodlands.</p>					
<u>2010</u>	<u>Total Fair Value Measurement</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total (Loss) Gain - Year Ended December 31, 2010</u>
			(In thousands)		
Master Planned Communities:					
Maryland - Columbia (a)	\$ 34,823	\$ —	\$ —	\$ 34,823	\$ (56,798)
Maryland - Gateway (a)	1,649	—	—	1,649	(2,613)
Summerlin South (a)	203,325	—	—	203,325	(345,920)
Operating Assets:					
Landmark Mall (b)	23,750	—	—	23,750	(24,434)
Riverwalk Marketplace (c)	10,179	—	—	10,179	(55,975)
Strategic Developments:					
Century Plaza Mall (b)	4,500	—	—	4,500	(12,899)
Nouvelle at Natick (a)	13,413	—	—	13,413	(4,135)
Total investments in real estate	<u>\$ 291,639</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 291,639</u>	<u>\$ (502,774)</u>
Debt					
Fair value of emerged entity mortgage debt (d)	\$ 65,753	\$ —	\$ —	\$ 65,753	\$ 2,749
Total liabilities	<u>\$ 65,753</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 65,753</u>	<u>\$ 2,749</u>

- (a) The fair value was calculated based on a discounted cash flow analysis using a property specific discount rate of 20.0%.
- (b) The fair value is based on estimated sales value.
- (c) The fair value was calculated based on a discounted cash flow analysis using a property specific discount rate and a residual capitalization rate of 8.5% for both computations.
- (d) The fair value of debt relates to properties that emerged from bankruptcy in 2010.

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2009	Total Fair Value Measurement	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2) (In thousands)	Significant Unobservable Inputs (Level 3)	Total (Loss) Gain - Year Ended December 31, 2009
Master Planned Communities:					
Maryland - Fairwood	\$ 12,629	\$ —	\$ 12,629	\$ —	\$ (52,767)
Operating Assets:					
Landmark Mall (a)	49,501	—	—	49,501	(27,323)
Strategic Developments:					
The Bridges at Mint Hill	14,100	—	14,100	—	(16,636)
Elk Grove Promenade	21,900	—	21,900	—	(175,280)
The Shops at Summerlin Center	46,300	—	46,300	—	(176,141)
Kendall Town Center (b)	13,931	—	—	13,931	(35,089)
AllenTowne	25,900	—	25,900	—	(29,063)
Cottonwood Mall (a)	21,500	—	—	21,500	(50,768)
Princeton Land East, LLC	8,802	—	8,802	—	(8,904)
Princeton Land LLC	11,948	—	11,948	—	(13,356)
Village at Redlands	7,545	—	—	7,545	(5,537)
Redlands Promenade	6,727	—	—	6,727	(6,667)
Nouvelle at Natick (b)	64,661	—	—	64,661	(55,923)
Total investments in real estate	\$ 305,444	\$ —	\$ 141,579	\$ 163,865	\$ (653,454)
Debt					
Fair value of emerged entity mortgage debt (c)	\$ 134,089	\$ —	\$ —	\$ 134,089	\$ 11,723
Total liabilities	\$ 134,089	\$ —	\$ —	\$ 134,089	\$ 11,723

- (a) The fair value was calculated based on a discounted cash flow analysis using a property specific discount rate ranging from 9.25% to 12.00% and residual capitalization rates ranging from 8.50% to 11.50%.
- (b) The fair value is based on estimated sales value.
- (c) The fair value of debt relates to two properties that emerged from bankruptcy in 2009.

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

	December 31, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Fixed-rate debt	\$ 83,164	\$ 85,047	\$ 191,037	\$ 202,897
Variable-rate debt (a)	468,100	468,100	65,518	65,629
SID bonds (b)	55,213	55,213	62,105	62,105
Total	\$ 606,477	\$ 608,360	\$ 318,660	\$ 330,631

- (a) As more fully described in Note 7, \$172.0 million of variable-rate debt entered into during 2011 has been swapped to a fixed rate for the term of the related debt.
- (b) Due to the uncertain repayment terms of special improvement district "SID" bonds, the carrying value approximates fair value.

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The fair value of debt in the table above was estimated based on quoted market prices for publicly traded debt, recent financing transactions, estimates of the fair value of the property that serves as collateral for such debt, historical risk premiums for loans of comparable quality, the current London Interbank Offered Rate (“LIBOR”), a widely quoted market interest rate which is frequently the index used to determine the rate at which we borrow funds, U.S. Treasury obligation interest rates and on the discounted estimated future cash payments to be made on such debt. 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 assume that the debt is outstanding through maturity. We have utilized available market information or present value techniques to estimate the amounts required to be disclosed. Since such amounts are estimates that are based on limited available market information for similar transactions and do not acknowledge transfer or other repayment restrictions that may exist in specific loans, it is unlikely that the estimated fair value of any of such debt could be realized by immediate settlement of the obligation.

The carrying amounts of cash and cash equivalents and accounts receivable approximate fair value because of the short-term maturity of these instruments. The carrying amounts of notes and Municipal Utility Districts receivables are carried at net realizable value which approximates fair value because of their short-term nature.

Municipal Utility Districts (“MUD”)

In Houston, Texas, certain development costs are reimbursable through the creation of MUDs (and Water Control and Improvement Districts), 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 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 estimates. MUD bond sale proceeds are used to reimburse the developer for its construction costs, including interest, and MUD taxes are used to pay the debt service on the bonds and the operating expenses of the MUD. We estimate the costs we believe will be eligible for reimbursement (MUD receivable), and we have not incurred any debt relating to the MUDs.

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 useful lives of assets, capitalization of development and leasing costs, provision for income taxes, recoverable amounts of receivables and deferred taxes, initial valuations and related amortization periods of deferred costs and intangibles, particularly with respect to acquisitions, impairment of long-lived assets and goodwill, fair value of warrants and debt and cost ratios and completion percentages used for land sales. Actual results could differ from these and other estimates.

THE HOWARD HUGHES CORPORATION**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS****Reorganization Items**

Reorganization items are expense or income items that were incurred or realized by certain of our subsidiaries as a result of the Chapter 11 Cases and are presented separately in the Consolidated and Combined Statements of Income (Loss) and Comprehensive Income (Loss). These items include professional fees and similar types of expenses and gains and interest earned on cash accumulated by certain of our subsidiaries, all as a result of the Chapter 11 Cases. Reorganization items specific to the HHC Businesses were allocated to us and reflected in our combined financial statements and in the table presented below.

The key employee incentive program (the "KEIP") was intended to retain certain key employees of GGP during the pendency of the Chapter 11 Cases and provided for payment (in two installments) to these GGP employees upon successful emergence from bankruptcy. The first KEIP payment was made by GGP on November 12, 2010. As certain of these employees became our employees on the Effective Date, a portion of the KEIP was deemed to relate to us and therefore, we recognized our KEIP expense in the period from the date the KEIP was approved by the Bankruptcy Court (October 2009) to the Effective Date, in reorganization items on the Combined Statements of Income (Loss) and Comprehensive Income (Loss) in the amount of \$13.5 million for the year ended December 31, 2010.

Reorganization items are as follows:

<u>Reorganization Items</u>	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
	<u>(In thousands)</u>	
Gains on liabilities subject to compromise - vendors (a)	\$ (791)	\$ (99)
Gains on liabilities subject to compromise, net - mortgage debt (b)	(2,749)	(11,723)
Interest income (c)	(16)	(4)
U.S. Trustee fees	571	226
Restructuring costs (d)	<u>60,267</u>	<u>18,274</u>
Total reorganization items	<u>\$57,282</u>	<u>\$ 6,674</u>

- (a) This amount includes gains from repudiation, rejection or termination of contracts or guarantee of obligations. Such gains reflect agreements reached with certain critical vendors, which were authorized by the Bankruptcy Court and for which payments on an installment basis began in July 2009.
- (b) Such net gains include the Fair Value adjustments of mortgage debt relating to entities that emerged from bankruptcy.
- (c) Interest income primarily reflects amounts earned on cash accumulated as a result of our Chapter 11 Cases.
- (d) Restructuring costs primarily include professional fees incurred related to the bankruptcy filings, our allocated share of the KEIP payment, finance costs incurred by debtors upon emergence from bankruptcy and any associated write-off of unamortized deferred finance costs.

Recently Issued Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued a new standard which changes the requirements for presenting comprehensive income in the financial statements. The new standard eliminates the option to present other comprehensive income ("OCI") in the statement of stockholders' equity and instead requires net income, components of OCI, and total comprehensive income to be presented in one continuous

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statement or two separate but consecutive statements. HHC had elected to present OCI in one continuous statement in its previous filings and accordingly, the effective date of this standard will not have an effect on our results of operations, financial position, or cash flows in our consolidated financial statements.

In May 2011, the FASB issued "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." The standard revises guidance for fair value measurement and expands the disclosure requirements. It is effective for fiscal years beginning after December 15, 2011. We are currently evaluating the impact that the adoption of this standard will have on our Consolidated Financial Statements.

NOTE 3 ACQUISITION

On July 1, 2011, we acquired for \$117.5 million our partner's 47.5% economic interest (represented by a 57.5% legal interest) in The Woodlands. We made the acquisition so that we can control attractive residential and commercial assets and to internalize The Woodlands platform to benefit our MPC business. As a result of the acquisition, we now consolidate The Woodlands operations and our consolidated financial statements are therefore not comparable to prior periods. Please refer to Note 16 Segments, for a presentation of the results as if we owned 100% of The Woodlands, for all periods presented.

On the acquisition date, The Woodlands had approximately 1,324 acres of unsold residential land, representing approximately 4,395 lots, and approximately 962 acres of unsold land for commercial use. The Woodlands also had full or partial ownership interests in commercial properties totaling approximately 434,328 square feet of office space, 203,282 square feet of retail and service space, 865 rental apartment units, and also owns and operates a 440-room resort and conference center facility and a 36-hole golf and country club. We paid \$20.0 million in cash at closing and the remaining \$97.5 million of the purchase price was represented by a non-interest bearing promissory note which we repaid from available cash on hand on December 1, 2011. There was no contingent consideration related to this acquisition.

The assets and liabilities of The Woodlands were consolidated into our financial statements at fair value as of the acquisition date according to the following methodologies:

- The fair value of the Master Planned Community assets which consists of residential and commercial land held for development and sale was determined using a discounted cash flow analysis;
- The fair value of the commercial properties acquired, consisting of land and buildings, was determined by valuing the property as if it were vacant, and the "as-if-vacant" value was then allocated between land and buildings. The "as-if-vacant" values were derived from several sources which primarily included a discounted cash flow analysis using discount and capitalization rates based on recent comparable market transactions, where available. The buildings are depreciated over the estimated useful life of 40 years using the straight-line method;
- The value of above-market and below-market in-place leases for The Woodlands operating assets was based on 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 leases and (2) management's estimate of current market lease rates, measured over the remaining non-cancelable lease term. We record the fair value of above-market and below-market leases as intangible assets or intangible liabilities, respectively, and amortize them as an adjustment to minimum rents over the lease term;
- The estimated fair value for in-place leases included an estimate of carrying costs during the expected lease-up periods. In estimating the carrying costs that would have otherwise been incurred had the

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leases not been in place, we included such items as real estate taxes, insurance and other operating expenses as well as lost rental revenue during the expected lease-up period based on current market conditions;

- The fair value for working capital items such as cash, Municipal Utility District receivables, prepaid expenses, accounts payable and accrued expenses was determined based on the carrying value due to the short term nature of these items; and
- The debt assumed was primarily variable rate debt and fixed rate debt with short term maturities; therefore, the fair value was assumed to be the carrying value.

On the acquisition date, we consolidated \$587.6 million of assets and \$338.6 million of liabilities relating to The Woodlands. Consolidation of The Woodlands net assets resulted in a \$3.9 million after-tax loss on the remeasurement of the carrying value of our existing 52.5% economic interest which had a \$134.8 million net book value at June 30, 2011. The loss is recorded in the Investment in real estate affiliate basis adjustment line on our consolidated and combined statements of Income (Loss) and Comprehensive Income (Loss). For periods prior to July 1, 2011, our investment in The Woodlands was accounted for using the equity method. This business combination did not represent a significant acquisition of assets under the SEC rules.

The following table summarizes amounts recorded for the assets acquired and liabilities assumed at the acquisition date:

	(In thousands)
Master Planned Community Assets	\$ 264,889
Land	44,597
Buildings and Equipment	116,061
Investments in Real Estate Affiliates	42,932
Cash	25,492
Accounts receivable	7,548
Notes receivable	3,189
Municipal Utility District receivables	61,700
Other assets	21,150
Total assets	587,558
Mortgages, notes and loans payable	(296,695)
Accounts payable and accrued expenses	(41,900)
Noncontrolling interests	(3,700)
Total liabilities and noncontrolling interests	(342,295)
Total identifiable net assets	\$ 245,263

Included in the consolidated statements of income (loss) and comprehensive income (loss) since the acquisition date are revenues of \$84.6 million and net income of \$0.5 million for the six months ended December 31, 2011. The net income includes the impact of purchase accounting adjustments, including a \$6.1 million increase in cost of sales to reflect the step-up in basis of finished lot inventory sold during the six months ended December 31, 2011.

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Pro Forma Information

The following pro forma information for the years ended December 31, 2011 and 2010 was prepared as if The Woodlands acquisition had occurred as of the beginning of such period:

	Year Ended December 31,	
	2011	2010
	(In thousands)	
Total Revenues	\$357,472	\$294,310
Net income (loss)	157,520	(52,081)

Pro forma adjustments were made for: (1) purchase accounting, including; (a) depreciation for the step-up in basis for property, plant and equipment; (b) amortization of in-place and above/below market leases; (c) Land Cost of sales increase for step-up in land basis for finished lots acquired and sold; and (d) elimination of amortization of deferred financing costs, prepaid commissions and deferred profits and; (2) adjustments for interest expense which is capitalizable in accordance with our interest capitalization policy. We applied a 36% effective tax to The Woodlands results in order to compute pro forma net income (loss).

The pro forma information is not necessarily indicative of the results that would have occurred had the acquisition occurred as of the beginning of the period presented, nor is it necessarily indicative of future results.

NOTE 4 IMPAIRMENT*General*

Although there were no impairment charges for the year ended December 31, 2011, Park West continues to suffer from a weak market and its occupancy was 64.9% at December 31, 2011. We are focused on attracting tenants who can drive increased traffic during the day and evening, such as entertainment concepts. If we are unsuccessful at increasing occupancy and traffic, many of our existing tenants may be unable to continue to occupy their leased spaces because their sales volume will likely be inadequate to support their operating costs, which would reduce our expected cash flows and result in a significant impairment. Impairment charges totaled \$503.4 million and \$680.3 million for the years ended December 31, 2010 and 2009, as presented in the table below. These impairment provisions resulted from an evaluation of impairment indicators for our properties, including considerations of revised strategies and operating philosophies and, with properties with such indicators, the undiscounted cash flows of the projects as compared to their carrying values. At December 31, 2010, although an additional four regions or projects within our master planned communities segment and four additional operating properties had carrying values in excess of estimated fair values based on current occupancy levels, cash flow and use of the property, no additional provisions for impairment were considered necessary for such projects and properties. These impairment charges are included in provisions for impairment in our consolidated and combined statement of income (loss) and comprehensive income (loss) for the years ended December 31, 2010 and 2009.

Circle T also recorded impairment charges of \$38.1 million for the year ended December 31, 2009 relating to the assets of our non-consolidated Real Estate Affiliates, of which our share was \$19.0 million, and which was included in our Equity in income (loss) from Real Estate Affiliates. In addition to the impairment charges recorded by the Circle T venture, we recorded impairment charges related to our investment in Circle T of \$10.6 million for the year ended December 31, 2009 to write these investments down to their estimated fair value, with such provisions reflected in our Equity in earnings (loss) from Real Estate Affiliates. No provisions for impairment were recorded for the years ended December 31, 2011 and 2010 related to our investments in Real Estate Affiliates.

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Summary of all impairment provisions:

Impaired Asset	Location	Method of Determining Fair Value	Year Ended December 31,	
			2010	2009
(In thousands)				
Master Planned Communities:				
Maryland- Gateway	Howard County, MD	Projected sales price analysis (a) (c)	\$ 2,613	\$ —
Maryland- Columbia	Columbia, MD	Projected sales price analysis (a) (c)	56,798	—
Maryland- Fairwood	Columbia, MD	Projected sales price analysis (a) (c)	—	52,767
Summerlin-South	Las Vegas, NV	Projected sales price analysis (a) (c)	345,920	—
			<u>405,331</u>	<u>52,767</u>
Operating Assets:				
Landmark	Alexandria, VA	Discounted cash flow analysis (a) (c)	24,434	27,323
Riverwalk Marketplace	New Orleans, LA	Discounted cash flow analysis (c)	55,975	—
Various pre-development costs		(b)	514	23,641
			<u>80,923</u>	<u>50,964</u>
Strategic Developments:				
Allen	Allen, TX	Projected sales price analysis (a) (c)	—	29,063
Cottonwood Mall	Holladay, UT	Comparable property market analysis	—	50,768
Kendall	Miami, FL	Projected sales price analysis (c)	—	35,089
West Windsor	Princeton, NJ	Projected sales price analysis (c)	—	22,260
Bridges at Mint Hill	Charlotte, NC	Projected sales price analysis (b)	—	16,636
Elk Grove Promenade	Elk Grove, CA	Projected sales price analysis (c)	—	175,280
The Shops at Summerlin Centre	Las Vegas, NV	Projected sales price analysis (c)	—	176,141
Century Plaza Mall	Birmingham, AL	Projected sales price analysis (a) (d)	12,899	—
Redlands Promenade	Redlands, CA	Projected sales price analysis (a) (c)	—	6,667
Village at Redlands	Redlands, CA	Projected sales price analysis (a) (b)	—	5,537
Nouvelle at Natick	Natick, MA	Discounted cash flow analysis (c)	4,135	55,923
Various pre-development costs		(b)	68	3,254
			<u>17,102</u>	<u>576,618</u>
Total provisions for impairment			<u>\$503,356</u>	<u>\$680,349</u>
Real Estate Affiliates (REA):				
The Shops at Circle T Ranch	Dallas, TX	Projected sales price analysis (d)	\$ —	\$ 17,062
Circle T Power Center	Dallas, TX	Projected sales price analysis (d)	—	21,020
Total provisions for impairment on property held by REA			<u>\$ —</u>	<u>\$ 38,082</u>
The Shops at Circle T Ranch	Dallas, TX		\$ —	\$ 8,531
Circle T Power Center	Dallas, TX		—	10,510
Total provisions for impairment on property held by REA at share			<u>\$ —</u>	<u>\$ 19,041</u>
Impairment of Circle T investment (e)			<u>\$ —</u>	<u>\$ 10,600</u>

(a) Projected sales price analysis incorporates available market information and other management assumptions.

(b) Related to the write down of various pre-development costs that were determined to be non-recoverable due to the related projects being terminated.

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- (c) These impairments were primarily driven by the carrying value of the assets, including costs expected to be incurred, not being recoverable by the projected sales price of such assets.
- (d) These impairments were primarily driven by management's changes in current plans with respect to the property and measured based on the value of the underlying land, which is based on comparable property market analysis or a projected sales price analysis that incorporates available market information and other management assumptions as these properties are either no longer operational or operating with no or nominal income.
- (e) Reflected in our equity in earnings (loss) of Real Estate Affiliates.

NOTE 5 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, 2011			
Tenant leases:			
In-place value	\$ 23,586	\$ (11,721)	\$ 11,865
Above-market	2,952	(1,938)	1,014
Below-market	(347)	28	(319)
Ground leases:			
Above-market	(3,545)	797	(2,748)
Below-market	23,096	(2,416)	20,680
As of December 31, 2010			
Tenant leases:			
In-place value	\$ 11,824	\$ (10,221)	\$ 1,603
Above-market	1,820	(1,701)	119
Below-market	(77)	77	—
Ground leases:			
Above-market	(3,545)	638	(2,907)
Below-market	23,096	(2,078)	21,018

The increase in tenant lease assets as of December 31, 2011 compared to December 31, 2010 relates to The Woodlands acquisition and consolidation. We acquired commercial properties with leases in place and a portion of the fair market values of the properties was assigned to the leases.

The balances of the in-place value of tenant leases are included in Prepaid expenses and other assets in our Consolidated Balance Sheets. Acquired in-place at-market tenant leases 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 13. Above and below-market lease values are amortized over the remaining non-cancelable terms of the respective leases.

Amortization/accretion of these intangible assets and liabilities decreased our income by \$2.0 million in 2011, \$0.8 million in 2010 and \$0.3 million in 2009.

Future amortization is estimated to decrease income by \$2.2 million in 2012, \$2.1 million in 2013, \$1.8 million in 2014, \$1.5 million in 2015, \$1.1 million in 2015 and \$21.0 million thereafter.

THE HOWARD HUGHES CORPORATION

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

NOTE 6 REAL ESTATE AFFILIATES

In the ordinary course of business, we enter into partnerships or joint ventures primarily for the development and operations of real estate assets. 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 proportionate to the ownership interest. We account for these partnerships and joint ventures in accordance with ASC 810.

In accordance with ASC 810, as amended, 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, as amended.

We account for investments in joint ventures deemed to be variable interest entities for which we are not considered to be the primary beneficiary 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. 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.

The aggregate carrying value of the unconsolidated VIEs was \$3.2 million as of December 31, 2011 and was classified as investments in real estate affiliates in the Consolidated Balance Sheet. We did not participate in any VIEs in 2010. Because these joint ventures are in the pre-development stage there were no earnings for the year ended December 31, 2011. 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 on behalf of these VIEs.

Below is a discussion of our VIEs and the related accounting considerations.

Columbia Parcel D Joint Venture

On October 27, 2011, we entered into a joint venture with a local developer to construct a Class A apartment building with ground floor retail space in downtown Columbia, MD. As we and our partner each own 50% of the venture, and unanimous consent of the partners is required for all major decisions, we account for our investment in this venture using the equity method.

Ala Moana Condominium Development Joint Venture

On October 11, 2011, we entered into a joint venture with two local developers and formed HHMK Development, LLC to explore the development of a luxury condominium tower at the Ala Moana Center, Honolulu, HI. As we and our partner each own 50% of the venture, and unanimous consent of the partners is required for all major decisions, we account for our investment in the venture using the equity method.

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Bridges at Mint Hill Joint Venture

On September 8, 2011, we entered into a joint venture with the owner of land adjacent to our property to jointly develop a shopping center near Charlotte, NC. Our initial ownership in the venture is 79.0%, and our ownership percentage could increase to 90.5% if we are required to make a \$4.5 million cash contribution related to the mortgage secured by our partner. Our partner has consent rights on all major decisions regarding the venture so long as its interest is at least 21.0%.

Other

Our interest in Westlake Retail Associates, Ltd (“Circle T Ranch”) and 170 Retail Associates (“Circle T Power Center”), and together with Circle T Ranch, (“Circle T”), located in Dallas/Fort Worth, Texas is held through joint venture entities in which we own non-controlling interest and are unconsolidated and accounted for on the equity method. Waterway Ave Partners, L.L.C. (“Millennium Waterway Apartments”), FV-93 Limited and Timbermill-94 Limited (“Forest View and Timbermill Apartments”), Woodlands Sarofim #1 Ltd. (“Woodlands Sarofim”) industrial buildings and Stewart Title of Montgomery County, Inc. (“Stewart Title”), all located in The Woodlands and collectively referred to as “The Woodlands Equity Investments”, are reflected in our financial statements as Real Estate Affiliates and are accounted for on the equity method.

As of July 1, 2011, The Woodlands is consolidated and no longer a Real Estate Affiliate and The Woodlands equity method investments are considered Real Estate Affiliates (refer to Note 1).

	Economic Ownership December 31,		Carrying Value December 31,		Share of Earnings December 31,		
	2011 (in percentages)	2010 (in percentages)	2011 (in thousands)	2010 (in thousands)	2011	2010	2009
The Woodlands		52.5%	\$ —	\$ 131,090	\$3,731	\$9,417	\$ 149
Circle T	50.00%	50.0%	9,004	9,004	(1)	(4)	(29,645)
Millennium Waterway Apartments	83.55%		21,998	—	682	—	—
Woodlands Sarofim #1	20.00%		2,456	—	64	—	—
Stewart Title (title company)	50.00%		3,643	—	204	—	—
Forest View/ Timbermill Apartments	50.00%		11,709	—	5	—	—
Bridges at Mint Hill, LLC	79.00%		180	—	—	—	—
Parcel D Development, LLC	50.00%		2,990	—	—	—	—
HHMK Development, LLC	50.00%		—	—	—	—	—
			51,980	140,094	4,685	9,413	(29,496)
Cost basis investments (a)			12,978	9,449	3,893	—	1,287
Investment in Real Estate Affiliates			<u>\$64,958</u>	<u>\$ 149,543</u>	<u>\$8,578</u>	<u>\$9,413</u>	<u>\$ (28,209)</u>

(a) Share of Earnings represents dividends received from Summerlin Hospital Medical Center.

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NOTE 7 MORTGAGES, NOTES AND LOANS PAYABLE

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

Property	Maturity	Interest Rate	Maximum Facility Amount	Carrying Value	
				December 31, 2011	2010
(In thousands)					
110 N. Wacker (a)	October 2019	5.21%		\$ 29,000	\$ 28,276
Bridgeland					
Note #1	May 2026	6.50%		15,138	15,757
Note #2	December 2017	6.50%		3,180	3,600
Note #3	June 2033	6.50%		2,053	2,086
Note #4	December 2021	6.50%		233	311
Bridgeland Acquisition				—	6,870
Bridgeland Total				20,604	28,624
Special Improvement District					
Summerlin South - S108	December 2016	5.95%		1,302	1,519
Summerlin South - S124	December 2019	5.95%		378	414
Summerlin South - S128	December 2020	7.30%		862	934
Summerlin South - S128C	December 2030	6.05%		5,956	6,164
Summerlin South - S132	December 2020	7.88%		5,378	5,366
Summerlin South - S151	June 2025	6.00%		12,293	15,699
Summerlin West - S808	April 2021	7.75%		682	1,580
Summerlin West - S809	April 2023	6.65%		1,000	2,253
Summerlin West - S810	April 2031	7.13%		22,770	23,316
The Shops at Summerlin Centre - S128	December 2030	6.05%		3,829	4,066
The Shops at Summerlin Centre - S108	December 2016	5.95%		713	793
SID Payable to Nevada Cancer Institute	December 2019	5.95%		50	59
Total Special Improvement District bonds				55,213	62,163
The Woodlands (b)					
Master credit facility (c)	March 2015	5.00%	\$270,000	183,000	—
Resort and Conference Center (d)	October 2012	5.50%		36,100	—
2201 Lake Woodlands Drive	November 2016	5.25%		4,803	—
Weiner Tract	January 2013	6.25%		1,479	—
Land in Montgomery Co.	December 2012	6.00%		649	—
Land in Harris Co.	January 2013	6.00%		381	—
Capital lease obligation	-	—		147	—
CVS	upon sale	3.25%		101	—
4 Waterway	December 2023	4.88%		41,000	—
9303 New Trails	December 2023	4.88%		14,000	—
The Woodlands Total				281,660	—
Ward Centers					
Victoria Ward				—	394
Ward Gateway Center				—	80,284
Ward Warehouse				—	65,518
Ward Entertainment Center				—	29,370
VWL-Ward Centers				—	24,031
Victoria Ward (e)	September 2016	3.45%	\$250,000	220,000	—
Ward Centers Total				220,000	199,597
				<u>\$606,477</u>	<u>\$318,660</u>

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- (a) Loan has a stated interest rate of one-month LIBOR + 2.25%. The \$29.0 million outstanding principal balance is swapped to a 5.21% fixed rate through maturity.
- (b) The Woodlands was a non-consolidated equity investment as of December 31, 2010. Refer to Note 3- Acquisition.
- (c) Loan bears interest at one-month LIBOR + 4.00% and has a 1.00% LIBOR floor.
- (d) Loan bears interest at one-month LIBOR + 4.00% and has a 1.00% LIBOR floor. The rate increased by 0.5% on September 23, 2011 and increases by 0.5% every six months thereafter until maturity.
- (e) Loan has a stated interest rate of one-month LIBOR + 2.50%. \$143.0 million of the outstanding principal balance is swapped to a 3.81% fixed rate through maturity.

The weighted average interest rate on our mortgages, notes and loans payable, inclusive of interest rate hedges but excluding the acquisition note and capital lease obligation, was 4.65% and 5.14% as of December 31, 2011 and December 31, 2010, respectively. The weighted average interest rate on our mortgages, notes and loans payable excluding interest rate hedges was 4.68% and 5.14% as of December 31, 2011 and 2010, respectively.

Mortgages, notes and loans payable are summarized as follows:

	December 31,	
	2011	2010
(In thousands)		
Fixed-rate debt:		
Collateralized mortgages, notes and loans payable	\$ 83,164	\$ 191,037
Special Improvement District bonds	55,213	62,105
Variable-rate debt:		
Collateralized mortgages, notes and loans payable	468,100	65,518
Total mortgages, notes and loans payable	<u>\$ 606,477</u>	<u>\$ 318,660</u>

The following table summarizes the contractual obligations relating to our long-term debt as of December 31, 2011:

	Long-term debt principal payments (In thousands)
2012	\$ 52,166
2013	31,896
2014	35,553
2015	126,670
2016	232,639
Subsequent/Other	127,553
Total	<u>\$ 606,477</u>

Collateralized Mortgages, Notes and Loans Payable

As of December 31, 2011, we had \$606.5 million of collateralized mortgages, notes and loans payable. Approximately \$281.7 million of the debt included in the table above is related to The Woodlands, which was consolidated on July 1, 2011. All of the debt is non-recourse and is secured by the individual properties as listed in the table above, except for The Woodlands Master Credit Facility and Resort and Conference Center Loan which is recourse to the partnerships that directly own The Woodlands operations, and a \$7.0 million corporate recourse guarantee associated with the 110 N. Wacker mortgage, which is more fully discussed below. The

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Bridgeland MPC loan is secured by approximately 7,182 acres of land within the Bridgeland MPC and a security interest in its Municipal Utility District receivables. In addition, 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 2012. 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.

The Woodlands Master Credit Facility is a \$270.0 million facility consisting of a \$170.0 million term loan and a \$100.0 million revolving credit line (together, the "TWL Facility"). As of December 31, 2011, the TWL Facility had an outstanding balance of \$183.0 million. The TWL Facility bears interest at one-month LIBOR plus 4.0% with a 1.0% LIBOR floor, has a March 29, 2014 initial maturity date and a one-year extension at borrower's option. The TWL Facility also contains certain restrictions or covenants that, among other things, require the maintenance of specified financial ratios, restrict the incurrence of additional indebtedness at The Woodlands, and limit distributions from The Woodlands to us. Until The Woodlands leverage, as defined by the credit agreement, is less than a 40.0% loan to value ratio, we must amortize the debt on a dollar for dollar basis for any distributions that we make from The Woodlands. As of December 31, 2011, leverage was approximately 45.5%. There was \$34.2 million of undrawn and available borrowing capacity under the TWL Facility based on the collateral underlying the facility and covenants as of December 31, 2011. The TWL Facility also requires mandatory principal amortization payments during its initial term and during the extension period, if exercised. Repayments of \$10.0 million, \$25.0 million and \$30.0 million are required on March 29 of 2012, 2013 and, if extended, 2014, respectively. Furthermore, \$10.0 million is due on each of June 29, September 29 and December 29, 2014 during the extension period.

The Woodlands Resort and Conference Center loan has a \$36.1 million outstanding balance as of December 31, 2011, matures on October 30, 2012 and may be extended for one year at our option. The loan bears interest at one-month LIBOR plus 4.5% as of December 31, 2011 and has a 1.0% LIBOR floor. The interest rate increased by 0.5% on September 23, 2011 and increases by 0.5% every six months thereafter until maturity. The loan is secured by a 440 rooms and 40 acre conference center and resort located within The Woodlands, and requires the maintenance of specified financial ratios.

On December 5, 2011, we secured a \$55.0 million loan for 4 Waterway Square and 9303 New Trails. Proceeds from the loan were partially used to refinance a \$13.1 million mortgage secured by 9303 New Trails. The excess proceeds were used to partially repay the credit facility and to increase unrestricted cash. The loan matures in December 2023 and has a fixed interest rate of 4.88%.

On September 30, 2011, we closed on a \$250.0 million non-recourse first mortgage financing secured by the Ward Centers in Honolulu, Hawaii, that bears interest at LIBOR plus 2.50%. The loan matures on September 29, 2016, and \$143.0 million of the principal balance was swapped to a 3.81% fixed rate for the term of the loan. The initial loan proceeds of \$212.5 million were used to repay approximately \$208.7 million of mortgage debt and to fund closing costs. 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 in order to draw additional loan proceeds under the facility. The loan also permits partial repayment during its term in connection with property releases for development. The repayment of three mortgages previously secured by Ward Centers resulted in an \$11.3 million pre-tax loss on early repayment of debt. The mortgages had been recorded at discounts to their outstanding principal balances because they were recorded at their fair values as part of the reorganization transactions in 2010. The loan had a \$220.0 million outstanding balance as of December 31, 2011.

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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, Illinois and bearing interest at LIBOR plus 2.25%. At closing, the interest rate on the loan was swapped to a 5.21% fixed rate for the term of the loan. The loan matures on October 31, 2019 and its term is coterminous with the expiration of the first term of the existing tenant's lease (Note 11). The loan has an interest-only period through April 2015 and, thereafter, amortizes ratably to \$12.0 million through maturity. The proceeds from the financing were used to repay the existing \$28.2 million mortgage and to pay closing costs and other expenses. We provided a \$7.0 million repayment guarantee for the loan, which is reduced on a dollar for dollar basis during the amortization period.

As of December 31, 2011, \$1.1 billion of land, buildings and equipment and developments in progress (before accumulated depreciation) have been pledged as collateral for our mortgages, notes and loans payable of which \$7.0 million is recourse.

As of December 31, 2011, we were in compliance with all of the financial covenants related to our debt agreements.

Special Improvement Districts Bonds

The Summerlin master planned community uses Special Improvement District bonds to finance certain common infrastructure. These bonds are issued by the municipalities and, although unrated, are secured by the assessments on the land. They are tax exempt for federal income tax purposes. The majority of proceeds from each bond issued is held in a construction escrow and dispersed to us as infrastructure projects are completed, inspected by the municipalities and approved for reimbursement and, accordingly, the Special Improvement District bonds have been classified as a receivable. The Summerlin master planned community pays the debt service on the bonds semi-annually, but receives reimbursement of all principal paid from most of the purchasers of its land; generally, resulting in no gain or loss relating to the Special Improvement District bonds. In addition, as Summerlin sells land, the purchasers assume a proportionate share of the bond obligation.

Letters of Credit and Surety Bonds

We had outstanding letters of credit and surety bonds of \$41.6 million as of December 31, 2011 and \$38.7 million as of December 31, 2010. These letters of credit and bonds were issued primarily in connection with insurance requirements, special real estate assessments and construction obligations.

NOTE 8 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We are primarily exposed to interest rate risks related to our variable interest debt, and we seek to manage this risk by utilizing interest rate swap and cap instruments to minimize this exposure.

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 and predictability, we primarily use interest rate swaps and caps as part of our 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 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

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in the period that the hedged forecasted transaction affects earnings. During 2011, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the years ended December 31, 2011, the amount of ineffectiveness was immaterial. We did not utilize any derivative instruments for hedging purposes in 2010.

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 as an increase to interest expense.

As of December 31, 2011, we had gross notional amounts of \$172.0 million of interest rate swaps and a \$100.0 million interest rate cap that were designated as cash flow hedges of interest risk. The fair value of the interest rate cap derivative was immaterial.

The table below presents the fair value of our derivative financial instruments as well as the classification on the Balance Sheet as of December 31, 2011 and 2010:

	<u>Balance Sheet Location</u>	<u>As of December 31,</u>	
		<u>2011</u>	<u>2010</u>
		<u>Fair Value</u>	<u>Fair Value</u>
		(In thousands)	
Interest Rate Swaps	Accounts payable and accrued expenses	\$ (4,367)	\$ —
Total derivatives designated as hedging instruments		<u>\$ (4,367)</u>	<u>\$ —</u>

The table below present the effect of our derivative financial instruments on the Statement of Income (Loss) for the years ended December 31, 2011 and 2010:

	<u>Year Ended December 31,</u>		<u>Location of Loss Reclassified from Accumulated OCI into Earnings</u>	<u>Year Ended December 31,</u>	
	<u>2011</u>	<u>2010</u>		<u>2011</u>	<u>2010</u>
	<u>Amount of (Loss) Recognized in OCI</u>	<u>Amount of Gain (Loss) Recognized in OCI</u>		<u>Amount of (Loss) Reclassified from Accumulated OCI into Earnings</u>	<u>Amount of Gain or (Loss) Reclassified from Accumulated OCI into Earnings</u>
	(In thousands)			(In thousands)	
Cash Flow Hedges					
Interest Rate Swaps	\$ (4,047)	\$ —	Interest Expense	\$ (696)	\$ —
	<u>\$ (4,047)</u>	<u>\$ —</u>		<u>\$ (696)</u>	<u>\$ —</u>

NOTE 9 INCOME TAXES

We are taxed as a C corporation after November 9, 2010. One of our consolidated entities, Victoria Ward, Limited (“Ward”, substantially all of which is owned by us) elected to be taxed as a REIT under sections 856-860 of the Internal Revenue Code of 1986, as amended (the “Code”), commencing with the taxable year beginning January 1, 2002. To qualify as a REIT, Ward must meet a number of organizational and operational requirements, including requirements to distribute at least 90% of its ordinary taxable income and to distribute to stockholders or pay tax on 100% of capital gains and to meet certain asset and income tests. Ward has satisfied such REIT distribution requirements for 2011 and 2010, and presently we intend to continue to operate Ward as a REIT. As a REIT, Ward is ordinarily not subject to income taxes; however, Ward is required to make annual distributions to its shareholders, and the shareholders are taxed on these distributions.

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As of December 31, 2011, the bases of Ward included in our Consolidated Financial Statements exceeds the tax bases in Ward by \$173.3 million.

GGP received a private letter ruling from the Internal Revenue Service (the "IRS") with respect to the tax effect of the transfer of assets from our predecessors to HHC and to the effect that the distribution of HHC stock to GGP's shareholders in the separation would qualify as tax-free to GGP and its subsidiaries for U.S. federal income tax purposes. A private letter ruling from the IRS generally is binding on the IRS. The IRS did not rule that the distribution satisfies every requirement for a tax-free spin-off, and the parties have relied, and will rely, solely on the advice of counsel for comfort that such additional requirements are satisfied.

The provision for (benefit from) income taxes for the years ended December 31, 2011, 2010 and 2009 was as follows:

	2011	2010	2009
	(In thousands)		
Current	\$ 936	\$ 2,658	\$ (849)
Deferred	(19,261)	(636,117)	(23,120)
Total	<u>\$(18,325)</u>	<u>\$(633,459)</u>	<u>\$(23,969)</u>

The 2010 income tax provision includes significant tax amounts recognized immediately prior to the Separation related to assets previously held in REIT entities for which no income tax provision was recorded. Upon transfer of the assets to a taxable entity a net tax benefit was recorded to reflect the excess of tax basis over the book basis of transferred assets. In addition, the 2010 income tax provision also reflects deferred tax benefits recognized after the Separation due to impairment losses.

Income tax expense is computed by applying the Federal corporate tax rate for the years ended December 31, 2011, 2010 and 2009 and is reconciled to the provision for income taxes as follows:

	2011	2010	2009
	(In thousands)		
Tax at statutory rate on earnings from continuing operations before income taxes	\$ 45,099	\$(245,942)	\$(254,653)
Increase (decrease) in valuation allowance, net	(13,110)	61,649	7,267
State income taxes, net of Federal income tax benefit	2,243	(7,969)	(2,728)
Tax at statutory rate on REIT entity earnings not subject to Federal income taxes	1,204	2,193	220,836
Tax expense (benefit) from change in rates, provision adjustments and other permanent differences	(20,829)	(8,811)	257
Non-deductible warrant liability (gain) loss	(35,859)	49,315	—
Non-taxable interest income	(2,990)	—	—
Non-deductible restructuring costs	—	17,352	—
Tax benefit from tax related restructuring	—	(509,970)	—
Expiration of capital loss carryforwards	—	—	3,726
Uncertain tax position expense, excluding interest	364	1,667	—
Uncertain tax position interest, net of Federal income tax benefit	5,553	7,057	1,326
Income tax benefit	<u>\$(18,325)</u>	<u>\$(633,459)</u>	<u>\$(23,969)</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 2032. Some of the net operating loss carry-forward amounts are subject to annual limitations under Section 382 of the Code. This annual limitation under Section 382 is subject to modification if a taxpayer recognizes what are called "built-in gain items." It is possible that we could, in the future, experience a change in control pursuant to Section 382 that could put additional limits on the benefit of deferred tax assets.

As of December 31, 2011, the amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes are as follows:

	<u>Amount</u> (In thousands)	<u>Expiration</u> <u>Date</u>
Net operating loss carryforwards - Federal	\$ 84,687	2024-2032
Net operating loss carryforwards - State	225,036	2011-2032
Tax credit carryforwards - Federal AMT	1,724	n/a

As of December 31, 2011 and 2010, we had gross deferred tax assets totaling \$384.5 million and \$367.9 million, and gross deferred tax liabilities of \$403.2 million and \$376.2 million, respectively. We have established a valuation allowance in the amount of \$57.3 million and \$70.4 million as of December 31, 2011 and 2010, 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 that we believe have only a remote possibility of realization have not been recorded.

The tax effects of temporary differences and carryforwards included in the net deferred tax liabilities at December 31, 2011 and 2010 are summarized as follows:

	<u>2011</u>	<u>2010</u>
	(In thousands)	
Property Associated with Master Planned Communities, primarily differences in the tax basis of land assets and treatment of interest and other costs	\$(189,147)	\$(171,351)
Operating property, primarily differences in basis of assets and liabilities	226,097	210,587
Deferred income	(214,065)	(204,828)
Interest deduction carryforwards	110,649	122,330
Operating loss and tax credit carryforwards	47,776	34,968
Valuation allowance	(57,276)	(70,386)
Net deferred tax liabilities	<u>\$ (75,966)</u>	<u>\$ (78,680)</u>

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.

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

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provisions for years subject to examination. Generally, we are currently open to audit under the statute of limitations by the Internal Revenue Service for the years ending December 31, 2007 through 2011 and are open to audit by state taxing authorities for years ending December 31, 2007 through 2011.

Two of our subsidiaries were subject to IRS audit for the years ended December 31, 2008 and 2007. On February 9, 2011, the two subsidiaries received statutory notices of deficiency (“90-day letters”) seeking \$144.1 million in additional tax. It is our position that the tax law in question has been properly applied and reflected in the 2007 and 2008 returns for these two taxable REIT subsidiaries. We previously provided for the additional taxes sought by the IRS, through our uncertain tax position liability or deferred tax liabilities. Pursuant to the Investment Agreements, GGP has indemnified us from and against 93.75% of any and all losses, claims, damages, liabilities and reasonable expenses to which we become subject, 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 in an amount up to \$303.8 million. Under certain circumstances, GGP has also agreed to be responsible for interest or penalties attributable to such MPC Taxes in excess of the \$303.8 million. We have recorded interest income receivable on the tax indemnity receivable in the amounts of \$28.0 million and \$19.7 million for the years ended December 31, 2011 and 2010, respectively. In addition, we are generally responsible for any liabilities, taxes or other charges that are imposed on GGP as a result of the Separation failing to qualify for nonrecognition treatment for U.S. federal (and state and local) income tax purposes, if we are the party responsible for such failure.

On May 6, 2011, GGP filed Tax Court petitions on behalf of the two former taxable 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. 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 litigation is currently in the discovery phase.

We adopted 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.

We recognize and report interest and penalties, if applicable, within our provision for income tax expense from January 1, 2007 forward. We recognized potential interest expense (benefit) related to the unrecognized tax benefits of \$8.5 million, \$10.9 million and \$2.0 million for the years ended December 31, 2011, 2010 and 2009, respectively. At December 31, 2011, we had total unrecognized tax benefits of \$101.4 million, excluding interest of \$28.5 million, of which none would impact our effective tax rate. At December 31, 2010 and 2009, we had total unrecognized tax benefits of \$120.8 million and \$56.5 million, respectively, excluding interest, of which \$0.4 million would impact our effective tax rate.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
		(In thousands)	
Unrecognized tax benefits, opening balance	\$ 120,816	\$ 56,508	\$ 69,665
Gross increases - tax positions in prior period	—	69,168	41
Gross decreases - tax positions in prior periods	(19,408)	(4,860)	(13,198)
Unrecognized tax benefits, ending balance	<u>\$ 101,408</u>	<u>\$ 120,816</u>	<u>\$ 56,508</u>

THE HOWARD HUGHES CORPORATION**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**

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, 2011. A material change in unrecognized tax benefits could have a material effect on our statements of income (loss) and comprehensive income (loss). As of December 31, 2011, there is approximately \$101.4 million of unrecognized tax benefits, excluding accrued interest, which due to the reasons above, could significantly increase or decrease during the next twelve months.

Earnings and profits, which determine the taxability of dividends to stockholders, differ from net income reported for financial reporting purposes due to differences for Federal income tax reporting purposes in, among other things, estimated useful lives, depreciable basis of properties and permanent and temporary differences on the inclusion or deductibility of elements of income and deductibility of expense for such purposes.

NOTE 10 RENTALS UNDER OPERATING LEASES

We receive rental income from the leasing of retail 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 retailers, and our credit risk therefore is concentrated in the retail industry. The minimum future rentals based on operating leases of our consolidated properties held as of December 31, 2011 are as follows:

<u>Year</u>	<u>Total Minimum Rent</u> <u>(In thousands)</u>
2012	\$ 60,108
2013	54,587
2014	45,483
2015	40,086
2016	30,740
Subsequent	98,212

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 and below-market tenant leases.

NOTE 11 TRANSACTIONS WITH GGP AND OTHER RELATED PARTY DISCLOSURES

The accompanying combined financial statements prior to the separation present the operations of the HHC Businesses as carved-out from the consolidated financial statements of GGP. Transactions between the HHC Businesses have been eliminated in the combined presentation. An allocation of certain centralized GGP costs incurred for activities such as employee benefit programs, property management and asset management functions, centralized treasury, payroll and administrative functions have been made to the property operating costs of HHC Businesses.

Prior to the Effective Date, we entered into a transition services agreement (the "TSA") whereby GGP agreed to provide to us, on a transitional basis, certain specified services on an interim basis for various terms not exceeding 24 months following the Separation, subject to our right of earlier termination. Concurrently, we entered into a Reverse Transition Services Agreement ("RTSA") whereby we agreed to provide GGP with certain income tax and accounting support services, also subject to earlier termination prior to its scheduled

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expiration of November 9, 2013. We incurred \$0.4 million and \$0.3 million of expenses related to the TSA in each of 2011 and 2010, respectively. For 2011 and 2010, we received negligible reimbursements under the RTSA.

In addition, GGP is a tenant at our 110 N. Wacker office property. Under the 110 N. Wacker lease agreement, we recognized approximately \$6.1 million, \$6.1 million and \$5.0 million of rental income from GGP and its subsidiaries for the years ended December 31, 2011, 2010 and 2009, respectively.

In January 2011, we entered into a Transition Agreement with TPMC Realty Services Group, Inc. (“TPMC”). David Weinreb, a director and our CEO, is the sole equity owner of TPMC and the chief executive officer of TPMC and Grant Herlitz, our president, is the president of TPMC. TPMC was reimbursed a total of \$0.9 million in August 2011 for expenses related to Mr. Weinreb’s employment agreement with us. Such reimbursements are reflected in general and administrative expense for the year ended December 31, 2011.

We also entered into a lease agreement for 3,253 square feet of office space in Los Angeles, California with an affiliate of TPMC, which commenced on May 1, 2011. Annual rental expenses relating to the lease is approximately \$111,965 per year and the lease expires in July 2016.

On January 31, 2011, we terminated a Management Services Agreement with Brookfield Advisors LP. Pursuant to the agreement which was executed on August 6, 2010. Brookfield Advisors LP provided us services that included strategic advice, project development oversight, financials planning, financing consultation, internal controls expertise and community and investor relations. This agreement provided for payments to Brookfield Advisors LP of \$0.5 million per month.

NOTE 12 STOCK BASED PLANS

Incentive Stock Plans

On November 9, 2010, 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 are 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.

Prior to the Chapter 11 cases, our predecessors granted qualified and non-qualified stock options and restricted stock to certain GGP officers and key employees whose compensation costs related specifically to our assets. Accordingly, an allocation of stock-based compensation costs pertaining to such employees has been reflected in our financial statements for periods prior to the Effective Date.

All stock plans are administered by the Compensation Committee of the Board of Directors (“Committee”). Option grant amounts are awarded by the Committee. Options normally extend for ten years and generally become exercisable after five years. Recorded compensation cost for share-based payment arrangements totaled \$3.0 million for 2011.

For 2010 and 2009, the GGP stock compensation expense for employees specifically attributed to the HHC Businesses, of approximately \$0.6 million and \$0.2 million, respectively, has been included in the accompanying financial statements for periods prior to the Effective Date.

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As of December 31, 2011, there were a maximum of 2,934,610 shares available for future grant under our various stock plans.

Stock Options

Pursuant to the Plan, each outstanding option to acquire shares of GGP stock ("Old GGP Options") was converted into (i) an option to acquire the same number of shares of common stock of reorganized GGP ("New GGP Options") and (ii) a separate option to acquire 0.0983 shares of our common stock for each existing option for one share of GGP common stock ("HHC Options"). The replacement options are fully vested as of the Effective Date and have the same terms and conditions as the outstanding GGP options.

The exercise price under the Old GGP Options was allocated to the New GGP Options and the HHC options based on the relative market values of the two underlying stocks. For purposes of such allocation, the volume-weighted price of shares of GGP after its emergence of bankruptcy and HHC during the last ten-day trading period (the "Trading Period") ending on or before the 60th day after the Effective Date was used. As the date of emergence was November 9, 2010, the Trading Period was December 27, 2010 through January 7, 2011. The volume-weighted price of one GGP common share upon emergence from bankruptcy was \$15.29 and one HHC common share was \$54.13 (that was subsequently adjusted by .0983 to be on a comparable basis), during the Trading Period and, therefore, the exercise prices for the Old GGP Options replaced were allocated in a ratio of approximately 74.15% to GGP and 25.85% to HHC. In addition, we have agreed with GGP that all exercises of GGP replacement options would be settled by, except those of the former top two executive officers of GGP whose options were exercised at their termination in December 2010, the employer of the pre-emergence GGP employee at the time of exercise. As of December 31, 2011, the number of shares of common stock issuable upon exercise of the HHC options is insignificant.

The following tables summarize stock option activity:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Stock options outstanding at January 1, 2010	\$ —	\$ —
Granted	—	—
Exercised	—	—
Forfeited	—	—
Expired	—	—
Stock options outstanding at December 31, 2010	<u>—</u>	<u>—</u>
Granted	751,840	57.81
Exercised	—	—
Forfeited	(39,200)	59.44
Expired	—	—
Stock options outstanding at December 31, 2011	<u>712,640</u>	<u>57.72</u>

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Exercise Price	Shares	Weighted Average Remaining Contractual Term (in years)
\$ 57.77	595,500	9.2
69.75	19,640	9.2
64.41	5,000	9.3
66.27	21,000	9.4
55.81	34,500	9.6
46.49	37,000	9.9
57.72	712,640	9.2

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

	2011
Weighted average grant date fair value	\$21.31
Weighted-average expected life of options (in years)	7.9
Weighted-average risk-free interest rate	2.9%
Weighted-average expected volatility	26%
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.

The balance of unamortized stock option expense as of December 31, 2011 was \$12.6 million, which is expected to be recognized over a weighted-average period of 4.2 years. Expense associated with stock options for the year ended December 31, 2011 which is included in general and administrative expense in the accompanying Consolidated Statement of Income (Loss), totaled \$2.3 million.

As of December 31, 2011, there were no options exercisable under the plan.

Restricted Stock

In 2010, we granted 8,247 shares of restricted stock to certain non-employee directors as part of an annual retainer for their services on the board of directors and the restrictions on these shares lapsed in June 2011. In 2011, we granted 12,553 shares of restricted stock to certain non-employee directors, as part of an annual retainer for their services on the board of directors. The restrictions on these shares lapsed on June 1, 2012.

Restricted stock awards issued under the plan provide that shares awarded may not be sold or otherwise transferred until restrictions have lapsed as established by the Committee. Generally, upon termination of employment or directorship, restricted stock units and restricted shares which have not vested are forfeited. For the year 2011, recognized compensation expense of \$0.7 million is included in general and administrative expense related to restricted stock awards. The fair value of restricted stock that vested during 2011 was \$0.5 million. The balance of unamortized restricted stock expense as of December 31, 2011 was \$2.2 million, which is expected to be recognized over a weighted-average period of 3.5 years.

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The following table summarizes restricted stock activity:

	Shares	Weighted Average Grant Date Fair Value
Restricted stock outstanding at January 1, 2010	—	\$ —
Granted	8,247	41.42
Vested	—	—
Cancelled	—	—
Restricted stock outstanding at December 31, 2010	<u>8,247</u>	<u>41.42</u>
Granted	42,553	\$ 65.18
Vested	(6,895)	41.42
Cancelled	(1,352)	41.42
Restricted stock outstanding at December 31, 2011	<u><u>42,553</u></u>	<u><u>\$ 65.18</u></u>

NOTE 13 OTHER ASSETS AND LIABILITIES

The following table summarizes the significant components of prepaid expenses and other assets.

	December 31,	
	2011	2010
	(In thousands)	
Special Improvement District receivable	\$ 40,580	\$ 46,250
Other receivables	4,181	5,352
Federal income tax receivable	5,393	—
Prepaid expenses	6,507	2,859
Below-market ground leases (Note 5)	20,680	21,018
Security and escrow deposits	17,266	6,814
Above-market tenant leases (Note 5)	1,014	119
Uncertain tax position asset	11,935	8,945
In-place leases (Note 5)	11,865	1,603
Intangibles	3,074	1,307
Other	4,661	5,814
	<u><u>\$ 127,156</u></u>	<u><u>\$ 100,081</u></u>

The following table summarizes the significant components of accounts payable and accrued expenses.

	December 31,	
	2011	2010
	(In thousands)	
Construction payable	\$ 8,923	\$ 15,531
Accounts payable and accrued expenses	45,078	29,745
Membership deposits	16,033	—
Above-market ground leases (Note 5)	2,748	2,907
Deferred gains/income	5,739	5,631
Accrued interest	2,747	1,633
Accrued real estate taxes	3,439	3,953
Tenant and other deposits	5,966	3,555
Insurance reserve	4,728	4,229
Accrued payroll and other employee liabilities	9,658	3,930
Interest rate swap	4,367	—
Other	15,978	7,722
	<u><u>\$ 125,404</u></u>	<u><u>\$ 78,836</u></u>

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NOTE 14 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 our 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 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 \$3.9 million, \$3.5 million and \$3.5 million for 2011, 2010 and 2009, respectively. The amortization of above and below-market ground leases and straight-line rents included in the contractual rent amount, was not significant.

On December 12, 2011, we entered into a Letter of Intent (“LOI”) with the New York City Economic Development Corporation (“EDC”) which will enable us to pursue redevelopment plans for the South Street Seaport. The EDC is the ground lessor and the LOI describes the business terms of future amendments to the ground lease, the first of which must be finalized by June 30, 2012. During the earlier of the construction period and 30 months, we will be entitled to a total \$1.5 million rent reduction. We also must provide a completion guarantee to New York City for the project. We agreed to pay approximately \$1.1 million of esplanade maintenance costs over a five-year period as consideration for entering into the LOI. This obligation will continue to exist regardless of whether the ground lease is amended.

In conjunction with GGP’s acquisition of TRC in November 2004, GGP assumed TRC’s obligations under a Contingent Stock Agreement, (the “CSA”). TRC entered into the CSA in 1996 when it acquired The Hughes Corporation (“Hughes”). This acquisition included various assets, including Summerlin (the “CSA Assets”), a development in our Master Planned Communities segment. The CSA provided that the beneficiaries receive a share of the cash flow and income from the development or sale of the CSA assets and a final payment representing their share of the valuation of the CSA Assets as of December 31, 2009. The Plan provided that the final payment and settlement of all other claims under the CSA was an obligation of GGP and was \$230.0 million (down from the \$245.0 million estimate at December 31, 2009), and such amount was distributed by GGP after the Effective Date. Accordingly, during September 2010, we reduced our carrying value of the CSA assets, and the related GGP equity, by \$15.0 million for this revised estimate.

See Note 9 for our obligations related to uncertain tax positions for disclosure of additional contingencies.

The following table summarizes the contractual obligations relating to our long-term commitments.

(In thousands)	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Subsequent / Other</u>	<u>Total</u>
Long-term debt-principal	\$ 52,166	\$ 31,896	\$ 35,553	\$ 126,670	\$ 232,639	\$ 127,553	\$ 606,477
Ground lease payments	5,197	5,187	5,205	5,241	4,965	179,235	205,030
Uncertainty in income taxes, including interest	—	—	—	—	—	129,939	129,939
Total	<u>\$ 57,363</u>	<u>\$ 37,083</u>	<u>\$ 40,758</u>	<u>\$ 131,911</u>	<u>\$ 237,604</u>	<u>\$ 436,727</u>	<u>\$ 941,446</u>

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NOTE 15 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 our current management's operating philosophies and methods. In addition, our current 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 which is consistent with how we manage the business. Further, all operations are within the United States and no customer or tenant comprises more than 10% of revenues. Our reportable segments are as follows:

- Master Planned Communities – 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. In prior years this segment included certain commercial properties and other ownership interests owned by The Woodlands. For the years ending December 31, 2011, 2010 and 2009 we have reclassified the operations of The Woodlands commercial properties and other ownership interests to the Operating Assets segment. Furthermore, for segment reporting, we disclosed The Woodlands historical financial information at 100% so that operating performance between periods is comparable.
- Operating Assets – includes commercial, mixed-use and retail properties currently generating revenues, many of which we believe there is an opportunity to redevelop or reposition the asset to increase operating performance.
- Strategic Developments – includes all properties held for development and redevelopment, including the current rental property operations (primarily retail and other interests in real estate at such locations), as well as our one residential condominium project located in Natick (Boston), Massachusetts.

As our segments are managed separately, different operating measures are utilized to assess operating results and allocate resources. The one common operating measure used to assess operating results for the business segments is Real Estate Property Earnings Before Taxes ("EBT") which represents the operating revenues of the properties less property operating expenses, as further described below. Management believes that EBT provides useful information about the operating performance of all of our assets, projects and property.

EBT as it relates to our business is defined as net income (loss) from continuing operations excluding general and administrative expenses, corporate interest income and depreciation expense, investment in real estate basis adjustment, benefit from income taxes, warrant liability gain (loss), reorganization items and the effects of the previously mentioned items within our equity in earnings (loss) from Real Estate Affiliates. We present 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) from continuing operations to calculate EBT is appropriate to provide additional information to investors because EBT excludes certain non-recurring and non-cash items, including reorganization items related to the bankruptcy, which we believe are not indicative of our core operating performance. EBT should not be considered as an alternative to GAAP net income (loss) attributable to common stockholders or GAAP net income (loss) from continuing operations, 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.

As more fully discussed in this report, on July 1, 2011, we acquired our partner's interest in The Woodlands Master planned community, we now own 100% of The Woodlands and consolidate its operations. As such, The Woodlands operating results for historical periods when this investment was a Real Estate Affiliate are now analyzed internally on a non-GAAP consolidation basis by management in order to provide management

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comparability between periods for analyzing operating results. Segment information presented herein has also been restated for all periods presented to reflect The Woodlands on a consolidation basis and provide comparability for all periods. Prior to July 1, 2011, we presented the operations of our equity method Real Estate Affiliates using the non-GAAP proportionate share method for segment reporting purposes. Under this method we presented our share of the revenues and expenses of these Real Estate Affiliates aggregated with the revenues and expenses of consolidated or combined properties. We previously reported the proportionate method because our 52.5% economic interest in The Woodlands represented a significant portion of our Master Planned Community segment. We now own 100% of The Woodlands and consolidate its operations. Now our segment operating results for the year ended December 31, 2011 includes results of The Woodlands from July 1, 2011 to December 31, 2011 under Consolidated Properties and results of The Woodlands from January 1, 2011 to June 30, 2011 and for the years ended December 31, 2010 and 2009 under Real Estate Affiliates on a consolidation basis. The remaining Real Estate Affiliates, including equity investments owned by the Woodlands, primarily represent entities that own single assets rather than a large business such as The Woodlands; therefore, we no longer use the proportionate share method for any Real Estate Affiliates. Rather, we will include the results of our Real Estate Affiliates other than The Woodlands using the equity or cost method, as appropriate.

The total cash expenditures for additions to long-lived assets for the Master Planned Communities and condominiums was \$90.1 million, \$57.1 million and \$61.2 million for the years ended December 31, 2011, 2010 and 2009, respectively. Similarly, total cash expenditures for long-lived assets for the Operating Assets and Strategic Developments segments were \$44.4 million, \$111.8 million and \$27.7 million for the years ended December 31, 2011 2010 and 2009, respectively.

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Segment operating results are as follows:

	Year Ended December 31, 2011		
	Consolidated Properties	Real Estate Affiliates	Segment Basis
	(In thousands)		
Master Planned Communities			
Land sales	\$ 113,502	\$ 47,880	\$161,382
Builder price participation	3,816	1,108	4,924
Minimum rents	659	14	673
Other land revenues	14,140	2,817	16,957
Other rental and property revenues	102	—	102
Total revenues	<u>132,219</u>	<u>51,819</u>	<u>184,038</u>
Cost of sales - land	70,108	23,932	94,040
Land sales operations	17,776	2,992	20,768
Land sales real estate and business taxes	7,713	1,906	9,619
Rental property real estate taxes	1	—	1
Rental property maintenance costs	412	329	741
Other property operating costs	3,308	2,068	5,376
Provisions for impairment	—	—	—
Depreciation and amortization	2	46	48
Interest income	(144)	(364)	(508)
Interest expense (*)	(10,908)	7,854	(3,054)
Total expenses	<u>88,268</u>	<u>38,763</u>	<u>127,031</u>
Venture partner share of The Woodlands EBT	—	(6,202)	(6,202)
MPC EBT	<u>43,951</u>	<u>6,854</u>	<u>50,805</u>
Operating Assets			
Minimum rents	69,602	2,803	72,405
Tenant recoveries	19,193	1,061	20,254
Resort and conference center revenues	15,744	19,106	34,850
Other rental and property revenues	14,072	6,992	21,064
Total revenues	<u>118,611</u>	<u>29,962</u>	<u>148,573</u>
Rental property real estate taxes	10,952	972	11,924
Rental property maintenance costs	6,315	443	6,758
Resort and conference center operations	13,108	13,904	27,012
Other property operating costs	45,576	9,172	54,748
Depreciation and amortization	16,341	3,968	20,309
Interest income	(125)	(2)	(127)
Interest expense	10,586	391	10,977
Early extinguishment of debt	11,305	—	11,305
Equity in Earnings from Real Estate Affiliates	—	(3,926)	(3,926)
Total expenses	<u>114,058</u>	<u>24,922</u>	<u>138,980</u>
Venture partner share of The Woodlands EBT	—	(91)	(91)
Operating Assets EBT	<u>4,553</u>	<u>4,949</u>	<u>9,502</u>
Strategic Developments			
Minimum rents	917	—	917
Tenant recoveries	130	—	130
Condominium unit sales	22,067	—	22,067
Other rental and property revenues	1,747	—	1,747
Total revenues	<u>24,861</u>	<u>—</u>	<u>24,861</u>
Condominium unit cost of sales	14,465	—	14,465
Real estate taxes	604	—	604
Rental property maintenance costs	671	—	671
Other property operating costs	5,253	—	5,253
Depreciation and amortization	234	—	234
Interest expense	323	—	323
Total expenses	<u>21,550</u>	<u>—</u>	<u>21,550</u>
Strategic Developments EBT	<u>3,311</u>	<u>—</u>	<u>3,311</u>
EBT	<u>\$ 51,815</u>	<u>\$ 11,803</u>	<u>\$ 63,618</u>

(*) Negative interest expense amounts relate to interest capitalized on debt assigned to our Operating Assets Segment.

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	Year Ended December 31, 2010		
	Consolidated Properties	Real Estate Affiliates	Segment Basis
	(In thousands)		
Master Planned Communities			
Land sales	\$ 38,058	\$ 90,986	\$ 129,044
Builder price participation	4,124	2,777	6,901
Minimum rents	—	27	27
Other land revenues	5,384	8,827	14,211
Other rental and property revenues	948	—	948
Total revenues	<u>48,514</u>	<u>102,617</u>	<u>151,131</u>
Cost of sales - land	23,388	49,745	73,133
CSA participation expense	—	—	—
Land sales operations	17,153	5,801	22,954
Land sales real estate and business taxes	11,887	4,882	16,769
Rental property real estate taxes	812	—	812
Rental property maintenance costs	—	623	623
Other property operating costs	(1)	4,035	4,034
Provisions for impairment	405,331	—	405,331
Depreciation and amortization	17	111	128
Interest income	—	(824)	(824)
Interest expense (*)	(14,127)	7,857	(6,270)
Total expenses	<u>444,460</u>	<u>72,230</u>	<u>516,690</u>
Venture partner share of The Woodlands EBT	—	(14,434)	(14,434)
MPC EBT	<u>(395,946)</u>	<u>15,953</u>	<u>(379,993)</u>
Operating Assets			
Minimum rents	65,911	4,026	69,937
Tenant recoveries	18,220	1,484	19,704
Resort and conference center revenues	—	28,850	28,850
Other rental and property revenues	7,557	14,613	22,170
Total revenues	<u>91,688</u>	<u>48,973</u>	<u>140,661</u>
Rental property real estate taxes	9,963	2,185	12,148
Rental property maintenance costs	5,812	1,413	7,225
Resort and conference center operations	—	24,471	24,471
Other property operating costs	30,970	16,521	47,491
Provision for doubtful accounts	1,606	154	1,760
Provisions for impairment	80,923	—	80,923
Depreciation and amortization	16,313	7,148	23,461
Interest income	(170)	2	(168)
Interest expense	16,515	836	17,351
Equity in Earnings from Real Estate Affiliates	—	338	338
Total expenses	<u>161,932</u>	<u>53,068</u>	<u>215,000</u>
Venture partner share of The Woodlands EBT	—	1,945	1,945
Operating Assets EBT	<u>(70,244)</u>	<u>(2,150)</u>	<u>(72,394)</u>
Strategic Developments			
Minimum rents	1,015	—	1,015
Tenant recoveries	347	—	347
Condominium unit sales	1,139	—	1,139
Other rental and property revenues	16	—	16
Total revenues	<u>2,517</u>	<u>—</u>	<u>2,517</u>
Condominium unit cost of sales	1,000	—	1,000
Real estate taxes	3,756	—	3,756
Rental property maintenance costs	684	—	684
Other property operating costs	5,925	—	5,925
Provision for doubtful accounts	175	—	175
Provisions for impairment	17,101	—	17,101
Depreciation and amortization	212	—	212
Interest expense	34	—	34
Total expenses	<u>28,887</u>	<u>—</u>	<u>28,887</u>
Strategic Developments EBT	<u>(26,370)</u>	<u>—</u>	<u>(26,370)</u>
EBT	<u>\$ (492,560)</u>	<u>\$ 13,803</u>	<u>\$(478,757)</u>

(*) Negative interest expense amounts relate to interest capitalized on debt assigned to our Operating Assets Segment.

THE HOWARD HUGHES CORPORATION

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

	Year Ended December 31, 2009		
	Consolidated Properties	Real Estate Affiliates	Segment Basis
	(In thousands)		
Master Planned Communities			
Land sales	\$ 34,564	\$ 62,723	\$ 97,287
Builder price participation	5,687	3,289	8,976
Minimum rents	—	28	28
Other land revenues	5,747	8,920	14,667
Other rental and property revenues	825	—	825
Total revenues	<u>46,823</u>	<u>74,960</u>	<u>121,783</u>
Cost of sales - land	22,019	34,560	56,579
CSA participation expense	(5,344)	—	(5,344)
Land sales operations	15,643	4,504	20,147
Land sales real estate and business taxes	16,743	5,706	22,449
Rental property real estate taxes	811	—	811
Rental property maintenance costs	—	643	643
Other property operating costs	(1)	3,411	3,410
Provisions for impairment	52,766	—	52,766
Depreciation and amortization	33	113	146
Interest income	(9)	(1,072)	(1,081)
Interest expense (*)	(11,932)	8,491	(3,441)
Total expenses	<u>90,729</u>	<u>56,356</u>	<u>147,085</u>
Venture partner share of The Woodlands EBT	—	(8,837)	(8,837)
MPC EBT	<u>(43,906)</u>	<u>9,767</u>	<u>(34,139)</u>
Operating Assets			
Minimum rents	63,735	6,532	70,267
Tenant recoveries	18,741	1,054	19,795
Resort and conference center revenues	—	29,314	29,314
Other rental and property revenues	7,409	12,077	19,486
Total revenues	<u>89,885</u>	<u>48,977</u>	<u>138,862</u>
Rental property real estate taxes	10,001	1,266	11,267
Rental property maintenance costs	4,653	1,174	5,827
Resort and conference center operations	—	23,842	23,842
Other property operating costs	30,697	20,516	51,213
Provision for doubtful accounts	2,189	107	2,296
Provisions for impairment	50,964	—	50,964
Depreciation and amortization	17,687	8,795	26,482
Interest income	(1,680)	—	(1,680)
Interest expense	15,634	192	15,826
Equity in Earnings from Real Estate Affiliates	—	(2,172)	(2,172)
Total expenses	<u>130,145</u>	<u>53,720</u>	<u>183,865</u>
Venture partner share of The Woodlands EBT	—	2,864	2,864
Operating Assets EBT	<u>(40,260)</u>	<u>(1,879)</u>	<u>(42,139)</u>
Strategic Developments			
Minimum rents	1,902	—	1,902
Tenant recoveries	900	—	900
Other rental and property revenues	(3,162)	—	(3,162)
Total revenues	<u>(360)</u>	<u>—</u>	<u>(360)</u>
Condominium unit cost of sales	—	—	—
Real estate taxes	2,973	—	2,973
Rental property maintenance costs	722	—	722
Other property operating costs	4,355	—	4,355
Provision for doubtful accounts	350	—	350
Provisions for impairment	576,618	—	576,618
Depreciation and amortization	2,104	—	2,104
Interest expense	(2,725)	—	(2,725)
Equity in Earnings from Real Estate Affiliates	—	19,046	19,046
Total expenses	<u>584,397</u>	<u>19,046</u>	<u>603,443</u>
Strategic Developments EBT	<u>(584,757)</u>	<u>(19,046)</u>	<u>(603,803)</u>
EBT	<u>\$ (668,923)</u>	<u>\$ (11,158)</u>	<u>\$(680,081)</u>

(*) Negative interest expense amounts relate to interest capitalized on debt assigned to our Operating Assets Segment.

THE HOWARD HUGHES CORPORATION

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

The following reconciles EBT to GAAP-basis income (loss) from continuing operations:

Reconciliation of EBT to GAAP-basis income (loss) from continuing operations	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Real estate property EBT:			
Segment EBT	\$ 63,618	\$(478,757)	\$(680,081)
Real Estate Affiliates	(11,803)	(13,803)	11,158
	51,815	(492,560)	(668,923)
General and administrative	(35,182)	(21,538)	(23,023)
Interest income	9,607	199	—
Warrant liability gain (loss)	101,584	(140,900)	—
Benefit from income taxes	18,325	633,459	23,969
Equity in Earnings from Real Estate Affiliates	8,578	9,413	(28,209)
Investment in real estate affiliates basis adjustment	(6,053)	—	—
Reorganization items	—	(57,282)	(6,674)
Corporate depreciation	(204)	(21)	(17)
Net income (loss) from continuing operations	<u>\$148,470</u>	<u>\$ (69,230)</u>	<u>\$(702,877)</u>

The following reconciles segment revenues to GAAP-basis consolidated and combined revenues:

Reconciliation of Segment Basis Revenues to GAAP Revenues	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Master Planned Communities - Total Segment	\$184,038	\$ 151,131	\$ 121,783
Operating Assets - Total Segment	148,573	140,661	138,862
Strategic Developments - Total Segment	24,861	2,517	(360)
Total Segment revenues	357,472	294,309	260,285
Less: The Woodlands Partnerships revenues, at our ownership share	(81,781)	(151,590)	(123,937)
Total revenues - GAAP basis	<u>\$275,691</u>	<u>\$ 142,719</u>	<u>\$ 136,348</u>

The assets by segment and the reconciliation of total segment assets to the total assets in the combined financial statements at December 31, 2011, 2010 and 2009 are summarized as follows:

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Master Planned Communities	\$1,755,797	\$ 1,765,487	\$ 2,196,971
Operating Assets	871,549	812,646	879,736
Strategic Developments	189,807	206,037	248,183
Total segment assets	2,817,153	2,784,170	3,324,890
Corporate and other	577,996	730,741	47,529
Real Estate Affiliates	—	(492,204)	(467,192)
Total assets	<u>\$3,395,149</u>	<u>\$ 3,022,707</u>	<u>\$ 2,905,227</u>

THE HOWARD HUGHES CORPORATION

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

NOTE 16 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	2011			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except for per share amounts)			
Total revenues (b)	\$ 53,101	\$ 50,823	\$ 86,890	\$ 84,877
Operating income	5,990	5,689	2,218	13,568
Net income (loss) from continuing operations	(114,487)	65,993	165,024	31,940
Net income (loss) attributable to common stockholders	(114,515)	65,973	164,295	31,427
Earnings (loss) per share:				
Basic	(3.02)	1.74	4.33	0.83
Diluted	(3.02)	0.22	(0.14)	0.80
Weighted average basic and diluted shares outstanding	37,905	40,870	38,755	38,114

	2010			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except for per share amounts)			
Total revenues	\$ 28,790	\$ 30,629	\$ 32,460	\$ 50,840
Operating loss (a)	(3,285)	(4,670)	(618)	(503,294)
Net loss from continuing operations (a)	(20,481)	(28,017)	(16,183)	(4,549)
Net loss attributable to common stockholders	(20,529)	(28,042)	(16,230)	(4,630)
Earnings (loss) per share:				
Basic	(0.54)	(0.74)	(0.43)	(0.12)
Diluted	(0.54)	(0.74)	(0.43)	(0.12)
Weighted average basic and diluted shares outstanding	37,716	37,716	37,716	37,753

- (a) Operating loss and loss from continuing operations in the fourth quarter 2010 were significantly impacted by impairment provisions (Note 4) and warrant liability expense (Note 2).
- (b) Revenue increases due to the acquisition of The Woodlands.

**SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2011**

Name of Center	Location	Encumbrances (a)	Initial Cost (b)		Costs Capitalized Subsequent to Acquisition (c)		Gross Amounts at Which Carried at Close of Period (d)			Accumulated Depreciation (e)	Date of Construction	Date Acquired/Completed
			Land	Buildings and Improvements	Land	Buildings and Improvements	Land	Buildings and Improvements	Total			
			(In thousands)		(In thousands)		(In thousands)					
Master Planned Communities												
Summerlin	Las Vegas, NV	\$ 50,672	\$ 990,179	\$ —	\$ (94,165)	\$ 676	\$ 896,014	\$ 676	\$ 896,690	\$ 147		2004
Bridgeland	Houston, TX	20,604	257,222	—	134,562	1,556	391,784	1,556	393,340	735		2004
Maryland	Howard County, MD	—	457,552	—	(390,893)	123	66,659	123	66,782	20		2004
The Woodlands	Houston, TX	185,757	264,889	—	(19,272)	—	245,617	—	245,617	—		2011
Total Master Planned Communities		257,033	1,969,842	—	(369,768)	2,355	1,600,074	2,355	1,602,429	902		
Operating Properties												
Ward Centers	Honolulu, HI	220,000	164,007	89,321	(9,491)	139,650	154,516	228,971	383,487	34,593		2002
South Street Seaport	New York, NY	—	—	7,884	—	(2,454)	—	5,430	5,430	380		2004
Landmark Mall	Alexandria, VA	—	28,396	67,235	(19,408)	(52,109)	8,988	15,126	24,114	276		2003
Park West	Peoria, AZ	—	16,526	77,548	1	(3,227)	16,527	74,321	90,848	11,264	2008	2006
Rio West	Gallup, NM	—	—	19,500	—	8,163	—	27,663	27,663	16,627		1986
Riverwalk Marketplace	New Orleans, LA	—	—	94,513	—	(82,160)	—	12,353	12,353	340		2004
Cottonwood Square	Salt Lake City, UT	—	1,558	4,339	—	315	1,558	4,654	6,212	1,097		2002
20/25 Waterway Avenue	Houston, TX	—	2,346	8,871	—	536	2,346	9,407	11,753	167		2011
Waterway Garage Retail	Houston, TX	—	1,342	4,255	—	629	1,342	4,884	6,226	41		2011
1400 Woodloch Forest	Houston, TX	—	—	—	1,570	12,237	1,570	12,237	13,807	3,856		1981
2201 Lake Woodlands Drive	Houston, TX	4,803	3,755	—	—	—	3,755	—	3,755	—		2011
4 Waterway Square	Houston, TX	41,000	1,430	51,553	396	3,615	1,826	55,168	56,994	878		2011
9303 New Trails	Houston, TX	14,000	1,929	11,915	—	639	1,929	12,554	14,483	145		2011
The Club at Carlton Woods	Houston, TX	—	13,796	457	—	307	13,796	764	14,560	5		2011
Woodlands Parking Garages	Houston, TX	—	5,857	—	—	—	5,857	—	5,857	55		2011
Woodlands Resort and Conference Center	Houston, TX	36,100	13,258	37,983	—	870	13,258	38,853	52,111	323		2011
110 N. Wacker	Chicago, IL	29,000	—	29,035	—	5,315	—	34,350	34,350	10,740		1997
Columbia Offices	Howard County, MD	—	1,575	28,447	1,571	7,234	3,146	35,681	38,827	9,686		2004
Total Operating Properties		344,903	255,775	532,856	(25,361)	39,560	230,414	572,416	802,830	90,473		

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Name of Center	Location	Encumbrances (a)	Initial Cost (b)		Costs Capitalized Subsequent to Acquisition (c)		Gross Amounts at Which Carried at Close of Period (d)			Accumulated Depreciation (e)	Date of Construction	Date Acquired/ Completed
			Buildings and Improvements		Buildings and Improvements		Buildings and Improvements					
			Land	Land	Land	Land	Land	Improvements	Total			
	(In thousands)	(In thousands)	(In thousands)	(In thousands)	(In thousands)	(In thousands)	(In thousands)	(In thousands)				
Strategic Developments												
Bridges at Mint Hill	Charlotte, NC	—	—	—	—	12,450	—	12,450	12,450	—		2007
Fashion Show Air Rights	Las Vegas, NV	—	—	—	—	—	—	—	—	—		2004
Elk Grove Promenade	Elk Grove, CA	—	—	—	—	5,455	—	5,455	5,455	4		2003
Maui Ranch Land	Maui, HI	—	—	—	—	—	—	—	—	—		2002
3 Waterway Square Office	Houston, TX	—	—	—	—	—	—	—	—	—		2012
The Shops at Summerlin Centre	Las Vegas, NV	4,541	—	—	—	35,767	—	35,767	35,767	—		2004
Ala Moana Condo Project	Honolulu, HI	—	—	—	—	22,856	—	22,856	22,856	—		2002
AllenTowne	Dallas, TX	—	25,575	—	(25,575)	25,416	—	25,416	25,416	—		2006
Cottonwood Mall	Salt Lake City, UT	—	7,613	42,987	(4,713)	(26,301)	2,900	16,686	19,586	—		2002
Kendall Town Center	Miami, FL	—	—	—	—	17,487	—	17,487	17,487	—		2004
West Windsor	Princeton, NJ	—	—	—	—	20,888	—	20,888	20,888	13		2004
Alameda Plaza	Pocatello, ID	—	740	2,060	—	26	740	2,086	2,826	491		2002
Century Plaza	Birmingham, AL	—	3,164	28,514	(2,350)	(24,840)	814	3,674	4,488	17		1997
Village at Redlands	Redlands, CA	—	—	—	616	6,511	616	6,511	7,127	368	2008	2004
Redlands Promenade	Redlands, CA	—	—	—	—	2,809	—	2,809	2,809	—		2004
Lakemoor (Volo) Land	Volo, IL	—	320	—	(326)	327	(6)	327	321	—		1995
Nouvelle at Natick	Natick, MA	—	—	—	—	82	—	82	82	—		2007
Total Strategic Development		4,541	37,412	73,561	(32,348)	98,933	5,064	172,494	177,558	893		
Corporate general and administrative		—	885	1,027	—	3,528	885	4,555	5,440	226		
Total HHC		\$ 606,477	\$2,263,914	\$ 607,444	\$(427,477)	\$ 144,376	\$1,836,437	\$ 751,820	\$2,588,257	\$ 92,494		

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- (a) See description of mortgages, notes and other debt payable in Note 7 of Notes to 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
 (d) The aggregate cost of land, building and improvements for federal income tax purposes is approximately \$2.3 billion.
 (e) Depreciation is computed based upon the following estimated lives:

	<u>Years</u>
Building, improvements and carrying costs	40-45
Equipment, tenant improvements and fixtures	5-10

Reconciliation of Real Estate

(In thousands)	<u>2011</u>	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 2,161,977	\$ 2,680,647	\$ 3,194,141
Change in land	69,110	13,240	179,765
Additions	450,988	116,482	238,020
Impairments	—	(503,356)	(680,349)
Dispositions and write-offs	(93,818)	(145,036)	(250,930)
Balance at end of year	<u>\$ 2,588,257</u>	<u>\$ 2,161,977</u>	<u>\$ 2,680,647</u>

Reconciliation of Accumulated Depreciation

(In thousands)	<u>2011</u>	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 78,931	\$ 81,180	\$ 94,004
Depreciation Expense	14,012	14,582	17,145
Dispositions and write-offs	(449)	(16,831)	(29,969)
Balance at end of year	<u>\$ 92,494</u>	<u>\$ 78,931</u>	<u>\$ 81,180</u>

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<u>Exhibit No.</u>	<u>Description of Exhibit</u>
2.1	Separation Agreement, dated November 9, 2010, between The Howard Hughes Corporation and General Growth Properties, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed November 12, 2010)
2.2	Partnership Interest Purchase Agreement dated as of June 20, 2011 among TWC Commercial Properties, LLC, TWC Commercial Properties, LP, TWC Operating, LLC, TWC Operating, LP, TWC Land Development, LLC, TWC Land Development, LP and MS TWC, Inc., MS/TWC Joint Venture (incorporated by reference to Exhibit 2.1 to the Company's Current Report in Form 8-K, filed July 5, 2011).
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)
10.1	Transition Services Agreement, dated November 9, 2010, between The Howard Hughes Corporation, GGP Limited Partnership and General Growth Management, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed November 12, 2010)
10.2	Reverse Transition Services Agreement, dated November 9, 2010, between The Howard Hughes Corporation, GGP Limited Partnership and General Growth Management, Inc. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed November 12, 2010)
10.3	Employee Matters Agreement, dated November 9, 2010, between The Howard Hughes Corporation, GGP Limited Partnership and General Growth Management, Inc. (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed November 12, 2010)
10.4	Employee Leasing Agreement, dated November 9, 2010, between The Howard Hughes Corporation, GGP Limited Partnership and General Growth Management, Inc. (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K, filed November 12, 2010)
10.5	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)
10.6	Surety Bond Indemnity Agreement, dated November 9, 2010, between The Howard Hughes Corporation and General Growth Properties, Inc. (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K, filed November 12, 2010)
10.7	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)
10.8	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)
10.9	Letter Agreement, dated November 9, 2010, between The Howard Hughes Corporation and Brookfield Retail Holdings LLC (incorporated by reference to Exhibit 10.9 to the Company's Current Report on Form 8-K, filed November 12, 2010)
10.10	Letter Agreement, dated November 9, 2010, between The Howard Hughes Corporation and The Fairholme Fund and Fairholme Focused Income Fund (incorporated by reference to Exhibit 10.10 to the Company's Current Report on Form 8-K, filed November 12, 2010)

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<u>Exhibit No.</u>	<u>Description of Exhibit</u>
10.11	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)
10.12	Registration Rights Agreement, dated November 9, 2010, between The Howard Hughes Corporation and M.B. Capital Partners, M.B. Capital Partners III and M.B. Capital Units LLC (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K, filed November 12, 2010)
10.13	Registration Rights Agreement, dated November 9, 2010, between The Howard Hughes Corporation and Brookfield Retail Holdings LLC, Brookfield Retail Holdings II LLC, Brookfield Retail Holdings III LLC, Brookfield Retail Holdings IV-A LLC, Brookfield Retail Holdings IV-D LLC, Brookfield Retail Holdings V LP and Brookfield US Retail Holdings LLC (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K, filed November 12, 2010)
10.14	Registration Rights Agreement, dated November 9, 2010, between The Howard Hughes Corporation and The Fairholme Fund and Fairholme Focused Income Fund (incorporated by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K, filed November 12, 2010)
10.15	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)
10.16	Management Services Agreement, dated August 6, 2010, between The Howard Hughes Corporation and Brookfield Advisors LP (incorporated by reference to Exhibit 10.4 to the Company's Form 10, filed October 7, 2010), which agreement is no longer in effect, but is filed as an exhibit to this Annual Report on Form 10-K in accordance with Item 601(b)(10) of Regulation S-K
10.17*	The Howard Hughes Corporation 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.13 to the Company's Current Report on Form 8-K, filed November 12, 2010)
10.18*	Form of Restricted Stock Agreement for Nonemployee Directors under The Howard Hughes Corporation 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K, filed April 8, 2011)
10.19*	Non-Qualified Stock Option Agreement, dated November 9, 2010, between The Howard Hughes Corporation and Adam S. Metz (incorporated by reference to Exhibit 10.14 to the Company's Current Report on Form 8-K, filed November 12, 2010), which agreement is no longer in effect, but is filed as an exhibit to this Annual Report on Form 10-K in accordance with Item 601(b)(10) of Regulation S-K
10.20*	Non-Qualified Stock Option Agreement, dated November 9, 2010, between The Howard Hughes Corporation and Thomas Nolan Jr. (in his capacity as a director) (incorporated by reference to Exhibit 10.15 to the Company's Current Report on Form 8-K, filed November 12, 2010), which agreement is no longer in effect, but is filed as an exhibit to this Annual Report on Form 10-K in accordance with Item 601(b)(10) of Regulation S-K
10.21*	Non-Qualified Stock Option Agreement, dated November 9, 2010, between The Howard Hughes Corporation and Thomas Nolan Jr. (in his capacity as an employee) (incorporated by reference to Exhibit 10.16 to the Company's Current Report on Form 8-K, filed November 12, 2010), which agreement is no longer in effect, but is filed as an exhibit to this Annual Report on Form 10-K in accordance with Item 601(b)(10) of Regulation S-K

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<u>Exhibit No.</u>	<u>Description of Exhibit</u>
10.22*	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)
10.23*	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)
10.24*†	Amendment No. 1 to the Warrant Purchase Agreement dated as of August 23, 2011, between The Howard Hughes Corporation and David R. Weinreb.
10.25*	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)
10.26*	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)
10.27*	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)
10.28*	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)
10.29	Loan Agreement dated as of September 29, 2011, by and among Victoria Ward, Limited along with certain of 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).
10.30†	Second Amended and Restated Master Credit Agreement dated as of March 29, 2011, 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 to the agreement, and the other lending institutions which may become parties to the agreement, Keybank National Association, as Administrative Agent to the lenders, and Compass Bank, as Syndication Agent.
21.1†	List of Subsidiaries
23.1†	Consent of Deloitte & Touche LLP
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
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.

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<u>Exhibit No.</u>	<u>Description of Exhibit</u>
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 is Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated and Combined Statements of Income (Loss) and Comprehensive Income (Loss) for the years ended December 31, 2011, 2010 and 2009, (ii) the Consolidated Balance Sheet at December 31, 2011 and 2010, (iii) the Consolidated and Combined Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009, (iv) the Consolidated and Combined Statements of Shareholders' Equity for the years ended December 31, 2011, 2010 and 2009. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

In accordance with a continuing hardship exemption, the date by which the interactive data file (required by rule 405(f)(2) of Regulation S-T) is required to be submitted has been extended to May 10, 2012.

EXECUTION VERSION
AMENDMENT NO. 1
TO THE
THE HOWARD HUGHES CORPORATION
WARRANT PURCHASE AGREEMENT

THE HOWARD HUGHES CORPORATION, a Delaware corporation (the "**Corporation**"), and David R. Weinreb ("**Purchaser**") hereby enter into this amendment (this "**Amendment**") to amend the Warrant Purchase Agreement between the Corporation and Purchaser, dated as of November 22, 2010 (the "**Agreement**"), as set forth herein. This Amendment will be effective as of August 23, 2011 (the "**Effective Date**"). Except as specifically amended hereby, the Agreement will remain unchanged, and as amended herein, will continue in full force and effect.

1. The first sentence of Section 6 of the Agreement is hereby amended and restated as follows:

"This Warrant may be assigned in whole or in part during your lifetime as a gift to one or more members of your Immediate Family or to a trust in which you and/or one or more such family members hold more than 50% of the beneficial interest."

IN WITNESS WHEREOF, the Corporation has caused this Amendment to be executed by its duly authorized officer as of the Effective Date.

THE HOWARD HUGHES CORPORATION

By: /s/ Gary Krow

Gary Krow,
Chairman of the Compensation Committee

ACKNOWLEDGED AND AGREED:

/s/ David R. Weinreb

David R. Weinreb

SECOND AMENDED AND RESTATED MASTER CREDIT AGREEMENT

DATED MARCH 29, 2011

among

THE WOODLANDS COMMERCIAL PROPERTIES COMPANY, L.P.,

THE WOODLANDS LAND DEVELOPMENT COMPANY, L.P.,

and

KEYBANK NATIONAL ASSOCIATION,

and

THE OTHER LENDERS THAT ARE A PARTY
TO THIS AGREEMENT

and

OTHER LENDERS WHICH MAY BECOME
PARTIES TO THIS AGREEMENT

AND

KEYBANK NATIONAL ASSOCIATION,
AS AGENT

AND

KEYBANC CAPITAL MARKETS,
AS LEAD MANAGER AND ARRANGER

AND

COMPASS BANK,
AS SYNDICATION AGENT

SECOND AMENDED AND RESTATED MASTER CREDIT AGREEMENT

THIS SECOND AMENDED AND RESTATED MASTER CREDIT AGREEMENT is made the 29th day of March, 2011, by and among **THE WOODLANDS COMMERCIAL PROPERTIES COMPANY, L.P.** (“Commercial Company”), a Texas limited partnership having its principal place of business at c/o The Woodlands Operating Company, L.P., 24 Waterway Avenue, Suite 1100, The Woodlands, Texas 77380, **THE WOODLANDS LAND DEVELOPMENT COMPANY, L.P.** (“Land Company”; Commercial Company and Land Company are hereafter referred to collectively as “Borrowers”), a Texas limited partnership having its principal place of business at c/o The Woodlands Operating Company, L.P., 24 Waterway Avenue, Suite 1100, The Woodlands, Texas 77380, **KEYBANK NATIONAL ASSOCIATION**, the other lenders that are a party to this Agreement, and the other lending institutions which may become parties hereto pursuant to §18 (the “Lenders”), **KEYBANK NATIONAL ASSOCIATION**, as Administrative Agent for the Lenders (the “Agent”), and **COMPASS BANK**, as Syndication Agent.

RECITALS

WHEREAS, Commercial Company, Land Company, KeyBank, Agent and the other parties thereto have entered into that certain First Amended and Restated Master Credit Agreement, dated August 29, 2006, as amended by that certain First Amendment to First Amended and Restated Master Credit Agreement, dated July 30, 2008 (the “Original Credit Agreement”); and

WHEREAS, the parties desire to enter into this Agreement to amend and restate the Original Credit Agreement;

NOW, THEREFORE, in consideration of the recitals herein and the mutual covenants contained herein, the parties hereto hereby covenant and agree and amend and restate the Original Credit Agreement in its entirety as follows:

§1. DEFINITIONS AND RULES OF INTERPRETATION; AMENDMENT AND RESTATEMENT

§1.1 Definitions. The following terms shall have the meanings set forth in this §1 or elsewhere in the provisions of this Agreement referred to below:

Account Debtor. Any person who is obligated on any of the Accounts Receivable.

Accounts Receivable. All accounts, whether now owned or hereafter acquired by the respective Borrowers and whether now existing or hereafter arising, and all proceeds of the foregoing, from the Municipal Utility District Contracts and the Note Receivables, as more particularly described in the Security Agreements.

Adjusted Net Amount. The outstanding principal amount payable pursuant to the Eligible Accounts Receivable, as adjusted as provided in the Borrowing Base worksheet attached hereto as Exhibit E.

Adjusted Value. As of any Quarterly Measurement Date, the Appraised Value as most recently determined under §5.2(a), (c) or (d) of a Borrowing Base Asset (other than Eligible Accounts Receivable), as adjusted as of such Quarterly Measurement Date by the Borrowers to reflect any sales, changes in leasing status, transfers, new Indebtedness, new development or other circumstance affecting the Borrowing Base Assets, as provided in §5.2(b). With respect to any Qualifying Income Properties for which there is not an Appraised Value set forth on Schedule 1.2 hereto or a subsequent Appraised Value determined pursuant to §5.2, the Adjusted Value of each such Qualifying Income Property shall be the historic cost (including land value) of such Qualifying Income Property.

Affiliates. As applied to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with, that Person. For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling”, “controlled by” and “under common control with”), as applied to any Person, means (a) the possession, directly or indirectly, of the power to vote ten percent (10%) or more of the stock, shares, voting trust certificates, beneficial interests, partnership interests, member interests or other interests having voting power for the election of directors of such Person or otherwise to direct or cause the direction of the management and policies of that Person, whether through the ownership of voting securities or by contract or otherwise, or (b) the ownership of (i) a general partnership interest, (ii) a managing member’s interest in a limited liability company or (iii) a limited partnership interest or preferred stock (or other ownership interest) representing ten percent (10%) or more of the outstanding limited or general partnership interests, preferred stock or other ownership interests of such Person. An Affiliate shall not include a Restricted Subsidiary or an Unrestricted Subsidiary.

Agent. KeyBank, acting as Administrative Agent for the Lenders, its successors and assigns.

Agent’s Head Office. The Agent’s head office located at 127 Public Square, Cleveland, Ohio 44114-1306, or at such other location as the Agent may designate from time to time by notice to the Borrowers and the Lenders.

Agent’s Special Counsel. McKenna Long & Aldridge LLP or such other counsel as may be approved by the Agent.

Agreement. This Second Amended and Restated Master Credit Agreement, including the Schedules and Exhibits hereto.

Agreement Regarding Fees. See §4.2.

Appraisal. An MAI appraisal (or update of a prior Appraisal) of the value of a parcel of Real Estate ordered by and addressed to Agent, determined on an as-is basis, performed by an independent appraiser selected by the Agent who is not an employee of the Borrowers, the Agent or a Lender, the form and substance of such appraisal and the identity of the appraiser to be in accordance with regulatory laws and policies (both regulatory and internal) applicable to the Lenders and otherwise acceptable to the Agent.

Appraised Value. The “as-is” value of a parcel of Real Estate determined by the most recent Appraisal of such parcel or update obtained pursuant to §5.2(c) subject, however, to such changes or adjustments to the value determined thereby as may be required by the appraisal department of the Agent in its good faith business judgment, or the valuation proposed by the Borrowers and approved by the Agent as provided in §5.2(c), whichever is applicable. With respect to Land Assets, the Appraised Value may be determined on a per lot or per acre basis and then multiplied by the number of lots or acres.

Architect’s Contract. For the applicable Vertical Commercial Improvements, the contract, between a Borrower and the Project Architect, providing for the design of the Improvements for the applicable Vertical Commercial Improvements and the supervision of the construction thereof.

Assignment of Hedge. An Assignment of Hedge Agreement by the Borrowers to the Agent for the benefit of the Lenders, as the same may be modified and amended, pursuant to which the Interest Cap described in §7.24 is pledged as security for the Obligations, and any financing statements that may be delivered in connection therewith, such assignment to be in form and substance satisfactory to Agent.

Assignment of Interests. Each of the collateral assignments of partner’s or limited liability company member’s interest or rights to distributions from a Borrower to the Agent, as the same may be modified or amended, pursuant to which there shall be collaterally assigned to the Agent for the benefit of the Lenders a security interest in the interest of such Person in certain of the Partnerships or in rights to distributions as more particularly described therein, each such assignment to be in form and substance satisfactory to the Agent.

Assignment of Leases and Rents. Each of the collateral assignments of leases and rents from a Borrower, to the Agent, as the same may be modified or amended, pursuant to which there shall be assigned to the Agent for the benefit of the Lenders a security interest in the interest of such Borrower as lessor with respect to all Leases of all or any part of a Mortgaged Property, each such collateral assignment to be in form and substance satisfactory to the Agent.

Assignment of Management Agreement and Subordination. Each collateral assignment of the Management Agreements from a Borrower to the Agent for the benefit of the Lenders, as the same may be modified or amended, pursuant to which there shall be collaterally assigned to the Agent for the benefit of the Lenders a security interest in the interest of such Borrower with respect to the Management Agreements, together with the consent of the manager thereunder to such assignment and a subordination of the manager’s rights with respect to the Mortgaged Properties to the rights of the Agent with respect thereto.

Assignment of Project Documents. Each assignment of project documents made by a Borrower to the Agent for the benefit of the Lenders, as the same may be modified or amended, pursuant to which a Borrower assigns and grants a security interest in such Borrower’s right, title and interest in and to, among other things, the Architect’s Contract, Construction Contract, Plans and Specifications and Project Consents pertaining to the applicable Vertical Commercial Improvements, each such assignment of project documents to be in form and substance satisfactory to the Agent.

Associations. Collectively, The Woodlands Township and Woodlands Commercial Owners Association.

Assumption Agreement. The assumption agreement dated August 29, 2006 pursuant to which Land Company assumed the obligations of Stibbs under the “Security Deed” and the “Assignment of Leases and Rents” delivered pursuant to the Master Credit Agreement dated November 30, 2004 among Borrowers, Agent, and the other parties thereto.

Authorized Officer. As to Commercial Company, Randy Davis, Tim Welbes, Alex Sutton, or such other officer familiar with the matters subject to the applicable certification being executed by such officer having a title of vice president or president of Woodlands Operating as is designated in a written notice from Commercial Company to Agent and the Title Insurance Company. As to Land Company, Randy Davis, Tim Welbes, Alex Sutton, or such other officer familiar with the matters subject to the applicable certification being executed by such officer having a title of vice president or president of Woodlands Operating as is designated in a written notice from Land Company to Agent and the Title Insurance Company.

Balance Sheet Date. December 31, 2010.

Bankruptcy Code. Title 11, U.S.C.A., as amended from time to time or any successor statute thereto.

Base Rate. The greatest of (a) the variable per annum rate of interest announced from time to time by Agent at Agent’s Head Office as its “prime rate”, (b) one-half of one percent (0.5%) above the Federal Funds Effective Rate (rounded to the nearest 1/100th of one percent), or (c) the LIBOR Rate for an Interest Period of one (1) month plus one percent (1%). The Base Rate is a reference rate and does not necessarily represent the lowest or best rate being charged to any customer. Any change in the rate of interest payable hereunder resulting from a change in the Base Rate shall become effective as of the opening of business on the day on which such change in the Base Rate becomes effective, without notice or demand of any kind.

Base Rate Loans. Collectively, the Revolving Credit Base Rate Loans and the Secured Term Base Rate Loans.

Borrowers. As defined in the preamble hereto.

Borrowing Base. At any time, the Borrowing Base for the Borrowers on a combined basis shall be an amount equal to the sum of:

- (a) sixty percent (60%) of the Adjusted Value of the Developed Residential Land;
- (b) fifty percent (50%) of the Adjusted Value of the Developed Commercial Land;
- (c) sixty percent (60%) of the Adjusted Value of the Undeveloped Residential Land;

(d) fifty percent (50%) of the Adjusted Value of the Undeveloped Commercial Land;

(e) forty percent (40%) of the Adjusted Value of the Golf Courses;

(f) for each Qualifying Income Property, an amount equal to the product obtained by multiplying (i) the Adjusted Value of such Qualifying Income Property, by (ii) 0.70;

(g) ninety percent (90%) of the Adjusted Net Amount of the Eligible Accounts Receivable; and

(h) sixty-five percent (65%) of the historic costs (including land at its Adjusted Value) of Properties under Construction owned by a Borrower that are subject to a lien in favor of the Agent to secure the Obligations, provided that the maximum Borrowing Base value pursuant to this clause (h) shall not exceed \$50,000,000.00 at any time.

A form showing the computation of the Borrowing Base as of a Quarterly Measurement Date is set forth on Exhibit E hereto. The Borrowing Base Assets must satisfy the conditions of §7.19 at all times.

Notwithstanding the foregoing, (1) in no event shall more than thirty percent (30%) of the Borrowing Base be comprised of the items described in clause (c) above within the definition of Borrowing Base, and (2) in no event shall the Conference Center be included in the Borrowing Base if any Borrower has incurred other Indebtedness with respect thereto.

Borrowing Base Assets. Collectively, the Developed Residential Land, the Developed Commercial Land, the Undeveloped Residential Land, the Undeveloped Commercial Land, the Golf Courses, the Qualifying Income Properties, the Eligible Accounts Receivable and Properties under Construction.

Budget. The annual budgets of the Borrowers, which Budget shall be a detailed estimate of projected income, cash flow, land development costs and other capital expenditures of the Borrowers for each quarter of the calendar year in question, the projected cash flows and net income for such year, and a summary of the significant assumptions upon which such projections are based. In addition, the Budget shall include the annual income and expenditures for the management, leasing, maintenance, supervision, direction and operation of each Qualifying Income Property (including those owned by Restricted Subsidiaries to the extent reasonably available from such entities) included within the Property for the calendar year in question. The budget shall also include a budget of significant capital improvements, repairs, replacements, tenant improvements and leasing commissions and other similar tenant-related expenses with respect to each Qualifying Income Property (including those owned by Restricted Subsidiaries to the extent reasonably available from such entities) included within the Property for the calendar year in question, which shall be a complete and reasonable estimate of the capital expenditures, and expenditures for tenant improvements and leasing commissions and other similar tenant-related expenses, for such Property for the period covered thereby. Each Budget shall be a reasonable estimate of the Borrowers of the income and expenditures for the Property for the period covered thereby and shall be prepared by the Borrowers in good faith and in accordance with sound cash basis accounting practices applied on a consistent basis (except that net income

shall be prepared in accordance with generally accepted accounting principles applied on a consistent basis). Notwithstanding anything herein to the contrary, any fees or expenses to be paid to the Borrowers, any General Partner, any Second Tier Partner, any Third Tier Partner or any affiliate of any of such Persons shall not exceed an amount which would be paid to an unaffiliated entity in any arms-length transaction.

Building. All of the buildings and related structures and improvements now or hereafter located on a parcel of Real Estate.

Build-To-Suit Properties. Properties owned by a Borrower or its Restricted Subsidiaries or Unrestricted Subsidiaries which are each 100% preleased under a net lease having a term of not less than five (5) years and with respect to which Vertical Commercial Improvements are to be constructed.

Business Day. Any day on which banking institutions in Cleveland, Ohio are open for the transaction of banking business and, in the case of LIBOR Rate Loans, which also is a LIBOR Business Day.

Capitalized Lease. A lease under which a Person is the lessee or obligor, the discounted future rental payment obligations under which are required to be capitalized on the balance sheet of the lessee or obligor in accordance with generally accepted accounting principles.

Cash. Money in legal tender of the United States.

Cash Collateral Account Agreement. The Second Amended and Restated Cash Collateral Account and Control Agreement between the Borrowers, the Agent and KeyBank, as the same may be modified or amended, such agreement to be in form and substance satisfactory to the Agent.

Cash Equivalents. As of any date, (i) securities issued or directly and fully guaranteed or insured by the United States government or any agency or instrumentality thereof having maturities of not more than one year from such date, (ii) time deposits and certificates of deposits having maturities of not more than one year from such date and issued by any domestic commercial bank having (A) senior long term unsecured debt rated at least A or the equivalent thereof by S&P or A2 or the equivalent thereof by Moody's and (B) capital and surplus in excess of \$100,000,000.00, (iii) commercial paper rated at least A-1 or the equivalent thereof by S&P or P-1 or the equivalent thereof by Moody's and in either case maturing within one hundred twenty (120) days from such date, and (iv) shares of any money market mutual fund rated at least AAA or the equivalent thereof by S&P or at least Aaa or the equivalent thereof by Moody's.

CERCLA. See §6.20.

Change of Control. A Change of Control shall be deemed to occur upon the occurrence of any of the following events: (a) neither the Howard Hughes Group nor the MSREF Group, each as a separate group, continues to own and control, directly or indirectly, at least fifty percent (50%) of the voting interests in each Borrower and at least thirty-seven and one-half percent (37.5%) of the ownership interests in each Borrower; or (b) neither a member of the Howard Hughes Group nor the MSREF Group (or a wholly-owned subsidiary of the Howard Hughes Group or the MSREF Group) shall be a general partner of each Borrower.

Closing Date. The first date on which all of the conditions set forth in §10 and §11 have been satisfied or waived in writing.

Code. The Internal Revenue Code of 1986, as amended, and all regulations and formal guidance issued thereunder.

Collateral. All of (a) the property, rights and interests of the Borrowers and the Guarantors which are subject to the security interests, liens and mortgages created by the Security Documents, including, without limitation, the Mortgaged Property, and (b) the Guaranty.

Collateral Qualification Documents. With respect to any Vertical Commercial Improvements included in the Borrowing Base, or other Income Producing Properties, Developed Residential Land, Developed Commercial Land, Undeveloped Residential Land, Undeveloped Commercial Land or other property as required under this Agreement, each of the following:

(a) Security Documents. Such Security Documents relating to such property as the Agent shall require, in form and substance satisfactory to the Agent and duly executed and delivered by the respective parties thereto.

(b) Perfection of Liens. Evidence reasonably satisfactory to the Agent that the Security Documents are effective to create in favor of the Agent a legal, valid and enforceable first lien and security interest in such property and that all filings, recordings, deliveries of instruments and other actions necessary or desirable to protect and preserve such liens or security interests have been duly effected.

(c) Survey. The Survey of the Land upon which such Vertical Commercial Improvements are to be constructed or of such other property.

(d) Title. A current report from the Title Insurance Company covering the Land upon which such Vertical Commercial Improvements are to be constructed or such other property, or other evidence satisfactory to Agent, showing that title is vested in a Borrower, and, if requested by Agent, true and accurate copies of all documents listed as exceptions in such report or to such title.

(e) UCC Certification. A certification from the Title Insurance Company or other person to the Agent that a search of the public records designated by the Agent disclosed no conditional sales contracts, security agreements, chattel mortgages, leases of personalty, financing statements or title retention agreements which affect any property, rights or interests of such Borrower that are or are intended to be subject to the security interest, assignments, and mortgage liens created by the Security Documents relating to such property except to the extent that the same are discharged prior to the inclusion of the Security Documents relating to such property in the Collateral.

(f) Management Agreement. If requested by Agent, a true copy of any Management Agreement relating to such Vertical Commercial Improvements or such other property, and if such Management Agreement is with MS Hospitality, L.P. or any other Affiliate of a Borrower, an Assignment of Management Agreement and Subordination.

(g) Leases. True copies of any Leases relating to such property requested by Agent together with a Rent Roll for such property certified by the Borrower owning such land as accurate and complete as of a recent date, and if any Lease is to WECCR or any other Affiliate of a Borrower, a subordination of such Lease to the Loan Documents in form and substance reasonably satisfactory to Agent.

(h) Certificates of Insurance. Each of (i) a current certificate of insurance as to the insurance maintained by the Borrower owning such property or the Project Contractor with respect to such Vertical Commercial Improvements (including flood insurance if necessary) from the insurer or an independent insurance broker, identifying insurers, types of insurance, insurance limits, and policy terms; (ii) certified copies of all policies evidencing such insurance (or certificates therefor signed by the insurer or an agent authorized to bind the insurer); and (iii) such further information and certificates from the Borrower owning the land on which such Vertical Commercial Improvements are to be constructed or such other property, the Project Contractor, their insurers and insurance brokers as the Agent may reasonably request, all of which shall be in compliance with the requirements of this Agreement and the Security Deeds.

(i) Hazardous Substance Assessments. A hazardous waste site assessment report concerning Hazardous Substances and asbestos on the Land relating to such Vertical Commercial Improvements or such other property dated or updated not more than three months prior to the inclusion of such property in the Collateral, from an Environmental Engineer, such report to contain no qualification except those that are acceptable to the Agent in its sole discretion and to otherwise be in form and substance satisfactory to the Agent.

(j) Appraisal. In the event such property is to be included in the Borrowing Base, an Appraisal of the proposed Vertical Commercial Improvements, assuming completion in accordance with the Plans and Specifications, or such other property in form and substance satisfactory to the Agent and dated not more than three (3) months prior to the inclusion of the Security Documents relating to the applicable Vertical Commercial Improvements or such other property in the Collateral.

(k) Budget. If requested by Agent, the Project Budget for the proposed Vertical Commercial Improvements.

(l) Construction Documents. If requested by Agent, a fully executed copy of the Architect's Contract and the Construction Contract for the proposed Vertical Commercial Improvements.

(m) Plans and Specifications; Permit. If requested by Agent, one complete set of the Plans and Specifications for the proposed Vertical Commercial Improvements and copies of the Project Consents received through the date of inclusion of the Security Documents for such Vertical Commercial Improvements in the Collateral.

(n) Additional Documents. Such other documents, opinions, certificates, reports or assurances as the Agent may reasonably require in its discretion.

Commercial Company Secured Term Loan Commitment. As to each Secured Term Loan Lender, the amount equal to such Secured Term Loan Lender's Commercial Company Secured Term Loan Commitment Percentage of the aggregate principal amount of the Secured Term Loans from time to time outstanding to Commercial Company.

Commercial Company Secured Term Loan Commitment Percentage. With respect to each Secured Term Loan Lender, the percentage set forth on Schedule 1.1 hereto as such Secured Term Loan Lender's percentage of the aggregate Secured Term Loan to Commercial Company, as the same may be changed from time to time in accordance with the terms of this Agreement.

Commercial Company Secured Term Loan or Secured Term Loans. An individual Secured Term Loan or the aggregate Secured Term Loans, as the case may be, made by the Secured Term Loan Lenders hereunder to Commercial Company.

Commercial Company Secured Term Loan Note. A promissory note made by the Borrowers in favor of a Secured Term Loan Lender in the principal face amount equal to such Secured Term Loan Lender's Secured Term Loan Commitment, in substantially the form of Exhibit B-1 hereto.

Commercial Land. Collectively, the Developed Commercial Land and the Undeveloped Commercial Land. The Commercial Land shall not include any of the Common Area Land.

Commitment. With respect to each Lender, the aggregate of (a) the Revolving Credit Commitment and (b) the Secured Term Loan Commitment.

Commitment Percentage. With respect to each Lender, the percentage set forth on Schedule 1.1 hereto as such Lender's percentage of the aggregate Commitments of all of the Lenders, as the same may be changed from time to time in accordance with the terms of this Agreement.

Common Area Land. The Common Area Land shall be all land located within the Woodlands Project which is now or hereafter used, designated or reserved for amenities, green space, open space and infrastructure. As of the date hereof, the Woodlands Project includes approximately 10,433 acres of Common Area Land.

Compliance Certificate. See §7.4(e).

Conference Center. The Woodlands Conference Center & Resort, including approximately 440 guestrooms, 34 meeting rooms, 6 restaurants and related facilities.

Conference Center Loan. The \$36,100,000.00 loan agented by KeyBank to Commercial Company secured by the Conference Center and guaranteed by Land Company.

Consolidated or combined. With reference to any term defined herein, that term as applied to the accounts of a Person and its Restricted Subsidiaries, consolidated or combined in accordance with generally accepted accounting principles.

Construction Contract. With respect to each Vertical Commercial Improvement, the contract between a Borrower that owns the land upon which the applicable Vertical Commercial Improvements are to be constructed, as the case may be, and the applicable Project Contractor providing for the construction of the applicable Vertical Commercial Improvements.

Construction Inspector. A firm of professional engineers or architects selected by Borrowers and reasonably acceptable to the Agent.

Construction Schedule. With respect to each Vertical Commercial Improvement, the schedule broken down by trade, job and subcontractor, of the estimated dates of commencement and completion of construction of the Improvements, prepared by the applicable Project Contractor, approved by the Agent.

Contribution Agreement. The Cross Reimbursement and Indemnity Agreement dated as of July 31, 1997, between Commercial Company and Land Company, as amended, such Agreement to be in form and substance satisfactory to the Agent.

Conversion Request. A notice given by the Borrowers to the Agent of their election to convert or continue a Loan in accordance with §4.1.

Debt Service. For any period, the sum of all Interest Expense and mandatory principal payments due (including, without limitation, because of the reductions in Commitments pursuant to §3.6) and payable by the Borrowers and the Restricted Subsidiaries during such period excluding any balloon payments due upon maturity of any indebtedness.

Default. See §12.1

Developed Commercial Land. Developed Commercial Land shall mean the land designated for commercial or multifamily use under the Master Plan of the Woodlands Project with respect to which infrastructure development has been substantially completed to such an extent that permits construction of Vertical Commercial Improvements, and with respect to which the commencement of the construction of Vertical Commercial Improvements has not yet commenced.

Developed Residential Land. Developed Residential Land shall mean that portion of the Woodlands Project designated under the applicable Master Plan for single-family residential or institutional use, schools, churches, nurseries or day care centers or designated for gas stations, convenience stores or similar retail uses or apartment use and other commercial uses and designated as part of the Residential Land under the applicable Master Plan, for which a Municipal Utility District has been established or has been applied for, with respect to which infrastructure development has been substantially completed, and as to which the commencement of construction of such single family housing, institutional facilities or other improvements described above has not yet commenced.

Direct Costs. Direct Costs shall mean and include the Adjusted Value of the Land, the costs of the Personal Property, and all labor, materials, fixtures, machinery and equipment required to construct, equip and complete the Vertical Commercial Improvements.

Disbursement Accounts. As defined in the Cash Collateral Account Agreement.

Distribution. With respect to any Person, the declaration or payment of any cash, cash flow, dividend or distribution on or in respect of any shares of any class of capital stock, partner's interest, member's interest or other beneficial interest of such Person; the purchase, redemption, exchange or other retirement of any shares of any class of capital stock, partner's interest, member's interest or other beneficial interest of such Person, directly or indirectly through a Restricted Subsidiary of such Person or otherwise; the return of capital by a Person to its shareholders, partners, members or other beneficial owners as such; or any other distribution on or in respect of any shares of any class of capital stock, partner's interest, member's interest or other beneficial interest of such Person.

Distribution Level 1. Distribution Level 1 shall exist as of any determination date if (a) as of the most recent Quarterly Measurement Date, the ratio of Total Indebtedness to Total Market Value Capitalization (determined pursuant to §9.1), expressed as a percentage, is less than or equal to 50% (or 45% as of March 31, 2012 and thereafter), and (b) after giving effect to the aggregate of any and all Distributions to the partners or other beneficial owners of the Borrowers and Woodlands Operating Distributions and Partner Subordinated Debt Payments to be paid or made, as applicable, the ratio of Total Indebtedness to Total Market Value Capitalization, on a pro forma basis, shall be less than or equal to 50% (or 45% as of March 31, 2012 and thereafter).

Distribution Level 2. Distribution Level 2 shall exist as of any determination date if (a) as of the most recent Quarterly Measurement Date, the ratio of Total Indebtedness to Total Market Value Capitalization (determined pursuant to §9.1), expressed as a percentage, is less than or equal to 40%, and (b) after giving effect to the aggregate of any and all Distributions to the partners or other beneficial owners of the Borrowers and Woodlands Operating Distributions and Partner Subordinated Debt Payments to be paid or made, as applicable, the ratio of Total Indebtedness to Total Market Value Capitalization, on a pro forma basis, shall be less than or equal to 40%.

Division Agreement. The Certificate of Merger of The Woodlands Commercial Properties Company, L.P. and The Woodlands Land Development Company, L.P. dated July 31, 1997 and the Plan of Merger attached thereto.

Dollars or \$. Dollars in lawful currency of the United States of America.

Domestic Lending Office. Initially, the office of each Lender designated as such in Schedule 1.1 hereto; thereafter, such other office of such Lender, if any, located within the United States that will be making or maintaining Base Rate Loans.

Drawdown Date. The date on which any Loan is made or is to be made, and the date on which any Revolving Credit Loan or Secured Term Loan which is made prior to the Maturity Date is converted to a Loan of the other Type.

Eligible Accounts Receivable. That portion of the Accounts Receivable which is owned by a Borrower, subject to a Security Agreement, in which Agent has a perfected first priority security interest, subject to no other security interest, lien, charge or other encumbrance of any nature, evidenced by promissory notes or other documentation acceptable to Agent, and consisting of accounts which have payment terms acceptable to the Agent and which: (i) are and shall be created in the ordinary course of business of the Borrowers, except with respect to Accounts Receivable described in (ix) below so long as Land Company and Account Debtor are in compliance with (A) through (D) described therein; (ii) arise from a complete bona fide transaction and which require no further act under any circumstances on the part of any Borrower to make such receivable payable by the Account Debtor; (iii) are not subject to dispute, offset or counterclaim; (iv) do not arise out of any transaction with an Account Debtor which is insolvent or the subject of any bankruptcy or insolvency proceedings of any kind or of any other proceeding or action, threatened or pending, which might have a material adverse effect on the financial condition of such Account Debtors; (v) conform to all representations and warranties made by Borrowers in this Agreement and the other Loan Documents; (vi) have not remained unpaid for more than thirty (30) days from any payment date; (vii) do not arise out of any transaction with any affiliate of either Borrower, the General Partner, a Second Tier Partner, a Third Tier Partner, any Guarantor or any affiliate thereof; (viii) are owed by Account Debtors located within the United States of America; (ix) with respect to each Municipal Utility District Contract, (A) Land Company is in full compliance with the applicable CON-10 necessary to give rise to the obligation of the applicable Municipal Utility District to purchase the relevant facilities in accordance with the applicable CON-10, including without limitation the terms and conditions set forth in the applicable Policy Manual for Construction or Acquisition of Facilities, (B) except with respect to Accounts Receivable related to the San Jacinto River Authority contracts, Land Company has obtained and delivered to the Agent a copy of the executed confirmatory letter of such Municipal Utility District's obligation contemplated by the applicable Policy, (C) the obligation of the applicable Municipal Utility District to acquire the "facility" has not lapsed or expired, and (D) Land Company has delivered satisfactory evidence to the Agent that each Municipal Utility District Contract does not exceed the applicable Municipal Utility District's authority to issue bond indebtedness to satisfy the Municipal Utility District's obligations under the applicable Municipal Utility District Contract; and (x) are not determined by the Majority Lenders in their sole discretion to be otherwise ineligible for any other reason (it nevertheless being understood that the receivables described in (i) through (ix) above shall be included as part of the Collateral). Eligible Accounts Receivable shall in no event include any Investments of the type described in §8.3(k).

Eligible Assignee. (a) a Lender or any Affiliate or Related Fund of such Lender; (b) a commercial bank; (c) a savings and loan association or savings bank; or (d) an insurance company, financing company, other financial institution, fund or institutional investor experienced in real estate lending or investing in loans similar to the Loans in the ordinary course of its business reasonably acceptable to Agent and Borrower; provided that an Eligible Assignee shall not include any Borrower or any of their Affiliates or Restricted Subsidiaries or Unrestricted Subsidiaries.

Employee Benefit Plan. Any employee benefit plan within the meaning of §3(3) of ERISA maintained or contributed to by a Borrower or any ERISA Affiliate, other than a Multiemployer Plan.

Environmental Engineer. A firm of independent professional engineers or other scientists generally recognized as expert in the detection, analysis and remediation of the Hazardous Substances and related environmental matters and reasonably acceptable to the Agent.

Environmental Laws. See §6.20(a).

Equity Offering. The issuance and sale by a Borrower subsequent to the date of this Agreement of any partnership interests or equity securities of such Borrower to investors other than the then current partners.

ERISA. The Employee Retirement Income Security Act of 1974, as amended and in effect from time to time, and all regulations and formal guidance issued thereunder.

ERISA Affiliate. Any Person which is treated as a single employer with a Borrower under §414 of the Code or §4001 of ERISA, and any predecessor entity of any of them.

ERISA Reportable Event. A reportable event with respect to a Guaranteed Pension Plan within the meaning of §4043 of ERISA as to which the requirement of notice has not been waived or any other event with respect to which a Borrower or an ERISA Affiliate could have liability under §4062(e) or §4063 of ERISA.

Event of Default. See §12.1.

Excess Cash Flow. With respect to the Borrowers on a combined basis for any fiscal year period, an amount equal to the Operating Cash Flow of the Borrowers, minus (a) the sum of all interest and mandatory principal payments due and payable with respect to the Loans for such period, minus (b) mandatory interest and principal payments due and payable during such period on other permitted Indebtedness of the Borrowers for such period, and minus (c) Vertical Development Costs incurred during the applicable test period.

Exiting Lenders. See §1.3.

Extension Request. See §4.15.

Federal Funds Effective Rate. For any day, the rate per annum (rounded to the nearest one-hundredth of one percent (1/100 of 1%)) announced by the Federal Reserve Bank of Cleveland on such day as being the weighted average of the rates on overnight federal funds transactions arranged by federal funds brokers on the previous trading day, as computed and announced by such Federal Reserve Bank in substantially the same manner as such Federal Reserve Bank computes and announces the weighted average it refers to as the "Federal Funds Effective Rate", or, if such rate is not so published for any day that is a Business Day, the average of the quotations for such day on such transactions received by the Agent from three (3) Federal funds brokers of recognized standing selected by the Agent.

Fees. The fees payable to either Borrower pursuant to any management agreements relating to the Woodlands Project or any part thereof, and easement usage fees payable to Commercial Company pursuant to the agreements commonly known as the TCI Easement Agreement.

Fixed Charge Coverage Ratio. As of each Quarterly Measurement Date the ratio of (a) sum of (i) the Operating Cash Flow of the Borrowers for the Test Period minus (ii) the Non-Recurring Amount for the Test Period to (b) the Debt Service for the Test Period.

Funding Agreement. The Funding Agreement effective as of July 31, 1997 among Borrowers and the other parties thereto regarding contributions, distributions and loans, as amended by that certain First Amendment to Funding Agreement effective as of November 24, 2004.

Funding Subordination and Standstill Agreement. The Second Amended and Restated Subordination and Standstill Agreement dated of even date herewith, by and among Agent, Commercial Company and Land Company relating to the Funding Agreement, as the same may be modified or amended.

General Partner. Collectively, TWLDC Holdings GP and TWCPC Holdings GP.

Generally Accepted Accounting Principles. Principles that are (a) consistent with the principles promulgated or adopted by the Financial Accounting Standards Board and its predecessors, as in effect from time to time and (b) consistently applied with past financial statements of the Borrower adopting the same principles; provided that a certified public accountant would, insofar as the use of such accounting principles is pertinent, be in a position to deliver an unqualified opinion (other than a qualification regarding changes in generally accepted accounting principles) as to financial statements in which such principles have been properly applied.

Golf Courses. The golf courses (including the clubhouses, swimming pools, driving ranges, tennis courts and other related amenities) commonly known as the Carlton Woods Nicklaus Golf Course and the Tom Fazio Carlton Woods Creekside Golf Course, together with any new golf courses that are developed and opened within the Woodlands Project and are included within the Collateral.

Guaranteed Pension Plan. Any employee pension benefit plan within the meaning of §3(2) of ERISA maintained or contributed to by a Borrower of any ERISA Affiliate the benefits of which are guaranteed on termination in full or in part by the PBGC pursuant to Title IV of ERISA, other than a Multiemployer Plan.

Guarantor Contribution Agreement. That certain Contribution Agreement dated of even date herewith among Borrowers, the Guarantors and each additional Person which may become a Guarantor which may hereafter become a party thereto, as the same may be modified, amended or ratified from time to time.

Guarantors. Woodlands Operating, Town Center Development Company, L.P. and Town Center Development Company GP, L.L.C., and any Person which may become a guarantor of the Obligations after the date hereof.

Guaranty. The Unconditional Guaranty of Payment and Performance made by the Guarantors and each Person which becomes a Guarantor pursuant to §5.6 in favor of the Agent and the Lenders, as the same may be modified, amended, ratified or confirmed, such Guaranty to be in form and substance satisfactory to the Agent.

Hazardous Substances. See §6.20(b).

Hedge Obligations. All obligations of Borrowers to any Lender or an Affiliate of a Lender to make any payments (including, without limitation, any payments due upon a termination or default) under any agreement with respect to an interest rate swap, collar, cap or floor or a forward rate agreement or other agreement regarding the hedging of interest rate risk exposure executed in connection with the satisfaction of the condition set forth in §7.24, and any confirming letter executed pursuant to such hedging agreement, all as amended, restated or otherwise modified. Nothing herein shall require the Borrowers to obtain any such agreement from any Lender or an Affiliate of a Lender.

Highest Lawful Rate. With respect to Agent or any Lender, 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 Obligations under laws applicable to Agent or such Lenders which are currently in effect or, to the extent allowed by law, under such applicable laws which may hereafter be in effect and which allow a higher maximum nonusurious interest rate than applicable laws now allow. On each day, if any, that Texas law establishes the Highest Lawful Rate, the Highest Lawful Rate shall be the “weekly ceiling” (as defined in Section 303 of the Texas Finance Code) for that day.

Howard Hughes Group. The Howard Hughes Company, LLC, a Delaware limited liability company.

Improvements. The improvements to be constructed on the Land for any Vertical Commercial Improvements in accordance with the Plans and Specifications therefor.

Income Producing Properties. Income producing properties owned by Commercial Company or Land Company or their Restricted Subsidiaries located within the Woodlands Project or, with the approval of the Agent, adjacent thereto.

Indebtedness. All obligations, contingent and otherwise, that in accordance with Generally Accepted Accounting Principles should be classified upon the obligor’s balance sheet as liabilities, or to which reference should be made by footnotes thereto, including in any event and whether or not so classified: (a) all debt and similar monetary obligations, whether direct or indirect; (b) all liabilities secured by any mortgage, pledge, security interest, lien, charge or other encumbrance existing on property owned or acquired subject thereto, whether or not the liability secured thereby shall have been assumed; (c) all guarantees, endorsements and other contingent obligations whether direct or indirect in respect of indebtedness of others, including any obligation to supply funds to or in any manner to invest directly or indirectly in a Person, to purchase indebtedness, or to assure the owner of indebtedness against loss through an agreement to purchase goods, supplies or services for the purpose of enabling the debtor to make payment of the indebtedness held by such owner or otherwise, and the obligation to reimburse the issuer in respect of any letter of credit; (d) any obligation as a lessee or obligor under a Capitalized Lease; (e) all obligations with respect to letters of credit or similar instruments issued by a

Person; (f) all subordinated debt; and (g) all indebtedness, obligations or other liabilities under or with respect to (i) interest rate swap, collar, cap or similar agreements providing interest rate protection and (ii) foreign currency exchange agreements. Indebtedness shall not include current liabilities of the Borrowers or their respective Restricted Subsidiaries or Unrestricted Subsidiaries incurred in the ordinary course of business but not incurred through (i) the borrowing of money, or (ii) the obtaining of credit except for credit on an open account basis customarily extended and in fact extended in connection with normal purchases of goods and services. Indebtedness shall also include loans made pursuant to the Funding Agreement and the Partner Subordinated Debt; provided, however, that loans made pursuant to the Funding Agreement and the Partner Subordinated Debt shall be excluded from Indebtedness so long as no Event of Default exists, and no default, material misrepresentation or breach of warranty has occurred under the Funding Subordination and Standstill Agreement or the Partner Subordination and Standstill Agreement.

Indemnity Agreement. The Indemnity Agreement Regarding Hazardous Materials, made by the Borrowers in favor of the Agent and the Lenders, as the same may be modified or amended, pursuant to which the Borrowers agree to indemnify the Agent and the Lenders with respect to Hazardous Substances and Environmental Laws, such Indemnity Agreement to be in form and substance satisfactory to the Agent.

Indirect Costs. Indirect Costs shall mean and include title insurance report fees, survey charges, engineering fees, architectural fees, real estate taxes, appraisal costs, commitment fees and interest payable to the Lenders under the Loan with respect to the Vertical Commercial Improvements, premiums for insurance, marketing, advertising and leasing costs, brokerage commissions, legal fees, accounting fees, overhead and administrative costs, and all other expenses which are expenditures relating to Vertical Commercial Improvements and are not Direct Costs.

Interest Cap. See §7.24.

Interest Expense. For any period, the sum of all actual interest expense (excluding capitalized interest funded pursuant to a construction loan but including all other capitalized interest) due and payable by the Borrowers and the Restricted Subsidiaries during such period. Interest Expense shall include interest paid by the Borrowers and Land Company, respectively, with respect to loans made pursuant to the Funding Agreement and the Partner Subordinated Debt; provided, however, that payments or accruals of interest by the Borrowers or Land Company with respect to loans made pursuant to the Funding Agreement and the Partner Subordinated Debt, as applicable, shall be excluded from Interest Expense so long as no Event of Default exists, and no default, material misrepresentation or breach of warranty has occurred under the Funding Subordination and Standstill Agreement or the Partner Subordination and Standstill Agreement.

Interest Payment Date. The first day of each calendar month during the term of such Loan.

Interest Period. With respect to each LIBOR Rate Loan (a) initially, the period commencing on the Drawdown Date of such Loan and ending one, two, three or six months

thereafter, and (b) thereafter, each period commencing on the day following the last day of the next preceding Interest Period applicable to such LIBOR Loan and ending on the last day of one of the periods set forth above, as selected by the Borrowers in a Conversion Request; provided that all of the foregoing provisions relating to Interest Periods are subject to the following:

(i) if any Interest Period with respect to a LIBOR Rate Loan would otherwise end on a day that is not a LIBOR Business Day, that Interest Period shall end and the next Interest Period shall commence on the next preceding or succeeding LIBOR Business Day as determined conclusively by the Agent in accordance with the then current bank practice in the applicable LIBOR interbank market;

(ii) if the Borrowers shall fail to give notice as provided in §4.1, the Borrowers shall be deemed to have requested a conversion of the affected LIBOR Rate Loan to a Base Rate Loan on the last day of the then current Interest Period with respect thereto; and

(iii) no Interest Period relating to any LIBOR Rate Loan shall extend beyond the Maturity Date.

Investment. With respect to any Person, all shares of capital stock, evidences of Indebtedness and other securities issued by any other Person, all loans, advances, or extension of credit to, or contributions to the capital of, any other Person, all purchases of the securities or business or integral part of the business of any other Person and commitments to make such purchases, all interests in real property, and all other investments; provided, however, that the term "Investment" shall not include (i) equipment, inventory and other tangible personal property acquired in the ordinary course of business, or (ii) current trade and customer accounts receivable for services rendered in the ordinary course of business and payable in accordance with customary trade terms. In determining the aggregate amount of Investments outstanding at any particular time: (a) the amount of any investment represented as a guaranty shall be taken at not less than the principal amount of the obligations guaranteed and still outstanding; (b) there shall be included as an Investment all interest accrued with respect to Indebtedness constituting an Investment unless and until such interest is paid; (c) there shall be deducted in respect of each such Investment any amount received as a return of capital (but only by repurchase, redemption, retirement, repayment, liquidating dividend or liquidating distribution); (d) there shall not be deducted in respect of any Investment any amounts received as earning on such Investment, whether as dividends, interest or otherwise, except that accrued interest included as provided in the foregoing clause (b) may be deducted when paid; and (e) there shall not be deducted from the aggregate amount of Investments any decrease in the value thereof.

Joinder Agreement. The Joinder Agreement with respect to the Guaranty and Guarantor Contribution Agreement to be executed and delivered pursuant to §5.6 by any Person required to become a Guarantor thereunder, such Joinder Agreement to be substantially in the form of Exhibit "H" hereto.

KeyBank. KeyBank National Association, a national banking association, and its successors by merger.

Land. With respect to each Vertical Commercial Improvement, the real estate upon which the Vertical Commercial Improvements are to be constructed.

Land Assets. Collectively, the Residential Land and the Commercial Land.

Land Company. As defined in the preamble hereto.

Land Company Secured Term Loan Commitment. As to each Secured Term Loan Lender, the amount equal to such Secured Term Loan Lender's Land Company Secured Term Loan Commitment Percentage of the aggregate principal amount of the Secured Term Loans to Land Company from time to time outstanding.

Land Company Secured Term Loan Commitment Percentage. With respect to each Secured Term Loan Lender, the percentage set forth on Schedule 1.1 hereto as such Secured Term Loan Lender's percentage of the aggregate Secured Term Loans to Land Company, as the same may be changed from time to time in accordance with the terms of this Agreement.

Land Company Secured Term Loan or Loans. An individual Secured Term Loan or the aggregate Secured Term Loans, as the case may be, made by the Secured Term Loan Lenders hereunder to Land Company.

Land Company Secured Term Loan Note. A promissory note made by the Borrowers in favor of a Secured Term Loan Lender in the principal face amount equal to such Secured Term Loan Lender's Land Company Secured Term Loan Commitment, in substantially the form of Exhibit B-2 hereto.

Lead Arranger. KeyBanc Capital Markets.

Leases. Leases, licenses and agreements whether written or oral, relating to the use of occupation of space in or on the Building or on the Real Estate.

Lease Summaries. Summaries of the material terms of the Leases.

Lenders. KeyBank, the other Lenders a party hereto, and any other Person who becomes an assignee of any rights of a Lender pursuant to §18; and collectively, the Revolving Credit Lenders and the Secured Term Loan Lenders.

LIBOR Business Day. Any day on which commercial banks are open for international business (including dealings in Dollar deposits) in the London interbank market.

LIBOR Lending Office. Initially, the office of each Lender designated as such in Schedule 1.1 hereto; thereafter, such other office of such Lender, if any, that shall be making or maintaining LIBOR Rate Loans.

LIBOR Rate. For any LIBOR Rate Loan for any Interest Period, the greater of (a) the average rate (rounded to the nearest 1/100th) as shown in Reuters Screen LIBOR01 Page (or any successor service, or if such Person no longer reports such rate as determined by Agent, by another commercially available source providing such quotations approved by Agent) at which

deposits in U.S. dollars are offered by first class banks in the London Interbank Market at approximately 11:00 a.m. (London time) on the day that is two (2) LIBOR Business Days prior to the first day of such Interest Period with a maturity approximately equal to such Interest Period and in an amount approximately equal to the amount to which such Interest Period relates, adjusted for reserves and taxes if required by future regulations, and (b) one percent (1%). If such service or such other Person approved by Agent no longer reports such rate or Agent determines in good faith that the rate so reported no longer accurately reflects the rate available to Agent in the London Interbank Market, Agent may select a replacement index. For any period during which a Reserve Percentage shall apply, the LIBOR Rate with respect to LIBOR Rate Loans shall be equal to the amount determined above divided by an amount equal to 1 minus the Reserve Percentage.

LIBOR Rate Loans. Collectively, the Revolving Credit LIBOR Rate Loans and the Secured Term LIBOR Rate Loans.

Liens. See §8.2.

Liquidity. As of any date of determination, the sum of (a) the Borrowers' Cash plus (b) the amount of the Revolving Credit Loans available to be borrowed by Land Company as of such Quarterly Measurement Date plus (c) the budgeted cash available for Distribution for the two (2) Quarterly Measurement Dates for the next two(2) full calendar quarters following the date of determination as a result of operations of the Borrowers during the fiscal quarters ending on such next two (2) Quarterly Measurement Dates (based on the budget for such period approved by Agent pursuant to §7.4(k) and pro forma projection of compliance with the requirements to meet Distribution Level 1 or Distribution Level 2).

Loan Documents. This Agreement, the Notes (if any), the Security Documents, the Guarantor Contribution Agreement, the Joinder Agreements and all other documents, instruments or agreements now or hereafter executed or delivered by or on behalf of any Borrower or any Guarantor in connection with the Loans.

Loan or Loans. Collectively, the Revolving Credit Loans and the Secured Term Loans.

Loan Request. See §2.6.

Majority Lenders. As of any date, the Lender or Lenders whose aggregate Commitment Percentage is more than fifty percent (50%) of the total Commitments.

Management Agreements. Agreements, whether written or oral, providing for the management of all or any portion of the Mortgaged Properties.

Market Value Net Worth. As of any date of determination, the sum of (a) Total Market Value Capitalization as of such date minus (b) the aggregate Total Indebtedness of the Borrowers and their respective Restricted Subsidiaries.

Master Plan. The Master Plan for the Woodlands Project.

Material Agreements. Collectively, the Master Plan, the documents and agreements governing the Associations, and, to the extent any rights thereunder are a part of the Collateral, any of the Municipal Utility District Contracts, the Note Receivables and the partnership agreements or other organizational documents pursuant to which rights have been pledged to Agent pursuant to an Assignment of Interests.

Material Assets. Collectively, (a) Commercial Land sold in one transaction or a series of related transactions to the same Person (which for the purposes hereof shall include affiliated or related entities) for an aggregate purchase price of more than \$30,000,000.00 within any twelve (12) month period, (b) Residential Land sold in one transaction or a series of related transactions to the same Person (which for the purposes hereof shall include affiliated or related entities) involving 750 or more contiguous single family lots within any twelve (12) month period, or (c) Land Assets sold for an aggregate purchase price of more than \$30,000,000.00 within any twelve (12) month period to one or more Unrestricted Subsidiaries.

Maturity Date. March 29, 2014, as the same may be extended by the Borrowers as provided in §4.15, or such earlier date on which the Loans shall become due and payable pursuant to the terms hereof.

Mortgaged Property or Mortgaged Properties. Collectively, the Real Estate of Borrowers which is security for the Obligations pursuant to the Security Deeds.

MS Hospitality Management Fee. The fees payable to MS Hospitality, L.P. pursuant to that certain Management Agreement dated March 20, 2002, as amended, between WECCR and MS Hospitality, L.P. with respect to the management of the Conference Center.

MSREF. The Morgan Stanley Real Estate Fund II, L.P., a Delaware limited partnership.

MSREF Group. MSREF, MS/TWC Joint Venture, MS TWC, Inc., Morgan Stanley Real Estate Investors, L.P., MSREF II 892 Investors - B, L.P. and any co-investment partnership between an Affiliate of the general partner of MSREF and a major limited partner of MSREF formed to co-invest alongside MSREF pursuant to an existing co-investment agreement.

Multiemployer Plan. Any multiemployer plan within the meaning of §3(37) or §4001(a)(3) of ERISA or §414(f) of the Code maintained or contributed to by a Borrower or any ERISA Affiliate.

Municipal Utility District Contracts. The Municipal Utility District Contracts and the Road Utility District Contracts included within MUD Contracts and Note Receivables in Schedule 1.2 hereto.

Net Income (or Deficit). With respect to any Person, for any fiscal period, the net income (or deficit) of such Person, after deduction of all expenses, taxes and other proper charges, determined in accordance with Generally Accepted Accounting Principles.

Non-Recourse Indebtedness. Indebtedness of a Person which is secured by one or more parcels of Real Estate and related personal property or interests therein and is not a general obligation of such Person, the holder of such Indebtedness having recourse solely to the parcels

of Real Estate securing such Indebtedness, the Building and any leases thereon and the rents and profits thereof securing such Indebtedness, subject to such exceptions for fraud or material misrepresentation, misapplication of rents or misappropriation of funds (including insurance proceeds or condemnation awards), environmental issues, any loss of collateral due to forfeiture as a result of any criminal or quasi-criminal activity, springing recourse obligations due to voluntary or involuntary bankruptcy, encumbrances or transfers of interests or assets in violation of loan documents, or amendment, dissolution or other modifications or failures to follow organizational documents, and other customary matters as Agent may reasonably approve; provided, however, that the amount of any claims for liability with respect to any springing recourse obligations to the extent that a Person becomes liable therefor shall not be considered Non-Recourse Indebtedness.

Non-Recurring Amount. For any period, the sum of (a) any amounts included in Operating Cash Flow which are attributable to the non-recurring sale of income-producing assets (other than land sales) minus (b) any such amounts from such a sale of completed Vertical Commercial Improvements the construction of which commenced after the date of the Existing Credit Agreement which are in excess of the cost basis (exclusive of land) of such Vertical Commercial Improvements and minus (c) the market value of the land attributable to such Vertical Commercial Improvements.

Note Receivables. The notes payable to Commercial Company or Land Company and all proceeds of the foregoing, as more particularly described on Schedule 1.6 hereto and which are subject to the Security Agreement to which Commercial Company or Land Company is a party, together with any additional notes payable to Commercial Company or Land Company and all proceeds of the foregoing hereafter approved by Agent in writing for inclusion as a Note Receivable and which is subject to a Security Agreement.

Notes. Collectively, the Revolving Credit Notes and the Secured Term Loan Notes, if any.

Notice. See §19.

Obligations. All indebtedness, obligations and liabilities of the Borrowers and the Guarantors to any of the Lenders and the Agent, individually or collectively, under this Agreement or any of the other Loan Documents or in respect of any of the Loans or the Notes, or other instruments at any time evidencing any of the foregoing, whether existing on the date of this Agreement or arising or incurred hereafter, direct or indirect, joint or several, absolute or contingent, matured or unmatured, liquidated or unliquidated, secured or unsecured, arising by contract, operation of law or otherwise.

OFAC. Office of Foreign Asset Control of the Department of the Treasury of the United States of America.

Operating Cash Flow. For any period, an amount equal to the sum of (a) the Operating Income of a Borrower for such period minus (b) the Operating Expenses of a Borrower for such period.

Operating Expenses. For any period, all expenses of a Borrower directly attributable to the operation of such Borrower or the operation, repair and/or maintenance of the Property (if applicable) including, without limitation, taxes, insurance premiums, management fees, payments to third party suppliers, marketing and operating expenses, capital expenditures for maintenance or improvement of income producing properties, general and administrative expenses and all land and lot development expenditures (other than the amounts expended in respect of construction of Vertical Commercial Improvements) including, without limitation, amounts reimbursable under Municipal Utility District Contracts. For the purposes of this Agreement, Operating Expenses shall not include any Foreign, U.S., state and local income taxes, franchise taxes or other taxes based on the income imposed on a Borrower generally and not as owner of the Property, depreciation and any other non-cash expenditures of a Borrower, or any payment of principal or interest with respect to the Obligations or other Indebtedness or other fees or charges payable under the Loan Documents (except that appraisals and cost reimbursements to the Agent or the Lenders shall be Operating Expenses). Operating Expenses shall be determined on the basis of sound cash basis accounting practices applied on a consistent basis, modified as described above, and consistent with the manner in which they have previously been calculated and provided to the Lenders. Operating Expenses shall not include expenses of a Borrower's Restricted Subsidiaries and Unrestricted Subsidiaries or costs of Vertical Commercial Improvements.

Operating Income. For any period, all revenue or receipts derived by a Borrower from any source, including, without limitation (as applicable), net proceeds of sales, exchanges or transfers of Residential Land, Commercial Land and income-producing properties or interests therein, partnership distributions, dividends, management and other fees or similar payments, payments received on Accounts Receivable, interest income, rents and profits, operating expense and real estate tax expense reimbursements, escalations, percentage rents, administrative and supervisory fees, insurance proceeds and condemnation awards (other than proceeds and condemnation awards that are applied to Indebtedness by a lender or are used to restore and rebuild improvements) and any other extraordinary, non-recurring or miscellaneous revenues, but excluding capital contributions from a Borrower's partners and net proceeds of new construction and development financings or any borrowings of the Loans. Operating Income shall be determined on the basis of sound cash basis accounting practices applied on a consistent basis, modified as provided above and consistent with the manner in which they have previously been calculated and provided to the Lenders. Operating Income shall not include gross income of Restricted Subsidiaries and Unrestricted Subsidiaries of a Borrower, but instead the amount distributed to such Borrower.

Original Credit Agreement. As defined in the recitals.

Outstanding. With respect to the Loans, the aggregate unpaid principal thereof as of any date of determination.

Partial Interest. The ownership interest (determined based on its right to receive cash flow and other distributions) of Land Company or Commercial Company, whether such interest is evidenced by a partnership interest or otherwise, in certain Persons which own office, retail, research/industrial and multifamily rental properties more particularly described in Schedule 1.4 hereto, together with such additional interests as may hereafter be added as provided in §7.17. For the purposes of calculating compliance with financial covenants, a Partial Interest shall sometimes be expressed as a percentage interest in the underlying Income Producing Property.

Partner Subordinated Debt. The principal amount of the indebtedness evidenced by that certain Amended and Restated Promissory Note dated as of November 30, 2004, in the sum of \$250,000.00, made by Land Company in favor of MS TWC, Inc.; that certain Amended and Restated Promissory Note dated as of November 30, 2004, in the sum of \$14,125,000.00, made by Land Company in favor of MS/TWC Joint Venture; and that certain Amended and Restated Promissory Note dated as of November 30, 2004, in the sum of \$10,625,000.00, made by Land Company in favor of TWC Land Development.

Partner Subordinated Debt Payments. The amount of all payments made by Land Company on the Partner Subordinated Debt to MS TWC, Inc., MS/TWC Joint Venture and TWC Land Development during any period.

Partner Subordination and Standstill Agreement. The First Amended and Restated Subordination and Standstill Agreement dated of even date herewith, by and among Agent, Land Company and the holders of the Partner Subordinated Debt relating to the Partner Subordinated Debt, as the same may be modified or amended.

Partnerships. The Persons described on Schedule 1.5 hereto in which a Borrower has an ownership interest, together with each other Person in which a Borrower may hereafter obtain an ownership interest which is a Restricted Subsidiary.

Patriot Act. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, as the same may be amended from time to time, and corresponding provisions of future laws.

PBGC. The Pension Benefit Guaranty Corporation created by §4002 of ERISA and any successor entity or entities having similar responsibilities.

Performance Obligations. Letters of credit issued on behalf of a Borrower or one of its Restricted Subsidiaries to, or a guaranty provided by a Borrower or Restricted Subsidiary to, a governmental authority, the purpose of which is to assure completion by a Borrower or such Restricted Subsidiary of the development or maintenance of land improvements.

Permitted Excess Cash Flow Investments. Investments permitted pursuant to §8.3(a)-(g), the investments permitted pursuant to §8.3(h) and (i) (regardless of whether such Investment is deposited with Agent or any other Person), and such other investments as the Agent may reasonably approve.

Permitted Liens. Liens, security interests and other encumbrances permitted by §8.2.

Person. Any individual, corporation, partnership, limited liability company, trust, unincorporated association, business, or other legal entity, and any government or any governmental agency or political subdivision thereof.

Personal Property. With respect to each Vertical Commercial Improvements, all materials, furnishings, fixtures, furniture, machinery, equipment and all items of tangible personal property now or hereafter owned or acquired by a Borrower, wherever located, and either (i) to be located on or incorporated into the applicable Vertical Commercial Improvements, (ii) used in connection with the construction of the applicable Vertical Commercial Improvements or (iii) to be used in connection with the operation or maintenance of the applicable Vertical Commercial Improvements.

Plan. An Employee Benefit Plan, Multiemployer Plan and/or Guaranteed Pension Plan.

Plans and Specifications. The final and/or permitted detailed architectural, structural, mechanical, electrical, landscaping, erosion control, grading, utility and other plans and specifications for the applicable Vertical Commercial Improvements prepared by the Project Architect.

Principal Financial Officer. The primary officer or the authorized agent of the Borrowers, the General Partners, the Second Tier Partners, or the Third Tier Partners responsible for the preparation and certification of financial statements.

Project Architect. With respect to each Vertical Commercial Improvements, the licensed professional architect retained by a Borrower to design such Vertical Commercial Improvements and prepare the Plans and Specifications therefor, and supervise the construction of such Vertical Commercial Improvements.

Project Budget. The budget for total estimated Project Costs for Vertical Commercial Improvements in such form as the Agent may reasonably request.

Project Consents. All approvals, consents, waivers, orders, agreements, acknowledgments, authorizations, permits and licenses required under applicable Requirements or under the terms of any agreement, restriction, covenant or easement affecting Vertical Commercial Improvements, or otherwise necessary or desirable, for the ownership and acquisition of Vertical Commercial Improvements, the construction and equipping of the Improvements, and the use, occupancy and operation of Vertical Commercial Improvements following completion of construction of the Improvements, whether obtained from a governmental authority or any other Person.

Project Contractor. With respect to each Vertical Commercial Improvements, the general contractor hired by a Borrower to construct the Vertical Commercial Improvements.

Project Costs. For each Vertical Commercial Improvements, the sum of all Direct Costs and Indirect Costs that will be incurred by a Borrower in connection with the construction, equipping and completion of the Improvements and the operation and carrying of such Vertical Commercial Improvements through stabilization.

Properties under Construction. Vertical Commercial Improvements under construction; provided that a property shall cease to be under construction and eligible for inclusion in the Borrowing Base as a Property Under Construction upon the earlier to occur of (a) eighteen months following the commencement of construction and (b) six (6) months after the issuance of a shell certificate of occupancy or an equivalent thereto for such improvements.

Property. Collectively, the Accounts Receivable, the Residential Land, the Commercial Land, the Common Area Land, the Golf Courses, the Qualifying Income Properties, the Partial Interests, the Properties under Construction, the Income Producing Properties and the Fees.

Qualifying Income Properties. Income Producing Properties that satisfy the terms of §5.2 and §7.19. The initial Qualifying Income Properties are more particularly described in Schedule 1.3 hereto. The Qualifying Income Properties may include the Conference Center to the extent the Borrowers satisfy the conditions to the inclusion of the Conference Center as a Borrowing Base Asset.

Quarterly Measurement Date. Each December 31, March 31, June 30 and September 30 during the term of the Agreement, with the first Quarterly Measurement Date occurring December 31, 2010.

Real Estate. All real property at any time owned or leased (as lessee or sublessee) by the Borrowers, any of their respective Restricted Subsidiaries, a Guarantor or any of the Partnerships.

Register. See §18.2.

Related Fund. With respect to any Lender which is a fund that invests in loans, any Affiliate of such Lender or any other fund that invests in loans that is managed by the same investment advisor as such Lender or by an Affiliate of such Lender or such investment advisor.

Release. See §6.20(c) (iii).

Rent Roll. A report prepared and certified by a Borrower showing for each property its type, occupancy status, lease expiration date, lease rent and other information in substantially the form presented to the Lenders prior to the date hereof or in such other form as may have been approved by the Agent, such approval not to be unreasonably withheld.

Requirements. Any law, ordinance, code, order, rule or regulation of any governmental authority relating in any way to the acquisition, ownership, construction, use, occupancy and operation of Vertical Commercial Improvements before, during and following the completion thereof, including those relating to subdivision control, zoning, building, use and occupancy, fire prevention, health, safety, sanitation, handicapped access, historic preservation and protection, tidelands, wetlands, flood control, access and earth removal, and all Environmental Laws.

Reserve Percentage. For any Interest Period, that percentage which is specified three (3) Business Days before the first day of such Interest Period by the Board of Governors of the Federal Reserve System (or any successor) or any other governmental or quasi-governmental authority with jurisdiction over Agent or any Lender for determining the maximum reserve requirement (including, but not limited to, any marginal reserve requirement) for Agent or any Lender with respect to liabilities constituting of or including (among other liabilities) Eurocurrency liabilities in an amount equal to that portion of the Loan affected by such Interest Period and with a maturity equal to such Interest Period.

Residential Land. Collectively, the Developed Residential Land and the Undeveloped Residential Land. The Residential Land shall not include any of the Common Area Land.

Restricted Subsidiary. A Restricted Subsidiary shall mean (a) any corporation, association, partnership, limited liability company, trust, or other business entity of which the designated parent (i) shall be the general partner, managing member, controlling shareholder or similar controlling Person of such entity, (ii) shall own directly or indirectly through a Person or Persons at least fifty percent (50%) (by number of votes or controlling interests) of the outstanding Voting Interests and (iii) shall have control over all major decisions (including the decision to sell or encumber such Person's assets) and day-to-day operations of such entity, and (b) any other entity the accounts of which are consolidated with the accounts of a Borrower in accordance with Generally Accepted Accounting Principles; provided that such Borrower has not elected that such entity be an Unrestricted Subsidiary as permitted in this Agreement. Notwithstanding the foregoing, Stewart Title of Montgomery County, Inc. shall not constitute a Restricted Subsidiary.

Revolving Credit Base Rate Loans. Revolving Credit Loans bearing interest calculated by reference to the Base Rate.

Revolving Credit Commitment. With respect to each Revolving Credit Lender, the amount set forth on Schedule 1.1 hereto as the amount of such Revolving Credit Lender's Revolving Credit Commitment to make or maintain Revolving Credit Loans to Land Company, as the same may be changed from time to time in accordance with the terms of this Agreement.

Revolving Credit Commitment Percentage. With respect to each Revolving Credit Lender, the percentage set forth on Schedule 1.1 hereto as such Revolving Credit Lender's percentage of the aggregate Revolving Credit Commitments of all of the Revolving Credit Lenders, as the same may be changed from time to time in accordance with the terms of this Agreement.

Revolving Credit LIBOR Rate Loans. Revolving Credit Loans bearing interest calculated by reference to the LIBOR Rate.

Revolving Credit Lenders. Collectively, the Lenders which have a Revolving Credit Commitment, such Revolving Credit Lenders being identified on Schedule 1.1 hereto.

Revolving Credit Loan or Loans. An individual Revolving Credit Loan or the aggregate Revolving Credit Loans, as the case may be, to be made by the Revolving Credit Lenders hereunder as more particularly described in §2.

Revolving Credit Note or Notes. A promissory note or notes made by the Borrowers in favor of a Revolving Credit Lender in the principal face amount equal to such Revolving Credit Lender's Revolving Credit Commitment, or if less, the outstanding amount of all Revolving Credit Loans made by such Revolving Credit Lender, in substantially the form of Exhibit A-2 hereto.

Second Tier Partners. Collectively, TWLDC Holdings and TWPC Holdings.

Secured Term Base Rate Loans. The Secured Term Loans bearing interest by reference to the Base Rate.

Secured Term LIBOR Rate Loans. The Secured Term Loans bearing interest by reference to the LIBOR Rate.

Secured Term Loan or Secured Term Loans. An individual Secured Term Loan or the aggregate Secured Term Loans, as the case may be, in the maximum principal amount of \$170,000,000.00 made by the Secured Term Loan Lenders hereunder.

Secured Term Loan Commitment. As to each Secured Term Loan Lender, the amount equal to such Secured Term Loan Lender's percentage set forth on Schedule 1.1 of the aggregate principal amount of the Secured Term Loans from time to time outstanding.

Secured Term Loan Commitment Percentage. With respect to each Secured Term Loan Lender, the percentage set forth on Schedule 1.1 hereto as such Secured Term Loan Lender's percentage of the aggregate Secured Term Loans, as the same may be changed from time to time in accordance with the terms of this Agreement.

Secured Term Loan Lenders. Collectively, the Lenders which have a Secured Term Loan Commitment, such Secured Term Loan Lenders being identified on Schedule 1.1 hereto.

Secured Term Loan Notes. Collectively, the Commercial Company Secured Term Loan Notes and the Land Company Secured Term Loan Notes, if any.

Security Agreements. Collectively the Collateral Assignment of Documents from Commercial Company to the Agent for the benefit of the Lenders and the Collateral Assignment of Documents from Land Company to the Agents for the benefit of the Lenders, as the same may be modified or amended, pursuant to which the Accounts Receivable and the Fees have been pledged as security for the Obligations, such Security Agreements to be in form and substance satisfactory to the Agent.

Security Deeds. The Deeds of Trust from a Borrower or Stibbs (which has been assumed by Land Company pursuant to the Assumption Agreement), to the Agent for the benefit of the Lenders (or to trustees named therein acting on behalf of the Agent for the benefit of the Lenders), as the same may be modified or amended, pursuant to which a Borrower has conveyed a Mortgaged Property as security for the Obligations, such Security Deeds to be in form and substance satisfactory to the Agent.

Security Documents. The Security Deeds, the Assignments of Rents and Leases, the Assignment of Management Agreements and Subordination, the Assignment of Interests, the Assignment of Project Documents, the Security Agreements, the Assignment of Hedge, the Cash Collateral Account Agreement, the Indemnity Agreement, the Guaranty, the Assumption Agreement, and any further collateral assignments to the Agent for the benefit of the Lenders, including, without limitation, UCC-1 financing statements executed and delivered in connection therewith.

Short-term Investments. Investments described in subsections (a) through (g), inclusive, of §8.3.

Speculative Development. Development of Commercial Land or Residential Land for office, retail or research/industrial use which is less than seventy percent (70%) leased (or sixty percent (60%) leased for a grocery anchored retail development) pursuant to a bona-fide arm's length lease to third parties that are not an Affiliate of any Borrower, any of the General Partners, any Second Tier Partner, any of the Third Tier Partners, any Guarantor, or any of their Restricted Subsidiaries or Unrestricted Subsidiaries at the time construction commences. A lease shall not be deemed a lease with an Affiliated Person in the event that a Borrower, any of the General Partners, any Second Tier Partner, any of the Third Tier Partners, any Guarantor, or any of their Restricted Subsidiaries or Unrestricted Subsidiaries enters into a joint venture with a third party unaffiliated with any of such Persons which in turn leases a portion of such property to such unaffiliated Person. In the event that any of such property is to be leased to an Affiliate of a Borrower, any of the General Partners, any Second Tier Partner, any of the Third Tier Partners, any Guarantor, or any of their Restricted Subsidiaries or Unrestricted Subsidiaries, the square footage subject to such lease shall be deducted from the overall square footage of the project and excluded in calculating compliance with the foregoing tests. Once a particular development is leased at or above such level, such development shall cease to be a Speculative Development.

Stibbs. John H. Stibbs, Jr., as Trustee for a Borrower.

Stipulated Commitment Reduction Amount. See §3.6(a).

Super-Majority Lenders. As of any date, the Lender or Lenders whose aggregate Commitment Percentage is equal to or greater than sixty-six and two-thirds percent (66 2/3%) of the total Commitments.

Survey. With respect to each Mortgaged Property, an instrument survey of such Mortgaged Property or the Land upon which Vertical Commercial Improvements are to be constructed and any improvements thereon, if any, a plat, or other description of the Mortgaged Property reasonably satisfactory to Agent.

Syndication Agent. Compass Bank.

TCI Easement Agreement. That certain Access Agreement between Woodlands and The Woodlands Communication Network pursuant to which Comcast Cable Communications, Inc., successor to The Woodlands Communication Network, operates a cable system within private easements owned by Woodlands for a period which ends on June 15, 2015.

Test Period. See §9.2.

Third Tier Partners. Collectively, TWC Commercial Properties and MS TWC, Inc. as the general partners of TWCPC Holdings, and TWC Land Development and MS TWC, Inc. as the general partners of TWLDC Holdings.

Title Insurance Company. Stewart Title Company of Montgomery County, Inc. or another title insurance company or companies or title agent approved by the Agent.

Total Debt Ratio. As of any Quarterly Measurement Date, the ratio of (a) the aggregate Total Indebtedness of the Borrowers and their respective Restricted Subsidiaries to (b) Total Market Value Capitalization of the Borrowers.

Total Indebtedness. See §9.1(a).

Total Market Value Capitalization. At any time the sum of (a) an amount equal to the total value of the Borrowing Base Assets as determined for the purposes of computing the Borrowing Base at such time (without reference to any percentage advance rate), plus (b) the Appraised Value as most recently determined hereunder (or if the Appraised Value has not been determined, the historic cost (including construction in progress and land value)) of income producing properties that are owned by Commercial Company or Land Company but do not constitute Borrowing Base Assets other than Build-To-Suit Properties (or in the event that such property is owned by a Restricted Subsidiary of Commercial Company or Land Company, then a percentage of such Appraised Value or cost, as applicable, equal to the percentage that Commercial Company's or Land Company's Partial Interest bears to the entire equity interest in such property), plus (c) the historic cost (including land value) of Build-To-Suit Properties owned by Commercial Company or Land Company which do not constitute Borrowing Base Assets (or in the event that such property is owned by a Restricted Subsidiary of Commercial Company or Land Company, then a percentage of such cost equal to the percentage that Commercial Company's or Land Company's Partial Interest bears to the entire equity interest in such property), plus (d) for each Partial Interest, an amount equal to the product obtained by multiplying (x) (i) the product obtained by multiplying (A) the sum of the historic cost of each Income Producing Property underlying the Partial Interest by (B) 0.70, by (y) the Partial Interest (expressed as a percentage) (but not less than zero). Notwithstanding the foregoing, any property described in clauses (a), (b), (c) and (d) above that is security for any Non-Recourse Indebtedness in the event that the Non-Recourse Indebtedness secured by such asset exceeds fifty-five percent (55%) of the Adjusted Value of such asset, shall be excluded for the purposes of determining Total Market Value Capitalization.

Tri-Party Agreement. An agreement among the Agent, the Borrowers and the Title Insurance Company providing for the execution by the Title Insurance Company on behalf of the Agent of releases and other consents pursuant to §5.5, as the same may be modified or amended, such agreement to be in form and substance satisfactory to Agent.

TWC Commercial Properties. TWC Commercial Properties, LP, a Delaware limited partnership.

TWC Land Development. TWC Land Development, LP, a Delaware limited partnership.

TWCPC Holdings. TWCPC Holdings, L.P., a Texas limited partnership.

TWCPC Holdings GP. TWCPC Holdings GP, L.L.C., a Texas limited liability company.

TWLDC Holdings. TWLDC Holdings, L.P., a Texas limited partnership.

TWLDC Holdings GP. TWLDC Holdings GP, L.L.C., a Texas limited liability company.

Type. As to any Revolving Credit Loan or Secured Term Loan, its nature as a Base Rate Loan or a LIBOR Rate Loan.

Undeveloped Commercial Land. Land designated for commercial use under the Master Plan of the Woodlands Project, but not Developed Commercial Land.

Undeveloped Residential Land. Land designated for residential or institutional use, schools, churches, nurseries or day care centers or designated for gas stations, service stations or similar retail use or apartment use and other commercial uses designated as part of the Residential Land under the applicable Master Plan of the Woodlands Project, but not Developed Residential Land.

Unrestricted Cash and Cash Equivalents. As of any date of determination, the sum of (a) the aggregate amount of Unrestricted Cash and (b) the aggregate amount of Unrestricted Cash Equivalents (valued at fair market value). As used in this definition, "Unrestricted" means the specified asset is not subject to any escrow, reserves or Liens or claims of any kind in favor of any Person.

Unrestricted Subsidiaries. Any corporation, association, partnership, limited liability company, trust, or other business entity of which the designated parent shall at any time own directly or indirectly through a Person or Persons an ownership interest but which is not a Restricted Subsidiary or which a Borrower elects to be an Unrestricted Subsidiary.

Vertical Commercial Improvements. Improvements to the Commercial Land or Residential Land, as applicable (which may include improvements to be used for multifamily rental housing), which are intended to be income-producing operating properties upon completion, rising vertically from such land together with any site work and grading performed on the Commercial Land or Residential Land, as applicable, in connection therewith.

Vertical Development Costs. The aggregate amount of all historic costs (including land at its Adjusted Value) of Properties under Construction, less the amount of such costs paid for through any date of determination from proceeds of any financing secured by the applicable Properties under Construction.

Voting Interests. Stock or similar ownership interests of any class or classes (however designated), the holders of which are at the time entitled, as such holders, (a) to vote for the election of a majority of the directors (or persons performing similar functions) of the corporation, association, partnership, trust or other business entity involved, or (b) to control, manage, or conduct the business of the corporation, partnership, association, trust or other business entity involved.

WECCR. WECCR General Partnership, a Texas general partnership.

Woodlands. The Woodlands Corporation.

Woodlands Operating. The Woodlands Operating Company, L.P.

Woodlands Operating Distributions. A Distribution made by The Woodlands Operating Company, L.P. to the partners or other beneficial owners of The Woodlands Operating Company, L.P.

Woodlands Operating Payments. The sum of (i) the amount of all Distributions made by Woodlands Operating to the partners or other beneficial owners of Woodlands Operating during any period plus (ii) the amount of all MS Hospitality Management Fees paid during any period.

Woodlands Project. The project commonly known as The Woodlands and described in the Master Plan.

§1.2 Rules of Interpretation.

(a) A reference to any document or agreement shall include such document or agreement as amended, modified or supplemented from time to time in accordance with its terms and the terms of this Agreement.

(b) The singular includes the plural and the plural includes the singular.

(c) A reference to any law includes any amendment or modification to such law.

(d) A reference to any Person includes its permitted successors and permitted assigns.

(e) Accounting terms not otherwise defined herein have the meanings assigned to them by Generally Accepted Accounting Principles applied on a consistent basis by the accounting entity to which they refer.

(f) The words “include,” “includes” and “including” are not limiting.

(g) The words “approval” and “approved” as the context so determines, means an approval in writing given to the party seeking approval after full and fair disclosure to the party giving approval of all material facts necessary in order to determine whether approval should be granted.

(h) All terms not specifically defined herein or by Generally Accepted Accounting Principles, which terms are defined in the Uniform Commercial Code as in effect in the State of Texas, have the meanings assigned to them therein.

(i) Reference to a particular “§” refers to that section of this Agreement unless otherwise indicated.

(j) The words “herein,” “hereof,” “hereunder” and words of like import shall refer to this Agreement as a whole and not to any particular section or subdivision of this Agreement.

(k) In the event of any change in Generally Accepted Accounting Principles after the date hereof or any other change in accounting procedures pursuant to §7.3 which would affect the computation of any financial covenant, ratio or other requirement set forth in any Loan Document, then upon the request of Borrower or Agent, the Borrower, the Guarantors, the Agent and the Lenders shall negotiate promptly, diligently and in good faith in order to amend the provisions of the Loan Documents such that such financial covenant, ratio or other requirement shall continue to provide substantially the same financial tests or restrictions of the Borrower as in effect prior to such accounting change, as determined by the Majority Lenders in their good faith judgment. Until such time as such amendment shall have been executed and delivered by the Borrower, the Guarantors, the Agent and the Majority Lenders, such financial covenants, ratio and other requirements, and all financial statements and other documents required to be delivered under the Loan Documents, shall be calculated and reported as if such change had not occurred.

§1.3 Amendment and Restatement. In order to facilitate the amendment and restatement of the Original Credit Agreement, certain lenders a party to the Original Credit Agreement are no longer continuing as Lenders under this Agreement (the “Exiting Lenders”), and certain new lenders are becoming a party to this Agreement as Lenders. Contemporaneously with the execution of this Agreement, the Exiting Lenders shall be deemed to have assigned their Commitments under the Original Credit Agreement to the Lenders under this Agreement, and the Exiting Lenders shall be paid all principal, interest and fees due to them in connection therewith. The Revolving Credit Commitments and the Secured Term Loan Commitments shall be allocated among the Lenders a party to this Agreement in accordance with their respective Revolving Credit Commitment Percentages and their Secured Term Loan Commitment Percentages. The foregoing is done as an accommodation to the Borrowers, the Exiting Lenders and the Lenders, and shall be deemed to have occurred with the same force and effect as if such assignments were evidenced by the applicable Assignment and Acceptance Agreements (as defined in the Original Credit Agreement), and no other documents shall be, or shall be required to be, executed in connection therewith.

§2. THE REVOLVING CREDIT FACILITY

§2.1 [Intentionally Omitted.]

§2.1A. Commitment to Lend Revolving Credit Loans. Subject to the terms and conditions set forth in this Agreement, each of the Revolving Credit Lenders severally agrees to lend to Land Company, and Land Company may borrow (and repay and reborrow) from time to time between the date hereof and the Maturity Date, upon notice by Land Company to the Agent given in accordance with §2.6, such sums as are requested by Land Company for the purposes set forth in §7.11 up to the lesser of (a) a maximum aggregate principal amount outstanding (after giving effect to all amounts requested) at any one time equal to such Revolving Credit Lender’s Revolving Credit Commitment and (b) such Revolving Credit Lender’s Revolving Credit Commitment Percentage of the sum of (i) the Borrowing Base minus (ii) the amount of all outstanding or requested Commercial Company Secured Term Loans and Land Company Secured Term Loans; provided, that, in all events no Default or Event of Default shall have occurred and be continuing and the Borrowers shall be in compliance with all covenants as required pursuant to §2.6(ii); and provided, further, that the outstanding principal amount of the

Revolving Credit Loans (after giving effect to all amounts requested) shall not at any time exceed the total Revolving Credit Commitment. The Revolving Credit Loans shall be made pro rata in accordance with each Revolving Credit Lender's Revolving Credit Commitment Percentage. Each request for a Revolving Credit Loan hereunder shall constitute a representation and warranty by Land Company that all of the conditions set forth in §10 and §11, in the case of the initial Revolving Credit Loan, and §11, in the case of all other Revolving Credit Loans, have been satisfied on the date of such request. No Revolving Credit Lender shall have any obligation to make Revolving Credit Loans to Land Company in the maximum aggregate principal amount outstanding of more than the amount of its Revolving Credit Commitment.

§2.2 Unused Fee. The Borrowers agree to pay to the Agent for the accounts of the Revolving Credit Lenders in accordance with their respective Revolving Credit Commitment Percentages an unused fee calculated at the rate per annum set forth below on the average daily amount by which the Revolving Credit Commitment from time to time exceeds the outstanding principal amount of Revolving Credit Loans during each calendar quarter or portion thereof commencing on the date hereof and ending on the Maturity Date. The unused fee shall be calculated for each day based on the ratio (expressed as a percentage) of (a) the average daily amount of the outstanding principal amount of the Revolving Credit Loans during such quarter to (b) the Revolving Credit Commitment, and shall be payable based upon the ratios set forth below:

<u>Ratio of Revolving Credit Loans to Revolving Credit Commitment</u>	<u>Unused Fee</u>
Less than 50%	0.45%
Greater than or equal to 50%	0.35%

The unused fee shall be payable quarterly in arrears on the first day of each calendar quarter for the immediately preceding calendar quarter or portion thereof, or on any earlier date on which the Revolving Credit Commitment shall terminate as provided in §2.3, with a final payment on the Maturity Date. Any payment due under this §2.2 shall be prorated for any partial calendar quarter.

§2.3 Optional Reduction of Revolving Credit Commitment. Land Company shall have the right at any time and from time to time upon three Business Days' prior written notice to the Agent to reduce by \$5,000,000.00 or an integral multiple of \$500,000.00 in excess thereof (provided that in no event shall the aggregate Revolving Credit Commitment be reduced to an amount less than \$25,000,000.00) or to terminate entirely the unborrowed portion of the Revolving Credit Commitment, whereupon the Revolving Credit Commitment of the Revolving Credit Lenders shall be reduced pro rata in accordance with their respective Revolving Credit Commitment Percentages of the amount specified in such notice or, as the case may be, terminated, any such reduction to be without penalty. Promptly after receiving any notice of Land Company delivered pursuant to this §2.3, the Agent will notify the Revolving Credit Lenders of the substance thereof. Upon the effective date of any such termination in full, the Borrowers shall pay to the Agent for the respective accounts of the Revolving Credit Lenders the full amount of any unused fee under §2.2 then accrued. No reduction or termination of the

Revolving Credit Commitment may be reinstated. Any reduction of the Revolving Credit Commitment pursuant to this Agreement shall be allocated pro rata among the Revolving Credit Lenders in accordance with their Revolving Credit Commitment Percentages.

§2.4 Evidence of Debt. The indebtedness of the Borrowers resulting from the Loans made by each Lender from time to time shall be evidenced by one or more accounts or records maintained by such Lender and the Agent in the ordinary course of business, including, without limitation, the amounts of principal and interest payable and paid to such Lender from time to time hereunder. The Borrowers hereby irrevocably authorize Agent and the Lenders to make, or cause to be made, at or about the time of the Drawdown Date of any Loan or at the time of receipt of any payment thereof, an appropriate notation on Agent's and the Lender's records reflecting the making of such Loan or (as the case may be) the receipt of such payment. The Agent shall maintain accounts or records in accordance with its usual practice in which it shall record: (i) the date and the amount of each Loan made hereunder, the Type of Loan and, if appropriate, the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrowers to each Lender hereunder, and (iii) the amount of any sum received by the Agent hereunder from the Borrowers and each Lender's share thereof. The accounts or records maintained by the Agent and each Lender shall be prima facie evidence of the existence and amounts of the Obligations recorded therein and shall be conclusive absent manifest error of the amount of the Loans made by the Lenders to the Borrowers and the interest and payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Borrowers hereunder or under the Notes, if any, to pay any amount owing with respect to the Obligations. In the event of any conflict between the accounts and records maintained by any Lender and the accounts and records of the Agent in respect of such matters, the accounts and records of the Agent shall control in the absence of manifest error. The Borrowers agree that upon the request of any Lender made through the Agent (whether for purposes of pledge, enforcement or otherwise), the Borrowers shall promptly execute and deliver to such Lender (through the Agent) a Revolving Credit Note, a Commercial Company Secured Term Loan Note and/or a Land Company Secured Term Loan Note, as applicable, payable to the order of such Lender, which shall evidence such Lender's Loans in addition to such accounts or records. Each Lender may attach schedules to its Notes and endorse thereon the date, Type (if applicable), amount and maturity of its Loans and payments with respect thereto. All references to Notes in the Loan Documents shall mean Notes, if any, to the extent issued hereunder. By delivery of this Agreement and any Revolving Credit Note, Commercial Company Secured Term Loan Note and/or a Land Company Secured Term Loan Note, there shall not be deemed to have occurred, and there has not otherwise occurred, any payment, satisfaction or novation of the Indebtedness evidenced by the Original Credit Agreement, the "Revolving Credit Notes" and the "Secured Term Loan Notes" described in the Original Credit Agreement, which Indebtedness is instead allocated among the Revolving Credit Lenders and the Secured Term Loan Lenders as of the date hereof in accordance with their respective Revolving Credit Commitment Percentages, Commercial Company Secured Term Loan Commitment Percentages and Land Company Secured Term Loan Commitment Percentages, and is evidenced by this Agreement and any Revolving Credit Notes, Commercial Company Secured Term Loan Notes and Land Company Secured Term Loan Notes, and the Revolving Credit Lenders and the Secured Term Loan Lenders shall as of the date hereof make such adjustments to the outstanding Revolving Credit Loans and Secured Term Loans of such Revolving Credit Lenders and Secured Term Loan Lenders so that such outstanding Revolving

Credit Loans and Secured Term Loans are consistent with their respective Revolving Credit Commitment Percentages and Secured Term Loan Commitment Percentages. By execution hereof, the Lenders waive payment of any prepayment fees payable to such Lenders, if any, under the Original Credit Agreement.

§2.4A. [Intentionally Omitted.]

§2.5 Interest on Revolving Credit Loans.

(a) Each Revolving Credit LIBOR Rate Loan shall bear interest for the period commencing with the Drawdown Date thereof and ending on the date on which such Revolving Credit LIBOR Rate Loan is converted to a Revolving Credit Base Rate Loan from a Revolving Credit LIBOR Rate Loan at the rate per annum equal to the sum of (i) the LIBOR Rate plus (ii) four percent (4.0%).

(b) Each Revolving Credit Base Rate Loan shall bear interest for the period commencing with the Drawdown Date thereof and ending on the date on which such Revolving Credit Base Rate Loan is converted to a Revolving Credit LIBOR Rate Loan from a Revolving Credit Base Rate Loan at a rate per annum equal to the sum of (i) the Base Rate plus (ii) two and one-half percent (2.5%).

(c) The Borrowers promise to pay interest on each Revolving Credit Loan in arrears on each Interest Payment Date with respect thereto.

§2.6 Requests for Revolving Credit Loans. Land Company (i) shall notify the Agent of a potential request for a Revolving Credit Loan as soon as possible prior to Land Company's proposed Drawdown Date, and (ii) shall give to the Agent written notice in the form of Exhibit C-2 hereto (or telephonic notice confirmed in writing in the form of Exhibit C-2 hereto) of each Revolving Credit Loan requested hereunder (a "Loan Request") no later than 10:00 a.m. three (3) Business Days prior to the proposed Drawdown Date. The Agent shall promptly notify each of the Revolving Credit Lenders following the receipt of a Loan Request, but in any event not less than two (2) Business Days prior to the proposed Drawdown Date. Land Company shall not make a Loan Request more frequently than five (5) times each month. Each such notice shall specify with respect to the requested Revolving Credit Loan the proposed principal amount, Drawdown Date and Type (if applicable). Each such notice shall also contain (i) a statement as to the purpose for which such advance shall be used (which purpose shall be in accordance with the terms of §7.11), and (ii) a certification by the Principal Financial Officer of each Borrower that the Borrowers are and will be in compliance with all covenants under the Loan Documents after giving effect to the making of such Revolving Credit Loan. Except as provided in this §2.6, each such Loan Request shall be irrevocable and binding on Land Company and shall obligate Land Company to accept the Revolving Credit Loan requested from the Revolving Credit Lenders on the proposed Drawdown Date, provided that, in addition to Land Company's other remedies against any Revolving Credit Lender which fails to advance its proportionate share of a requested Revolving Credit Loan, such Loan Request may be revoked by Land Company by notice received by the Agent no later than the Drawdown Date if any Revolving Credit Lender fails to advance its proportionate share of the requested Revolving Credit Loan in accordance with the terms of this Agreement, provided further that Land Company shall be liable in

accordance with the terms of this Agreement to any Revolving Credit Lender which is prepared to advance its proportionate share of the requested Revolving Credit Loan for any costs, expenses or damages incurred by such Revolving Credit Lender as a result of Land Company's election to revoke such Loan Request. Nothing herein shall prevent Land Company from seeking recourse against any Revolving Credit Lender that fails to advance its proportionate share of a requested Revolving Credit Loan as required by this Agreement. Land Company may without cost or penalty revoke a Loan Request by delivering notice thereof to each of the Revolving Credit Lenders no later than 10:00 a.m. two (2) Business Days prior to the Drawdown Date. Each Loan Request shall be for a minimum aggregate amount of \$1,000,000 or an integral multiple of \$100,000 in excess thereof.

§2.7 Funds for Revolving Credit Loans.

(a) Not later than 2:00 p.m. (Atlanta time) on the proposed Drawdown Date of any Revolving Credit Loans, each of the Revolving Credit Lenders will make available to the Agent, at the Agent's Head Office, in immediately available funds, the amount of such Revolving Credit Lender's Revolving Credit Commitment Percentage of the amount of the requested Revolving Credit Loans which may be disbursed pursuant to §2.1. Upon receipt from each Revolving Credit Lender of such amount, and upon receipt of the documents required by §10 and §11 and the satisfaction of the other conditions set forth therein, to the extent applicable, the Agent will make available to Land Company the aggregate amount of such Revolving Credit Loans made available to the Agent by the Revolving Credit Lender by promptly crediting such amount to the account of Land Company maintained at the Agent's Head Office. The failure or refusal of any Revolving Credit Lender to make available to the Agent at the aforesaid time and place on any Drawdown Date the amount of its Revolving Credit Commitment Percentage of the requested Revolving Credit Loans to the extent it is obligated to fund such Revolving Credit Loan hereunder shall not relieve any other Revolving Credit Lender from its several obligation hereunder to make available to the Agent the amount of such other Revolving Credit Lender's Revolving Credit Commitment Percentage of any requested Revolving Credit Loans, including any additional Revolving Credit Loans that may be requested by Land Company subject to the terms and conditions hereof to provide funds to replace those not advanced by the Revolving Credit Lender so failing or refusing, provided that Land Company may by notice received by the Agent no later than the Drawdown Date refuse to accept any Revolving Credit Loan which is not fully funded in accordance with Land Company's Loan Request subject to the terms of §2.6; provided further that no Revolving Credit Lender shall be obligated to advance any amount in excess of the limits set forth in §2.1A. In the event of any such failure or refusal, the Revolving Credit Lenders not so failing or refusing shall be entitled to a priority position as against the Revolving Credit Lender or Revolving Credit Lenders so failing or refusing for such Revolving Credit Loans as provided in §14.5.

(b) Unless Agent shall have been notified by any Revolving Credit Lender prior to the applicable Drawdown Date that such Revolving Credit Lender will not make available to Agent such Revolving Credit Lender's pro rata share of a proposed Revolving Credit Loan, Agent may in its discretion assume that such Revolving Credit Lender has made such Revolving Credit Loan available to Agent in accordance with the provisions of this Agreement and Agent may, if it chooses, in reliance upon such assumption make such Revolving Credit Loan available to Land Company, and such Revolving Credit Lender shall be liable to the Agent

for the amount of such advance. If such Revolving Credit Lender does not pay such corresponding amount upon the Agent's demand therefor, the Agent will promptly notify the Borrowers, and, if such amount was actually advanced to the Borrowers, the Borrowers shall promptly pay such corresponding amount to the Agent. The Agent shall also be entitled to recover from the Revolving Credit Lender or the Borrowers, as the case may be, interest on such corresponding amount in respect of each day from the date such corresponding amount was made available by the Agent to the applicable Borrower to the date such corresponding amount is recovered by the Agent at a per annum rate equal to (i) from the Borrowers at the applicable rate for such Revolving Credit Loan or (ii) from a Revolving Credit Lender at the Federal Funds Effective Rate plus one-half of one percent (0.5%).

§2A. THE SECURED TERM LOAN FACILITY

§2A.1 Commitment to Lend Commercial Company Secured Term Loan. Subject to the terms and conditions set forth in this Agreement, each of the Secured Term Loan Lenders severally agrees to lend to Commercial Company on the Closing Date such Secured Term Loan Lender's Commercial Company Secured Term Loan Commitment Percentage of the Commercial Company Secured Term Loan Commitment.

§2A.1A Commitment to Lend Land Company Secured Term Loan. Subject to the terms and conditions set forth in this Agreement, each of the Secured Term Loan Lenders severally agrees to lend to Land Company on the Closing Date such Secured Term Loan Lender's Land Company Secured Term Loan Commitment Percentage of the Land Company Secured Term Loan Commitment.

§2A.2 [Intentionally Omitted.]

§2A.2A [Intentionally Omitted.]

§2A.3 Interest on Secured Term Loans.

(a) Each Secured Term LIBOR Rate Loan (whether of Commercial Company or Land Company) shall bear interest for the period commencing with the Drawdown Date thereof and ending on the date on which such Secured Term LIBOR Rate Loan is converted to a Secured Term Base Rate Loan at a rate per annum equal to the sum of (i) the LIBOR Rate plus (ii) four percent (4.0%).

(b) Each Secured Term Base Rate Loan shall bear interest for the period commencing with the Drawdown Date thereof and ending on the date on which such Secured Term Base Rate Loan is converted to a Secured Term LIBOR Rate Loan at a rate per annum equal to the sum of (i) the Base Rate plus (ii) two and one-half percent (2.5%).

(c) The Borrowers promise to pay interest on the Secured Term Loans in arrears on each Interest Payment Date with respect thereto.

§3. REPAYMENT OF THE LOANS

§3.1 Stated Maturity. The Borrowers promise to pay on the Maturity Date, and there shall become absolutely due and payable on the Maturity Date, all of the Loans outstanding on such date, together with any and all accrued and unpaid interest thereon.

§3.2 Mandatory Prepayments.

(a) If at any time the aggregate outstanding principal amount of the Revolving Credit Loans exceeds the total Revolving Credit Commitment, or the aggregate Secured Term Loans exceeds the total Secured Term Loan Commitment, or the aggregate outstanding principal amount of the Revolving Credit Loans and the Secured Term Loans exceeds the Borrowing Base, then the Borrowers shall immediately pay the amount of such excess to the Agent for the respective accounts of the Revolving Credit Lenders and the Secured Term Loan Lenders for application to the Revolving Credit Loans and the Secured Term Loans.

(b) Without limiting the terms of this Agreement, in the event that a Change of Control shall occur and all of the Lenders shall not have consented in writing thereto, then the Revolving Credit Lenders shall be relieved of all obligations to make Revolving Credit Loans and the Borrowers shall immediately pay to the Agent for the respective accounts of the Revolving Credit Lenders and the Secured Term Loan Lenders for application to the Revolving Credit Loans and the Secured Term Loans all of the Revolving Credit Loans and Secured Term Loans outstanding on such date, together with any and all accrued and unpaid interest thereon.

§3.3 Optional Prepayments. The Borrowers shall have the right, at their election, to prepay the outstanding amount of the applicable Revolving Credit Loans or Secured Term Loans, as a whole or in part, at any time without penalty or premium except as otherwise provided herein. The applicable Borrower shall give the Agent, no later than 10:00 a.m., Atlanta time, at least three (3) Business Days prior written notice of any prepayment pursuant to this §3.3, in each case specifying the proposed date of payment of applicable Revolving Credit Loans or Secured Term Loans and the principal amount to be paid.

§3.4 Partial Prepayments. Each partial prepayment of the Loans under §3.3 shall be in the minimum amount of \$5,000,000.00 or an integral multiple of \$1,000,000.00 in excess thereof (unless the applicable Loan is being prepaid in full), and each partial prepayment of the Loans under §3.2 and §3.3 shall be applied, in the absence of instruction by the applicable Borrower, first to the principal of the Secured Term Loans and then to the principal of the Revolving Credit Loans, and within each category, first to the principal of Base Rate Loans and then to the principal of LIBOR Rate Loans. Notwithstanding anything herein to the contrary (but subject to the terms of this sentence), all prepayments pursuant to §5.5 and §8.7 shall be applied first to the principal of the Secured Term Loans and then to the principal of the Revolving Credit Loans, and may be further allocated between the Commercial Company Secured Term Loans and the Land Company Secured Term Loans, as applicable, as specified in a notice to the Agent.

§3.5 Effect of Prepayments. Except as provided in this Agreement, amounts of the Revolving Credit Loans prepaid under §3.2, §3.3 and §3.4 prior to the Maturity Date may be reborrowed as provided in §2. Any portion of the Secured Term Loan that is prepaid may not be reborrowed. Except as otherwise expressly provided herein, all payments shall first be applied to accrued but unpaid interest and then to principal as provided above.

§3.6 Mandatory Reduction of Revolving Credit Commitments and Secured Term Loan Commitments.

(a) On each date set forth on Schedule 3.6 attached hereto, the Commercial Company Secured Term Loan Commitments, the Land Company Secured Term Loan Commitments and the Revolving Credit Commitments shall be reduced in the aggregate by the amounts set forth on Schedule 3.6 hereto corresponding to the applicable date on which such reduction is to occur (each such reduction amount is hereinafter referred to as the “Stipulated Commitment Reduction Amount”). Any payment that is due by Borrowers to maintain compliance with the provisions of this Agreement as a result of the Stipulated Commitment Reduction Amount shall be due and payable on the corresponding date on which such Commitment reduction is required pursuant to Schedule 3.6.

(b) The respective Secured Term Loan Commitments and Revolving Credit Commitments of the Borrowers shall be reduced pro rata by each Stipulated Commitment Reduction Amount (based on the amount that the Secured Term Loan Commitments and the Revolving Credit Commitments, respectively, bear to the aggregate Secured Term Loan Commitments and the Revolving Credit Commitments on each such date). As between the Commercial Company Secured Term Loan Commitments and the Land Company Secured Term Loan Commitments, the Borrowers shall be permitted to allocate such reductions resulting from the application of the Stipulated Commitment Reduction Amount between the respective Secured Term Loan Commitments as specified in a notice to the Agent (and in the absence of such instruction, shall be applied pro rata among the Commercial Company Secured Term Loan Commitments and the Land Company Secured Term Loan Commitments, respectively). The respective Loans shall be reduced as applicable so as not to exceed the applicable Commitment as provided in §3.2(a) and §3.6(a).

(c) No reduction of the Revolving Credit Commitments, the Commercial Company Secured Term Loan Commitments and the Land Company Secured Term Loan Commitments pursuant to this §3.6 may be reinstated.

§4. CERTAIN GENERAL PROVISIONS

§4.1 Conversion Options; Number of LIBOR Contracts.

(a) The Borrowers may elect from time to time to convert any of their outstanding Secured Term Loans or Revolving Credit Loans to a Secured Term Loan or Revolving Credit Loan, respectively, of another Type and such Secured Term Loan or Revolving Credit Loan shall thereafter bear interest as a Base Rate Loan or a LIBOR Rate Loan, as applicable; provided that (i) with respect to any such conversion of a LIBOR Rate Loan to a Base Rate Loan, the Borrowers shall give the Agent at least three (3) Business Days’ prior written notice of such election, and such conversion shall only be made on the last day of the Interest Period with respect to such LIBOR Rate Loan; (ii) with respect to any such conversion of a Base Rate Loan to a LIBOR Rate Loan, the Borrowers shall give the Agent at least three (3)

LIBOR Business Days' prior written notice of such election and the Interest Period requested for such Loan; the principal amount of the Loan so converted shall be in a minimum aggregate amount of \$2,000,000 or an integral multiple of \$100,000 in excess thereof; and (iii) no Loan may be converted into a LIBOR Rate Loan when any Default or Event of Default has occurred and is continuing. All or any part of the outstanding Secured Term Loans or Revolving Credit Loans of any Type may be converted as provided herein, provided that no partial conversion shall result in a Secured Term Base Rate Loan or Revolving Credit Base Rate Loan in an aggregate principal amount of less than \$1,000,000 or a Secured Term LIBOR Rate Loan or a Revolving Credit LIBOR Rate Loan in an aggregate principal amount of less than \$2,000,000 and that the aggregate principal amount of each Loan shall be an integral multiple of \$100,000. On the date on which such conversion is being made, each Lender shall take, to the extent it deems it necessary to do so, such action as is necessary to transfer its Commitment Percentage of such Loans to its Domestic Lending Office or its LIBOR Lending Office, as the case may be. Each Conversion Request relating to the conversion of a Base Rate Loan to a LIBOR Rate Loan shall be irrevocable by the Borrowers.

(b) Any Secured Term Loan or Revolving Credit Loan may be continued as such Type upon the expiration of an Interest Period with respect thereto by compliance by the Borrowers with the terms of §4.1; provided that no LIBOR Rate Loan may be continued as such when any Default or Event of Default has occurred and is continuing, but shall be automatically converted to a Base Rate Loan on the last day of the Interest Period relating thereto ending during the continuance of any Default or Event of Default.

(c) In the event that the Borrowers do not notify the Agent of their election hereunder with respect to any Loan, such Loan shall be automatically converted to a Base Rate Loan at the end of the applicable Interest Period.

(d) There shall be no more than ten (10) LIBOR Rate Loans outstanding at any one time.

§4.2 Closing Fees. The Borrowers shall pay to KeyBank certain fees for services rendered or to be rendered in connection with the Loan as provided pursuant to an Agreement Regarding Fees between the Borrower and KeyBank (the "Agreement Regarding Fees"). All such fees shall be solely for the account of KeyBank as provided in such agreement.

§4.3 Agent Fee. The Borrowers shall pay to the Agent, for the Agent's own account, a non-refundable Agent's fee pursuant to the Agreement Regarding Fees. The Agent's fee shall be payable quarterly in arrears on the first day of each calendar quarter for the preceding calendar quarter or portion thereof. The Agent's fee shall also be paid upon the Maturity Date or earlier termination of the Commitment. The Agent's fee for any partial quarter shall be prorated.

§4.4 Funds for Payments.

(a) All payments of principal, interest, unused fees, Agent's fees, closing fees and any other amounts due hereunder or under any of the other Loan Documents shall be made to the Agent, for the respective accounts of the Lenders and the Agent, as the case may be, at the Agent's Head Office, no later than 1:00 p.m. (Atlanta time) on the day when due, in each case in lawful money of the United States in immediately available funds.

(b) All payments by the Borrowers hereunder and under any of the other Loan Documents shall be made without set off or counterclaim and free and clear of and without deduction for any taxes, levies, imposts, duties, charges, fees, deductions, withholdings, compulsory loans, restrictions or conditions of any nature now or hereafter imposed or levied by any jurisdiction or any political subdivision thereof or taxing or other authority therein unless the Borrowers are compelled by law to make such deduction or withholding. If any such obligation is imposed upon the Borrowers with respect to any amount payable by them hereunder or under any of the other Loan Documents, the Borrowers will pay to the Agent, for the account of the Lenders or (as the case may be) the Agent, on the date on which such amount is due and payable hereunder or under such other Loan Document, such additional amount in Dollars as shall be necessary to enable the Lenders or the Agent to receive the same net amount which the Lenders or the Agent would have received on such due date had no such obligation been imposed upon the Borrowers. The Borrowers will deliver promptly to the Agent certificates or other valid vouchers for all taxes or other charges deducted from or paid with respect to payments made by the Borrowers hereunder or under such other Loan Document.

(c) Each Lender organized under the laws of a jurisdiction outside the United States, if requested in writing by the Borrowers (but only so long as such Lender remains lawfully able to do so), shall provide the Borrowers with such duly executed form(s) or statement(s) which may, from time to time, be prescribed by law and, which, pursuant to applicable provisions of (i) an income tax treaty between the United States and the country of residence of such Lender, (ii) the Code, or (iii) any applicable rules or regulations in effect under (i) or (ii) above, indicates the withholding status of such Lender; provided that nothing herein (including without limitation the failure or inability to provide such form or statement) shall relieve the Borrowers of their obligations under §4.4(b). In the event that the Borrowers shall have delivered the certificates or vouchers described above for any payments made by the Borrowers and such Lender receives a refund of any taxes paid by the Borrower pursuant to §4.4(b), such Lender will pay to the Borrowers the amount of such refund promptly upon receipt thereof; provided that if at any time thereafter such Lender is required to return such refund, the Borrowers shall promptly repay to such Lender the amount of such refund. In the event that any such Lender shall, after it becomes a Lender hereunder, become subject to withholding as described above (such Lender is hereinafter referred to as a "Withholding Lender"), then the Withholding Lender shall promptly notify the Agent and the Borrowers and the Borrowers shall have the one-time right as to such Withholding Lender, to be exercised by delivery of written notice delivered to the Agent and the Withholding Lender within thirty (30) days of receipt of such notice, to elect to cause the Withholding Lender to transfer its Commitment. The Agent shall promptly notify the remaining Lenders that each of such Lenders shall have the right, but not the obligation, to acquire a portion of the Commitment, pro rata based upon their relevant Commitment Percentages, of the Commitment of the Withholding Lender (or if any of such Lenders does not elect to purchase its pro rata share, then to such remaining Lenders in such proportion as approved by the Agent). In the event that the Lenders do not elect to acquire all of the Withholding Lender's Commitment, then the Agent shall endeavor to obtain a new Lender to acquire such remaining Commitment. Upon any such purchase of the Commitment of the Withholding Lender, the Withholding Lender's interest in the Obligations and its rights

hereunder and under the Loan Documents shall terminate at the date of purchase, and the Withholding Lender shall promptly execute all documents reasonably requested to surrender and transfer such interest. The purchase price for the Withholding Lender's Commitment shall equal the principal balance of the Obligations outstanding and owed by Borrowers to the Withholding Lender, plus any and all accrued and unpaid interest and fees thereon (provided that the Borrowers may pay the amount of any interest or fees owed to such Withholding Lender).

§4.5 Computations. All computations of interest on the Loans and of other fees to the extent applicable shall be based on a 360-day year and paid for the actual number of days elapsed. Whenever a payment hereunder or under any of the other Loan Documents becomes due on a day that is not a Business Day, the due date for such payment shall be extended to the next succeeding Business Day, and interest shall accrue during such extension. The outstanding amount of the Loans as reflected on the records of the Agent from time to time shall be considered prima facie evidence of such amount.

§4.6 Inability to Determine LIBOR Rate. In the event that at any time the Agent shall determine in the exercise of its good faith business judgment that adequate and reasonable methods do not exist for ascertaining the LIBOR Rate or the Agent shall reasonably determine that the LIBOR Rate will not accurately and fairly reflect the cost of the Lenders making or maintaining LIBOR Rate Loans for such Interest Period, the Agent shall forthwith give notice of such determination (which shall be conclusive and binding on the Borrowers and the Lenders) to the Borrowers and the Lenders. In such event (a) any Loan Request or Conversion Request then made with respect to such LIBOR Rate Loans shall be automatically withdrawn and shall be deemed a request for Base Rate Loans and (b) any such LIBOR Rate Loan will automatically become a Base Rate Loan, and the obligations of the Lenders to make LIBOR Rate Loans shall be suspended until the Agent determines in the exercise of its good faith business judgment that the circumstances giving rise to such suspension no longer exist, whereupon the Agent shall so notify the Borrowers and the Lenders.

§4.7 Illegality. Notwithstanding any other provisions herein, if any present or future law, regulation, treaty or directive or the interpretation or application thereof shall make it unlawful, or any central bank or other governmental authority having jurisdiction over a Lender or its LIBOR Lending Office shall assert that it is unlawful, for any Lender to make or maintain LIBOR Rate Loans, such Lender shall forthwith give notice of such circumstances to the Agent and the Borrowers and thereupon (a) the commitment of the Lenders to make LIBOR Rate Loans shall forthwith be suspended and (b) the LIBOR Rate Loans then outstanding shall be converted automatically to Base Rate Loans. Notwithstanding the foregoing, before giving such notice, the applicable Lender shall designate a different lending office if such designation will void the need for giving such notice and will not, in the judgment of such Lender, be otherwise materially disadvantageous to such Lender.

§4.8 Additional Interest. If any LIBOR Rate Loan or any portion thereof is repaid or is converted to a Base Rate Loan for any reason on a date which is prior to the last day of the Interest Period applicable to such LIBOR Rate Loan, or if repayment of the Loans has been accelerated as provided in §12.1, the Borrowers will pay to the Agent upon demand for the account of the Lenders in accordance with their respective Commitment Percentages, in addition to any amounts of interest otherwise payable hereunder, any amounts required to compensate the Lenders for any losses, costs or expenses which may reasonably be incurred as a result of such payment or conversion.

§4.9 Additional Costs, Etc.. Notwithstanding anything herein to the contrary, if any present or future applicable law, or any amendment or modification of present applicable law, which expression, as used herein, includes statutes, rules and regulations thereunder and legally binding interpretations thereof by any competent court or by any governmental or other regulatory body or official with appropriate jurisdiction charged with the administration or the interpretation thereof and requests, directives, instructions and notices at any time or from time to time hereafter made upon or otherwise issued to any Lender or the Agent by any central bank or other fiscal, monetary or other authority (whether or not having the force of law), shall:

(a) subject any Lender or the Agent to any tax, levy, impost, duty, charge, fee, deduction or withholding of any nature with respect to this Agreement, the other Loan Documents, such Lender's Commitment or the Loans (other than franchise taxes and taxes based upon or measured by the income or profits of such Lender or the Agent), or

(b) materially change the basis of taxation (except for changes in taxes on income or profits) of payments to any Lender of the principal of or the interest on any Loans or any other amounts payable to any Lender under this Agreement or the other Loan Documents, or

(c) impose or increase or render applicable any special deposit, reserve, assessment, liquidity, capital adequacy or other similar requirements (whether or not having the force of law) against assets held by, or deposits in or for the account of, or loans by, or commitments of an office of any Lender, or

(d) impose on any Lender or the Agent any other conditions or requirements with respect to this Agreement, the other Loan Documents, the Loans, such Lender's Commitment, or any class of loans or commitments of which any of the Loans or such Lender's Commitment forms a part; and the result of any of the foregoing is

(i) to increase the cost to any Lender of making, funding, issuing, renewing, extending or maintaining any of the Loans or such Lender's Commitment, or

(ii) to reduce the amount of principal, interest or other amount payable to such Lender or the Agent hereunder on account of such Lender's Commitment or any of the Loans, or

(iii) to require such Lender or the Agent to make any payment or to forego any interest or other sum payable hereunder, the amount of which payment or foregone interest or other sum is calculated by reference to the gross amount of any sum receivable or deemed received by such Lender or the Agent from the Borrowers hereunder;

then, and in each such case, the Borrowers will, within fifteen (15) days of demand made by such Lender or (as the case may be) the Agent at any time and from time to time and as often as the occasion therefor may arise, pay to such Lender or the Agent such additional amounts as such Lender or the Agent shall determine in good faith to be sufficient to compensate such Lender or the Agent for such additional cost, reduction, payment or foregone interest or other sum. Each

Lender and the Agent in determining such amounts may use any reasonable averaging and attribution methods, generally applied by such Lender or the Agent. Notwithstanding the foregoing, Borrowers shall not be required to compensate any Lender pursuant to this §4.9 for any increased costs or reductions incurred more than one hundred eighty (180) days prior to the date of such Lender's demand. Notwithstanding the foregoing, the Borrowers shall have the right, in lieu of making the payment referred to in this §4.9, to prepay the Loan of the applicable Lender within fifteen (15) days of such demand and avoid the payment of the amounts otherwise due under this §4.9, provided, however, that the Borrowers shall be required to pay together with such prepayment of the Loan all other costs, damages and expenses otherwise due under this Agreement as a result of such prepayment.

§4.10 Capital Adequacy. If after the date hereof any Lender reasonably determines that (a) the adoption of or change in any law, rule, regulation or guideline regarding capital requirements for banks or bank holding companies or any change in the interpretation or application thereof by any governmental authority charged with the administration thereof, or (b) compliance by such Lender or its parent bank holding company with any guideline, request or directive of any such entity regarding capital adequacy or any amendment or change in interpretation of any existing guideline, request or directive (whether or not having the force of law), has the effect of reducing the return on such Lender's or such holding company's capital as a consequence of such Lender's commitment to make Loans hereunder to a level below that which such Lender or holding company could have achieved but for such adoption, change or compliance (taking into consideration such Lender's or such holding company's then existing policies with respect to capital adequacy and assuming the full utilization of such entity's capital) by any amount deemed by such Lender to be material, then such Lender may notify the Borrowers thereof. The Borrowers agree to pay to such Lender the amount of such reduction in the return on capital as and when such reduction is determined, upon presentation by such Lender of a statement of the amount setting for the Lender's calculation thereof. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

§4.11 Indemnity of Borrowers. **THE BORROWERS AGREE TO INDEMNIFY EACH LENDER AND TO HOLD EACH LENDER HARMLESS FROM AND AGAINST ANY LOSS, COST OR EXPENSE THAT SUCH LENDER MAY SUSTAIN OR INCUR AS A CONSEQUENCE OF (A) DEFAULT BY THE BORROWERS IN PAYMENT OF THE PRINCIPAL AMOUNT OF OR ANY INTEREST ON ANY LIBOR RATE LOANS AS AND WHEN DUE AND PAYABLE, INCLUDING ANY SUCH LOSS OR EXPENSE ARISING FROM INTEREST OR FEES PAYABLE BY SUCH LENDER TO LENDERS OF FUNDS OBTAINED BY IT IN ORDER TO MAINTAIN ITS LIBOR RATE LOANS, OR (B) DEFAULT BY A BORROWER IN MAKING A BORROWING OR CONVERSION AFTER SUCH BORROWER HAS GIVEN (OR IS DEEMED TO HAVE GIVEN) A LOAN REQUEST, OR (C) DEFAULT BY THE BORROWERS IN MAKING THE PAYMENTS OR PERFORMING THEIR OBLIGATIONS UNDER §§4.9, 4.10 OR 4.12. THE BORROWERS AGREE THAT THE INDEMNIFICATION OF LENDERS BY BORROWERS SET FORTH IN THIS §4.11 INCLUDES INDEMNIFICATION IN THE EVENT OF ORDINARY NEGLIGENCE ON THE PART OF LENDER BUT DOES NOT INCLUDE INDEMNIFICATION OF LENDER FOR LENDER'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.**

§4.12 Interest Following Default; Late Charge. Following the occurrence and during the continuance of any Event of Default, and regardless of whether or not the Agent or the Lenders shall have accelerated the maturity of the Loans, all Loans shall bear interest payable on demand at a rate per annum equal to two percent (2%) above the rate that would otherwise be applicable at such time (the "Default Rate"), until all Obligations shall be paid in full (after as well as before judgment), or if such rate shall exceed the maximum rate permitted by law, then at the maximum rate permitted by law. In addition, the Borrowers shall pay a late charge equal to three percent (3%) of any amount of interest and/or principal payable on the Loans or any other amounts payable hereunder or under the Loan Documents, which amount is not paid within ten (10) days of the date when due (such late charge being applicable only to the amounts not paid within ten (10) days of the date when due). Borrowers acknowledge that it would be extremely difficult or impracticable to determine the Lenders' actual damages resulting from any late payment, Event of Default or prepayment, and the late charges and Default Rate described in this Agreement are reasonable estimates of those damages and do not constitute a penalty.

§4.13 Certificate. A certificate setting forth any amounts payable pursuant to §4.8, §4.9, §4.10, §4.11 or §4.12 and a brief explanation of such amounts which are due, submitted by any Lender or the Agent to the Borrowers, shall be conclusive in the absence of manifest error.

§4.14 Limitation on Interest.

(a) Notwithstanding anything in this Agreement or the other Loan Documents to the contrary, it is the intent of the Agent, the Lenders and the Borrowers to conform to and contract in strict compliance with all applicable usury laws from time to time in effect. All agreements (including the Loan Documents) between Agent, the Lenders and the Borrowers (or any other party liable with respect to any indebtedness under the Loan Documents) are hereby limited by the provisions of this Section which shall override and control all such agreements, whether now existing or hereafter arising and whether written or oral. In no way, nor in any event or contingency (including but not limited to prepayment, default, demand for payment, or acceleration of the maturity of any obligation), shall the interest taken, reserved, contracted for, charged or received under this Agreement, any other Loan Document, or otherwise, exceed the maximum nonusurious amount permissible under applicable law. If, from any possible construction of this Agreement, any other Loan Document, or any other document, interest would otherwise be taken, reserved, contracted for, charged or payable in excess of the maximum nonusurious amount, any such construction shall be subject to the provisions of this Section and this Agreement, such other Loan Document, and such other document shall be automatically reformed and the interest taken, reserved, contracted for, charged or payable shall be automatically reduced to the maximum nonusurious amount permitted under applicable law, without the necessity of execution of any amendment or new document. If any Lender shall ever receive anything of value which is interest or characterized as interest under applicable law and which would apart from this provision be in excess of the maximum lawful nonusurious amount, an amount equal to the amount which would have been excessive interest shall, without penalty, be applied to the reduction of the principal amount owing on the Loans to it (in inverse order of maturity) and not to the payment of interest, or refunded to the Borrowers if and to the extent such amount which would have been excessive exceeds such unpaid principal. The right to accelerate maturity of the Loans and the other Obligations does not include the right to accelerate any interest which has not otherwise accrued on the date of such acceleration, and the Agent and

the Lenders do not intend to charge or receive any unearned interest in the event of acceleration. All interest paid or agreed to be paid to the Lenders on the Loans shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full stated term (including any renewal or extension) of the Loans so that the amount of interest on account of the Loans does not exceed the maximum nonusurious amount permitted by applicable law. As used in this Section, the term "applicable law" shall mean such laws as they now exist or may be changed or amended or come into effect in the future. As used in this Section, the term "interest" includes all amounts that constitute, are deemed, or are characterized as interest under applicable law.

(b) If at any time the interest rate (the "Stated Rate") called for under this Agreement or any other Loan Document exceeds or would exceed the Highest Lawful Rate, the rate at which interest shall accrue hereunder or thereunder shall automatically be limited to the Highest Lawful Rate, and shall remain at the Highest Lawful Rate until the total amount of interest accrued equals the total amount of interest which would have accrued but for the operation of this sentence. Thereafter, interest shall accrue at the Stated Rate unless and until the Stated Rate would again exceed the Highest Lawful Rate, in which case the immediately preceding sentence shall apply.

(c) Borrowers hereby agree that as a condition precedent to any claim seeking usury penalties against Lenders, Borrowers will provide written notice to Agent, advising Agent in reasonable detail of the nature and amount of the violation, and Lenders shall have sixty (60) days after receipt of such notice in which to correct such usury violation, if any, by either refunding such excess interest to Borrowers or crediting such excess interest against the Loans and/or any other indebtedness then owing by Borrowers to Lenders. To the extent that Lenders are relying on Chapter 303, as amended, of the Texas Finance Code to determine the Highest Lawful Rate, Lenders will utilize the weekly rate ceiling from time to time in effect as provided in such Chapter 303, as amended. To the extent United States federal law permits a greater amount of interest than is permitted under Texas law, Lenders will rely on United States federal law instead of such Chapter 303, as amended, for the purpose of determining the Highest Lawful Rate. Additionally, to the extent permitted by applicable law now or hereafter in effect, Lenders may, at Lenders' option and from time to time, implement any other method of computing the maximum lawful rate under such Chapter 303, as amended, or under other applicable law by giving notice, if required, to Borrowers as provided by applicable law now or hereafter in effect. This §4.14 will control all agreements between Borrowers, Agents and Lenders.

(d) Borrowers and Lenders expressly agree that in no event shall the provisions of Chapter 346 of the Texas Finance Code (which regulates certain revolving credit loan accounts and revolving triparty accounts) apply to Revolving Credit Loans or to any advance of Revolving Credit Loans made pursuant to the terms of this Agreement.

§4.15 Extension of Maturity Date.

(a) Provided that no Default or Event of Default shall have occurred and be continuing, the Borrowers shall have the option, to be exercised by giving written notice to the Agent in the form of Exhibit D hereto not more than ninety (90) days and not less than forty-five (45) days prior to the initial scheduled Maturity Date (an "Extension Request"), subject to the

terms and conditions set forth in this Agreement, to extend the Maturity Date by one (1) year to March 29, 2015. The request by the Borrowers for extension of the Maturity Date shall constitute a representation and warranty by the Borrowers that all of the conditions set forth in this Section shall have been satisfied on the date of such request.

(b) The obligations of the Agent and the Lenders to extend the Maturity Date as provided in §4.15(a) shall be subject to the satisfaction of the following conditions precedent on the then effective Maturity Date (without regard to such extension request):

(i) Payment of Extension Fee. The Borrowers shall pay to the Agent on or before the then effective Maturity Date (without regard to such extension request) for the pro rata account of the Lenders in accordance with their respective Commitment Percentages an extension fee equal to four-tenths of one percent (0.40%) of the total Commitment, which fee shall, when paid, be fully earned and non-refundable under any circumstances.

(ii) No Default. On the date the Extension Request is given and on the Maturity Date (as determined without regard to such extension) there shall exist no Default or Event of Default.

(iii) Representations and Warranties. The representations and warranties made by the Borrowers, the Restricted Subsidiaries and the Guarantors in the Loan Documents or otherwise made by or on behalf of such Persons in connection therewith or after the date thereof shall have been true and correct in all material respects when made and shall also be true and correct in all material respects on the Maturity Date (as determined without regard to such extension) other than for changes in the ordinary course of business permitted by this Agreement that have not had any materially adverse affect on the business of any of such Persons.

(iv) Extension of Interest Cap. The Interest Cap required under §7.24 shall be extended to a date not earlier than the Maturity Date (as extended) at the strike rate and for the notional amount required pursuant to §7.24.

(c) The Agent shall notify each of the Lenders in the event that the Maturity Date is extended as provided in this §4.15.

§5. COLLATERAL SECURITY AND GUARANTY

§5.1 Collateral. The Obligations shall be secured by (i) a perfected first priority lien or security title and security interest to be held by the Agent for the benefit of the Lenders in the Mortgaged Property and certain personal property of Borrowers related to the Mortgaged Property, pursuant to the terms of the Security Deeds, (ii) a perfected first priority security interest to be held by the Agent for the benefit of the Lenders in leases, rents and profits pursuant to the Assignment of Rents and Leases, in the Management Agreements pursuant to the Assignment of Management Agreements and Subordination and in the Construction Contracts, Architect's Contracts and other items pursuant to the Assignment of Project Documents, (iii) the Indemnity Agreement, (iv) a perfected first priority lien to be held by the Agent for the benefit of the Lenders in the interest of the Borrowers in the Fees and the Accounts Receivable pursuant to the Security Agreements, (v) a perfected first priority security interest to be held by the Agent for

the benefit of the Lenders in the interest of Borrowers in certain of the Partnerships pursuant to the Assignment of Interests, (vi) the Cash Collateral Account Agreement, and (vii) such additional collateral, if any, as the Agent for the benefit of the Lenders from time to time may accept as security for the Obligations with the consent of the Majority Lenders, which consent may be given or withheld in the sole discretion of the Majority Lenders. The Obligations shall also be guaranteed pursuant to the terms of the Guaranty.

§5.2 Appraisals; Adjusted Value.

(a) The Appraised Value for the Borrowing Base as of the date hereof shall be as set forth on Schedule 1.2 hereto. With respect to Land Assets, the Adjusted Value may be determined as provided herein on a per lot or per acre basis and then multiplied by the number of lots or acres.

(b) The Borrowers acknowledge that the Borrowers shall make such quarterly adjustments to the Adjusted Value of the Borrowing Base Assets and the Borrowing Base as may be required by the Agent in the exercise of its good faith business judgment to account for the effects of development costs, sales of land and other assets, new debt, defaults under Indebtedness, or other circumstances, as reflected in the quarterly Compliance Certificate and the attached Borrowing Base worksheet, a form of which is attached hereto as Exhibit E.

(c) In addition to such quarterly adjustments as may be necessary, the Agent shall order an Appraisal or a thorough update revising a prior Appraisal each year with the as-is value of the Borrowing Base Assets (other than the Eligible Accounts Receivable, Properties under Construction and Qualifying Income Properties) to be determined as of year end, and request that such Appraisal or update be provided to Agent on or prior to March 31 of each year during the term of the Loans for the purpose of determining the Appraised Value thereof. From time to time, but provided there is no existing Event of Default, not more frequently than once in any twelve (12) month period, Agent may in its discretion order an Appraisal or a thorough update revising a prior Appraisal of the as-is value of the Qualifying Income Properties commonly known as 20 Waterway, 4 Waterway and any new Qualifying Income Properties after the date of this Agreement as selected by Agent. The Appraisal or update shall be reviewed by the appraisal department of the Agent to determine the Appraised Value of such Borrowing Base Assets. The Appraised Values of the Borrowing Base Assets (other than the Eligible Accounts Receivable, Properties under Construction and Qualifying Income Properties) and of the Qualifying Income Properties commonly known as 20 Waterway, 4 Waterway and any new Qualifying Income Properties after the date of this Agreement as selected by Agent determined therefrom shall be the Appraised Value for such Borrowing Base Assets for the purposes of this Agreement until such time as such Appraised Value is required hereunder to be redetermined. Borrowers shall have the right to request that Agent select a different appraiser to perform the Appraisals or updates, but any selection of an appraiser shall be in accordance with the legal requirements applicable to Agent. The Borrowers shall pay the Agent within thirty (30) days of demand from Agent all reasonable costs of such appraisals. During such valuation process, the prior Appraised Value (as the same may have been adjusted to reflect changes in the Borrowing Base Assets) shall continue to be in effect until the new Appraised Value is determined hereunder.

(d) [Intentionally omitted.]

(e) Notwithstanding the other provisions of this §5.2, the Agent may, for the purpose of determining the current Appraised Value of the Borrowing Base Assets (other than the Eligible Accounts Receivable and Properties under Construction) and Borrowing Base, obtain thorough interim Appraisals updating and revising prior Appraisals with respect to the Borrowing Base Assets or such portion thereof as the Agent shall determine (i) at any time that the regulatory requirements of any Lender generally applicable to real estate loans of the category made under this Agreement as reasonably interpreted by such Lender shall require more frequent Appraisals, (ii) at any time following a condemnation of more than an immaterial portion of an asset within a category of Borrowing Base Assets (as determined by the Agent) or any material adverse change with respect to a Borrowing Base Asset (provided that such Appraisal shall be limited to the affected Borrowing Base Asset), or (iii) at the request of the Majority Lenders. The expense of such Appraisals and updates performed pursuant to this §5.2(e) shall be borne by the Borrowers. Copies of any Appraisals or updates revising prior Appraisals obtained pursuant to this §5.2 shall be promptly delivered to each of the Lenders (and for the purposes hereof any Related Funds shall be considered a single Lender).

(f) In the event that the Agent shall advise the Borrowers, on the basis of any Appraisal, update or other valuation pursuant to this §5.2, that the Borrowing Base is insufficient to comply with the requirements of §9.3, then until the Borrowing Base shall be restored to compliance with §9.3 the Revolving Credit Lenders shall not be required to make advances under §§2.1 or 2.1A.

(g) The Borrowers acknowledge that the Agent may make changes or adjustments to the value set forth in any Appraisal as may be required by the appraisal department of the Agent in the exercise of its good faith business judgment, and that the Agent is not bound by the value set forth in any Appraisal performed pursuant to this Agreement and does not make any representations or warranties with respect to any such Appraisal. The Borrowers further agree that the Lenders and Agent shall have no liability as a result of or in connection with any such Appraisal for statements contained in such Appraisal, including without limitation, the accuracy and completeness of information, estimates, conclusions and opinions contained in such Appraisal, or variance of such Appraisal from the fair value of such property that is the subject of such Appraisal given by the local tax assessor's office, or the Borrowers' idea of the value of such property.

§5.3 [Intentionally Omitted.]

§5.4 Releases of Certain Liens. The Borrowers shall have the right to obtain the release of the interests described in the Assignment of Interests and the Note Receivables pursuant to the cash sale of same for fair market value to third parties unaffiliated with any Borrower and their respective Restricted Subsidiaries and Unrestricted Subsidiaries; provided, however, that all net proceeds from any such sales shall be deposited by the Borrowers in such Borrower's Disbursement Account; and provided further that a Borrower may obtain a release of the Municipal Utility District Contracts upon a transfer of such Municipal Utility District Contracts to an Unrestricted Subsidiary of such Borrower pursuant to §8.8, provided that no Default or Event of Default exists or would be created as a result of such transfer. Notice of each

such proposed sale together with a request for release by the Agent must be received by the Agent at least five (5) Business Days prior to the date the release shall be required by the Borrowers. The Borrowers shall reimburse the Agent for all costs and expenses incurred in granting such release as provided in §15.

§5.5 Release of Mortgaged Property; Consent to Easements.

(a) Provided no Default or Event of Default shall have occurred hereunder and be continuing (or would exist immediately after giving effect to the transactions contemplated by this §5.5), the Agent shall release one or more individual properties included in the Mortgaged Property or Developed Commercial Land, Developed Residential Land, Undeveloped Commercial Land or Undeveloped Residential Land from the lien or security title of the Security Documents encumbering the same upon the request of the Borrowers subject to and upon the following terms and conditions as applicable:

(i) Except as set forth in §5.5(a)(v) and (vi) below or in §8.8 as to sales by a Borrower, such release shall be for fair market value as a result of an arms-length sale of such Mortgaged Property in the ordinary course of such Borrower's business to a party that is not an Affiliate of any Borrower, any General Partner, any Second Tier Partner, any Third Tier Partner or any Guarantor; and provided that the applicable Borrower shall have delivered to the Agent a certificate pursuant to §7.4(g) from the Principal Financial Officer of such Borrower to such effect for all such sales and releases the preceding calendar month, a Borrower shall be entitled to obtain releases of Undeveloped Residential Land, Developed Residential Land, Undeveloped Commercial Land and Developed Commercial Land on which there are no Vertical Commercial Improvements from the Title Insurance Company pursuant to the Tri-Party Agreement without further certification to the Agent or the Title Insurance Company; provided, further, that in the event that such sale is of any other Mortgaged Property, the applicable Borrower shall deliver to Agent and the Title Insurance Company a certificate from an Authorized Officer of such Borrower to the effect that such sale is in compliance with the terms of this §5.5(a)(i);

(ii) In the event that such sale is to an Affiliate of any Borrower, any General Partner, any Second Tier Partner, any Third Tier Partner or any Guarantor (including a Restricted Subsidiary or Unrestricted Subsidiary), Agent shall have confirmed that such sale is in accordance with the requirements of §8.8 (and if the Title Insurance Company is executing releases pursuant to the Tri-Party Agreement, Agent shall send to the Title Insurance Company written notice of such confirmation). In the event such transfer is from a Borrower to the other Borrower, such release shall be conditioned upon the delivery to Agent by the transferee Borrower of an amendment of such Borrower's Security Documents to include such property as additional property encumbered thereby;

(iii) The applicable Borrower shall cause the Title Insurance Company to pay or cause to be deposited contemporaneously with each sale of all excess net sales proceeds, if any, into the Disbursement Account of the applicable Borrower maintained pursuant to the Cash Collateral Account Agreement;

(iv) In the event that Agent is required to execute the release or confirmation documents, Agent shall provide such release or confirmation to the Title Insurance Company within four (4) Business Days of receipt of Borrower's request to have such property released, and any release documents to be executed by the Agent shall be in form and substance reasonably satisfactory to the Agent;

(v) Releases of Mortgaged Property may be made by Agent or the Title Insurance Company pursuant to the Tri-Party Agreement of parcels consistent with good land development practices contributed, donated or sold at a reduced price by a Borrower to non-profits and other like entities, and to public agencies, such as The Woodlands Town Center Improvement District, The Woodlands Association, Municipal Utility Districts, Property Owners' Associations or Harris County Park Authority, for the development of churches, public facilities, parks or for other public or community purposes; and

(vi) Agent may consent or subordinate to (and the Title Insurance Company may pursuant to the Tri-Party Agreement do so on behalf of Agent), easements, subdivision plats, road dedications, restrictions or similar agreements provided that the applicable Borrower shall have delivered to Agent the certificate required by §7.4(g) as to such agreements or matters for the preceding calendar month.

(b) Notwithstanding the foregoing, the Agent shall delegate the release of Mortgaged Property from the lien of the Security Documents and consents to easements, subdivision plats, road dedications, restrictions and similar agreements to the Title Insurance Company pursuant to the Tri-Party Agreement. Such releases will be administered by the Title Insurance Company in accordance with the terms of the Tri-Party Agreement, and Agent shall have the right to revoke the authority of any such Title Insurance Company to execute such releases at any time as provided in the Tri-Party Agreement; provided, that so long as no Event of Default has occurred and is continuing, Agent shall enter into another Tri-Party Agreement with another Title Insurance Company approved by Agent. The Borrowers shall pay all fees, costs and expenses of each such Title Insurance Company. Upon an Event of Default, Agent may revoke the authority of the Title Insurance Company under the Tri-Party Agreement and at its option either execute such releases and consents itself or designate another Title Insurance Company to execute such releases and consents pursuant to a Tri-Party Agreement.

(c) As a result of the frequency and volume of sales of property by the Borrowers, it is possible that the title information provided by the Title Insurance Company to the Agent may not reflect all sales that have occurred to date. In the event that Agent shall receive evidence satisfactory to it that the Security Documents encumber property not owned by or on behalf of a Borrower, Agent shall be authorized to release such property from the lien of the Security Documents. Borrower shall be permitted to submit such evidence to Agent.

§5.6 Additional Guarantors. In the event that either of the Borrowers shall form a Restricted Subsidiary, the Borrowers shall cause such Restricted Subsidiary to become a Guarantor promptly following its formation. Such Restricted Subsidiary shall execute and deliver to Agent a Joinder Agreement, and shall cause all of the conditions set forth in §10 applicable to Guarantors or Loan Documents executed by Guarantors to be satisfied. The organizational agreements of such Restricted Subsidiary or such other resolutions or consents

satisfactory to Agent shall specifically authorize such Restricted Subsidiary to guaranty the Obligations and the Borrower shall certify to the Agent that applicable law does not preclude such Subsidiary from executing the Joinder Agreement. Borrowers shall further cause all representations in the Loan Documents made by or with respect to Guarantors and their Subsidiaries in the Loan Documents to be true and correct with respect to such additional Guarantor, and no Default or Event of Default shall exist or might exist in the event that such Restricted Subsidiary becomes a Guarantor.

§5.7 Release of Collateral. Upon the refinancing or repayment of the Obligations, then the Agent shall release the Collateral from the lien and security interest of the Security Documents and release the Guarantors, provided that Agent has not received a notice from the "Representative" (as defined in §14.11) or the holder of the Hedge Obligations that any Hedge Obligation is then due and payable to the holder thereof.

§6. REPRESENTATIONS AND WARRANTIES

The Borrowers represent and warrant to the Agent and the Lenders as follows:

§6.1 Corporate Authority, Etc.

(a) Organization; Good Standing. Each Borrower is a Texas limited partnership duly organized and is validly existing under the laws of Texas. Each Second Tier Partner is a Texas limited partnership duly organized and validly existing under the laws of the State of Texas. Each General Partner is a Texas limited liability company duly organized and validly existing and in good standing under the laws of the State of Texas. Woodlands Operating is a Texas limited partnership duly organized and validly existing under the laws of Texas. Each of the Borrowers and the Guarantors (i) has all requisite power to own its respective properties and conduct its respective business as now conducted and as presently contemplated, and (ii) as to each of such Persons, is duly authorized to do business in each other jurisdiction where a failure to be so qualified in such other jurisdiction could have a materially adverse effect on the business, assets or financial condition of such Person.

(b) Subsidiaries. Each of the Restricted Subsidiaries of the Borrowers (i) is a corporation, limited partnership, limited liability company or trust duly organized under the laws of its State of organization and is validly existing and in good standing under the laws thereof, (ii) has all requisite power to own its property and conduct its business as now conducted and as presently contemplated and (iii) is in good standing and is duly authorized to do business in each jurisdiction where a failure to be so qualified could have a materially adverse effect on the business, assets or financial condition of such Borrower or such Restricted Subsidiary.

(c) Authorization. The execution, delivery and performance of this Agreement and the other Loan Documents to which the Borrowers, the General Partners, Woodlands Operating or the Guarantors are or are to become a party and the transactions contemplated hereby and thereby (i) are within the authority of such Person, (ii) have been duly authorized by all necessary proceedings on the part of such Person, (iii) do not and will not conflict with or result in any breach or contravention of any provision of law, statute, rule or regulation to which such Person is subject or any judgment, order, writ, injunction, license or

permit applicable to such Person, (iv)do not and will not conflict with or constitute a default (whether with the passage of time or the giving of notice, or both) under any provision of the articles of incorporation, partnership agreement, declaration of trust or other charter documents or bylaws of, or any agreement or other instrument binding upon, such Person or any of its properties, and (v)do not and will not result in or require the imposition of any lien or other encumbrance on any of the properties, assets or rights of such Person.

(d) Enforceability. The execution and delivery of this Agreement and the other Loan Documents to which the Borrowers, Woodlands Operating or the Guarantors are or are to become a party are valid and legally binding obligations of such Person enforceable in accordance with the respective terms and provisions hereof and thereof, except as enforceability is limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights and except to the extent that availability of the remedy of specific performance or injunctive relief is subject to the discretion of the court before which any proceeding therefor may be brought.

§6.2 Governmental Approvals. The execution, delivery and performance of this Agreement and the other Loan Documents to which the Borrowers, the General Partners, Woodlands Operating or the Guarantors are or are to become a party and the transactions contemplated hereby and thereby do not require the approval or consent of, or filing with, any governmental agency or authority other than those already obtained and the filing of the Security Documents in the appropriate records office with respect thereto.

§6.3 Title to Properties; Leases. Except as set forth on Schedule 6.3 hereto, each Borrower and its Restricted Subsidiaries owns all of the assets reflected in the consolidated balance sheet of the applicable Borrower as at the Balance Sheet Date or acquired since that date (except property and assets sold or otherwise disposed of in the ordinary course of business since that date), subject to no rights of others, including any mortgages, leases, conditional sales agreements, title retention agreements, liens or other encumbrances except Permitted Liens. Without limiting the foregoing, each Borrower and its Restricted Subsidiaries has good and indefeasible fee simple title to all real property reasonably necessary for the operation of its business, free from all liens or encumbrances of any nature whatsoever, except for Permitted Liens (provided that Borrowers lease their headquarters building).

§6.4 Financial Statements. The Borrowers have furnished or caused to be furnished to each of the Lenders: (a) the consolidated balance sheet of each Borrower and its subsidiaries as of the Balance Sheet Date certified by each Borrower's Principal Financial Officer as fairly presenting the balance sheet of such Persons for such period, and (b) certain other financial information. Such balance sheet and statements have been prepared in accordance with generally accepted accounting principles (other than the inclusion of footnotes) and fairly present the financial condition of such Borrower and its subsidiaries as of such dates and the results of the operations of such Borrower and its subsidiaries for such periods. There are no liabilities, contingent or otherwise, of any Borrower or any of its subsidiaries involving material amounts not disclosed in said financial statements and the related notes thereto.

§6.5 No Material Changes. Since the Balance Sheet Date, there has occurred no materially adverse change in the financial condition or business of either Borrower, or their

respective subsidiaries taken as a whole as shown on or reflected in the consolidated balance sheet of such Borrower as of the Balance Sheet Date, or its consolidated statement of income or cash flows for the fiscal year then ended, other than changes in the ordinary course of business that have not had any materially adverse effect either individually or in the aggregate on the business or financial condition of such Person. There has been no materially adverse change to the physical condition of any of the Borrowing Base Assets since the last Appraisal thereof (or if no Appraisal has been performed under this Agreement with respect thereto, then since the last Compliance Certificate and accompanying Borrowing Base Worksheet). There has occurred no materially adverse change in the financial condition or business of any of the Borrowing Base Assets from the condition shown on the statements delivered to the Lenders pursuant to §6.4 other than changes in the ordinary course of business that have not had any materially adverse effect either individually or in the aggregate on the business or financial condition of the Borrowing Base Assets.

§6.6 Franchises, Patents, Copyrights, Etc. The Borrowers and their respective Restricted Subsidiaries possess all franchises, patents, copyrights, trademarks, trade names, servicemarks, licenses, liquor licenses and permits, and rights in respect of the foregoing, adequate for the conduct of their business substantially as now conducted without known violation of any rights of others, except where a failure to possess such rights could not have a materially adverse effect on the business, assets or financial condition of such Person.

§6.7 Litigation. Except as stated on Schedule 6.7 there are no actions, suits, proceedings or investigations of any kind pending or to the best of the Borrowers' knowledge and belief, threatened against any Borrower, any Guarantor, any of the Restricted Subsidiaries of a Borrower or any of the Associations before any court, arbitrator, mediator, tribunal or administrative agency or board that, if adversely determined, might, either in any case or in the aggregate, materially adversely affect the properties, assets, financial condition or business of such Person (in the case of the Associations, which materially adversely affects a Borrower) or materially impair the right of such Person to carry on business substantially as now conducted by it, or which question the validity of this Agreement or any of the other Loan Documents, any action taken or to be taken pursuant hereto or thereto or any lien or security interest created or intended to be created pursuant hereto or thereto, or which will adversely affect the ability of such Person to pay and perform the Obligations in the manner contemplated by this Agreement and the other Loan Documents. There are no judgments or awards outstanding against or effecting any Borrower, any Guarantor, any of the Restricted Subsidiaries of a Borrower, or any of the Collateral.

§6.8 No Materially Adverse Contracts, Etc. None of the Borrowers, the Guarantors nor any of the Restricted Subsidiaries of a Borrower is subject to any charter, corporate or other legal restriction, or any judgment, decree, order, rule or regulation that has or is expected in the future to have a materially adverse effect on the business, assets or financial condition of such Person. None of the Borrowers, the Guarantors nor any of the Restricted Subsidiaries of a Borrower is a party to any contract or agreement that has or is expected, in the judgment of the partners or officers of such Person, to have any materially adverse effect on the business of any of them.

§6.9 Compliance with Other Instruments, Laws, Etc. None of the Borrowers, the Guarantors nor any of the Restricted Subsidiaries of a Borrower is in violation of any provision of its partnership agreement, charter or other organizational documents, bylaws, or any agreement or instrument to which it may be subject or by which it or any of its properties may be bound or any decree, order, judgment, statute, license, rule or regulation, in any of the foregoing cases in a manner that could result in the imposition of substantial penalties or materially and adversely affect the financial condition, properties or business of such Person.

§6.10 Tax Status. The Borrowers, the Guarantors and each of the Restricted Subsidiaries of a Borrower (a) has made or filed all federal and state income and all other tax returns, reports and declarations required by any jurisdiction to which it is subject, if applicable or required, except to the extent such Person has obtained an extension of the deadline to file such return, (b) has paid all taxes and other private or governmental assessments and charges shown or determined to be due on such returns, reports and declarations, if applicable or required, except those being contested in good faith and by appropriate proceedings or where a failure to so pay could not have a materially adverse effect on the business, assets or financial condition of such Person and (c) has set aside on its books provisions reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply, if applicable or required. There are no unpaid taxes or assessments in any material amount claimed to be due by the taxing authority of any jurisdiction or pursuant to any private agreement except for those that are being contested as permitted in this Agreement, and the partners or officers of such Person know of no basis for any such claim.

§6.11 No Event of Default. No Default or Event of Default has occurred and is continuing.

§6.12 Investment Company Act. None of the Borrowers, the Guarantors nor any of the Restricted Subsidiaries of a Borrower is an “investment company,” or an “affiliated company” or a “principal underwriter” of an “investment company,” as such terms are defined in the Investment Company Act of 1940.

§6.13 Absence of UCC Financing Statements, Etc. Except with respect to Liens permitted by §8.2, there is no financing statement, security agreement, chattel mortgage, real estate mortgage or other document filed or recorded with any filing records, registry, or other public office, that purports to cover, affect or give notice of any present or possible future lien on, or security interest or security title in, the Collateral (excluding any such items in favor of Agent) or any other property of a Borrower or its Restricted Subsidiaries or rights thereunder.

§6.14 Setoff, Etc. The Collateral and the rights of the Agent and the Lenders with respect to the Collateral are not subject to any setoff, claims, withholdings or other defenses. The Borrowers are the owners of the Collateral free from any lien, security interest, encumbrance or other claim or demand, except those encumbrances permitted in the Security Deeds or permitted by §8.2.

§6.15 Certain Transactions. Except as set forth in Schedule 6.15 hereto, none of the partners, officers, trustees, directors, or employees of the Borrowers, the General Partners, the Second Tier Partners, the Third Tier Partners, the Guarantors or any of the Restricted

Subsidiaries of a Borrower is a party to any material transaction with either of the Borrowers or any of their respective Restricted Subsidiaries (other than employment and severance agreements relating to services as partners, employees, officers, trustees and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any partner, officer, trustee, director or such employee or, to the knowledge of the Borrowers, any corporation, partnership, trust or other entity in which any partner, officer, trustee, director, or any such employee has a substantial interest or is an officer, director, trustee or partner, unless such contract, agreement or other arrangement is an arm's-length arrangement with terms comparable to those which would be obtained from an unaffiliated Person or as otherwise approved by the Agent. For the purposes of this §6.15, a transaction shall be deemed "material" to the extent such transaction would be required to be disclosed to the shareholders pursuant to applicable securities laws (including, without limitation, Item 404 of Regulation SK promulgated by the Securities and Exchange Commission).

§6.16 Employee Benefit Plans. Except as set forth on Schedule 6.16, each Borrower is in compliance in all material respects with ERISA. There has been no ERISA Reportable Event with respect to any Employee Benefit Plan, Multiemployer Plan or Guaranteed Pension Plan. There has been no institution of proceedings or any other action by PBGC, any Borrower or any ERISA Affiliate to terminate or withdraw or partially withdraw from any such Plan under any circumstances which could lead to material liabilities to PBGC or, with respect to a Multiemployer Plan, the "Reorganization" or "Insolvency" (as each such term is defined in ERISA) of any such Plan. No "prohibited transaction" (within the meaning of Section 406 of ERISA or Section 4975 of the Code) has occurred with respect to any such Plan, and the consummation of the transactions provided for in this Agreement and compliance by the Borrowers with the provisions hereof and the other Loan Documents will not involve any prohibited transaction. None of the Borrowing Base Assets constitutes a "plan asset" (within the meaning of ERISA and the Code) of any Employee Benefit Plan, Multiemployer Plan or Guaranteed Pension Plan.

§6.17 ERISA Taxes. None of the Borrowers or any ERISA Affiliate thereof is currently and the Borrowers have no reason to believe that any Borrower or any ERISA Affiliate thereof will become subject to any liability (other than routine expenses or contributions relating to the Plans set forth on Schedule 6.17, if timely paid), tax or penalty whatsoever to any person whomsoever, which liability, tax or penalty is directly or indirectly related to any Plans set forth on Schedule 6.17 including, but not limited to, any penalty or liability arising under Title I or Title IV of ERISA, any tax or penalty resulting from a loss of deduction under Sections 404 and 419 of the Code, or any tax or penalty under Chapter 43 of the Code, except such liabilities, taxes or penalties (when taken as a whole) as will not have a material adverse effect on such Borrowers or upon their financial condition, assets, business, operations, liabilities or prospects.

§6.18 Plan Payments. Each Borrower and each ERISA Affiliate has made full and timely payment of all amounts (i) required to be contributed under the terms of each Plan set forth on Schedule 6.17 and applicable law and (ii) required to be paid as expenses of each Plan set forth on Schedule 6.17. No Plan set forth on Schedule 6.17 would have an "amount of unfunded benefit liabilities" (as defined in Section 4001(a)(18) of ERISA) if such Plan were terminated as of the date on which this representation and warranty is made.

§6.19 Regulations U and X. No portion of any Loan is to be used by any Borrower for the purpose of purchasing or carrying any “margin security” or “margin stock” as such terms are used in Regulations U and X of the Board of Governors of the Federal Reserve System, 12 C.F.R. Parts 221 and 224. Neither Borrower is engaged, nor will it engage, principally or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any “margin security” or “margin stock” as such terms are used in Regulations T, U and X of the Board of Governors of the Federal Reserve System, 12 C.F.R. Parts 220, 221 and 224.

§6.20 Environmental Compliance. The Borrowers have taken all commercially reasonable steps necessary to investigate the past and present conditions and usage of the Real Estate and the operations conducted thereon and, based upon such investigation, make the following representations and warranties.

(a) To the best of the Borrowers’ knowledge, none of the Borrowers, the Guarantors nor the Restricted Subsidiaries of any Borrower or any operator of the Real Estate, or any operations thereon is in violation, or alleged violation, of any judgment, decree, order, law, license, rule or regulation pertaining to environmental matters, including without limitation, those arising under the Resource Conservation and Recovery Act (“RCRA”), the Comprehensive Environmental Response, Compensation and Liability Act of 1980 as amended (“CERCLA”), the Superfund Amendments and Reauthorization Act of 1986 (“SARA”), the Federal Clean Water Act, the Federal Clean Air Act, the Toxic Substances Control Act, or any state or local statute, regulation, ordinance, order or decree relating to the environment (hereinafter “Environmental Laws”), which violation involves the Real Estate and would have a material adverse effect on the environment or the business, assets or financial condition of either Borrower, any Guarantor or any of a Borrower’s Restricted Subsidiaries.

(b) Except as set forth on Schedule 6.20, none of the Borrowers, the Guarantors nor any of the Restricted Subsidiaries of any Borrower has received notice from any third party including, without limitation, any federal, state or local governmental authority, (i) that it has been identified by the United States Environmental Protection Agency (“EPA”) as a potentially responsible party under CERCLA with respect to a site listed on the National Priorities List, 40 C.F.R. Part 300 Appendix B (1986); (ii) that any hazardous waste, as defined by 42 U.S.C. §9601(5), any hazardous substances as defined by 42 U.S.C. §9601(14), any pollutant or contaminant as defined by 42 U.S.C. §9601(33) or any toxic substances, oil or hazardous materials or other chemicals or substances regulated by any Environmental Laws (“Hazardous Substances”) which it has generated, transported or disposed of have been found at any site at, on or under the Real Estate for which a federal, state or local agency or other third party has conducted or has ordered that any of the Borrowers, any Guarantor or any of the Restricted Subsidiaries of any Borrower conduct a remedial investigation, removal or other response action pursuant to any Environmental Law; or (iii) that it is or shall be a named party to any claim, action, cause of action, complaint, or legal or administrative proceeding (in each case, contingent or otherwise) arising out of any third party’s incurrence of costs, expenses, losses or damages of any kind whatsoever in connection with the release of Hazardous Substances.

(c) To the best of the Borrowers’ knowledge, except as set forth on Schedule 6.20: (i) no portion of the Real Estate has been used as a landfill or for dumping or for the handling, processing, storage or disposal of Hazardous Substances except in accordance with

applicable Environmental Laws, and no underground tank or other underground storage receptacle for Hazardous Substances is located on any portion of the Real Estate that is not in compliance with applicable Environmental Laws; (ii) in the course of any activities conducted by the Borrowers, the Guarantors, the Restricted Subsidiaries of any Borrower or the operators of any of their properties, no Hazardous Substances have been generated or are being used on the Real Estate except in the ordinary course of business and in accordance with applicable Environmental Laws; (iii) there has been no past or present releasing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, disposing or dumping (a "Release") or threatened Release of Hazardous Substances on, upon, into or from the Real Estate, which Release would have a material adverse effect on the value of any of the Real Estate or adjacent properties or the environment; (iv) there have been no Releases on, upon, from or into any real property in the vicinity of any of the Real Estate which, through soil or groundwater contamination, may have come to be located on, and which would have a material adverse effect on the value of, the Real Estate; and (v) any Hazardous Substances that have been generated on any of the Real Estate have been transported off site only by carriers having an identification number issued by the EPA or approved by a state or local environmental regulatory authority having jurisdiction regarding the transportation of such substance and treated or disposed of only by treatment or disposal facilities maintaining valid permits as required under all applicable Environmental Laws, which transporters and facilities have been and are, to the best of the Borrowers' knowledge, operating in compliance with such permits and applicable Environmental Laws.

(d) None of the Borrowers, the Guarantors, the Restricted Subsidiaries of any Borrower, nor any Real Estate is subject to any applicable Environmental Law requiring the performance of Hazardous Substances site assessments, or the removal or remediation of Hazardous Substances, or the giving of notice to any governmental agency or the recording or delivery to other Persons of an environmental disclosure document or statement by virtue of the transactions set forth herein and contemplated hereby, or as a condition to the recording of the Security Deed or to the effectiveness of any other transactions contemplated hereby.

§6.21 Subsidiaries. Schedule 6.21 sets forth, as of the date hereof, all of the Restricted Subsidiaries and Unrestricted Subsidiaries of the Borrowers, the form and jurisdiction of organization of each of such Subsidiaries, and the Borrowers' ownership interest therein.

§6.22 Loan Documents. All of the representations and warranties made by or on behalf of the Borrowers, Woodlands Operating, the Guarantors and the Restricted Subsidiaries of any Borrower made in this Agreement and the other Loan Documents or any document or instrument delivered to the Agent or the Lenders pursuant to or in connection with any of such Loan Documents are true and correct in all material respects, and neither of the Borrowers nor any Guarantor has failed to disclose such information as is necessary to make such representations and warranties not misleading. There is no material fact or circumstance that has not been disclosed to the Agent and the Lenders, and the written information, reports and other papers and data with respect to the Borrowers and the Property (other than projections and estimates) furnished to the Agent or the Lender in connection with this Agreement or the obtaining of the commitments of the Lenders hereunder was, at the time so furnished and when considered as a whole, complete and correct in all material respects, or has been subsequently supplemented by other information, reports or other papers or data, to the extent necessary to give in all material

respects a true and accurate knowledge of the subject matter in all material respects; provided that such representation shall not apply to (a) the accuracy of any engineering and environmental reports prepared by third parties or legal conclusions or analysis provided by the Borrowers' counsel (although Borrowers have no reason to believe that the Agent and the Lenders may not rely on the accuracy thereof), (b) misstatements or omissions actually known as such to the loan officer of the Agent or a Lender responsible for the Loans prior to the execution and delivery of the Loan Documents, or (c) budgets, projections and other forward-looking speculative information prepared in good faith by Borrowers (except to the extent the related assumptions are manifestly unreasonable).

§6.23 Property. All of the Borrowers' and their respective Restricted Subsidiaries' and the Guarantors' improved Real Estate are in good condition and working order subject to ordinary wear and tear, other than with respect to deferred maintenance existing as of the date of acquisition of such property which is being corrected or repaired in the ordinary course of business and certain de minimis known and unknown repairs, none of which may have a materially adverse effect on the business or financial condition of the Borrowers. Except as disclosed to Agent in writing as of the Closing Date, there are no unpaid or outstanding real estate or other taxes or assessments on or against any property of the Borrowers or any of their respective Restricted Subsidiaries or of Guarantors which are payable by such Persons (except only real estate or other taxes or assessments, that are not yet due and payable or are being protested as permitted by this Agreement). Except as disclosed to Agent in writing, there are no pending eminent domain proceedings against any property of the Borrowers or their respective Restricted Subsidiaries or the Guarantors or any part thereof, and, to the knowledge of the Borrowers, no such proceedings are presently threatened or contemplated by any taking authority which in either case may individually or in the aggregate have any materially adverse effect on the business or financial condition of either Borrower. None of the property of Borrowers or their respective Restricted Subsidiaries or the Guarantors is now damaged as a result of any fire, explosion, accident, flood or other casualty in any manner which individually or in the aggregate would have any materially adverse effect on the business or financial condition as a whole of either Borrower.

§6.24 Material Agreements. Borrowers have delivered or made available to Agent true, correct and complete copies of the Material Agreements. To the best knowledge of the Borrowers, each of the Material Agreements is in full force and effect in accordance with their respective terms, and except as disclosed to the Agent in writing there are no material claims or any basis for material claims by any party to any Material Agreement.

§6.25 Brokers. None of the Borrowers nor any of their respective Restricted Subsidiaries has engaged or otherwise dealt with any broker, finder or similar entity in connection with this Agreement or the Loans contemplated hereunder.

§6.26 Partners. As of the date hereof, (a) TWC Commercial Properties and MS TWC, Inc. are the sole general partners of TWCPC Holdings and together own a two percent (2%) general partner interest in TWCPC Holdings, (b) TWCPC Holdings is the sole member of TWCPC Holdings GP, (c) TWCPC Holdings and TWCPC Holdings GP are the sole partners of Commercial Company, (d) TWC Land Development and MS TWC, Inc. are the sole general partners of TWLDC Holdings and together own a forty-three and one-half percent (43.5%)

general partner interest in TWLDC Holdings, (e) TWLDC Holdings is the sole member of TWLDC Holdings GP, and (f) TWLDC Holdings and TWLDC Holdings GP are the sole partners of Land Company. Each of the Howard Hughes Group and the MSREF Group are in control of at least 50% of the voting rights in each Borrower and not less than 37.5% of the ownership interests in each Borrower as of the date hereof.

§6.27 Options to Acquire; Restrictions on Development. None of the Borrowing Base Assets are subject to any right of first refusal, right of first offer or other options to purchase except as set forth on Schedule 6.27 hereto or except such rights of first refusal, rights of first offer or other options to purchase that constitute arm's-length agreements entered into in the ordinary course of business which individually or in the aggregate do not have a material adverse affect on the Collateral as a whole or restrict, limit or materially adversely affect the ability to develop or the marketability or financeability of the Borrowing Base Assets subject thereto. None of the Undeveloped Residential Land or the Undeveloped Commercial Land is subject to any material agreement restricting or limiting its development except as set forth on Schedule 6.27.

§6.28 [Intentionally omitted.]

§6.29 Fair Consideration. The Borrowers and the Guarantors, by receiving the benefits under this Agreement, are receiving "reasonably equivalent value" within the meaning of Section 548 of the Bankruptcy Code, Title 11, U.S.C.A., in exchange for the delivery of the Security Documents to Agent. The transaction evidenced by this Agreement and the other Loan Documents is in the best interests of the Borrowers and the Guarantors and the creditors of the Borrowers and the Guarantors.

§6.30 Solvency. As of the Closing Date and after giving affect to the transactions contemplated by this Agreement and the other Loan Documents, including all of the Loans made or to be made hereunder, none of the Borrowers nor any of their respective Restricted Subsidiaries nor any Guarantor is insolvent on a balance sheet basis, the sum of such Person's assets exceeds the sum of such Person's liabilities, each of the Borrowers and their respective Restricted Subsidiaries and the Guarantors is able to pay its debts as they become due, and each of the Borrowers and their respective Restricted Subsidiaries and the Guarantors has sufficient capital to carry on its business. Neither the Borrowers nor any Guarantor has entered into the Loan or any Loan Document with the actual intent to hinder, delay or defraud any creditor.

§6.31 No Bankruptcy Filing. None of the Borrowers, the Guarantors nor any of the Restricted Subsidiaries of any Borrower is contemplating either the filing of a petition by it under any state or federal bankruptcy or insolvency laws or the liquidation of its assets or property, and neither Borrower has any knowledge of any Person contemplating the filing of any such petition against it or any of such other Persons.

§6.32 Other Debt. None of the Borrowers, the Guarantors nor any of their respective Restricted Subsidiaries is in default (after giving effect to applicable grace periods) in the payment of any Indebtedness or the terms of any agreement, mortgage, deed of trust, security agreement, financing agreement, indenture or other lease to which any of them is a party which relates to Indebtedness or other obligations which individually or in the aggregate exceed

\$5,000,000.00. None of the Borrowers, the Guarantors nor the Restricted Subsidiaries of any Borrower is a party to or bound by any agreement, instrument or indenture that may require the subordination in right or time of payment of any of the Obligations to any other indebtedness or obligation of any Borrower or any Guarantor. The Borrowers have provided to the Agent copies of or access to all agreements, mortgages, deeds of trust, financing agreements or other material agreements binding upon Borrowers, their respective Restricted Subsidiaries, the Guarantors or their respective properties and entered into by such Person as of the date of this Agreement with respect to any Indebtedness of such Person.

§6.33 OFAC. None of the Borrowers or Guarantors are (and none of the Borrowers or Guarantors will be) a Person with whom any Lender is restricted from doing business under OFAC (including, those Persons named on OFAC's Specially Designated and Blocked Persons list) or under any statute, executive order (including the September 24, 2001 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, Borrowers hereby agree to provide to the Lenders any additional information that a Lender deems reasonably necessary from time to time in order to ensure compliance with all applicable laws concerning money laundering and similar activities.

§6.34 Additional Land. Except for the Conference Center and any Real Estate which is encumbered by a Lien securing Indebtedness permitted by §8.1(a)(viii) or §8.1(a)(xvi), Borrowers do not own any other Real Estate or rights or privileges within or with respect to the Woodlands Project other than that which is included within the Collateral. Stibbs has conveyed to Land Company all real estate owned by Stibbs in his capacity as trustee for the benefit of Land Company.

§6.35 WECCR Leases; Management Agreements. None of the Mortgaged Property is leased to WECCR or any other Affiliate of a Borrower or Woodlands Operating except for such Leases with respect to which a subordination agreement acceptable to Agent has been executed and delivered to Agent by the applicable Borrower and WECCR or such Affiliate and except for (a) the Lease Agreement, dated March 26, 2001, between Land Company, as landlord, and Beverage Operations, Inc., as tenant, pertaining to the provision of alcoholic beverage services at The Club at Carlton Woods, as amended June 6, 2005 to include The Club at Carlton Woods Creekside, and (b) the Sub-Lease Agreement, dated August 21, 2002, between WECCR, as landlord, and Beverage Operations, Inc., as tenant, pertaining to the provision of alcoholic beverage services at the Conference Center, the Gary Player golf course, the East golf course, the Arnold Palmer golf course and The Woodlands Country Club, as amended July 31, 2007 to delete the Gary Player golf course, the Arnold Palmer golf course and The Woodlands Country Club. None of the Mortgaged Property is subject to any Management Agreement with MS Hospitality, L.P. or any other Affiliate of a Borrower except for such Management Agreements with respect to which an Assignment of Management Agreement and Subordination has been executed and delivered to Agent and except for (x) the Management Service Agreement, dated March 26, 2001, between Beverage Operations, Inc. and Land Company, as amended June 4, 2001, pertaining to the service of alcoholic beverages at The Club at Carlton Woods, and amended June 6, 2005 to add The Club at Carlton Woods Creekside, and further amended October 4, 2005 to include the words "mixed beverages," and (y) the Management Service

Agreement, dated August 21, 2002, between Beverage Operations, Inc. and MS Hospitality, L.P., pertaining to the service of alcoholic beverages at the Conference Center, the Gary Player golf course, the East golf course, the Arnold Palmer golf course and The Woodlands Country Club, amended July 31, 2004 to delete the Gary Player golf course, the East golf course, and the Arnold Palmer golf course, and further amended May 31, 2007 and July 31, 2007 to delete The Woodlands Country Club.

§6.36 Guarantor Contribution Agreement. The Borrowers and the Guarantors have executed and delivered the Guarantor Contribution Agreement, and the Guarantor Contribution Agreement constitutes the valid and legally binding obligations of such parties enforceable against them in accordance with the terms and provisions thereof, except as enforceability is limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights and except to the extent that availability of the remedy of specific performance or injunctive relief is subject to the discretion of the court before which any proceeding therefor may be brought.

§7. AFFIRMATIVE COVENANTS OF THE BORROWERS

The Borrowers covenant and agree that, so long as any Loan or Note is outstanding or any Lender has any obligation to make any Loans:

§7.1 Punctual Payment. The Borrowers will duly and punctually pay or cause to be paid the principal and interest on the Loans and all interest and fees provided for in this Agreement, all in accordance with the terms of this Agreement and the Notes as well as all other sums owing pursuant to the Loan Documents.

§7.2 Maintenance of Office. Borrowers will maintain their chief executive offices at c/o The Woodlands Operating Company, L.P., 24 Waterway Avenue, Suite 1100, The Woodlands, Texas 77380, or at such other place in the United States of America as such Borrower shall designate upon prior written notice to the Agent and the Lenders, where notices, presentations and demands to or upon each Borrower in respect of the Loan Documents may be given or made.

§7.3 Records and Accounts. The Borrowers will (a) keep, and cause each of their respective Restricted Subsidiaries to keep, true and accurate records and books of account in which full, true and correct entries will be made in accordance with Generally Accepted Accounting Principles, as revised from time to time, and (b) maintain reasonably adequate accounts and reserves for all taxes against their respective Real Estate and depreciation and amortization of its properties and the properties of their respective Restricted Subsidiaries, contingencies and other reserves. Except as required by Generally Accepted Accounting Principles and with prior written notice to Agent, none of the Borrowers nor any of their respective Restricted Subsidiaries shall, without the prior written consent of the Agent, make any material change to the accounting procedures used by such Person in preparing the financial statements and other information described in §6.4. The Borrowers shall not, without the prior written consent of the Agent, change their fiscal year which ends on December 31 of each year.

§7.4 Financial Statements, Certificates and Information. The Borrowers will deliver to the Agent with sufficient copies for each of the Lenders:

(a) as soon as practicable, but in any event not later than one hundred twenty (120) days after the end of each fiscal year of each Borrower, the audited consolidated balance sheet of each Borrower and its subsidiaries and of the Borrowers collectively and their subsidiaries on a combined basis at the end of such year, and the related audited consolidated statements of income, changes in capital and cash flows for such year, each setting forth in comparative form the figures for the previous fiscal year and all such statements to be in reasonable detail, prepared in accordance with Generally Accepted Accounting Principles, and accompanied by an auditor's report prepared without qualification by a nationally recognized accounting firm reasonably acceptable to the Agent, and any other information the Agent may reasonably require to complete a financial analysis of the Borrowers, together with a written statement from such accountants to the effect that they have read a copy of this Agreement, and that, in making the examination necessary to said certification, they have obtained no knowledge of any Default or Event of Default, or, if such accountants shall have obtained knowledge of any then existing Default or Event of Default they shall disclose in such statement any such Default or Event of Default; provided that such accountants shall not be liable to the Agent or the Lenders for failure to obtain knowledge of any Default or Event of Default;

(b) as soon as practicable, but in any event not later than forty-five (45) days after the end of each fiscal quarter of the Borrowers (including the fourth fiscal quarter in each year), copies of the unaudited consolidated balance sheet of each Borrower and its Consolidated subsidiaries and of the Borrowers collectively and their Consolidated subsidiaries on a combined basis as of the end of such quarter, and the related unaudited consolidated statements of income, changes in capital and cash flows for the portion of the Borrowers' fiscal year then elapsed, all prepared in accordance with Generally Accepted Accounting Principles (other than the inclusion of footnotes) and in addition a calculation of Operating Cash Flow, Excess Cash Flow, Total Debt Ratio, Woodlands Operating Payments, Woodlands Operating Distributions, Net Income of Woodlands Operating, Partner Subordinated Debt Payments and the Distributions to be made to the parties or other beneficial owners of the Borrowers for such period (or if such amounts relate to a prior period as permitted by §8.7(i)) and any other terms defined in this Agreement, and showing any variations for such quarter and the year-to-date of actual operations from the Budget, together with a certification by the Principal Financial Officer of each Borrower that the information contained in such financial statements fairly presents the financial position of the Borrowers and their respective Consolidated subsidiaries on the date thereof (subject to year end adjustments);

(c) contemporaneously with the delivery of the financial statements referred to in clause (a) above, a statement of all contingent liabilities in excess of \$100,000.00 of each Borrower and their respective Restricted Subsidiaries which are not reflected in such financial statements or referred to in the notes thereto (including, without limitation, all guarantees, endorsements and other contingent obligations in respect of indebtedness of others, and obligations to reimburse the issuer in respect of any letters of credit);

(d) [Intentionally omitted].

(e) not later than sixty (60) days after the end of the first three fiscal quarters of the Borrowers and not later than one hundred twenty (120) days after the end of each fiscal year of the Borrowers, a statement (a "Compliance Certificate") certified by the Principal Financial Officer of each Borrower in the form of Exhibit E hereto setting forth in reasonable detail computations evidencing compliance with the covenants contained in §9 and the other covenants described therein, and (if applicable) reconciliations to reflect changes in Generally Accepted Accounting Principles since the Balance Sheet Date;

(f) simultaneously with the delivery of the financial statements referred to in subsections (a) and (b) above and the Compliance Certificate referred to in subsection (e) above, a spreadsheet listing each parcel of income-producing Real Estate and its location, whether such Real Estate is owned by a Borrower or one of their respective Restricted Subsidiaries, its size (square footage for office and retail assets; number of apartments for multifamily; number of rooms for hotel/lodging/resort assets), occupancy level as of the quarter most recently ended, current quarter net income and partnership distributions and such other information as Agent may reasonably request, a specific listing of any new Eligible Accounts Receivable proposed to be included in the Borrowing Base, a listing of each Vertical Commercial Improvements project under construction or development, the budgeted cost of completing such project (on a fully developed basis including land) of Commercial Company, Land Company and their respective Restricted Subsidiaries and Unrestricted Subsidiaries, the amount expended and the remaining costs to be incurred, whether each such project constitutes a Speculative Development, the status of completion, the estimated completion date, the status of leasing and the summary and breakdown of the sources of capital for such construction and development;

(g) not later than five (5) days after the end of each calendar month, a statement certified by an Authorized Officer of each Borrower that each sale of Undeveloped Residential Land or Developed Residential Land for the preceding calendar month was for fair market value as a result of an arm's-length sale of such Property in the ordinary course of such Borrower's business to a party that was not an Affiliate of any Borrower, any General Partner, any Second Tier Partner, any Third Tier Partner or any Guarantor, and that any easements, subdivision plats, road dedications, restrictions or similar agreements consented or subordinated to by the Title Insurance Company pursuant to the Tri-Party Agreement during the preceding calendar month shall not have any material negative impact to the Collateral;

(h) if requested by the Agent, copies of all annual federal income tax returns and amendments thereto of the Borrowers;

(i) [Intentionally omitted];

(j) not later than forty-five (45) days after the end of each fiscal quarter of the Borrowers (including the fourth fiscal quarter in each year), a statement, certified as true and correct by the Principal Financial Officer of each Borrower, of all recourse and Non-Recourse Indebtedness of each Borrower and their respective Restricted Subsidiaries as of the end of such fiscal quarter, including, with respect to each such Indebtedness, the outstanding principal amount as of the end of such fiscal quarter, the amount remaining undisbursed, if any, the maturity date and any extension options, the required monthly payments of principal and interest, the identity of the lender, the interest rate, the collateral for such Indebtedness and whether such Indebtedness is recourse or non-recourse;

(k) not later than ten (10) days after approval by each Borrower's executive committee, the Budget for the next calendar year. Such Budget shall be in form reasonably satisfactory to the Agent and shall be submitted to the Agent together with a narrative description of the assumptions upon which the Budget is based and such other information as the Agent may request;

(l) at such times as Agent shall determine in its discretion (but, so long as no Event of Default has occurred and is continuing, not more frequently than once each calendar year), Borrower shall deliver to Agent such title updates, UCC searches or other evidence as Agent may reasonably require to show that the Security Documents create a first lien and security interest in the Collateral; and

(m) from time to time such other financial data and information in the possession of the Borrowers, their respective Restricted Subsidiaries or their respective Unrestricted Subsidiaries (including without limitation auditors' management letters, market comparable studies, property inspection and environmental reports and information as to zoning and other legal and regulatory changes affecting the Borrowers or their respective Subsidiaries) as the Agent may reasonably request.

§7.5 Notices.

(a) Defaults. The Borrowers will promptly notify the Agent in writing of the occurrence of any Default or Event of Default. If any Person shall give any notice or take any other action in respect of a claimed default (whether or not constituting an Event of Default) under this Agreement or under any note, obligation or other evidence of indebtedness to which or with respect to which any of the Borrowers, the Guarantors or any of the Borrowers' Restricted Subsidiaries or Unrestricted Subsidiaries is a party or obligor, whether as principal or surety, and such default would permit the holder of such note or obligation or other evidence of indebtedness to accelerate the maturity thereof, which acceleration would have a material adverse effect on any of such Persons or constitute a Default or Event of Default, the Borrowers shall forthwith give written notice thereof to the Agent, describing the notice or action and the nature of the claimed default.

(b) Environmental Events. The Borrowers will promptly give notice to the Agent (i) upon either of the Borrowers obtaining knowledge of any potential or known Release, or threat of Release, of any Hazardous Substances at or from any Real Estate, other than a de minimis Release that is not reportable to any federal, state or local environmental agency; (ii) of any violation of any Environmental Law that either of the Borrowers or any of their respective Restricted Subsidiaries reports in writing or is reportable by such Person in writing (or for which any written report supplemental to any oral report is made) to any federal, state or local environmental agency; and (iii) upon becoming aware thereof, of any inquiry, proceeding, investigation, or other action, including a notice from any agency of potential environmental liability, of any federal, state or local environmental agency or board, that in either case involves the Real Estate or has the potential to materially affect the assets, liabilities, financial conditions or operations of either of the Borrowers or any Restricted Subsidiary or the Agent's liens on the Collateral pursuant to the Security Documents.

(c) Notification of Claims Against Collateral. The Borrowers will, promptly upon becoming aware thereof, notify the Agent in writing of any material setoff, claims (including, with respect to the Real Estate, environmental claims), withholdings or other defenses to which any of the Collateral, or the rights of the Agent or the Lenders with respect to the Collateral, are subject.

(d) Notice of Litigation and Judgments. The Borrowers will give notice to the Agent in writing within fifteen (15) days of becoming aware of any litigation or proceedings threatened in writing or any pending litigation and proceedings affecting any of the Borrowers, the Guarantors or any of the Restricted Subsidiaries of any Borrower or to which any of such persons is or is to become a party involving an uninsured claim against any of such Persons that could reasonably be expected to have a materially adverse effect on such Person and stating the nature and status of such litigation or proceedings. The Borrowers will give notice to the Agent, in writing, in form and detail satisfactory to the Agent and each of the Lenders, within ten (10) days of any judgment not covered by insurance, whether final or otherwise, against any of the Borrowers, the Guarantors or any of the Restricted Subsidiaries of any Borrower in an amount in excess of \$1,000,000.00.

(e) [Intentionally omitted].

(f) Notice of Material Adverse Effect. The Borrowers will give notice to the Agent in writing within fifteen (15) days of becoming aware of the occurrence of any event or circumstance which might have a material adverse effect on the business, assets or financial condition of either of the Borrowers or any Guarantor.

(g) Notice of Designation of Restricted and Unrestricted Subsidiaries. The Borrowers will promptly give notice to the Agent of any designation by a Borrower of Restricted Subsidiaries or Unrestricted Subsidiaries as provided in the definition of same. No designation of a Restricted Subsidiary may be made unless a Borrower has sufficient interests and other rights with respect to such Person to satisfy the requirements set forth in the definition of Restricted Subsidiary to be a Restricted Subsidiary. Any such designation of a Restricted Subsidiary or Unrestricted Subsidiary may not be changed. Notwithstanding anything in this Agreement to the contrary, prior to a Borrower designating a Person as an Unrestricted Subsidiary, the Borrower shall deliver to the Agent a certificate showing pro forma compliance with §9.3 (Borrowing Base) after giving effect to such designation.

§7.6 Existence; Maintenance of Properties.

(a) The Borrowers will do or cause to be done all things necessary to preserve and keep in full force and effect their existence as Texas limited partnerships. Each Borrower will cause each of its Restricted Subsidiaries to do or cause to be done all things necessary to preserve and keep in full force and effect its legal existence. The Borrowers will do or cause to be done all things necessary to preserve and keep in full force all of their material rights and franchises and those of their respective Restricted Subsidiaries. The Borrowers will, and will cause each of their respective Restricted Subsidiaries to, continue to engage primarily in the businesses now conducted by it and in related businesses.

(b) Irrespective of whether proceeds of the Loans are available for such purpose, the Borrowers (i) will cause all of their respective properties and those of their respective Restricted Subsidiaries used or useful in the conduct of its business or the business of their respective Restricted Subsidiaries to be maintained and kept in good condition, repair and working order (ordinary wear and tear excepted) and supplied with all necessary equipment, and (ii) will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof in all cases in which the failure so to do would have a material adverse effect on the condition of its properties or on the financial condition, assets or operations of the Borrowers and their respective Restricted Subsidiaries.

§7.7 Insurance.

(a) The Borrowers will, at their expense, procure and maintain or cause to be procured and maintained for the benefit of the Borrowers, the Agent and the Lenders, insurance policies issued by such insurance companies, in such amounts, in such form and substance, and with such coverages, endorsements, deductibles and expiration dates as are acceptable to the Agent, providing the following types of insurance covering the Mortgaged Property:

(i) "All Risks" property insurance (including broad form flood, broad form earthquake and comprehensive boiler and machinery coverages) on the Buildings and the Golf Courses and the contents therein in an amount not less than one hundred percent (100%) of the full replacement cost of the improvements on the Mortgaged Property and the contents therein of the Borrowers, with deductibles not to exceed \$500,000 for any one occurrence and with a replacement cost coverage endorsement or an agreed amount endorsement. Full replacement cost as used herein means the cost of replacing the improvements (exclusive of the cost of excavations, foundations and footings below the lowest grade) and the contents therein of the Borrowers without deduction for physical depreciation thereof;

(ii) During the course of construction or repair of any Buildings, the insurance required by clause (i) above shall be written on a builders risk, completed value, non-reporting form, meeting all of the terms required by clause (i) above, covering the total value of work performed, materials, equipment, machinery and supplies furnished, existing structures, and temporary structures being erected on or near the Mortgaged Property, including coverage against collapse and damage during transit or while being stored off-site, and containing a soft costs (including loss of rents) coverage endorsement and a permission to occupy endorsement;

(iii) Flood insurance if at any time any Buildings are located in any federally designated "special hazard area" (including any area having special flood, mudslide and/or flood-related erosion hazards, and shown on a Flood Hazard Boundary Map or a Flood Insurance Rate Map published by the Federal Emergency Management Agency as Zone A, AO, AI-30, A99, AH, VO, VI-30, VE, V, M or E) and the broad form flood coverage required by clause (i) above is not available, in an amount equal to the full replacement cost or the maximum amount then available under the National Flood Insurance Program;

(iv) Rent loss and/or business interruption insurance in an amount sufficient to recover at least the total estimated gross receipts from all sources of income, including without limitation, rental income and income from the use or occupancy of rooms or other facilities, for the Mortgaged Property for a twelve month period;

(v) Commercial general liability insurance against claims for personal injury (to include, without limitation, bodily injury and personal and advertising injury) and property damage liability, all on an occurrence basis, if commercially available, with such coverages as the Agent may reasonably request (including, without limitation, contractual liability coverage and completed operations coverage, and coverages equivalent to an ISO broad form endorsement), with a general aggregate limit of not less than \$2,000,000, a completed operations aggregate limit of not less than \$2,000,000, and a combined single "per occurrence" limit of not less than \$1,000,000 for bodily injury, property damage and medical payments;

(vi) During the course of construction or repair of any Buildings on the Mortgaged Property, owner's contingent or protective liability insurance covering claims not covered by or under the terms or provisions of the insurance required by clause (v) above;

(vii) Umbrella liability insurance with limits of not less than \$25,000,000 to be in excess of the limits of the insurance required by clauses (v) and (vi) above, with coverage at least as broad as the primary coverages of the insurance required by clauses (v) and (vi) above, with any excess liability insurance to be at least as broad as the coverages of the lead umbrella policy. All such policies shall be endorsed to provide defense coverage obligations;

(viii) Automobile liability in such amounts as Agent may reasonably require, and if any of the Mortgaged Property is a hotel, innkeeper's legal liability, liquor liability, safe deposit box liability, automobile liability and garagekeeper liability in such amounts as Agent may reasonably require;

(ix) Workers' compensation insurance (including employer's liability insurance) for all employees of the Borrowers engaged on or with respect to the Mortgaged Property; and

(x) Such other insurance in such form and in such amounts as may from time to time be reasonably required by the Agent against other insurable hazards and casualties which at the time are commonly insured against in the case of properties of similar character and location to the Mortgaged Property.

The Borrowers shall pay or cause to be paid all premiums on insurance policies. The insurance policies with respect to the Mortgaged Property provided for in clauses (v), (vi), (vii) and (viii) above with respect to the Mortgaged Property shall name the Agent and each Lender as an additional insured and shall contain a cross liability/severability endorsement. The insurance policies provided for in clauses (i), (ii), (iii) and (iv) above shall name the Agent as mortgagee and loss payee, shall be first payable in case of loss to the Agent, and shall contain mortgage clauses and lender's loss payable endorsements in form and substance acceptable to the Agent. The Borrowers shall promptly furnish to the Agent all renewal notices and evidence that all

premiums or portions thereof then due and payable have been paid. At least thirty (30) days prior to the expiration date of the policies, the Borrowers shall deliver to the Agent evidence of continued coverage, including a certificate of insurance, as may be satisfactory to the Agent.

(b) All policies of insurance required by this Agreement shall contain clauses or endorsements to the effect that (i) no act or omission of either Borrower or anyone acting for a Borrower (including, without limitation, any representations made in the procurement of such insurance), which might otherwise result in a forfeiture of such insurance or any part thereof, no occupancy or use of the Mortgaged Property for purposes more hazardous than permitted by the terms of the policy, and no foreclosure or any other change in title to the Mortgaged Property or any part thereof, shall affect the validity or enforceability of such insurance insofar as the Agent or the Lenders are concerned, (ii) the insurer waives any right of setoff, counterclaim, subrogation, or any deduction in respect of any liability of the Borrowers, the Agent and the Lenders, (iii) such insurance is primary and without right of contribution from any other insurance which may be available, (iv) such policies shall not be modified, cancelled or terminated prior to the scheduled expiration date thereof without the insurer thereunder giving at least 30 days' prior written notice to the Agent by certified or registered mail, and (v) that the Agent and the Lenders shall not be liable for any premiums thereon or subject to any assessments thereunder, and shall in all events be in amounts sufficient to avoid any coinsurance liability.

(c) The insurance required by this Agreement may be effected through a blanket policy or policies covering additional locations and property of the Borrowers and other Persons not included in the Mortgaged Property, provided that such blanket policy or policies comply with all of the terms and provisions of this §7.7 and contain endorsements or clauses assuring that any claim recovery will not be less than that which a separate policy would provide, including, without limitation, a priority claim provision with respect to property insurance and an aggregate limits of insurance endorsement in the case of liability insurance.

(d) All policies of insurance required by this Agreement shall be issued by companies licensed to do business in the state where the policy is issued to the extent so required by state law and also in the states where the Mortgaged Property is located and having a rating in Best's Key Rating Guide of at least "A" and a financial size category of at least "VIII".

(e) The Borrowers shall not carry separate insurance, concurrent in kind or form or contributing in the event of loss, with any insurance required under this Agreement unless such insurance complies with the terms and provisions of this §7.7.

(f) In the event of any loss or damage to any Building or other improvements covered by casualty insurance in excess of the applicable deductible, the Borrowers shall give immediate written notice to the insurance carrier and the Agent, or in the case of any loss or damage in excess of \$200,000.00, to the Agent, and the Agent shall furnish a copy of such notice promptly to each of the Lenders. The applicable Borrowers may make proof of loss and adjust and compromise any claim under insurance policies which is of an amount not more than \$2,000,000.00 so long as no Event of Default has occurred and is continuing and so long as such Borrower shall in good faith diligently pursue such claim. The Borrowers hereby irrevocably authorize and empower the Agent, at the Agent's option in the Agent's sole discretion, as attorney in fact for the Borrowers to make proof of any loss except as provided in the preceding

sentence, to adjust and compromise any claim under insurance policies, to appear in and prosecute any action arising from such insurance policies, to collect and receive insurance proceeds, and to deduct therefrom the Agent's reasonable expenses incurred in the collection of such proceeds. If a Mortgaged Property is acquired by the Agent or any nominee through foreclosure, deed in lieu of foreclosure or otherwise is acquired from a Borrower, all right, title and interest of such Borrower in and to any insurance policies and unearned premiums thereon and in and to the proceeds thereof resulting from loss or damage to the Mortgaged Property prior to such sale or acquisition shall pass to the Agent or any other successor in interest to such Borrower or purchaser or grantee of the Mortgaged Property.

(g) Subject to the terms of the following sentence, the Borrowers authorize the Agent, at the Agent's option, in its sole discretion, to (i) apply the balance of such proceeds to the payment of the Obligations whether or not then due in accordance with the terms of this Agreement, or (ii) if the Agent shall require the reconstruction or repair of the Mortgaged Property, to hold the balance of such proceeds to be used to pay all taxes, charges, sewer use fees, water rates and assessments which may be imposed upon the Mortgaged Property and the Obligations as they become due during the course of reconstruction or repair of the Mortgaged Property and to reimburse the applicable Borrower, in accordance with such terms and conditions as Agent may prescribe, for the cost of such reconstruction or repair of the Mortgaged Property, and on completion of such reconstruction or repair to apply any of the excess to the payment of the Obligations. Notwithstanding the foregoing, the Agent shall make such net proceeds available to the applicable Borrower to reconstruct and repair the Mortgaged Property, in accordance with such terms and conditions as the Agent may prescribe for the disbursement of such proceeds to assure completion of such reconstruction or repair provided that (A) the cost of such reconstruction or repair is not estimated by the Agent to exceed fifty percent (50%) of the fair market value of the specific building, structure or improvement or such portion of the Mortgaged Property which is in need of repair or reconstruction as determined by Agent, (B) no Default or Event of Default shall have occurred and be continuing, (C) the applicable Borrower shall have provided to Agent additional cash security (other than from proceeds of the Loan) in an amount equal to the amount reasonably estimated by the Agent to be the amount in excess of such proceeds which will be required to complete such repair or restoration, (D) the Agent shall have approved the plans and specifications for such repair or restoration and determined that the repaired or restored Mortgaged Property will provide the Lenders with adequate security applicable for the Obligations at least substantially identical in nature, quality and value to the security for the Obligations existing prior to such casualty, (E) the applicable Borrower shall have delivered to the Agent written agreements binding upon all tenants or other parties having present or future rights to possession of any portion of the Mortgaged Property or having any right to require repair, restoration or completion of the Mortgaged Property or any portion thereof or having any right to terminate any management agreement, franchise agreement or other agreement relating to or affecting the Mortgaged Property, agreeing upon a date for delivery of possession of the Mortgaged Property or their respective portions thereof, or for such required repair, restoration or completion, to permit time which is sufficient in the judgment of the Agent for such repair or restoration and approving the plans and specifications for such repair or restoration, or other evidence satisfactory to the Agent that none of such tenants or other parties may terminate their Leases or other agreements affecting or relating to the Mortgaged Property as a result of such casualty or have a right to approve the plans and specifications for such repair or restoration, and (F) the Agent shall determine that such repair or reconstruction

can be completed prior to the Maturity Date. Any excess of net proceeds over the amount necessary to complete such repair and restoration may, so long as no Default or Event of Default is continuing, be retained by the applicable Borrower or if a Default or Event of Default is continuing be applied, at the Agent's option, in its sole discretion, to the payment of the Obligations, whether or not due, in accordance with the terms of the Loan Agreement.

(h) The Borrowers will procure and maintain or cause to be procured and maintained such other insurance covering the Borrowers and the Guarantors and the Restricted Subsidiaries of the Borrowers and their respective properties (the cost of such insurance to be borne by the insured thereunder) in such amounts and against such risks and casualties as are customary for properties of similar character and location, due regard being given to the type of improvements thereon, their construction, location, use and occupancy.

§7.8 Taxes. The Borrowers and each Restricted Subsidiary and Guarantor will duly pay and discharge, or cause to be paid and discharged, before the same shall become overdue, all taxes, assessments and other private or governmental charges imposed upon it and upon the Real Estate, sales and activities, or any part thereof, or upon the income or profits therefrom, as well as all claims for labor, materials, or supplies that if unpaid might by law become a lien or charge upon any of its property; provided that any such tax, assessment, charge, levy or claim need not be paid if the validity or amount thereof shall currently be contested in good faith by appropriate proceedings and if a Borrower or such Restricted Subsidiary or Guarantor shall have set aside on its books reasonably adequate reserves with respect thereto; and provided, further, that forthwith upon the commencement of proceedings to foreclose any lien that may have attached as security therefor, the Borrowers and each Restricted Subsidiary of the Borrowers or Guarantor either (i) will provide a bond issued by a surety reasonably acceptable to the Agent and sufficient to stay all such proceedings or (ii) if no such bond is provided, will pay each such tax, assessment, charge, levy or claim.

§7.9 Inspection of Properties and Books. The Borrowers shall permit the Lenders to visit and inspect any of the properties of the Borrowers or any of their respective Restricted Subsidiaries, to examine the books of account of the Borrowers and their respective Restricted Subsidiaries (and to make copies thereof and extracts therefrom) and to discuss the affairs, finances and accounts of the Borrowers and their respective Restricted Subsidiaries with, and to be advised as to the same by, its officers, all at such reasonable times and intervals as the Agent or any Lender may reasonably request, provided that the Borrowers shall only be responsible for the expense of the Agent or any representative designated by the Agent. The Agent shall use good faith efforts to coordinate such visits and inspections so as to minimize the interference with and disruption to the Borrowers' normal business operations and the expense to the Borrowers thereof.

§7.10 Compliance with Laws, Contracts, Licenses, and Permits. The Borrowers will comply with, and will cause each of their respective Restricted Subsidiaries and each Guarantor to comply in all respects with (i) all applicable laws and regulations now or hereafter in effect wherever its business is conducted, including all Environmental Laws, (ii) the provisions of its corporate charter, partnership agreement or declaration of trust, as the case may be, and other charter documents and bylaws, (iii) all agreements and instruments to which it is a party or by which it or any of its properties may be bound, (iv) all applicable decrees, orders, and judgments,

and (v) all licenses and permits required by applicable laws and regulations for the conduct of its business or the ownership, use or operation of its properties, except when a failure to so comply with the foregoing (i)-(v) would not have a material adverse effect on the business, assets or financial condition of such Borrower, such Restricted Subsidiary or such Guarantor (provided, further, that the foregoing shall not limit any obligation to comply with terms of the Loan Documents). If at any time while any Loan or Note is outstanding or the Lenders have any obligation to make Loans hereunder, any authorization, consent, approval, permit or license from any officer, agency or instrumentality of any government shall become necessary or required in order that the Borrowers or any Guarantor may fulfill any of their obligations hereunder, the Borrowers will, and will cause the Guarantors to, immediately take or cause to be taken all steps necessary to obtain such authorization, consent, approval, permit or license.

§7.11 Use of Proceeds. The Borrowers will use the proceeds of the Loans solely (a) for working capital purposes in the operation and development of the Real Estate within the Woodlands Project, (b) for the payment of closing costs in connection with the Loans, and (c) for such other purposes as the Majority Lenders in their discretion from time to time may agree to in writing.

§7.12 Further Assurances. The Borrowers will cooperate with, and will cause each of their respective Restricted Subsidiaries to cooperate with the Agent and the Lenders and execute such further instruments and documents as the Lenders or the Agent shall reasonably request to carry out to their satisfaction the transactions contemplated by this Agreement and the other Loan Documents.

§7.13 Management. The Borrowers shall not, nor shall the Borrowers permit WECCR or any other Person to, enter into any Management Agreement relating to all or any portion of the Conference Center without the prior written consent of the Agent, such consent not to be unreasonably withheld. Any such consent shall be conditioned upon the delivery to Agent of an Assignment of Management Agreement and Subordination. Any management of the Conference Center shall be by either: (a) Commercial Company or an entity affiliated with Commercial Company approved by Agent for so long as Commercial Company or said affiliated entity is managing the Conference Center in a manner consistent with the operation of a first-class hotel and resort; or (b) a professional property management company approved by Agent, such approval not to be unreasonably withheld. MS Hospitality, L.P. is approved as the current manager of the Conference Center. Neither of the Borrowers shall terminate or replace the management agreement with MS Hospitality, L.P. or any successor management agreement approved by the Agent without the prior consent of the Agent, such consent not to be unreasonably withheld (provided that if such agreement is to be replaced by an agreement with an Affiliate of either Borrower, the Agent may require that any payments to such party be treated as "Woodlands Operating Payments" under this Agreement). The provisions of this §7.13 shall only apply in the event that the Conference Center is a Borrowing Base Asset.

§7.14 Leases; Development. The Borrowers will take or cause to be taken all reasonable steps within the power of the Borrowers to market and lease the saleable and leaseable area of the Real Estate in accordance with sound and customary development, leasing and management practices for similar properties. Borrowers shall be permitted to enter into Leases without the approval of the Agent to the extent provided in the Security Deeds.

§7.15 ERISA Compliance. Neither of the Borrowers will permit the present value of all employee benefits vested in all Employee Benefit Plans, Multiemployer Plans and Guaranteed Pension Plans maintained by such Person and any ERISA Affiliate thereof to exceed the present value of the assets allocable to such vested benefits by an amount greater than \$500,000.00 in the aggregate. Neither of the Borrowers nor any ERISA Affiliate thereof will at any time permit any such Plan maintained by it to engage in any “prohibited transaction” as such term is defined in Section 4975 of the Code or Section 406 of ERISA, incur any “accumulated funding deficiency” as such term is defined in Section 302 of ERISA, whether or not waived, or terminate any such Plan in any manner which could result in the imposition of a lien on the property of such Borrower or any Guarantor pursuant to Section 4068 of ERISA. Neither of the Borrowers will permit any of the Borrowing Base Assets to be “plan assets” within the meaning of ERISA or the Code.

§7.16 Interest Cap. From and after the date hereof, the Borrowers shall at all times own and maintain in full force and effect the Interest Cap as required by this Agreement. The Borrowers shall upon the request of the Agent provide to the Agent evidence that the Interest Cap is in effect.

§7.17 Partnership Pledge; Assignment of Notes; Additional Real Estate.

(a) In the event that after the date hereof a Borrower acquires or forms an interest in a Restricted Subsidiary, Borrower shall execute and deliver to the Agent on behalf of the Lenders a collateral assignment of all of such Borrower’s right, title and interest in such Restricted Subsidiary, such assignment to be substantially in the form of the Assignment of Interests, with such other changes thereto as may be reasonably required by the Agent.

(b) In the event that a Borrower shall have any Investments of the type described in §8.3(k), then as a condition to a Borrower having such Investment such Borrower shall execute and deliver to the Agent on behalf of the Lenders a collateral assignment of all of such Borrower’s right, title and interest in and to the loan documents and other rights and privileges relating thereto, such assignment to be substantially in the form of the Security Agreements, with such other changes thereto as may be reasonably required by the Agent.

(c) In the event that after the date hereof a Borrower shall acquire any Real Estate or other Real Estate owned by it becomes unencumbered, such Borrower shall within thirty (30) days of such acquisition deliver to Agent the Collateral Qualification Documents with respect to such Real Estate unless and for so long as such Real Estate is collateral for other Indebtedness permitted pursuant to §8.1(a)(viii) or §8.1(a)(xvi).

(d) The Borrowers shall be permitted to acquire additional Real Estate through a trustee or nominee acting on its behalf. Any indebtedness of such trustee or nominee, shall constitute Indebtedness of the Borrowers for the purposes of §8.1(a). Notwithstanding the foregoing, any such Real Estate which is not collateral for other indebtedness permitted pursuant to §8.1(a)(viii) or §8.1(a)(xvi) shall be required to be pledged as Collateral as provided in §7.17(c) above and shall be subject to the limitations of §7.19(b). If a Borrower shall desire to include within the Borrowing Base any Real Estate owned by a trustee or nominee for such Borrower, such trustee or nominee shall be required to become a Guarantor hereunder. In such

event, Borrowers shall also enter into such amendments to the Loan Documents as Agent may reasonably require to reflect the inclusion of such nominee or trustee as a Guarantor and as a party to the applicable Security Documents.

§7.18 Business Operations. The Borrowers, the Guarantors and the Borrowers' Restricted Subsidiaries shall operate their respective businesses generally in the same manner as operated since January 1, 2004 and in compliance with the terms and conditions of this Agreement and the Loan Documents.

§7.19 Borrowing Base Assets.

(a) Each of the Borrowing Base Assets shall be owned one hundred percent (100%) by a Borrower (in fee simple as to Real Estate) and shall satisfy all of the following conditions:

(i) each of the Borrowing Base Assets shall be free and clear of all Liens other than the Liens permitted in §8.2(i), (iii), (iv) and (v);

(ii) each of the Borrowing Base Assets shall be encumbered by the Security Documents which shall be a first priority perfected lien and security interest in such Borrowing Base Assets subject to the Liens permitted by §7.19(a)(i);

(iii) to the best of the Borrowers' knowledge and belief, none of the Borrowing Base Assets shall have any material title, survey, environmental or other defects that would give rise to a materially adverse effect as to the value, use of or ability to sell or refinance such property;

(iv) [Intentionally Omitted];

(v) the Borrowing Base Assets (including Properties Under Construction) which are derived from or are intended to become Income Producing Properties shall be utilized (or with respect to Properties Under Construction upon completion will be utilized) principally for office, retail, hotel or lodging facilities, research/industrial, office/warehouse, warehouse/distribution or multifamily rental housing;

(vi) the Borrowing Base Assets (other than Properties Under Construction) which are or derive from Income Producing Properties shall be (1) fully operational; and (2) properties subject to valid certificates of occupancy or the equivalent for all buildings thereon have been issued and are in full force and effect;

(vii) with respect to Properties Under Construction, in the event that the aggregate estimated Project Costs for all Properties Under Construction is at any time greater than \$15,000,000.00, the Borrowers shall have delivered to the Agent the Collateral Qualification Documents relating to each of such Properties Under Construction (provided that in any event for any Properties Under Construction with respect to which the aggregate estimated Project Costs do not exceed \$15,000,000.00 the Borrowers shall deliver the Collateral Qualification Documents described in clauses(a), (b), (c), (d), (e), (h) and (i) of the definition of Collateral Qualification Documents); and

(viii) each of such Borrowing Base Assets shall satisfy each other condition in this Agreement and the other Loan Documents applicable thereto.

For the avoidance of doubt, no assets of Restricted Subsidiaries or Unrestricted Subsidiaries shall be included in Borrowing Base Assets.

(b) Notwithstanding the terms of §7.19(a), Undeveloped Residential Land or Undeveloped Commercial Land may be owned by a trustee or nominee for a Borrower approved by Agent, provided that the Real Estate owned by such trustee or nominee included in the Borrowing Base shall not exceed 375 acres in the aggregate or contribute more than \$10,000,000.00 to the Borrowing Base.

(c) The Borrowers shall provide to the Agent as of the date hereof and concurrently with the delivery of the financial statements described in §7.4(a) or 7.4(b) (i) a list of the Borrowing Base Assets, (ii) the certification of the Principal Financial Officer of each Borrower of the Adjusted Values and that such properties are in compliance with this §7.19 and §9.3, and (iii) that the Borrowing Base Assets comply with the terms of §§6.20 and 6.23. In the event that all or any material portion of a property within the Borrowing Base Assets shall be damaged or taken by condemnation, then such property shall no longer be a part of the Borrowing Base Assets unless and until any damage to such asset is repaired or restored, such asset becomes fully operational and the Agent shall receive evidence satisfactory to the Agent of the Appraised Value of such asset following such repair or restoration.

§7.20 [Intentionally Omitted.]

§7.21 Distribution of Income to the Borrowers. The Borrowers shall use reasonable and diligent efforts to cause all of their respective Restricted Subsidiaries to, and shall use reasonable efforts to cause their respective Unrestricted Subsidiaries to, promptly distribute to the Borrowers (but not less frequently than once each fiscal quarter of the Borrowers), whether in the form of dividends, distributions or otherwise, all profits, proceeds or other income relating to or arising from such Person's use, operation, financing, refinancing, sale or other disposition of their respective assets and properties after (a) the payment by each Person of its operating expenses and scheduled debt service for such quarter and (b) the establishment of reasonable reserves for the payment of operating expenses not paid on at least a quarterly basis and capital improvements to be made to such Person's assets and properties approved by such Person in the ordinary course of business consistent with its past practices.

§7.22 More Restrictive Agreements. Without limiting the terms of §8.1, should a Borrower or a Guarantor enter into or modify any agreements or documents pertaining to any existing or future Indebtedness or Equity Offering, which agreements or documents include covenants (whether affirmative or negative) which are individually or in the aggregate more restrictive against a Borrower, a Guarantor or the Restricted Subsidiaries of any Borrower than those set forth in §9, the Borrowers shall promptly notify the Agent and, if requested by the Majority Lenders, the Borrowers, the Agent, and the Majority Lenders shall (and if applicable, the Borrowers shall cause the Guarantors to) promptly amend this Agreement and the other Loan Documents to include some or all of such more restrictive provisions as determined by the Majority Lenders in their sole discretion; provided that from and after the satisfaction of any

such Indebtedness the agreements for which may have contained a more restrictive covenant as provided herein, the Agreement shall no longer be modified as a result of such covenant contained in the agreement relating to such Indebtedness.

§7.23 Associations. The Borrowers will comply in all respects with the terms of all declarations, agreements and other instruments with respect to the Associations, the failure to comply with would have a material adverse effect on either Borrower, and will cause the Associations to do all things necessary to preserve and keep in full force their respective rights under such declarations, agreements and instruments. Either or both of the Borrowers will at all times maintain a controlling interest in the Associations.

§7.24 Acquisition of Interest Rate Protection. The Borrowers shall acquire and at all times maintain an interest rate cap, swap, collar or other interest rate protection reasonably acceptable to Agent providing to the Borrowers a cap on one month LIBOR Rate on a notional amount of not less than \$100,000,000.00, at a rate not to exceed six and one-half percent (6.5%) per annum, and following the expiration of the currently existing interest cap on August 30, 2011, at a rate not to exceed five percent (5.0%) per annum (the "Interest Cap"). The term of the Interest Cap shall not expire before the Maturity Date (without regard to any extension thereof); provided that with the approval of Agent the maturity of the Interest Cap may expire prior to the Maturity Date, and provided further that a replacement Interest Cap satisfying the requirements of this Agreement is delivered to Agent at least fifteen (15) days prior to the termination of the existing Interest Cap, and Borrower further delivers to Agent such amendments to the Assignment of Hedge and consents to and acknowledgments of such pledge by the provider of the Interest Cap as Agent may reasonably require. The Interest Cap shall be provided by any bank which is a party to this Credit Agreement or a bank or other financial institution that has unsecured, uninsured and unguaranteed long-term debt which is rated at least A-3 by Moody's Investor Service, Inc. or at least A- by Standard & Poor's Corporation. In connection with the Interest Cap, the Borrowers shall execute and deliver to Agent for the benefit of the Lenders the Assignment of Hedge.

§7.25 Condemnation. If any Mortgaged Property or any portion thereof shall be damaged or taken through condemnation (which term, when used in this Agreement, shall include any damage or taking by any governmental authority, quasi-governmental authority, any party having the power of condemnation, or any transfer by private sale in lieu thereof), either temporarily or permanently, then Borrowers promptly upon obtaining knowledge of the institution of any proceeding therefor, shall notify Agent of the pendency of such proceeding. Borrowers authorize Agent at Agent's option (but in no event shall Agent be obligated to), as attorney in fact for Borrowers to commence, appear in and prosecute, in Agent's or a Borrower's name, any action or proceeding relating to any condemnation or other taking of the Mortgaged Property and to settle or compromise any claim in connection with such condemnation or other taking. Except for condemnation proceeds which are designated by a condemning authority or court of competent jurisdiction as payable to a tenant of any portion of a Mortgaged Property (other than WECCR) or an owner of any easement encumbering a Mortgaged Property, the proceeds of any award or claim for damages, direct or consequential, in connection with any condemnation, or other taking of a Mortgaged Property, or part thereof, or for conveyances in lieu of condemnation, are hereby assigned and shall be paid to Agent. Borrowers authorize Agent to apply such awards, proceeds or damages, after the deduction of Agent's expenses

incurred in the collection of such amounts, at Agent's option, to restoration or repair of the Mortgaged Property or to payment of the Obligations, whether or not then due (and in such order as Agent may determine), with the balance (subject to the terms of this §7.25), if any, to the applicable Borrower. Notwithstanding anything in this §7.25 to the contrary, (a) if the Mortgaged Property subject to such condemnation is Undeveloped Residential Land or Undeveloped Commercial Land, then the applicable Borrower, so long as no Default or Event of Default shall have occurred or be continuing, shall be entitled to settle or compromise any claim in connection with such condemnation or other taking provided further that the aggregate amount involved in such claim is not excess of \$5,000,000.00 and that any award from such condemnation or other taking is deposited in the Disbursement Account of the applicable Borrower. Notwithstanding anything in this §7.25 to the contrary, Agent shall make the net condemnation award available to the applicable Borrower to restore and repair a Mortgaged Property containing one or more Buildings, in accordance with such terms and conditions as Agent may prescribe for the disbursement of the condemnation award to assure completion of such restoration or repair, provided that (a) no Default or Event of Default shall have occurred and be continuing, (b) the applicable Borrower shall have provided to Agent additional cash security (other than from proceeds of a Loan) in an amount equal to the amount reasonably estimated by the Agent to be the amount in excess of such award which would be required to complete such repair or restoration, (c) Agent shall have approved the plans and specifications for such repair or restoration, (d) the applicable Borrower shall have delivered to Agent written agreements binding upon all tenants or other parties having present or future rights to possession of any portion of such Mortgaged Property in excess of 1,000 square feet or having any right to require repair, restoration or completion of the Property or any portion thereof or having any right to terminate any management agreement, franchise agreement or other agreement relating to or affecting such Mortgaged Property, agreeing upon a date for delivery of possession of such Mortgaged Property or their respective portions thereof, or for such required repair, restoration or completion, to permit time which is sufficient in the judgment of Agent for such repair or restoration and approving the plans and specifications for such repair or restoration, or other evidence satisfactory to Agent that none of such tenants or other parties may terminate their leases or other agreements affecting or relating to such Mortgaged Property as a result of such condemnation or taking or have a right to approve the plans and specifications for such repair or restoration, (e) Agent shall determine that following such repair or restoration there shall be no more than a ten percent (10%) reduction in occupancy or in rental income or revenues (excluding any proceeds from rental loss or business interruption insurance or proceeds for such award allocable to rent or revenues from such Mortgaged Property), (f) Agent shall determine that such repair or reconstruction can be completed prior to the Maturity Date, and (g) Agent in its sole discretion shall have determined that such Mortgaged Property can be restored to (i) not less than the fair market value of such Mortgaged Property immediately prior to such taking as determined by Agent and (ii) the utility and substantially similar condition existing immediately prior to such taking, and any excess award may be applied by Agent in its discretion to the Obligations in such order as Agent may determine. Borrowers agree to execute such further assignment of any awards, proceeds, damages or claims arising in connection with such condemnation or injury that Agent may reasonably require.

§8. CERTAIN NEGATIVE COVENANTS OF THE BORROWERS

The Borrowers covenant and agree that, so long as any Loan or Note is outstanding or any of the Lenders has any obligation to make any Loans:

§8.1 Restrictions on Indebtedness.

(a) Subject to the provisions of §9, the Borrowers will not, and will not permit any of their respective Restricted Subsidiaries or any of the Guarantors to, create, incur, assume, guarantee or be or remain liable, contingently or otherwise, with respect to any Indebtedness other than:

(i) Indebtedness to the Lenders arising under any of the Loan Documents and the Hedge Obligations;

(ii) [Intentionally omitted];

(iii) Indebtedness in respect of taxes, assessments, governmental charges or levies and claims for labor, materials and supplies to the extent that payment therefor shall not at the time be required to be made in accordance with the provisions of §7.8;

(iv) Indebtedness in respect of judgments or awards that have been in force for less than the applicable period for taking an appeal so long as execution is not levied thereunder or in respect of which the applicable Borrower shall at the time in good faith be prosecuting an appeal or proceedings for review and in respect of which a stay of execution shall have been obtained pending such appeal or review;

(v) endorsements for collection, deposit or negotiation and warranties of products or services, in each case incurred in the ordinary course of business;

(vi) [Intentionally Omitted];

(vii) Indebtedness in respect of reverse repurchase agreements having a term of not more than one hundred eighty (180) days with respect to Investments described in §8.3(a), (b) or (e);

(viii) recourse Indebtedness of Borrowers and Guarantors not to exceed \$100,000,000.00 in the aggregate (excluding the Loans, the Hedge Obligations, the Performance Obligations and Indebtedness under §§8.1(a)(i) and the Conference Center Loan pursuant to §8.1(a)(xiv)(A) (but not exceeding \$36,100,000.00 with respect to the Conference Center Loan), but including, without limitation, recourse Indebtedness incurred pursuant to §8.1(a)(xiv)(B), §8.1(a)(xv) or §8.1(a)(xvi) (to the extent a claim has been made pursuant to any guaranty or indemnity described therein)), provided that such Indebtedness does not cause the Borrowers to fail to comply with the financial covenants contained in §9.2 and §9.5 below after recalculating the interest coverage ratio and Fixed Charge Coverage Ratio for the most recent Quarterly Measurement Date on a pro forma basis to give effect to such Indebtedness, and the maximum Total Debt Ratio permitted by §9.1 is not exceeded;

(ix) [Intentionally omitted];

(x) unsecured Indebtedness in respect of the Partner Subordinated Debt, which is subordinate to the repayment of the Obligations pursuant to the Partner Subordination and Standstill Agreement;

(xi) [Intentionally omitted];

(xii) [Intentionally omitted];

(xiii) unsecured Indebtedness between Commercial Company and Land Company pursuant to the Funding Agreement, which is subordinate to the Obligations pursuant to the Funding Subordination and Standstill Agreement;

(xiv) Indebtedness secured solely by the Conference Center (A) which, in connection with the Conference Center Loan may be recourse to Borrowers and Guarantors and shall not, up to a maximum principal amount of not more than \$36,100,000.00, be included as recourse Indebtedness for the purposes of §8.1(a)(viii) above; provided that (B) any readvance, increase or refinancing of the Conference Center Loan that is recourse to either of Borrowers or Guarantors in excess of \$36,100,000.00 in principal amount shall be included as recourse Indebtedness for the purposes of §8.1(a)(viii) above;

(xv) Indebtedness of Borrowers under guarantees or indemnities with respect to customary non-recourse carve outs approved by Agent relating to Indebtedness of its Unrestricted Subsidiaries permitted pursuant to §8.1(b)(v); and

(xvi) Indebtedness of the Borrowers and their Restricted Subsidiaries (including without limitation obligations under completion guaranties), provided such Indebtedness:

(A) does not exceed \$225,000,000.00 in the aggregate (which for the purposes hereof shall also include any Indebtedness under §8.1(a)(viii) and §8.1(b)(v));

(B) except with respect to any Indebtedness otherwise permitted under §8.1(a)(viii), is incurred solely to finance (1) the acquisition of additional undeveloped residential land or undeveloped commercial land to be added to the Woodlands Project or (2) the construction by a Borrower or such Restricted Subsidiary of Vertical Commercial Improvements to the Commercial Land or Residential Land, if applicable, or permanent refinancing thereof (it being agreed that the proceeds of a permanent refinancing of such improvements may exceed the amount of the applicable construction loan) or (3) Municipal Utility District Contracts of such Borrower or Restricted Subsidiary; and

(C) except with respect to any Indebtedness otherwise permitted under §8.1(a)(viii), with respect to any property on which Vertical Commercial Improvements are constructed, does not exceed seventy percent (70%) of the fair market value of such property; provided that (1) with respect to the Speculative Development of Vertical Commercial Improvements on any single parcel of Commercial Land or Residential Land, if applicable, such Indebtedness incurred for the construction of such Vertical Commercial

Improvements does not exceed sixty-five percent (65%) of the costs for such development (including the Appraised Value of the subject Commercial Land or Residential Land, if applicable) (in each instance the balance of the acquisition and development costs to be covered by equity), and (2) with respect to the development of Build-To-Suit Properties, such Indebtedness does not exceed ninety percent (90%) of the costs for such development (including the cost of the subject Commercial Land or Residential Land, if applicable) (in each instance the balance of the acquisition and development costs to be covered by equity).

(b) The Borrowers will not permit any of their respective Unrestricted Subsidiaries to create, incur, assume, guarantee or be or remain liable, contingently or otherwise, with respect to any Indebtedness other than:

(i) Indebtedness in respect of taxes, assessments, governmental charges or levies and claims for labor, materials and supplies to the extent that payment therefor shall not at the time be required to be made in accordance with the provisions of §7.8 (assuming for the purposes hereof that §7.8 is applicable to Unrestricted Subsidiaries);

(ii) Indebtedness in respect of judgments or awards that have been in force for less than the applicable period for taking an appeal so long as execution is not levied thereunder or in respect of which the applicable Unrestricted Subsidiary shall at the time in good faith be prosecuting an appeal or proceedings for review and in respect of which a stay of execution shall have been obtained pending such appeal or review;

(iii) endorsements for collection, deposit or negotiation and warranties of products or services, in each case incurred in the ordinary course of business;

(iv) Indebtedness in respect of reverse repurchase agreements having a term of not more than one hundred eighty (180) days with respect to Investments described in §8.3(a), (b) or (e); and

(v) Indebtedness of Unrestricted Subsidiaries (including without limitation obligations under completion guaranties), provided such Indebtedness:

(A) does not exceed \$225,000,000.00 in the aggregate (which for the purposes hereof shall also include any Indebtedness under §8.1(a) (xvi));

(B) [Intentionally omitted];

(C) is incurred solely to finance (1) the acquisition of additional undeveloped residential land or undeveloped commercial land to be added to the Woodlands Project or (2) the construction by such Unrestricted Subsidiary of Vertical Commercial Improvements to the Commercial Land or Residential Land, if applicable, or permanent refinancing thereof (it being agreed that the proceeds of a permanent refinancing of such improvements may exceed the amount of the applicable construction loan) or (3) Municipal Utility District Contracts of such Unrestricted Subsidiary; and

(D) with respect to any property on which Vertical Commercial Improvements are constructed, does not exceed seventy percent (70%) of the fair market value of

such property; provided that (1) with respect to the Speculative Development of Vertical Commercial Improvements on any single parcel of Commercial Land or Residential Land, if applicable, such Indebtedness incurred for the construction of such Vertical Commercial Improvements does not exceed sixty-five percent (65%) of the costs for such development (including the Appraised Value of the subject Commercial Land or Residential Land, if applicable) (in each instance the balance of the acquisition and development costs to be covered by equity), and (2) with respect to the development of Build-To-Suit Properties, such Indebtedness does not exceed ninety percent (90%) of the costs for such development (including the cost of the subject Commercial Land or Residential Land, if applicable) (in each instance the balance of the acquisition and development costs to be covered by equity).

§8.2 Restrictions on Liens, Etc. Each of the Borrowers will not, and will not permit any of its Restricted Subsidiaries or Guarantors to, (a) create or incur or suffer to be created or incurred or to exist any lien, encumbrance, mortgage, pledge, negative pledge, charge, restriction or other security interest of any kind upon any of its property or assets of any character whether now owned or hereafter acquired, or upon the income or profits therefrom; (b) transfer any of its property or assets or the income or profits therefrom for the purpose of subjecting the same to the payment of Indebtedness or performance of any other obligation in priority to payment of its general creditors; (c) acquire, or agree or have an option to acquire, any property or assets upon conditional sale or other title retention or purchase money security agreement, device or arrangement; (d) suffer to exist for a period of more than sixty (60) days after the same shall have been incurred any Indebtedness or claim or demand against it that if unpaid might by law or upon bankruptcy or insolvency, or otherwise, be given any priority whatsoever over its general creditors; (e) pledge or otherwise encumber any accounts, contract rights, general intangibles, chattel paper or instruments, with or without recourse; or (f) incur or maintain any obligation to any holder of Indebtedness of such Borrowers or such Restricted Subsidiary or Guarantor which prohibits the creation or maintenance of any lien securing the Obligations (collectively the "Liens"); provided that a Borrower and any Restricted Subsidiary of a Borrower may create or incur or suffer to be created or incurred or to exist:

(i) liens on properties to secure taxes, assessments and other governmental and owner association charges and assessments or claims for labor, material or supplies in respect of obligations not overdue or which are being contested pursuant to §7.8;

(ii) liens on properties other than the Mortgaged Property or any interest therein (including the rents, issues, income and profits therefrom) or any other Collateral in respect of judgments, awards or indebtedness, the Indebtedness with respect to which is permitted by §8.1(a)(iv), §8.1(a)(viii), §8.1(a)(xiv) or §8.1(a)(xvi);

(iii) encumbrances on properties consisting of easements, rights of way, zoning restrictions, mineral rights reservations, restrictions on the use of real property, landlord's or lessor's liens under leases to which a Borrower or a Restricted Subsidiary of a Borrower is a party, rights of first refusal or rights of first offer consistent with §6.27, and other minor non-monetary liens or encumbrances none of which interferes materially with the use, marketability or development of the property affected in the ordinary conduct of the business of such Borrower and its Restricted Subsidiaries, which encumbrances or liens do not individually or in the aggregate have a materially adverse effect on the business of a Borrower individually or of such Borrower and its Restricted Subsidiaries on a consolidated basis;

(iv) liens in favor of the Agent and the Lenders under the Loan Documents to secure the Obligations and the Hedge Obligations; and

(v) liens and encumbrances on a Mortgaged Property expressly permitted under the terms of the Security Deed relating thereto.

§8.3 Restrictions on Investments. Each of the Borrowers will not, and will not permit any of its Restricted Subsidiaries to, make or permit to exist or to remain outstanding any Investment except Investments in:

(a) marketable direct or guaranteed obligations of the United States of America that mature within one (1) year from the date of purchase by such Borrower or its Restricted Subsidiary;

(b) marketable direct obligations of any of the following: Federal Home Loan Mortgage Corporation, Student Loan Marketing Association, Federal Home Loan Banks, Federal National Mortgage Association, Government National Mortgage Association, Bank for Cooperatives, Federal Intermediate Credit Banks, Federal Financing Banks, Export Import Bank of the United States, Federal Land Banks, or any other agency or instrumentality of the United States of America;

(c) demand deposits, certificates of deposit, bankers acceptances and time deposits of United States banks having total assets in excess of \$100,000,000; provided, however, that the aggregate amount at any time so invested with any single bank having total assets of less than \$1,000,000,000 will not exceed \$200,000;

(d) [Intentionally Omitted];

(e) [Intentionally Omitted];

(f) repurchase agreements having a term not greater than ninety (90) days and fully secured by securities described in the foregoing subsection (a), (b) or (e) with banks described in the foregoing subsection (c) or with financial institutions or other corporations having total assets in excess of \$500,000,000;

(g) shares of so called "money market funds" registered with the SEC under the Investment Company Act of 1940 which maintain a level per share value, invest principally in investments described in the foregoing subsections (a) through (f) and have total assets in excess of \$50,000,000;

(h) Investments in the Property (excluding Partial Interests) and Restricted Subsidiaries of a Borrower. With the approval of the Majority Lenders, such Investments may be located other than in the Woodlands Project;

(i) Investments in Unrestricted Subsidiaries of a Borrower, provided the aggregate book value of such Investments does not exceed \$35,000,000.00 at any time;

(j) Subject to the terms of this Agreement, Investments in the construction by Commercial Company or Land Company of new Income Producing Properties; and

(k) Investments in note receivables evidencing seller financing provided by a Borrower in connection with the sale of Land Assets; provided that in no event shall the aggregate principal amount of such note receivables exceed \$10,000,000.00.

§8.4 Merger, Consolidation. Each of the Borrowers will not, and will not permit any of its Restricted Subsidiaries to, become a party to any merger, consolidation or other business combination except (i) the merger or consolidation of one or more of the Restricted Subsidiaries of a Borrower with and into such Borrower and (ii) the merger or consolidation of two or more Restricted Subsidiaries of a Borrower.

§8.5 Sale and Leaseback. Borrowers will not, and will not permit any of their Restricted Subsidiaries to, enter into any arrangement, directly or indirectly, whereby the Borrowers or any Restricted Subsidiary of a Borrower shall sell or transfer any Real Estate owned by it individually or in the aggregate in excess of \$12,500,000.00 in order that then or thereafter a Borrower or any Restricted Subsidiary of a Borrower shall lease back such Real Estate.

§8.6 Compliance with Environmental Laws. Each of the Borrowers will not, and will not permit any of its Restricted Subsidiaries or any tenants or other occupants of any of the Real Estate, to do any of the following: (a) use any of the Real Estate or any portion thereof as a facility for the handling, processing, storage or disposal of Hazardous Substances, except for small quantities of Hazardous Substances used in the ordinary course of business and in compliance with all applicable Environmental Laws, (b) cause or permit to be located on any of the Real Estate any underground tank or other underground storage receptacle for Hazardous Substances except in full compliance with Environmental Laws, (c) generate any Hazardous Substances on any of the Real Estate except in full compliance with Environmental Laws, (d) conduct any activity at any Real Estate or use any Real Estate in any manner so as to cause a Release of Hazardous Substances on, upon or into the Real Estate or any surrounding properties or any threatened Release of Hazardous Substances which might give rise to liability under CERCLA or any other Environmental Law, or (e) directly or indirectly transport or arrange for the transport of any Hazardous Substances (except in compliance with all Environmental Laws).

The Borrowers shall:

(i) in the event of any change in Environmental Laws governing the assessment, release or removal of Hazardous Substances, which change would lead a prudent lender to require additional testing to avail itself of any statutory insurance or limited liability, take all action (including, without limitation, the conducting of engineering tests at the sole expense of the Borrowers) to confirm that no Hazardous Substances are or ever were Released or disposed of on the Real Estate; and

(ii) if any Release or disposal of Hazardous Substances shall occur or shall have occurred on the Real Estate (including without limitation any such Release or disposal occurring prior to the acquisition of such Real Estate by a Borrower or its Restricted Subsidiary), cause the prompt containment and removal of such Hazardous Substances and remediation of the Real Estate in full compliance with all applicable laws and regulations and to the satisfaction of the Majority Lenders; provided, that the Borrowers shall be deemed to be in compliance with Environmental Laws for the purpose of this clause (ii) so long as it or a responsible third party with sufficient financial resources is taking reasonable action to remediate or manage any event of noncompliance to the satisfaction of the Majority Lenders and no action shall have been commenced by any enforcement agency. The Majority Lenders may engage their own Environmental Engineer to review the environmental assessments and the Borrowers' compliance with the covenants contained herein.

At any time after an Event of Default shall have occurred hereunder, or, whether or not an Event of Default shall have occurred, at any time that the Agent or the Majority Lenders shall have reasonable grounds to believe that a Release or threatened Release of Hazardous Substances may have occurred, relating to any Real Estate, or that any of the Real Estate is not in compliance with the Environmental Laws, the Agent may at its election (and will at the request of the Majority Lenders) obtain such environmental assessments of such Real Estate prepared by an Environmental Engineer as may be necessary or advisable for the purpose of evaluating or confirming (i) whether any Hazardous Substances are present in the soil or water at or adjacent to such Real Estate and (ii) whether the use and operation of such Real Estate comply with all Environmental Laws. Environmental assessments may include detailed visual inspections of such Real Estate including, without limitation, any and all storage areas, storage tanks, drains, dry wells and leaching areas, and the taking of soil samples, as well as such other investigations or analyses as are necessary or appropriate for a complete determination of the compliance of such Real Estate and the use and operation thereof with all applicable Environmental Laws. All such environmental assessments shall be at the sole cost and expense of the Borrowers.

The Agent may, but shall never be obligated to remove or cause the removal of any Hazardous Substances from the Real Estate (or if removal is prohibited by any Environmental Law, take or cause the taking of such other action as is required by any Environmental Law) if the Borrowers fail to comply with their obligation hereunder with respect thereto (without limitation of the Agent's or the Majority Lenders rights to declare a default under any of the Loan Documents and to exercise all rights and remedies available by reason thereof); and the Agent and its designees are hereby granted access to the Real Estate at any time or times, upon reasonable notice, and a license which is coupled with an interest and irrevocable, to remove or cause such removal or to take or cause the taking of any such other action. All costs, including, without limitation, the reasonable costs incurred by the Agent in taking the foregoing action, damages, liabilities, losses, claims, expenses (including attorneys' fees and disbursements) which are incurred by the Agent, as the result of the Borrowers' failure to comply with the provisions of this §8.6, shall be paid by the Borrowers to the Agent upon demand by the Agent and shall be additional obligations secured by the Security Documents.

§8.7 Distributions; Payment of Subordinated Debt.

(a) Neither of the Borrowers shall pay any Distributions to the partners or other beneficial owners of such Borrower, and no payments of Woodlands Operating Distributions or Partner Subordinated Debt Payments shall be made, except as permitted in this §8.7.

(b) Neither of the Borrowers shall pay any Distribution, nor shall any Woodlands Operating Distributions or Partner Subordinated Debt Payments be made, unless and until Agent shall have received and approved the Compliance Certificate for such period and the calculation of Excess Cash Flow for such period (which Compliance Certificate, for the purposes of this §8.7, shall set forth the amount of the proposed Distribution, Woodlands Operating Distributions and/or Partner Subordinated Debt Payments to be paid and also demonstrate compliance with the terms of §8.7(c) and pro forma compliance with the terms of §8.7(c) after giving effect to such Distributions, Woodlands Operating Distributions and/or Partner Subordinated Debt Payments). Agent shall be deemed to have approved such statement in the event that Agent does not respond within five (5) Business Days of confirmed receipt of such statement.

(c) Notwithstanding the foregoing, no Distributions may be made to any of the partners or other beneficial owners of a Borrower, nor shall any Woodlands Operating Distributions or Partner Subordinated Debt Payments be made, unless (i) no Default or Event of Default shall have occurred and be continuing or would exist after giving effect to such Distribution, Woodlands Operating Distribution or Partner Subordinated Debt Payment, as applicable, and (ii) the conditions for either Distribution Level 1 or Distribution Level 2 exist. If the foregoing conditions are satisfied and Distribution Level 1 exists, then Borrowers shall be permitted to make Distributions, and Woodlands Operating Distributions or Partner Subordinated Debt Payments may be made, provided that the aggregate amount of such Distributions, Woodlands Operating Distributions and/or Partner Subordinated Debt Payments shall not exceed 50% of Excess Cash Flow for such prior quarterly period provided that simultaneously with any such Distribution, Woodlands Operating Distribution and/or Partner Subordinated Debt Payment, Borrowers shall permanently reduce and prepay the Secured Term Loan by an equal dollar-for-dollar amount of the amount so distributed or paid (which payment shall be in addition to the Stipulated Commitment Reduction Amount). If the foregoing conditions are satisfied and Distribution Level 2 exists, then Borrowers shall be permitted to make such Distributions, and/or Woodlands Operating Distributions and/or Partner Subordinated Debt Payments may be made, in an amount not to exceed 100% of the Excess Cash Flow for such prior quarterly period, provided that after giving effect to any such Distribution, Woodlands Operating Distribution or Partner Subordinated Debt Payment, the Liquidity is greater than the sum of (x) the remaining Project Costs of all Properties under Construction not available from Indebtedness permitted pursuant to §8.1 (other than the Loans) plus (y) \$35,000,000.00.

(d) [Intentionally Omitted.]

(e) [Intentionally Omitted.]

(f) [Intentionally omitted.]

(g) Notwithstanding the terms of §8.7, the amounts available to be a Distribution to the partners or other beneficial owners of the Borrowers during any period pursuant to §8.7 shall be reduced on a dollar-for-dollar basis by the amount of the Woodlands Operating Payments during such period.

(h) The Agent acknowledges that Land Company shall have the right to request a Revolving Credit Loan in accordance with the terms of §2.6 to fund the Distributions permitted by §8.7(c) above. In addition, the Agent acknowledges and agrees that any funds retained by Borrowers pursuant to this §8.7 may be used to repay any Secured Term Loan or Revolving Credit Loan.

(i) Any amounts available for Distribution to a Borrower's partners or other beneficial owners pursuant to this §8.7 may be distributed within eighteen (18) months following a Quarterly Measurement Date as provided herein, provided that the conditions in this Agreement to the making of Distributions (including, without limitation, the terms of §8.7(c) which require a simultaneous prepayment of the Secured Term Loans) continue to be satisfied at such time. Any amounts available for Distribution to a Borrower's partners or other beneficial owners which are not distributed within eighteen (18) months following a Quarterly Measurement Date as provided herein shall be retained by such Borrower either in the Disbursement Account of such Borrower or in a Permitted Excess Cash Flow Investment and not used for a Distribution to a Borrower's partners or other beneficial owners, and such amounts shall be available for any other use permitted under the terms of this Agreement.

(j) Amounts retained by the Borrowers pursuant to this Section may be applied by such Borrower toward the payment of any Borrower expenditures permitted under the terms of this Agreement; provided, however, that to the extent that any such expenditures so paid qualify as Operating Expenses, such expenditures shall be deducted when computing Operating Cash Flow for the period in which such expenditures were incurred.

(k) Amounts paid under the Funding Agreement as Distributions shall not be counted against the Distributions permitted by this Agreement provided that such amounts are contributed to the other Borrower and are deposited in the Disbursement Account of the Borrower receiving the same or are invested in the Borrower receiving the same in Investments permitted pursuant to §8.3(a)-(g) under the control of the Agent.

(l) Borrowers shall cause any trustee or nominee acting on behalf of such Borrower to deposit all income of such trustee or nominee into a Disbursement Account of a Borrower.

§8.8 Asset Sales. None of the Borrowers or any of the Restricted Subsidiaries of a Borrower or a Guarantor shall sell, transfer or otherwise dispose of any asset (other than as the result of a condemnation or casualty, the granting of Permitted Liens or the sale of lots for cash in the ordinary course of business to parties other than any other Borrower, the General Partners, the Second Tier Partners, the Third Tier Partners, a Guarantor, any Restricted Subsidiary of any Borrower or any Affiliate of any of such Persons) except as follows:

(a) any of such Persons may sell any asset in the ordinary course of business for all cash and for fair market value, except that to the extent permitted by §8.3(k), Land Assets may be seller-financed in lieu of a sale for all cash;

(b) Commercial Company, Land Company or a Guarantor may sell, transfer or otherwise dispose of Commercial Land or Residential Land to Restricted Subsidiaries of a Borrower for the construction of Vertical Commercial Improvements, provided such sales are (i) for all cash and for fair market value or (ii) an equivalent equity interest in such Restricted Subsidiary; and

(c) Commercial Company, Land Company or a Guarantor may sell or transfer Commercial Land or Residential Land to Unrestricted Subsidiaries of a Borrower and Affiliates for the construction of Vertical Commercial Improvements, provided the aggregate amount of such sales do not exceed \$30,000,000.00 in the aggregate in any fiscal year, such sales are for (i) all cash and for fair market value or (ii) an equivalent equity interest in such Unrestricted Subsidiary; and

(d) the Borrowers may sell or transfer Income Producing Property to their respective Restricted Subsidiaries or Unrestricted Subsidiaries or Municipal Utility District Contracts to their respective Unrestricted Subsidiaries, provided that such sales are (i) for all cash and for fair market value or (ii) subject to §8.3(i), an equivalent equity interest in such Person; and

(e) the Borrowers may sell Property other than Commercial Land, Residential Land, Income Producing Property or Municipal Utility District Contracts to their respective Restricted Subsidiaries or Unrestricted Subsidiaries, provided that such sales are for all cash and for fair market value; and

(f) transfers of assets for all cash and for fair market value between the Borrowers or by Guarantors to Borrowers; provided that the Golf Courses may be transferred between the Borrowers other than for cash or for fair market value (provided further that such transfer shall not entitle Borrowers to a release of such Golf Course from the lien of the Security Documents).

Notwithstanding the foregoing, none of such Persons may sell, transfer or dispose or permit the sale, transfer or disposition of any Material Asset or such Person's interest therein without the prior written consent of the Majority Lenders.

§8.9 Development. Without the approval of the Majority Lenders, none of the Borrowers nor any of their respective Restricted Subsidiaries or Unrestricted Subsidiaries nor any Guarantor shall engage, directly or indirectly, in the development or construction of real estate other than (a) land development and the construction by Commercial Company or Land Company of golf courses and (b) the construction by Commercial Company or Land Company and their respective Restricted Subsidiaries and Unrestricted Subsidiaries of Vertical Commercial Improvements as to which costs of completing such Vertical Commercial Improvements on a fully developed basis including land (from borrowings and equity), does not exceed \$125,000,000 in the aggregate at any time (provided that Vertical Commercial

Improvements that are Build-To-Suit Properties which are 100% pre-leased shall not count towards the foregoing \$125,000,000 limitation). Notwithstanding the foregoing, without the approval of the Agent, neither Commercial Company nor Land Company, nor any of their respective Restricted Subsidiaries or Unrestricted Subsidiaries, shall engage directly or indirectly in any Vertical Commercial Improvements that would constitute a Speculative Development; provided further, without the approval of the Majority Lenders, neither Commercial Company nor Land Company nor any of their respective Restricted Subsidiaries or Unrestricted Subsidiaries shall engage directly or indirectly in any Vertical Commercial Improvements that would constitute a Speculative Development which causes at any time the cost of completing such development, on a fully developed basis including land (from borrowings and equity), to exceed \$15,000,000 in the aggregate at any time. In addition, without the approval of the Majority Lenders, neither of the Borrowers nor any of their Restricted Subsidiaries or Unrestricted Subsidiaries shall engage directly or indirectly in any Vertical Commercial Improvements of hotel or lodging facilities. Neither of the Borrowers nor any of their Restricted Subsidiaries or Unrestricted Subsidiaries shall engage directly or indirectly in the development of golf courses without the prior written consent of Agent.

§8.10 Sources of Capital. The Borrowers shall, at all times that a Borrower or any of their respective Restricted Subsidiaries or Unrestricted Subsidiaries is engaging in any development as provided in §8.9 or has entered into any agreement to provide funds with respect to a development, maintain or have identified available sources of capital from the Borrowers' Cash, the amount of Revolving Credit Loans available to be borrowed by Land Company, and funds available under construction loans for such purpose equal to the total cost to acquire and complete such developments and to satisfy such funding obligations reasonably acceptable to Agent.

§8.11 Restriction on Prepayment of Indebtedness. None of the Borrowers shall prepay the principal amount, in whole or in part, of any Indebtedness other than the Obligations and the Hedge Obligations after the occurrence of any Event of Default; provided, however, that this §8.11 shall not prohibit the prepayment of Indebtedness which is financed solely from the proceeds of a new loan which would otherwise be permitted by the terms of §8.1.

§8.12 Restrictions on Amendments; Transfers. None of the Borrowers shall (a) sell, convey, assign, option, mortgage, pledge, hypothecate, encumber or dispose of any of the Material Agreements (except as permitted in §5.4), except for Liens in favor of the Agent and the Lenders to secure the Obligations, or (b) make a material modification or amendment to or terminate prior to maturity any of the Material Agreements. None of the Borrowers shall amend or terminate the Trust Agreement for the Purchase of Real Property dated to be effective May 1, 2000, as amended September 28, 2000 and November 18, 2004, without the written consent of Agent.

§8.13 Transfers. None of the Borrowers shall consent to or otherwise permit any pledge, mortgage, hypothecation or encumbering of any direct or indirect interest in such Borrower except for such transfers or pledges that (until foreclosed or transferred in lieu thereof) do not result in a Change of Control.

§8.14 Subordinated Debt. Land Company shall be permitted to pay only accrued but unpaid interest on the Partner Subordinated Debt and only at such times and to the extent that the Borrowers are permitted to make Distributions. Without the prior written consent of the Majority Lenders, which consent may be withheld by the Majority Lenders in their sole and absolute discretion, the Borrowers shall not (i) modify or amend any Partner Subordinated Debt, (ii) prepay, amortize, purchase, retire, redeem or otherwise acquire any Partner Subordinated Debt, or (iii) make any payments on any Partner Subordinated Debt except as permitted in this §8.14. Provided that no Default or Event of Default exists under §8.7 or this §8.14 and no default, material misrepresentation or breach of warranty has occurred under the Partner Subordination and Standstill Agreement, the Partner Subordinated Debt shall not constitute Indebtedness and payments or accruals of interest thereon shall not constitute Interest Expense.

§9. FINANCIAL COVENANTS OF THE BORROWERS

The Borrowers covenant and agree that, so long as any Loan or Note is outstanding or any Lender has any obligation to make any Loans it will comply with the following:

§9.1 Liabilities to Market Value Capitalization Ratio. The Borrowers will not, as of each Quarterly Measurement Date occurring on or after the date hereof, permit the ratio of (a) the sum of (i) the aggregate amount of Indebtedness of the Borrowers and their Restricted Subsidiaries (limited to each Borrowers' allocable share thereof) outstanding under notes, bonds, debentures or similar debt instruments plus all guarantees, endorsements or similar contingent obligations individually or in the aggregate in excess of \$25,000,000.00 with respect to Indebtedness of other Persons (excluding obligations under completion guaranties, Non-Recourse Indebtedness that is secured by an asset in the event that the Non-Recourse Indebtedness exceeds fifty-five percent (55%) of the Adjusted Value thereof (or if the Adjusted Value of such asset is not determined under this Agreement, then its historic cost (including land value)), Indebtedness permitted under §8.1(a)(x) and §8.1(a)(xiii) and operating leases that will be treated as capital leases under the proposed guidelines of FASB and the International Accounting Standards Board as described in Exposure Draft: Leases (Topic 840)) (the aggregate amount of Indebtedness described by this clause (a) being referred to collectively as the "Total Indebtedness") minus (ii) the amount of Unrestricted Cash and Cash Equivalents in excess of \$10,000,000.00 reported in accordance with the terms of this Agreement as of such Quarterly Measurement Date to (b) Total Market Value Capitalization of the Borrowers to exceed the following percentages:

<u>Fiscal Quarter Ending on or before:</u>	<u>Percentage</u>
December 31, 2011	55%
Thereafter	50%

§9.2 Interest Coverage. The Borrowers will not, as of any Quarterly Measurement Date, permit the sum of (a) the Operating Cash Flow of the Borrowers minus (b) the Non-Recurring Amount for any period of four consecutive fiscal quarters ending on a Quarterly Measurement Date (treated as a single accounting period) (the "Test Period") to be less than 2.25 times the Interest Expense for the Test Period.

§9.3 Borrowing Base. The Borrowers will not at any time permit (a) the outstanding principal balance of the Revolving Credit Loans and the Secured Term Loans as of the date of determination to be greater than (b) the Borrowing Base as determined as of the same date.

§9.4 Market Value Net Worth. Borrowers will not, as of each Quarterly Measurement Date occurring on or after the date hereof, permit their aggregate Market Value Net Worth to be less than \$125,000,000.00.

§9.5 Fixed Charge Coverage Ratio. The Borrowers will not, as of each Quarterly Measurement Date, permit the Fixed Charge Coverage Ratio to be less than 1.50.

§10. CLOSING CONDITIONS

The obligations of the Agent and the Lenders to make the initial Loans shall be subject to the satisfaction of the following conditions precedent on or prior to the Closing Date:

§10.1 Loan Documents. Each of the Loan Documents (including any amendments to agreements securing or relating to the Original Credit Agreement) shall have been duly executed and delivered by the respective parties thereto, shall be in full force and effect and shall be in form and substance satisfactory to the Agent. The Agent shall have received a fully executed copy of each such document, except that each Lender requesting a Note shall have received a fully executed counterpart of its Note or Notes. The Agent is authorized on behalf of the Lenders and Agent, as applicable, to execute any amendments to agreements securing or relating to the Original Credit Agreement as Agent deems appropriate.

§10.2 Certified Copies of Organizational Documents. The Agent shall have received from the Borrowers a copy, certified as of a recent date by the appropriate officer of each State in which each Borrower, the General Partners, the Second Tier Partners, Woodlands Operating or the Guarantors, as applicable, is organized or in which the Real Estate is located and a duly authorized partner or officer of such Borrower, the General Partners, the Second Tier Partners, Woodlands Operating and the Guarantors, as applicable, to be true and complete, of the partnership agreement, corporate charter or other organizational documents of such Borrower, the General Partners, the Second Tier Partners, Woodlands Operating and the Guarantors, as applicable (or a certification satisfactory to Agent that there have been no changes to the foregoing items from those provided to the Agent in connection with the execution of the Original Credit Agreement), or its qualification to do business, as applicable, as in effect on such date of certification.

§10.3 Bylaws; Resolutions. All action on the part of the Borrowers, the General Partners, Woodlands Operating, and the Guarantors necessary for the valid execution, delivery and performance by the Borrowers, Woodlands Operating and the Guarantors of this Agreement and the other Loan Documents to which such Person is or is to become a party shall have been duly and effectively taken, and evidence thereof satisfactory to the Agent shall have been provided to the Agent. The Agent shall have received from the General Partners and the Guarantors true copies of their respective bylaws (or a certification satisfactory to Agent that

there have been no changes to the foregoing items from those provided to the Agent in connection with the execution of the Original Credit Agreement) and the resolutions adopted by their respective board of directors authorizing the transactions described herein, each certified by its secretary as of a recent date to be true and complete.

§10.4 Incumbency Certificate; Authorized Signers. The Agent shall have received from the General Partners, Woodlands Operating and the Guarantors an incumbency certificate, dated as of the Closing Date, signed by a duly authorized officer or partner of the General Partners, Woodlands Operating and the Guarantors and giving the name and bearing a specimen signature of each individual who shall be authorized to sign, in the name and on behalf of the General Partners, Woodlands Operating and the Guarantors, each of the Loan Documents to which such Person is or is to become a party. The Agent shall have also received from the Borrowers a certificate, dated as of the Closing Date, signed by a duly authorized partner of each Borrower and giving the name and specimen signature of each individual who shall be authorized to make Loan Requests, and give notices and to take other action on behalf of such Borrower under the Loan Documents.

§10.5 Opinion of Counsel. The Agent shall have received a favorable opinion addressed to the Lenders and the Agent and dated as of the Closing Date, in form and substance reasonably satisfactory to the Agent, from counsel of the Borrowers, the General Partners, Woodlands Operating and the Guarantors, and counsel in such other states as may be required by the Agent, as to such matters as the Agent shall reasonably request.

§10.6 Payment of Fees. The Borrowers shall have paid to the Agent the closing fee pursuant to §4.2.

§10.7 [Intentionally omitted.]

§10.8 [Intentionally Omitted.]

§10.9 Insurance. The Agent shall have received certificates evidencing that the Agent and the Lenders are named as loss payee and additional insured on all policies of insurance as required by this Agreement or the other Loan Documents.

§10.10 Performance; No Default. The Borrowers shall have performed and complied with all terms and conditions herein required to be performed or complied with by any of them on or prior to the Closing Date, and on the Closing Date there shall exist no Default or Event of Default.

§10.11 Representations and Warranties. The representations and warranties made by the Borrowers and the Guarantors in the Loan Documents or otherwise made by or on behalf of the Borrowers, the Guarantors or the Restricted Subsidiaries of the Borrowers in connection therewith or after the date thereof shall have been true and correct in all material respects when made and shall also be true and correct in all material respects on the Closing Date.

§10.12 Proceedings and Documents. All proceedings in connection with the transactions contemplated by this Agreement and the other Loan Documents shall be reasonably satisfactory to the Agent and the Agent's Special Counsel in form and substance, and the Agent shall have

received all information and such counterpart originals or certified copies of such documents and such other certificates, opinions or documents as the Agent and the Agent's Special Counsel may reasonably require. No proceeding challenging or seeking to enjoin any of the transactions contemplated by the Loan Documents shall be pending or shall have been threatened.

§10.13 Collateral Qualification Documents. The Collateral Qualification Documents for each parcel of Mortgaged Property to be included in the Collateral as of the Closing Date which is not collateral for the Original Credit Agreement shall have been delivered to the Agent at the Borrowers' expense. Borrowers shall deliver to Agent such updated title reports as Agent may reasonably request, but Borrowers shall not be required to deliver any current surveys (as-built or otherwise) or title policies with respect to the Mortgaged Property included in the Collateral as of the Closing Date.

§10.14 Compliance Certificate. A Compliance Certificate dated as of the date of the Closing Date demonstrating compliance with each of the covenants calculated therein.

§10.15 Consents. The Agent shall have received evidence satisfactory to the Agent that all necessary partner consents and other consents required in connection with the pledge of the Collateral to the Agent for the benefit of the Lenders have been obtained.

§10.16 Other Documents. To the extent requested by the Agent, the Agent shall have received executed copies of all material agreements of any nature whatsoever to which the Borrowers or any of their respective Restricted Subsidiaries is a party affecting or relating to the use, operation, development, construction or management of the Real Estate.

§10.17 No Condemnation/Taking. The Agent shall have received written confirmation from the Borrowers that no material condemnation proceedings are pending or to the Borrowers' knowledge threatened against any Real Estate or, if any such material proceedings are pending or threatened, identifying the same and the Real Estate affected thereby and the Agent shall have determined that none of such proceedings is or will be material to the Real Estate affected thereby.

§10.18 Interest Cap. The Agent shall have received evidence satisfactory to Agent that the Borrowers have acquired the Interest Cap.

§10.19 Conference Center Loan. The Conference Center Loan shall be extended to October 30, 2012 under terms satisfactory to the Agent.

§10.20 [Intentionally Omitted.]

§10.21 Other. The Agent shall have reviewed such other documents, instruments, certificates, opinions, assurances, consents and approvals as the Agent or the Agent's Special Counsel may reasonably have requested.

§11. CONDITIONS TO ALL BORROWINGS

The obligations of the Lenders to make any Loan, whether on or after the Closing Date, shall also be subject to the satisfaction of the following conditions precedent:

§11.1 Prior Conditions Satisfied. All conditions set forth in §10 shall continue to be satisfied as of the date upon which any Loan is to be made.

§11.2 Representations True; No Default. Each of the representations and warranties made by or on behalf of the Borrowers, the Guarantors and the Borrowers' Restricted Subsidiaries contained in this Agreement, the other Loan Documents or in any document or instrument delivered pursuant to or in connection with this Agreement shall be true as of the date as of which they were made and shall also be true at and as of the time of the making of such Loan, with the same effect as if made at and as of that time (except to the extent of changes resulting from transactions contemplated or permitted by this Agreement and the other Loan Documents and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse, and except to the extent that such representations and warranties relate expressly to an earlier date) and no Default or Event of Default shall have occurred and be continuing. The Agent shall have received a certificate of the Borrowers signed by an authorized officer of each Borrower to such effect.

§11.3 No Legal Impediment. No change shall have occurred in any law or regulations thereunder or interpretations thereof that in the reasonable opinion of any Lender would make it illegal for such Lender to make such Loan.

§11.4 Governmental Regulation. Each Lender shall have received such statements in substance and form reasonably satisfactory to such Lender as such Lender shall require for the purpose of compliance with any applicable regulations of the Comptroller of the Currency or the Board of Governors of the Federal Reserve System.

§11.5 Proceedings and Documents. All proceedings in connection with the Loan shall be satisfactory in substance and in form to the Agent, and the Agent shall have received all information and such counterpart originals or certified or other copies of such documents as the Agent may reasonably request.

§11.6 Borrowing Documents. In the case of any request for a Loan, the Agent shall have received a copy of the request for a Loan required by §2.6 in the form of Exhibit C-1 or Exhibit C-2 hereto, as applicable, fully completed.

§11.7 Future Advances Tax Payment. As a condition precedent to any Lender's obligations to make any Revolving Credit Loans in excess of an aggregate amount of \$100,000,000 (calculated as the sum of all Revolving Credit Loans advanced hereunder without deduction for any repayments of such Revolving Credit Loans and regardless of whether such Revolving Credit Loans are outstanding at the time of reference hereto), the Borrowers will pay to the Agent any mortgage, recording, intangible, documentary stamp or other similar taxes and charges which the Agent reasonably determines to be payable as a result of such Revolving Credit Loan to any state or any county or municipality thereof in which the Mortgaged Property is located and deliver to the Agent such affidavits or other information which the Agent reasonably determines to be necessary in connection with the payment of such tax, in order to insure that the Security Deed secures the Borrowers' obligation with respect to the Revolving Credit Loans then being requested. The provisions of this §11.7 shall be without limitation of the Borrowers' obligations under other provisions of the Loan Documents, including without limitation §15 hereof.

§12. EVENTS OF DEFAULT; ACCELERATION; ETC.

§12.1 Events of Default and Acceleration. If any of the following events (“Events of Default” or, if the giving of notice or the lapse of time or both is required, then, prior to such notice or lapse of time, “Defaults”) shall occur:

(a) either of the Borrowers shall fail to pay any principal of the Loans when the same shall become due and payable, whether at the stated date of maturity or any accelerated date of maturity or at any other date fixed for payment;

(b) either of the Borrowers shall fail to pay any interest on the Loans or any other sums due hereunder or under any of the other Loan Documents, when the same shall become due and payable, whether at the stated date of maturity or any accelerated date of maturity or at any other date fixed for payment;

(c) either of the Borrowers shall fail to comply with any covenant contained in §7.13, §8.1, §8.2, §8.3, §8.7 and §8.14;

(d) either of the Borrowers shall fail to comply with any covenant contained in §9, and such failure shall continue for twenty (20) days after written notice thereof shall have been given to the Borrowers by the Agent (provided that with respect to any failure to comply with §9.2 or §9.5, such failure shall be cured by Borrowers prepaying the Loans as provided in §3.3 to an amount which would have resulted in compliance on a proforma basis with the applicable covenant based on actual Operating Cash Flow for the Test Period and the average interest payable with respect to the Loans during the Test Period);

(e) either of the Borrowers or any of their respective Restricted Subsidiaries or any Guarantor shall fail to perform any other term, covenant or agreement contained herein or in any of the other Loan Documents (other than those specified above in this §12);

(f) any representation or warranty made by or on behalf of any Borrower, any Guarantor or any of the Restricted Subsidiaries of a Borrower in this Agreement or any other Loan Document, or in any report, certificate, financial statement, request for a Loan, or in any other document or instrument delivered pursuant to or in connection with this Agreement, any advance of a Loan or any of the other Loan Documents shall prove to have been false in any material respect upon the date when made or deemed to have been made or repeated;

(g) any of the Borrowers, any Guarantor or any of the Restricted Subsidiaries of a Borrower shall fail to pay at maturity, or within any applicable period of grace, any obligation for borrowed money or credit received or other Indebtedness, or fail to observe or perform any material term, covenant or agreement contained in any agreement by which it is bound, evidencing or securing any such borrowed money or credit received or other Indebtedness for such period of time as would permit (assuming the giving of appropriate notice if required) the holder or holders thereof or of any obligations issued thereunder to accelerate the maturity thereof; provided that the events described in this §12.1(g) shall not constitute an Event

of Default unless such failure to pay or perform, together with other failures to pay or perform, involve singly or in the aggregate recourse obligations for borrowed money or credit received or other Indebtedness totaling in excess of \$5,000,000.00 or, with respect to non-recourse obligations for borrowed money or credit received or other Indebtedness totaling in excess of \$15,000,000.00 (except that with respect to Non-Recourse Indebtedness of a Restricted Subsidiary of a Borrower it shall not be an Event of Default hereunder unless the Borrowers' aggregate equity Investment in all of such Restricted Subsidiaries exceeds \$15,000,000.00);

(h) any of the Borrowers, any Guarantor or any of the Restricted Subsidiaries of a Borrower, (1) shall make an assignment for the benefit of creditors, or admit in writing its general inability to pay or generally fail to pay its debts as they mature or become due, or shall petition or apply for the appointment of a trustee or other custodian, liquidator or receiver of any of the Borrowers, any Guarantor or any of the Restricted Subsidiaries of a Borrower or of any substantial part of the assets of any thereof, (2) shall commence any case or other proceeding relating to any of the Borrowers, any Guarantor or any of the Restricted Subsidiaries of a Borrower under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law of any jurisdiction, now or hereafter in effect, or (3) shall take any action to authorize or in furtherance of any of the foregoing;

(i) a petition or application shall be filed for the appointment of a trustee or other custodian, liquidator or receiver of any of the Borrowers, any Guarantor or any of the Restricted Subsidiaries of a Borrower or any substantial part of the assets of any thereof, or a case or other proceeding shall be commenced against any of the Borrowers, any Guarantor or any of the Restricted Subsidiaries of a Borrower under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law of any jurisdiction, now or hereafter in effect, and any of the Borrowers, any Guarantor or any of the Restricted Subsidiaries of a Borrower shall indicate its approval thereof, consent thereto or acquiescence therein or such petition, application, case or proceeding shall not have been dismissed within ninety (90) days following the filing or commencement thereof;

(j) a decree or order is entered appointing any such trustee, custodian, liquidator or receiver or adjudicating any of the Borrowers, any Guarantor or any of the Restricted Subsidiaries of a Borrower bankrupt or insolvent, or approving a petition in any such case or other proceeding, or a decree or order for relief is entered in respect of any of the Borrowers, any Guarantor or any of the Restricted Subsidiaries of a Borrower, in an involuntary case under federal bankruptcy laws as now or hereafter constituted;

(k) there shall remain in force, undischarged, unsatisfied and unstayed, for more than sixty (60) days, whether or not consecutive, any uninsured final judgment against any of the Borrowers, any Guarantor or any of the Restricted Subsidiaries of a Borrower that, with other outstanding uninsured final judgments, undischarged, against any of the Borrowers, any Guarantor or any of the Restricted Subsidiaries of a Borrower exceeds in the aggregate \$5,000,000.00;

(l) if (i) any of the Loan Documents shall be canceled, terminated, revoked or rescinded otherwise than in accordance with the terms thereof or with the express prior written agreement, consent or approval of the Lenders, or (ii) any action at law, suit in equity or other

legal proceeding to cancel, revoke or rescind any of the Loan Documents shall be commenced by or on behalf of any of the Borrowers, any Guarantor or any of their respective stockholders, partners or beneficiaries, or (iii) any court or any other governmental or regulatory authority or agency of competent jurisdiction shall make a determination that, or issue a judgment, order, decree or ruling to the effect that, any one or more of the Loan Documents is illegal, invalid or unenforceable in accordance with the terms thereof and, with respect to Defaults under this clause (iii) Borrowers do not cure such illegality, invalidity or unenforceability in a manner satisfactory to Agent within ten (10) days of such determination, judgment, order, decree or ruling, as applicable;

(m) any dissolution, termination, partial or complete liquidation, merger or consolidation of any of the Borrowers or any Guarantor, or any sale, transfer or other disposition of the assets of any of the Borrowers or any Guarantor, other than as permitted under the terms of this Agreement or the other Loan Documents;

(n) any suit or proceeding shall be filed against any of the Borrowers, any Guarantor or any of their respective assets which in the good faith business judgment of the Majority Lenders after giving consideration to the likelihood of success of such suit or proceeding and the availability of insurance to cover any judgment with respect thereto and based on the information available to them, if adversely determined, would have a materially adverse affect on the ability of any of the Borrowers or any Guarantor to perform its obligations under and by virtue of the Loan Documents;

(o) any of the Borrowers, any Guarantor or any of the Restricted Subsidiaries of a Borrower shall be indicted for a federal crime, a punishment for which could include the forfeiture of any assets of such Person included in the Collateral or the Property;

(p) (i) an ERISA Reportable Event shall occur with respect to, or proceedings shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, any Employee Benefit Plan, which ERISA Reportable Event or institution of proceedings is, in the opinion of the Majority Lenders, likely to result in the termination of such Plan for purposes of Title IV of ERISA, and, in the case of an ERISA Reportable Event, the continuance of such ERISA Reportable Event unremedied for thirty (30) days after notice of such ERISA Reportable Event pursuant to Section 4043 of ERISA is given or, in the case of institution of proceedings, the continuance of such proceedings for thirty (30) days after commencement thereof, (ii) any Employee Benefit Plan shall terminate for purposes of Title IV of ERISA, or (iii) any other event or condition shall occur or exist with respect to an Employee Benefit Plan and in each case in clauses (i) through (iii) above, such event or condition, together with all other such events or conditions, if any, could subject any of the Borrowers or any of their respective Restricted Subsidiaries or any Guarantor to any tax, penalty or other liabilities in the aggregate material in relation to the business, operations, property or financial or other condition of any of the Borrowers, any Guarantor or of a Borrower and its Restricted Subsidiaries taken as a whole;

(q) any Guarantor denies that such Guarantor has any liability or obligation under the Guaranty or the Guarantor Contribution Agreement, or shall notify the Agent or any of the Lenders of such Guarantor's intention to attempt to cancel or terminate the Guaranty or the Guarantor Contribution Agreement, or shall fail to observe or comply with any term, covenant, condition or agreement under the Guaranty or the Guarantor Contribution Agreement;

(r) a Change of Control shall occur without the prior written approval of all of the Lenders (which consent may be withheld by the Lenders in their sole and absolute discretion); or

(s) any Event of Default, as defined in any of the other Loan Documents, shall occur;

then, and in any such event, the Agent may, and upon the request of the Majority Lenders shall, by notice in writing to the Borrowers declare all amounts owing with respect to this Agreement, the Notes and the other Loan Documents to be, and they shall thereupon forthwith become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrowers; provided that in the event of any Event of Default specified in §12.1(h), §12.1(i) or §12.1(j), all such amounts shall become immediately due and payable automatically and without any requirement of notice from any of the Lenders or the Agent.

Notwithstanding the foregoing, it shall not be an Event of Default upon the occurrence of any of the events described under §12.1(f), (h), (i) or (j) with respect to a Restricted Subsidiary or Unrestricted Subsidiary unless the Borrowers' aggregate equity Investment in all of such Restricted Subsidiaries or Unrestricted Subsidiaries exceeds \$15,000,000.00.

§12.1A Limitation of Cure Periods.

(a) Notwithstanding anything contained in §12.1 to the contrary, (i) no Event of Default shall exist hereunder upon the occurrence of any failure described in §12.1(a) or §12.1(b) in the event that the Borrowers cure such Default within five (5) days following receipt of written notice of such Default, provided, however, that Borrowers shall not be entitled to receive more than two (2) notices in the aggregate pursuant to this clause (i) in any period of three hundred sixty-five (365) days ending on the date of any such occurrence of Default, and provided further that no such cure period shall apply to any payments due upon the maturity of any of the Obligations, and (ii) no Event of Default shall exist hereunder upon the occurrence of any failure described in §12.1(e) or §12.1(f) in the event that the Borrowers cure such Default within thirty (30) days following receipt of written notice of such Default, or if such Default is of such a nature that it cannot be cured within such thirty (30) day period, in the event that Borrowers commence such cure within such thirty (30) day period and thereafter diligently, continuously and in good faith prosecute such cure to completion, and in any event cure such Default within one hundred twenty (120) days following receipt of such written notice of Default. The provisions of clause (ii) shall not pertain to Defaults consisting of a failure to provide insurance as required by §7.7, to any Default consisting of a failure to comply with §7.4(e), to any Default under §§7.13, 8.1, 8.2, 8.3 8.7 and 8.14, or to any Default excluded from any provision of cure of Defaults contained in any other of the Loan Documents.

(b) Notwithstanding anything in this Agreement or any other Loan Document to the contrary, any reference in this Agreement or any other Loan Document to "the continuance of a default" or "the continuance of an Event of Default" or any similar phrase shall not create or be deemed to create any right on the part of Borrowers or any other party to cure any default following the expiration of any applicable grace or notice and cure period.

(c) In the event that a Borrower obtains any knowledge that any representation or warranty made by or on behalf of the Borrowers, the Guarantors or any Restricted Subsidiaries of a Borrower in this Agreement or any of the other Loan Documents to its knowledge and belief shall be untrue or misleading, the Borrowers shall promptly notify the Agent in writing of the same and shall, within thirty (30) days after learning such representation or warranty is untrue or misleading, take such actions as are required to cause such warranty or representation to be correct.

§12.2 Termination of Commitments. If any one or more Events of Default specified in §12.1(h), §12.1(i) or §12.1(j) shall occur, then immediately and without any action on the part of the Agent or any Lender any unused portion of the credit hereunder shall terminate and the Lenders shall be relieved of all obligations to make Revolving Credit Loans to Land Company. If any other Event of Default shall have occurred, the Agent, upon the election of the Majority Lenders, may by notice to the Borrowers terminate the obligation to make Revolving Credit Loans to Land Company. No termination under this §12.2 shall relieve the Borrowers of their obligations to the Lenders arising under this Agreement or the other Loan Documents. Nothing in this §12.2 shall limit or impair the terms of this Agreement (including §2.1) which provide that the Lenders shall have no obligation to make Revolving Credit Loans upon the occurrence of a Default or Event of Default.

§12.3 Remedies. In case any one or more of the Events of Default shall have occurred and be continuing, and whether or not the Agent or the Lenders shall have accelerated the maturity of the Loans pursuant to §12.1, the Agent on behalf of the Lenders may, and upon the direction of the Majority Lenders shall, proceed to protect and enforce their rights and remedies under this Agreement, the Notes or any of the other Loan Documents by suit in equity, action at law or other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in this Agreement and the other Loan Documents or any instrument pursuant to which the Obligations are evidenced, including to the full extent permitted by applicable law the obtaining of the ex parte appointment of a receiver, and, if such amount shall have become due, by declaration or otherwise, proceed to enforce the payment thereof or any other legal or equitable right. No remedy herein conferred upon the Agent or the holder of any Note or Obligation is intended to be exclusive of any other remedy and each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or any other provision of law. In the event that all or any portion of the Obligations is collected by or through an attorney-at-law, the Borrowers shall pay all reasonable costs of collection including, but not limited to, reasonable attorney's fees. Notwithstanding the provisions of this Agreement providing that the Loans may be evidenced by multiple Notes in favor of the Lenders, the Lenders acknowledge and agree that only the Agent may exercise any remedies arising by reason of a Default or Event of Default. In the event an Event of Default shall have occurred and be continuing and the Loans shall have been accelerated, Agent may require that Borrowers obtain a mortgagee's title insurance policy in the amount of the Outstanding Loans and in such form as the Agent may reasonably require insuring the first priority of the Security Deeds and that a Borrower holds good and indefeasible fee simple title to such parcel, subject only to such encumbrances as shall be approved by the

Agent and containing such endorsements and reinsurance or co-insurance agreements as Agent may require, and Borrowers shall pay upon demand all premiums and other charges reasonably necessary in connection with the issuance of such title policy or policies. In the event that Borrowers shall fail to pay such amount, Agent or the Lenders may advance such amount on behalf of the Borrowers and such amount shall become a part of the Obligations, shall bear interest at the Default Rate and shall be due and payable upon demand.

§12.4 Distribution of Collateral Proceeds. In the event that, following the occurrence or during the continuance of any Event of Default, any monies are received in connection with the enforcement of any of the Security Documents, or otherwise with respect to the realization upon any of the Collateral, such monies shall be distributed for application as follows:

(a) First, to the payment of, or (as the case may be) the reimbursement of, the Agent for or in respect of all reasonable costs, expenses, disbursements and losses which shall have been incurred or sustained by the Agent to protect or preserve the collateral or in connection with the collection of such monies by the Agent, for the exercise, protection or enforcement by the Agent of all or any of the rights, remedies, powers and privileges of the Agent under this Agreement or any of the other Loan Documents or in respect of the Collateral or in support of any provision of adequate indemnity to the Agent against any taxes or liens which by law shall have, or may have, priority over the rights of the Agent to such monies;

(b) Second, to all other Obligations in such order or preference as the Majority Lenders shall determine; provided, however, that (i) distributions in respect of such other Obligations shall be made *pari passu* among Obligations with respect to the Agent's fee payable pursuant to §4.3 and all other Obligations, (ii) in the event that any Revolving Credit Lender or Secured Term Loan Lender shall have wrongfully failed or refused to make an advance under §2.7 and such failure or refusal shall be continuing, advances made by other Revolving Credit Lenders or Secured Term Loan Lenders, respectively, during the pendency of such failure or refusal shall be entitled to be repaid as to principal and accrued interest in priority to the other Obligations described in this subsection (b), and (iii) Obligations owing to the Lenders with respect to each type of Obligation such as interest, principal, fees and expenses shall be made among the Lenders, *pro rata*; and provided further that the Majority Lenders may in their discretion make proper allowance to take into account any Obligations not then due and payable;

(c) Third, to the Hedge Obligations; and

(d) Fourth, the excess, if any, shall be returned to the Borrowers or to such other Persons as are entitled thereto.

§13. SETOFF

Regardless of the adequacy of any collateral, during the continuance of any Event of Default, any deposits (general or specific, time or demand, provisional or final, regardless of currency, maturity, or the branch of where such deposits are held) or other sums credited by or due from any of the Lenders to any of the Borrowers or any Guarantor and any securities or other property of any of the Borrowers or any Guarantor in the possession of such Lender may be

applied to or set off against the payment of Obligations and any and all other liabilities, direct, or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, of the Borrowers to such Lender. Each of the Lenders agrees with each other Lender that if such Lender shall receive from any of the Borrowers or any Guarantor, whether by voluntary payment, exercise of the right of setoff, or otherwise, and shall retain and apply to the payment of the Obligations owed to such Lender any amount in excess of its ratable portion of the payments received by all of the Lenders with respect to the Obligations held by all of the Lenders, such Lender will make such disposition and arrangements with the other Lenders with respect to such excess, either by way of distribution, pro tanto assignment of claims, subrogation or otherwise as shall result in each Lender receiving in respect of the Obligations held by it its proportionate payment as contemplated by this Agreement; provided that if all or any part of such excess payment is thereafter recovered from such Lender, such disposition and arrangements shall be rescinded and the amount restored to the extent of such recovery, but without interest.

§14. THE AGENT

§14.1 Authorization. The Agent is authorized to take such action on behalf of each of the Lenders and to exercise all such powers as are hereunder and under any of the other Loan Documents and any related documents delegated to the Agent, together with such powers as are reasonably incident thereto, provided that no duties or responsibilities not expressly assumed herein or therein shall be implied to have been assumed by the Agent. The obligations of Agent hereunder are primarily administrative in nature, and nothing contained in this Agreement or any of the other Loan Documents shall be construed to constitute the Agent as a trustee for any Lender or to create any agency or fiduciary relationship. Agent shall act as the contractual representative of the Lenders hereunder, and notwithstanding the use of the term "Agent," it is understood and agreed that the Agent shall not have any fiduciary duties or responsibilities to any Lender by reason of this Agreement or any other Loan Document and is acting as an independent contractor, the duties of which are limited to those expressly set forth in this Agreement and the other Loan Documents. The Borrowers and any other Person shall be entitled to conclusively rely on a statement from the Agent that it has the authority to act for and bind the Lenders pursuant to this Agreement and the other Loan Documents.

§14.2 Employees and Agents. The Agent may exercise its powers and execute its duties by or through employees or agents and shall be entitled to take, and to rely on, advice of counsel concerning all matters pertaining to its rights and duties under this Agreement and the other Loan Documents.

§14.3 No Liability. Neither the Agent nor any of its shareholders, directors, officers or employees nor any other Person assisting them in their duties nor any agent, or employee thereof, shall be liable for any waiver, consent or approval given or any action taken, or omitted to be taken, in good faith by it or them hereunder or under any of the other Loan Documents, or in connection herewith or therewith, or be responsible for the consequences of any oversight or error of judgment whatsoever, except that the Agent or such other Person, as the case may be, shall be liable for losses due to its willful misconduct or gross negligence.

§14.4 No Representations. The Agent shall not be responsible for the execution or validity or enforceability of this Agreement, the Notes, any of the other Loan Documents or any instrument at any time constituting, or intended to constitute, collateral security for the Obligations, or for the value of any such collateral security or for the validity, enforceability or collectability of any such amounts owing with respect to the Obligations, or for any recitals or statements, warranties or representations made herein, or any agreement, instrument or certificate delivered in connection therewith or in any of the other Loan Documents or in any certificate or instrument hereafter furnished to it by or on behalf of any of the Borrowers, any of the General Partners, any of the Second Tier Partners, any of the Third Tier Partners, any of the Restricted Subsidiaries of a Borrower or any Guarantor, or be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or in any other of the Loan Documents. The Agent shall not be bound to ascertain whether any notice, consent, waiver or request delivered to it by any of the Borrowers or any Guarantor or any of the Restricted Subsidiaries of a Borrower or any holder of any of the Obligations shall have been duly authorized or is true, accurate and complete. The Agent has not made nor does it now make any representations or warranties, express or implied, nor does it assume any liability to the Lenders, with respect to the creditworthiness or financial condition of any of the Borrowers or any of their respective Restricted Subsidiaries or Unrestricted Subsidiaries or any Guarantor. Each Lender acknowledges that it has, independently and without reliance upon the Agent or any other Lender, and based upon such information and documents as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender, based upon such information and documents as it deems appropriate at the time, continue to make its own credit analysis and decisions in taking or not taking action under this Agreement and the other Loan Documents. Agent's Special Counsel has only represented Agent and KeyBank in connection with the Loan Documents and the only attorney-client relationship is between Agent's Special Counsel and Agent or KeyBank. Each Lender has been independently represented by separate counsel on all matters regarding the Loan Documents and the granting and perfecting of liens in the Collateral.

§14.5 Payments.

(a) A payment by the Borrowers or the Guarantors to the Agent hereunder or under any of the other Loan Documents for the account of any Lender shall constitute a payment to such Lender. The Agent agrees to distribute to each Lender not later than one Business Day after the Agent's receipt of good funds, determined in accordance with the Agent's customary practices, such Lender's pro rata share of payments received by the Agent for the account of the Lenders except as otherwise expressly provided herein or in any of the other Loan Documents. In the event that the Agent fails to distribute such amounts within one Business Day as provided above, the Agent shall pay interest on such amount at a rate per annum equal to the Federal Funds Effective Rate from time to time in effect.

(b) If in the opinion of the Agent the distribution of any amount received by it in such capacity hereunder, under the Notes or under any of the other Loan Documents might involve it in liability, it may refrain from making distribution until its right to make distribution shall have been adjudicated by a court of competent jurisdiction. If a court of competent jurisdiction shall adjudge that any amount received and distributed by the Agent is to be repaid,

each Person to whom any such distribution shall have been made shall either repay to the Agent its proportionate share of the amount so adjudged to be repaid or shall pay over the same in such manner and to such Persons as shall be determined by such court.

(c) Notwithstanding anything to the contrary contained in this Agreement or any of the other Loan Documents, any Lender that fails (i) to make available to the Agent its pro rata share of any Loan or (ii) to comply with the provisions of §13 with respect to making dispositions and arrangements with the other Lenders, where such Lender's share of any payment received, whether by setoff or otherwise, is in excess of its pro rata share of such payments due and payable to all of the Lenders, in each case as, when and to the full extent required by the provisions of this Agreement, shall be deemed delinquent (a "Delinquent Lender") and shall be deemed a Delinquent Lender until such time as such delinquency is satisfied. A Delinquent Lender shall be deemed to have assigned any and all payments due to it from the Borrowers and the Guarantors, whether on account of outstanding Loans, interest, fees or otherwise, to the remaining nondelinquent Lenders for application to, and reduction of, their respective pro rata shares of all outstanding Loans in accordance with the terms of this Agreement. The Delinquent Lender hereby authorizes the Agent to distribute such payments to the nondelinquent Lenders in proportion to their respective pro rata shares of all outstanding Loans in accordance with the terms of this Agreement. A Delinquent Lender shall be deemed to have satisfied in full a delinquency when and if, as a result of application of the assigned payments to all outstanding Loans of the nondelinquent Lenders or as a result of other payments by the Delinquent Lenders to the nondelinquent Lenders, the Lenders' respective pro rata shares of all outstanding Loans have returned to those in effect immediately prior to such delinquency and without giving effect to the nonpayment causing such delinquency. In addition to the rights and remedies that may be available to the Agent at law and in equity, a Delinquent Lender's right to participate in the administration of the Loan Documents, including, without limitation, any rights to consent to or direct any action or inaction of the Agent pursuant to this Agreement or otherwise, or to be taken into account in the calculation of Majority Lenders, Super-Majority Lenders or any matter requiring approval of all of the Lenders, shall be suspended while such Lender is a Delinquent Lender. The provisions of this Section shall apply and be effective regardless of whether an Event of Default occurs and is then continuing, and notwithstanding (i) any other provision of this Agreement to the contrary or (ii) any instruction of Borrowers as to its desired application of payments. The Agent shall be entitled to (i) withhold or set off, and to apply to the payment of the obligations of any Delinquent Lender any amounts to be paid to such Delinquent Lender under this Agreement, (ii) to collect interest from such Lender for the period from the date on which the payment was due at the Federal Funds Effective Rate, for each day during such period, and (iii) bring an action or suit against such Delinquent Lender in a court of competent jurisdiction to recover the defaulted obligations of such Delinquent Lender and, to the extent such recovery would not fully compensate the Lenders for the Delinquent Lender's breach of this Agreement, to collect damages. In addition, the Delinquent Lender shall indemnify, defend and hold Agent and each of the other Lenders harmless from and against any and all claims, actions, liabilities, damages, costs and expenses (including attorneys' fees and expenses), plus interest thereon at the Default Rate, for funds advanced by Agent or any other Lender on account of the Delinquent Lender or any other damages such Persons may sustain or incur by reason of or as a direct consequence of the Delinquent Lender's failure or refusal to abide by its obligations under this Agreement.

§14.6 Holders of Notes. Subject to the terms of Article 18, the Agent may deem and treat the payee of any Obligation and any Note as the absolute owner or purchaser thereof for all purposes hereof until it shall have been furnished in writing with a different name by such payee or by a subsequent holder, assignee or transferee.

§14.7 Indemnity. **THE LENDERS RATABLY AGREE HEREBY TO INDEMNIFY AND HOLD HARMLESS THE AGENT FROM AND AGAINST ANY AND ALL CLAIMS, ACTIONS AND SUITS (WHETHER GROUNDLESS OR OTHERWISE), LOSSES, DAMAGES, COSTS, EXPENSES (INCLUDING ANY EXPENSES FOR WHICH THE AGENT HAS NOT BEEN REIMBURSED BY THE BORROWERS AS REQUIRED BY §15), AND LIABILITIES OF EVERY NATURE AND CHARACTER ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE NOTES OR ANY OF THE OTHER LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED OR EVIDENCED HEREBY OR THEREBY, OR THE AGENT'S ACTIONS TAKEN HEREUNDER OR THEREUNDER, EXCEPT TO THE EXTENT THAT ANY OF THE SAME SHALL BE DIRECTLY CAUSED BY THE AGENT'S WILLFUL MISCONDUCT OR GROSS NEGLIGENCE. LENDERS AGREE THAT THE INDEMNIFICATION OF AGENT BY LENDERS SET FORTH IN THIS §14.7 INCLUDES INDEMNIFICATION IN THE EVENT OF ORDINARY NEGLIGENCE ON THE PART OF AGENT BUT DOES NOT INCLUDE INDEMNIFICATION OF AGENT FOR AGENT'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.**

§14.8 Agent as Lender. In its individual capacity, KeyBank shall have the same obligations and the same rights, powers and privileges in respect to its Commitment and the Loans made by it, and as the holder of any of the Obligations and Notes, if any, as it would have were it not also the Agent.

§14.9 Resignation; Removal. The Agent may resign at any time by giving thirty (30) calendar days' prior written notice thereof to the Lenders and the Borrowers; provided, however, that unless a Default or Event of Default shall have occurred and be continuing, no such resignation shall be permitted without Borrowers' consent, such consent not to be unreasonably conditioned, withheld or delayed. The Majority Lenders may remove the Agent in the event of the Agent's gross negligence or willful misconduct. Upon any such resignation or removal, the Majority Lenders, subject to the terms of §18.1, shall have the right to appoint as a successor Agent any Lender or any bank whose senior debt obligations are rated not less than "A3" or its equivalent by Moody's Investors Service, Inc. or not less than "A-" or its equivalent by Standard & Poor's corporation and which has a net worth of not less than \$500,000,000. Any such resignation or removal shall be effective upon appointment and acceptance of a successor agent selected by the Majority Lenders. If no successor Agent shall have been appointed and shall have accepted such appointment, then the retiring Agent may, on behalf of the Lenders, appoint a successor Agent, which shall be a bank whose debt obligations are rated not less than "A3" or its equivalent by Moody's Investors Service, Inc. or not less than "A-" or its equivalent by Standard & Poor's Corporation and which has a net worth of not less than \$500,000,000. Unless a Default or Event of Default shall have occurred and be continuing, such successor Agent shall be reasonably acceptable to the Borrowers. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring or removed Agent, and the

retiring or removed Agent shall be discharged from its duties and obligations hereunder as Agent. After any retiring Agent's resignation or the removal of any Agent, the provisions of this Agreement and the other Loan Documents shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Agent.

§14.10 Duties in the Case of Enforcement. In case one or more Events of Default have occurred and shall be continuing, and whether or not acceleration of the Obligations shall have occurred, the Agent may and shall, if so requested by the Majority Lenders and the Lenders have provided to the Agent such additional indemnities and assurances against expenses and liabilities as the Agent may reasonably request, proceed to exercise all or any legal and equitable and other rights or remedies as it may have. The Majority Lenders may direct the Agent in writing as to the method and the extent of any such exercise, the Lenders hereby agreeing to indemnify and hold the Agent harmless from all liabilities incurred in respect of all actions taken or omitted in accordance with such directions, provided that the Agent need not comply with any such direction to the extent that the Agent reasonably believes the Agent's compliance with such direction to be unlawful or commercially unreasonable in any applicable jurisdiction.

§14.11 Reliance on Hedge Provider. For purposes of applying payments received in accordance with §12.4, the Agent shall be entitled to rely upon the trustee, paying agent or other similar representative (each, a "Representative") or, in the absence of such a Representative, upon the holder of the Hedge Obligations for a determination (which each holder of the Hedge Obligations agrees (or shall agree) to provide upon request of the Agent) of the outstanding Hedge Obligations owed to the holder thereof. Unless it has actual knowledge (including by way of written notice from such holder) to the contrary, the Agent, in acting hereunder, shall be entitled to assume that no Hedge Obligations are outstanding.

§14.12 Co-Agents. The Lead Arranger and Syndication Agent shall not have any additional rights or obligations under the Loan Documents, except for those rights, if any, as a Lender.

§14.13 Request for Agent Action. Agent and the Lenders acknowledge that in the ordinary course of business of the Borrowers, (a)Borrowers may enter into leases covering the Collateral that may require the execution of a subordination, attornment and non-disturbance agreement in favor of the tenant thereunder, (b)the Collateral may be subject to a condemnation or other taking, (c)Borrower may desire to enter into easements or other agreements affecting the Collateral, record a subdivision plat, dedicate roads or utilities, or take other actions or enter into other agreements in the ordinary course of business which similarly require the consent, approval or agreement of the Agent. In connection with the foregoing, the Lenders hereby expressly authorize the Agent to (w)execute and deliver to the Borrower subordination, attornment and non-disturbance agreements with any tenant under a lease upon such terms as Agent in its good faith judgment determines are appropriate (Agent in the exercise of its good faith judgment may agree to allow some or all of the casualty, condemnation, restoration or other provisions of the applicable lease to control over the applicable provisions of the Loan Documents), (x)execute releases of liens of Mortgaged Property as permitted in this Agreement or in connection with any condemnation or other taking, (y)execute consents or subordinations in form and substance satisfactory to Agent in connection with any easements, agreements, plats, dedications or similar matters affecting the Collateral, or (z)execute consents, approvals, or other agreements in form

and substance satisfactory to the Agent in connection with such other actions or agreements as may be necessary in the ordinary course of Borrowers' business. Without limiting the foregoing, the Agent may delegate to the Title Insurance Company pursuant to the Tri-Party Agreement the right to execute certain consents on behalf of Agent and the Lenders as described in §5.5.

§14.14 [Intentionally omitted.]

§14.15 Bankruptcy. In the event a bankruptcy or other insolvency proceeding is commenced by or against any Borrower or Guarantor, the Agent shall have the sole and exclusive right to file and pursue a joint proof claim on behalf of all Lenders. Each Lender irrevocably waives its right to file or pursue a separate proof of claim in any such proceedings.

§14.16 Lender Intercreditor Agreement. The Agent and the Lenders acknowledge and agree that the Intercreditor Agreement (Senior Loan) dated November 30, 2004 among Agent and the lenders a party thereto continues in effect and that this Agreement constitutes the "Credit Agreement" referenced therein. To the extent there is any Lender which is not a party to such Intercreditor Agreement, such Lender joins therein as a party thereto and assumes all obligations of a Lender thereunder and confirms the representations and warranties of a Lender thereunder.

§15. EXPENSES

The Borrowers agree to pay (a) the reasonable costs of producing and reproducing this Agreement, the other Loan Documents and the other agreements and instruments mentioned herein, (b) any taxes (including any interest and penalties in respect thereto) payable by the Agent or any of the Lenders, including any recording, mortgage, documentary or intangibles taxes in connection with the Security Deeds and other Loan Documents, or other taxes payable on or with respect to the transactions contemplated by this Agreement (other than taxes based upon the Agent's or any Lender's gross or net income, except that the Agent and the Lenders shall be entitled to indemnification for any and all amounts paid by them in respect of taxes based on income or other taxes assessed by any State in which Mortgaged Property or other Collateral is located, such indemnification to be limited to taxes due solely on account of the granting of Collateral under the Security Documents and to be net of any credit allowed to the indemnified party from any other State on account of the payment or incurrence of such tax by such indemnified party), including any such taxes payable by the Agent or any of the Lenders after the Closing Date (the Borrowers hereby agreeing to indemnify the Agent and each Lender with respect thereto), (c) all appraisal fees, engineer's fees, charges for commercial finance exams and engineering and environmental reviews (provided that to the extent permitted under applicable laws and regulations, the Lenders shall rely upon reports of engineering and environmental consultants previously retained by Borrowers so that duplication of consultant's expenses is avoided where possible) and the reasonable fees, expenses and disbursements of the counsel to the Agent, counsel for KeyBank and any local counsel to the Agent incurred in connection with the performance of due diligence and the preparation, negotiation, administration or interpretation of the Loan Documents and other instruments mentioned herein, each closing hereunder, and amendments, modifications, approvals, consents or waivers hereto or hereunder, (d) the reasonable out-of-pocket fees, expenses and disbursements of the Agent incurred by the Agent in connection with the performance of due diligence, underwriting analysis, credit reviews, executing releases and consents, and the preparation, negotiation,

administration or interpretation of the Loan Documents and other instruments mentioned herein, credit and collateral evaluations, and the making of each advance hereunder, (e) all reasonable out of pocket expenses (including reasonable attorneys' fees and costs, which attorneys may be employees of any Lender or the Agent and the fees and costs of appraisers, engineers, investment bankers or other experts retained by any Lender or the Agent) incurred by any Lender or the Agent in connection with (i) the enforcement of or preservation of rights under any of the Loan Documents against any of the Borrowers, any Guarantor or any other Person or the administration thereof after the occurrence of a Default or Event of Default, (ii) the sale of, collection from or other realization upon any of the Collateral, (iii) the failure of any of the Borrowers or any Guarantor to perform or observe any provision of the Loan Documents, and (iv) any litigation, proceeding or dispute whether arising hereunder or otherwise, in any way related to the Agent's or any of the Lender's relationship with any of the Borrowers or any Guarantor, (f) all reasonable fees, expenses and disbursements of the Agent incurred in connection with UCC searches, UCC filings, title rundowns, title searches or mortgage recordings, and (g) all reasonable attorneys' fees and costs which may be incurred by KeyBank in connection with each and every assignment of interests in the Loans pursuant to §18.1 or sale of participations pursuant to §18.4. The covenants of this §15 shall survive payment or satisfaction of payment of the Obligations.

§16. INDEMNIFICATION

THE BORROWERS AGREE TO INDEMNIFY AND HOLD HARMLESS THE AGENT AND THE LENDERS AND EACH DIRECTOR, OFFICER, EMPLOYEE, AGENT AND PERSON WHO CONTROLS THE AGENT OR ANY LENDER FROM AND AGAINST ANY AND ALL CLAIMS, ACTIONS AND SUITS, WHETHER GROUNDLESS OR OTHERWISE, AND FROM AND AGAINST ANY AND ALL LIABILITIES, LOSSES, DAMAGES AND EXPENSES OF EVERY NATURE AND CHARACTER ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY AND THEREBY INCLUDING, WITHOUT LIMITATION, (A) ANY LEASING FEES AND ANY BROKERAGE, FINDERS OR SIMILAR FEES ASSERTED AGAINST ANY PERSON INDEMNIFIED UNDER THIS §16 BASED UPON ANY AGREEMENT, ARRANGEMENT OR ACTION MADE OR TAKEN, OR ALLEGED TO HAVE BEEN MADE OR TAKEN, BY ANY OF THE BORROWERS, ANY OF THE GENERAL PARTNERS, ANY OF THE SECOND TIER PARTNERS, ANY OF THE THIRD TIER PARTNERS, ANY GUARANTOR OR ANY OF THE RESTRICTED SUBSIDIARIES OF A BORROWER, (B) ANY CONDITION, USE, OPERATION OR OCCUPANCY OF THE MORTGAGED PROPERTY OR OTHER COLLATERAL FIRST OCCURRING PRIOR TO THE AGENT OR THE LENDERS OR THEIR NOMINEE ACQUIRING TITLE TO THE MORTGAGED PROPERTY OR OTHER COLLATERAL BY THE EXERCISE OF ITS FORECLOSURE REMEDIES OR BY DEED IN LIEU OF FORECLOSURE, (C) ANY ACTUAL OR PROPOSED USE BY A BORROWER OF THE PROCEEDS OF ANY OF THE LOANS, (D) ANY ACTUAL OR ALLEGED INFRINGEMENT OF ANY PATENT, COPYRIGHT, TRADEMARK, SERVICE MARK OR SIMILAR RIGHT OF ANY OF THE BORROWERS, ANY OF THE GENERAL PARTNERS, ANY OF THE SECOND TIER PARTNERS, ANY OF THE THIRD TIER PARTNERS, ANY GUARANTOR OR ANY OF THE RESTRICTED

SUBSIDIARIES OF A BORROWER COMPRISED IN THE COLLATERAL, (E) THE BORROWERS AND THE GUARANTORS ENTERING INTO OR PERFORMING THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS, (F) ANY ACTUAL OR ALLEGED VIOLATION OF ANY LAW, ORDINANCE, CODE, ORDER, RULE, REGULATION, APPROVAL, CONSENT, PERMIT OR LICENSE RELATING TO THE MORTGAGED PROPERTY OR THE OTHER COLLATERAL WHICH VIOLATION FIRST OCCURRED PRIOR TO THE AGENT OR THE LENDERS OR THEIR NOMINEE ACQUIRING TITLE TO THE MORTGAGED PROPERTY OR APPLICABLE COLLATERAL BY THE EXERCISE OF ITS FORECLOSURE REMEDIES OR BY DEED IN LIEU OF FORECLOSURE, (G) ANY USE OF SYNDTRAK, INTRALINKS OR OTHER SERVICE FOR THE DISSEMINATION OF DOCUMENTS OR INFORMATION, OR (H) WITH RESPECT TO EACH OF THE BORROWERS, EACH OF THE GENERAL PARTNERS, EACH OF THE SECOND TIER PARTNERS, EACH OF THE THIRD TIER PARTNERS, EACH OF THE GUARANTORS AND THE RESTRICTED SUBSIDIARIES OF EACH BORROWER AND THEIR RESPECTIVE PROPERTIES AND ASSETS, THE VIOLATION OF ANY ENVIRONMENTAL LAW, THE RELEASE OR THREATENED RELEASE OF ANY HAZARDOUS SUBSTANCES OR ANY ACTION, SUIT, PROCEEDING OR INVESTIGATION BROUGHT OR THREATENED WITH RESPECT TO ANY HAZARDOUS SUBSTANCES (INCLUDING, BUT NOT LIMITED TO CLAIMS WITH RESPECT TO WRONGFUL DEATH, PERSONAL INJURY OR DAMAGE TO PROPERTY), FIRST OCCURRING PRIOR TO THE AGENT OR THE LENDERS OR THEIR NOMINEE ACQUIRING TITLE TO THE MORTGAGED PROPERTY BY THE EXERCISE OF ITS FORECLOSURE REMEDIES OR BY DEED IN LIEU OF FORECLOSURE, IN EACH CASE INCLUDING, WITHOUT LIMITATION, THE REASONABLE FEES AND DISBURSEMENTS OF COUNSEL AND ALLOCATED COSTS OF INTERNAL COUNSEL INCURRED IN CONNECTION WITH ANY SUCH INVESTIGATION, LITIGATION OR OTHER PROCEEDING; PROVIDED, HOWEVER, THAT THE BORROWERS SHALL NOT BE OBLIGATED UNDER THIS §16 TO INDEMNIFY ANY PERSON FOR LIABILITIES ARISING FROM SUCH PERSON'S OWN GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. IN LITIGATION, OR THE PREPARATION THEREFOR, THE LENDERS AND THE AGENT SHALL BE ENTITLED TO SELECT A SINGLE LAW FIRM AS THEIR OWN COUNSEL AND, IN ADDITION TO THE FOREGOING INDEMNITY, THE BORROWERS AGREE TO PAY PROMPTLY THE REASONABLE FEES AND EXPENSES OF SUCH COUNSEL. IF, AND TO THE EXTENT THAT THE OBLIGATIONS OF THE BORROWERS UNDER THIS §16 ARE UNENFORCEABLE FOR ANY REASON, THE BORROWERS HEREBY AGREE TO MAKE THE MAXIMUM CONTRIBUTION TO THE PAYMENT IN SATISFACTION OF SUCH OBLIGATIONS WHICH IS PERMISSIBLE UNDER APPLICABLE LAW. THE PROVISIONS OF THIS §16 SHALL SURVIVE THE REPAYMENT OF THE LOANS AND THE TERMINATION OF THE OBLIGATIONS OF THE LENDERS HEREUNDER. BORROWERS AGREE THAT THE INDEMNIFICATION OF AGENT AND THE LENDERS BY BORROWERS SET FORTH IN THIS §16 INCLUDES INDEMNIFICATION IN THE EVENT OF ORDINARY NEGLIGENCE ON THE PART OF AGENT AND THE LENDERS BUT DOES NOT INCLUDE INDEMNIFICATION OF

AGENT AND THE LENDERS FOR AGENT'S OR SUCH LENDER'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT, OR AGENT'S OR LENDER'S BREACH OF THE TERMS OF THE LOAN DOCUMENTS.

§17. SURVIVAL OF COVENANTS, ETC.

All covenants, agreements, representations and warranties made herein, in the Notes, in any of the other Loan Documents or in any documents or other papers delivered by or on behalf of any of the Borrowers, any Guarantor or any of the Restricted Subsidiaries of a Borrower pursuant hereto or thereto shall be deemed to have been relied upon by the Lenders and the Agent, notwithstanding any investigation heretofore or hereafter made by any of them, and shall survive the making by the Lenders of any of the Loans, as herein contemplated, and shall continue in full force and effect so long as any amount due under this Agreement or the Notes or any of the other Loan Documents remains outstanding or any Lender has any obligation to make any Loans. The indemnification obligations of the Borrowers provided herein and the other Loan Documents shall survive the full repayment of amounts due and the termination of the obligations of the Lenders hereunder and thereunder to the extent provided herein and therein. All statements contained in any certificate or other paper delivered to any Lender or the Agent at any time by or on behalf of any of the Borrowers or any Guarantor or any of the Restricted Subsidiaries of a Borrower pursuant hereto or in connection with the transactions contemplated hereby shall constitute representations and warranties by the Borrowers, the Guarantors or such Restricted Subsidiary hereunder.

§18. ASSIGNMENT AND PARTICIPATION

§18.1 Conditions to Assignment by Lenders. Except as provided herein, each Lender may assign to one or more banks or other entities all or a portion of its interests, rights and obligations under this Agreement (including all or a portion of its Commitment Percentage and Commitment and the same portion of the Loans at the time owing to it, and the Notes, if any, held by it); provided that (a) the Agent and the Borrowers shall have given their prior written consent to such assignment, which consent shall not be unreasonably withheld (provided that such consent shall not be required for any assignment to another Lender, to the parent of such Lender, to a wholly-owned subsidiary of such Lender, or to a Related Fund of such Lender, provided that such assignee shall remain a parent, a wholly-owned subsidiary or Related Fund of such Lender, as applicable, and provided further Borrowers shall be deemed to have consented thereto unless they shall have objected in writing thereto no later than five (5) Business Days after notice thereof, and provided further that the consent of Borrowers shall not be required if a Default or Event of Default has occurred and is continuing), (b) each such assignment shall be of a constant, and not a varying, percentage of all the assigning Lender's rights and obligations under this Agreement, (c) the parties to such assignment shall execute and deliver to the Agent, for recording in the Register (as hereinafter defined), a notice of such assignment, together with any Notes subject to such assignment, (d) such assignee shall be an Eligible Assignee, (e) such assignee of a portion of the Revolving Credit Loans shall have a net worth or unfunded capital commitments as of the date of such assignment of not less than \$200,000,000.00 unless such requirement is waived in writing by the Borrowers and the Agent, (f) such assignment is subject to the terms of any intercreditor agreement among the Lenders and the Agent, (g) such assignee shall acquire an interest in the Revolving Credit Loans of not less than \$5,000,000.00 or in the

Secured Term Loans of not less than \$5,000,000.00, as applicable unless such assignment is to another Lender or a Related Fund of such Lender or, if less, such assignment represents the entire remaining Revolving Credit Commitment or Secured Term Loan Commitment, as applicable, of the assigning Lender, or unless such requirement is waived by the Borrowers and Agent, (h) such assignment shall be of an equal percentage of such assignee's Revolving Credit Commitment, in the event an interest in the Revolving Credit Loans is assigned, and an equal percentage of such assignee's Commercial Company Secured Term Loan Commitment and Land Company Secured Term Loan Commitment, in the event an interest in the Secured Term Loans is assigned, and (i) the assignee and assignor execute and deliver to Agent an Assignment and Acceptance Agreement in the form of Exhibit F attached hereto and made a part hereof. The Lenders shall endeavor to assign Commitments only to Lenders that are not subject to withholding as provided in §4.4(b). Upon such execution, delivery, acceptance and recording, of such notice of assignment, (i) the assignee thereunder shall be a party hereto and all other Loan Documents executed by the Lenders and, to the extent provided in such assignment, have the rights and obligations of a Lender hereunder, (ii) the assigning Lender shall, to the extent provided in such assignment and upon payment to the Agent of the registration fee referred to in §18.2, be released from its obligations under this Agreement, and (iii) the Agent may unilaterally amend Schedule 1.1 to reflect such assignment. In connection with each assignment, the assignee shall represent and warrant to the Agent, the assignor and each other Lender as to whether such assignee is an Eligible Assignee. Notwithstanding anything herein to the contrary, in the event that any Lender acting as Agent shall assign all or any portion of its Commitment and as a result thereof its Commitment is less than \$15,000,000.00, then such Lender shall promptly provide written notice thereof to the Lenders and the Majority Lenders (excluding the Lender acting as Agent) shall have the right, to be exercised within fifteen (15) days of delivery of such notice by such Lender acting as Agent, to elect to remove such Lender as Agent and replace such Lender as Agent, subject to the terms of §14.9.

§18.2 Register. The Agent for itself and on behalf of the Borrowers shall maintain a copy of each assignment delivered to it and a register or similar list (the "Register") for the recordation of the names and addresses of the Lenders and the Commitment Percentages of, and principal amount of the Loans owing to the Lenders from time to time. Transfers of any Commitment shall be effective upon recording in the Register. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrowers, the Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrowers and the Lenders at any reasonable time and from time to time upon reasonable prior notice. Upon each such recordation, the assigning Lender agrees to pay to the Agent a registration fee in the sum of \$5,000.00. Contemporaneous assignments by a Lender to multiple assignees will be treated as a single assignment for the purposes of such registration fee.

§18.3 New Notes. Upon its receipt of an assignment executed by the parties to such assignment, together with each Note, if any, subject to such assignment, the Agent shall (a) record the information contained therein in the Register, and (b) give prompt notice thereof to the Borrowers and the Lenders (other than the assigning Lender). Within five (5) Business Days after receipt of such notice, the Borrowers, at their own expense, shall, if requested by the assignee or assignor as provided below, execute and deliver to the Agent, in exchange for each surrendered Note, a new Note to the order of such assignee in an amount equal to the amount

assumed by such assignee pursuant to such assignment and, if the assigning Lender has retained some portion of its obligations hereunder, a new Note to the order of the assigning Lender in an amount equal to the amount retained by it hereunder. Such new Notes shall provide that they are replacements for the surrendered Notes, shall be in an aggregate principal amount equal to the aggregate principal amount of the surrendered Notes, shall be dated the effective date of such assignment and shall otherwise be in substantially the form of the assigned Notes. The surrendered Notes, if any, shall be canceled and returned to the Borrowers.

§18.4 Participations. Each Lender may sell participations to one or more banks or other entities in all or a portion of such Lender's rights and obligations under this Agreement and the other Loan Documents; provided that (a) any such sale or participation shall not affect the rights and duties of the selling Lender hereunder to the Borrowers, (b) such participation shall not entitle such participant to any rights or privileges under this Agreement or the Loan Documents, including, without limitation, the right to approve waivers, amendments or modifications, (c) such participant shall have no direct rights against any of the Borrowers or any Guarantor except the rights granted to the Lenders pursuant to §13, (d) such sale is effected in accordance with all applicable laws, and (e) such participant shall not be a Person controlling, controlled by or under common control with, or which is not otherwise free from influence or control by, any of the Borrowers or any Guarantor.

§18.5 Pledge by Lender. Any Lender may at any time pledge all or any portion of its interest and rights under this Agreement (including all or any portion of its Note) to any of the twelve Federal Reserve Banks organized under §4 of the Federal Reserve Act, 12 U.S.C. §341 or to any Federal Home Loan Bank. Any Secured Term Loan Lender may with the consent of the Agent pledge all or any portion of its interests and rights under this Agreement (including all or any portion of its Note) to a Person approved by the Agent. No such pledge or the enforcement thereof shall release the pledgor Lender from its obligations hereunder or under any of the other Loan Documents.

§18.6 No Assignment by Borrowers. Neither of the Borrowers shall assign or transfer any of its rights or obligations under any of the Loan Documents without the prior written consent of each of the Lenders.

§18.7 Cooperation; Disclosure. The Borrowers agree to promptly cooperate with any Lender in connection with any proposed assignment or participation of all or any portion of its Commitment. The Borrowers agree that in addition to disclosures made in accordance with standard banking practices any Lender may disclose information obtained by such Lender pursuant to this Agreement to assignees or participants and potential assignees or participants hereunder, provided that any potential assignee or participant hereunder shall execute and deliver to Agent and the Borrowers a confidentiality agreement in substantially the form of Exhibit G hereto as a condition to the receipt of any financial statements or other reports delivered by the Borrowers to the Agent hereunder. In addition, the Lenders may make disclosure of such information to any contractual counterparty in swap agreements or such contractual counterparty's professional advisors (so long as such contractual counterparty or professional advisors to such contractual counterparty agree to be bound by the provisions of this §18.7).

§18.8 Mandatory Assignment. In the event Borrowers request that certain amendments, modifications or waivers be made to this Agreement or any of the other Loan Documents which request is approved by Agent but is not approved by one or more of the Lenders (any such non-consenting Lender shall hereafter be referred to as the “Non-Consenting Lender”), then, within thirty (30) days after Borrowers’ receipt of notice of such disapproval by such Non-Consenting Lender, Borrowers shall have the right as to such Non-Consenting Lender, to be exercised by delivery of written notice delivered to the Agent and the Non-Consenting Lender within thirty (30) days of receipt of such notice, to elect to cause the Non-Consenting Lender to transfer its Commitment. The Agent shall promptly notify the remaining Lenders that each of such Lenders shall have the right, but not the obligation, to acquire a portion of the Commitment, pro rata based upon their relevant Commitment Percentages, of the Non-Consenting Lender (or if any of such Lenders does not elect to purchase its pro rata share, then to such remaining Lenders in such proportion as approved by the Agent). In the event that the Lenders do not elect to acquire all of the Non-Consenting Lender’s Commitment, then the Agent shall endeavor to find a new Lender or Lenders to acquire such remaining Commitment. Upon any such purchase of the Commitment of the Non-Consenting Lender, the Non-Consenting Lender’s interests in the Obligations and its rights hereunder and under the Loan Documents shall terminate at the date of purchase, and the Non-Consenting Lender shall promptly execute and deliver any and all documents reasonably requested by Agent to surrender and transfer such interest, including, without limitation, an assignment and acceptance agreement in the form attached hereto as Exhibit F and such Non-Consenting Lender’s original Note, if any. The purchase price to be paid by the acquiring Lenders for the Non-Consenting Lender’s Commitment shall equal the principal owed to such Non-Consenting Lender, and the Borrowers shall pay to such Non-Consenting Lender in addition thereto and as a condition to such sale any and all other amounts outstanding and owed by Borrowers to the Non-Consenting Lender, including all accrued and unpaid interest or fees, which would be owed to such Non-Consenting Lender if the Loans were to be repaid in full on the date of such purchase of the Non-Consenting Lender’s Commitment (provided that the Borrowers may pay such interest, fees and other amounts (other than principal)). No registration fee under §18.2 shall be required in connection with such assignment.

§19. NOTICES

Each notice, demand, election or request provided for or permitted to be given pursuant to this Agreement (hereinafter in this §19 referred to as “Notice”), but specifically excluding to the maximum extent permitted by law any notices of the institution or commencement of foreclosure proceedings, must be in writing and shall be deemed to have been properly given or served by personal delivery or by sending same by overnight courier or by depositing same in the United States Mail, postpaid and registered or certified, return receipt requested, or by sending same by facsimile with receipt by the party giving the Notice of an acknowledgment generated by the machine from which the facsimile was sent indicating that the facsimile was sent in its entirety to the addressee’s facsimile number, in each case addressed as follows:

If to the Agent or any Lender, at the address set forth on the signature page for the Agent or such Lender; and

If to the Borrowers:

The Woodlands Commercial Properties Company, L.P.
The Woodlands Land Development Company, L.P.
c/o The Woodlands Operating Company, L.P.
24 Waterway Avenue, Suite 1100
The Woodlands, Texas 77380
Attn: President
Facsimile: (281) 719-7388

With a copy to:

The Woodlands Commercial Properties Company, L.P.
The Woodlands Land Development Company, L.P.
c/o The Woodlands Operating Company, L.P.
24 Waterway Avenue, Suite 1100
The Woodlands, Texas 77380
Attn: Chief Financial Officer
Facsimile: (281) 719-7331

and to:

The Morgan Stanley Real Estate Fund II, L.P.
US RE Investing Division
555 California Street, Suite 2200
San Francisco, California 94104
Attn: Randy Koss
Facsimile: (415) 576-2673

and to:

The Howard Hughes Corporation
13355 Noel Road, Suite 950
Dallas, Texas 75240
Attn: President
Facsimile: (214) 741-3021

and to:

The Howard Hughes Corporation
13355 Noel Road, Suite 950
Dallas, Texas 75240
Attn: General Counsel
Facsimile: (214) 741-3021

and to each other Lender which may hereafter become a party to this Agreement at such address as may be designated by such Lender. Each Notice shall be effective upon being personally delivered or upon being sent by overnight courier or upon being deposited in the United States Mail as aforesaid, or if transmitted by facsimile, upon being sent and confirmation of receipt. The time period in which a response to such Notice must be given or any action taken with

respect thereto (if any), however, shall commence to run from the date of receipt if personally delivered or sent by overnight courier or facsimile (or if sent by facsimile, next Business Day if received after 5:00 p.m. (Atlanta time) or on a day that is not a Business Day), or if so deposited in the United States Mail, the earlier of three (3) Business Days following such deposit or the date of receipt as disclosed on the return receipt. Rejection or other refusal to accept or the inability to deliver because of changed address for which no notice was given shall be deemed to be receipt of the Notice sent. By giving at least fifteen (15) days prior Notice thereof, a Borrower, a Lender or Agent shall have the right from time to time and at any time during the term of this Agreement to change their respective addresses and each shall have the right to specify as its address any other address within the United States of America.

§20. RELATIONSHIP

Neither the Agent nor any Lender has any fiduciary relationship with or fiduciary duty to any of the Borrowers arising out of or in connection with the Agreement or the other Loan Documents or the transactions contemplated hereunder and thereunder, and the relationship between each Lender and each Borrower is solely that of a lender and borrower, and nothing contained herein or in any of the other Loan Documents shall in any manner be construed as making the parties hereto partners, joint venturers or any other relationship other than lender and borrower.

§21. GOVERNING LAW; CONSENT TO JURISDICTION AND SERVICE

THIS AGREEMENT AND EACH OF THE OTHER LOAN DOCUMENTS EXCEPT AS OTHERWISE SPECIFICALLY PROVIDED THEREIN, ARE CONTRACTS UNDER THE LAWS OF THE STATE OF TEXAS AND SHALL FOR ALL PURPOSES BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF SUCH STATE (EXCLUDING THE LAWS APPLICABLE TO CONFLICTS OR CHOICE OF LAW). THE BORROWERS AGREE THAT ANY SUIT FOR THE ENFORCEMENT OF THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS MAY BE BROUGHT IN THE COURTS OF THE STATE OF TEXAS OR ANY FEDERAL COURT SITTING THEREIN AND CONSENTS TO THE NONEXCLUSIVE JURISDICTION OF SUCH COURT AND THE SERVICE OF PROCESS IN ANY SUCH SUIT BEING MADE UPON THE BORROWERS BY MAIL AT THE ADDRESS SPECIFIED IN §19. THE BORROWERS HEREBY WAIVE ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH SUIT OR ANY SUCH COURT OR THAT SUCH SUIT IS BROUGHT IN AN INCONVENIENT COURT.

§22. HEADINGS

The captions in this Agreement are for convenience of reference only and shall not define or limit the provisions hereof.

§23. COUNTERPARTS

This Agreement and any amendment hereof may be executed in several counterparts and by each party on a separate counterpart, each of which when so executed and delivered shall be

an original, and all of which together shall constitute one instrument. In proving this Agreement it shall not be necessary to produce or account for more than one such counterpart signed by the party against whom enforcement is sought.

§24. ENTIRE AGREEMENT, ETC.

The Loan Documents and any other documents executed in connection herewith or therewith express the entire understanding of the parties with respect to the transactions contemplated hereby. Neither this Agreement nor any term hereof may be changed, waived, discharged or terminated, except as provided in §27.

§25. WAIVER OF JURY TRIAL AND CERTAIN DAMAGE CLAIMS

EACH OF THE BORROWERS, THE AGENT AND THE LENDERS HEREBY WAIVES ITS RIGHT TO A JURY TRIAL WITH RESPECT TO ANY ACTION OR CLAIM ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS AGREEMENT, ANY NOTE OR ANY OF THE OTHER LOAN DOCUMENTS, ANY RIGHTS OR OBLIGATIONS HEREUNDER OR THEREUNDER OR THE PERFORMANCE OF SUCH RIGHTS AND OBLIGATIONS. EXCEPT TO THE EXTENT EXPRESSLY PROHIBITED BY LAW, EACH OF THE BORROWERS HEREBY WAIVES ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY SUCH LITIGATION ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES OR ANY DAMAGES OTHER THAN, OR IN ADDITION TO, ACTUAL DAMAGES. EACH OF THE BORROWERS (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY LENDER OR THE AGENT HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH LENDER OR THE AGENT WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVERS AND (B) ACKNOWLEDGES THAT THE AGENT AND THE LENDERS HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS TO WHICH THEY ARE PARTIES BY, AMONG OTHER THINGS, THE WAIVERS AND CERTIFICATIONS CONTAINED IN THIS §25.

§26. DEALINGS WITH THE BORROWERS

The Agent, the Lenders and their affiliates may accept deposits from, extend credit to, invest in, act as trustee under indentures of, serve as financial advisor of, and generally engage in any kind of banking, trust or other business with the each Borrower, their respective Restricted Subsidiaries or Unrestricted Subsidiaries or any of their affiliates regardless of the capacity of the Agent or the Lender hereunder. The Lenders acknowledge that, pursuant to such activities, KeyBank or its Affiliates may receive information regarding such Persons (including information that may be subject to confidentiality obligations in favor of such Person) and acknowledge that the Agent shall be under no obligation to provide such information to the Lenders.

§27. CONSENTS, AMENDMENTS, WAIVERS, ETC.

Except as otherwise expressly provided in this Agreement, any consent or approval required or permitted by this Agreement may be given, and any term of this Agreement or of any other instrument related hereto or mentioned herein may be amended, and the performance or observance by the Borrowers of any terms of this Agreement or such other instrument or the continuance of any Default or Event of Default may be waived (either generally or in a particular instance and either retroactively or prospectively) with, but only with, the written consent of the Majority Lenders. Notwithstanding the foregoing, none of the following may occur without the written consent of the Super-Majority Lenders: a modification or waiver of any of the covenants set forth in §8.7, §9.1, §9.2, §9.3, §9.4, §9.5 or with respect to the Borrowing Base (including any definitions relating to such provisions). Notwithstanding the foregoing, none of the following may occur without the written consent of each Lender directly affected thereby: a decrease in the rate of interest on any Loan (but excluding interest at the default rate); an increase in the amount of the Commitments of the Lenders; a reduction or waiver of the principal of any unpaid Loan or any interest thereon; a change in the amount of any fee payable to a Lender hereunder; any extension, postponement or waiver of the date on which any fees are payable to a Lender hereunder; except as provided in §4.15 an extension of the Maturity Date; the release of the Borrowers or the Guarantor which has executed any of the Loan Documents or any of the Collateral except as otherwise provided herein; any modification to require a Lender to fund a pro rata share of a request for an advance of the Loans made by the Borrowers other than based on its Commitment Percentage; a change to this §27; any postponement of any date fixed for any payment of principal of or interest on the Loan; any change in the manner of distribution of any payments to the Lenders or Agent; or an amendment of the definition of Majority Lenders or Super-Majority Lenders or of any requirement for consent by all of the Lenders. The amount of the Agent's fee payable for the Agent's account and the provisions of §14 may not be amended without the written consent of the Agent. The provisions of §14 may not be amended nor any change made in the amount of any fee payable to the Agent without the written consent of the Agent. The Borrowers agree to enter into such modifications or amendments of this Agreement or the other Loan Documents as reasonably may be requested by KeyBank in connection with the assignment of Commitments provided that no such amendment or modification materially affects or increases any of the obligations of the Borrowers hereunder. No waiver shall extend to or affect any obligation not expressly waived or impair any right consequent thereon. No course of dealing or delay or omission on the part of the Agent or any Lender in exercising any right shall operate as a waiver thereof or otherwise be prejudicial thereto. No notice to or demand upon the Borrowers shall entitle the Borrowers to other or further notice or demand in similar or other circumstances.

§28. SEVERABILITY

The provisions of this Agreement are severable, and if any one clause or provision hereof shall be held invalid or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such clause or provision, or part thereof, in such jurisdiction, and shall not in any manner affect such clause or provision in any other jurisdiction, or any other clause or provision of this Agreement in any jurisdiction.

§29. [INTENTIONALLY OMITTED.]

§30. REPLACEMENT OF NOTES

Upon receipt of evidence reasonably satisfactory to a Borrower of the loss, theft, destruction or mutilation of any Note, and in the case of any such loss, theft or destruction, upon delivery of an indemnity agreement reasonably satisfactory to such Borrower or, in the case of any such mutilation, upon surrender and cancellation of the applicable Note, such Borrower will execute and deliver, in lieu thereof, a replacement Note, identical in form and substance to the applicable Note and dated as of the date of the applicable Note and upon such execution and delivery all references in the Loan Documents to such Note shall be deemed to refer to such replacement Note.

§31. TIME OF THE ESSENCE

Time is of the essence with respect to each and every covenant, agreement and obligation of the Borrowers under this Agreement and the other Loan Documents.

§32. NONRECOURSE OBLIGATIONS

Anything contained in this Agreement or the other Loan Documents to the contrary notwithstanding (except as provided below), Agent's and the Lenders' recourse against Borrowers for the payment and performance of all of the Obligations of Borrowers under this Agreement or the other Loan Documents shall be limited solely to the interest of Borrowers in the Collateral and all of the other assets, whether now owned or hereafter acquired, of any of the Borrowers, and no partner of any of the Borrowers shall be personally liable for the performance of any of the Obligations; provided, however, that (a) the foregoing limitation on the personal liability of the General Partners described above shall not impair the validity of any lien, pledge, security interest or other encumbrance created by the Loan Documents, or the right of Agent to foreclose and/or enforce any of its rights or remedies against a Guarantor, in and to the Collateral or any other assets of any Borrower or a Guarantor upon the occurrence of an Event of Default as provided in this Agreement or the other Loan Documents or be deemed to be a release or impairment of the Obligations, and (b) the foregoing limitation shall not limit Agent and Lenders, in the case of actual fraud, misapplication or misappropriation of insurance proceeds, condemnation proceeds, tenant security deposits, rents, issues, profits, accounts, revenues, payments and any other funds which are not applied in accordance with the terms of the Loan Documents, or intentional misrepresentation committed against, or made to, the Agent or any Lender by any of the Borrowers, any of their respective Restricted Subsidiaries, any Guarantor or any of its members, partners, officers, agents, employees or other person authorized or apparently authorized to make statements or representations on behalf of such Person, from instituting any proceeding or making any claim they may otherwise have against Borrowers, but not against any direct or indirect owner of Borrowers, in respect thereof. Nothing herein shall be deemed to be a waiver of any right which Agent may have under Section 506(a), 506(b), 1111(b) or any other provision of the Bankruptcy Code or any successor thereto or similar provisions under applicable state law to file a claim for the full amount of the Obligations or to require that all the Collateral shall continue to secure all of the Obligations in accordance with this Agreement and the other Loan Documents. Nothing herein shall relieve, reduce or impair any obligation of Guarantors under the Guaranty.

§33. JOINT AND SEVERAL LIABILITY

Each of the Borrowers covenants and agrees that each and every covenant and obligation of any Borrower hereunder and under the other Loan Documents shall be the joint and several obligations of each Borrower.

§34. ADDITIONAL AGREEMENTS CONCERNING OBLIGATIONS OF BORROWERS

§34.1 Waiver of Automatic or Supplemental Stay. Each of the Borrowers represents, warrants and covenants to the Lenders and Agent that in the event of the filing of any voluntary or involuntary petition in bankruptcy by or against the other of the Borrowers at any time following the execution and delivery of this Agreement, neither of the Borrowers shall seek a supplemental stay or any other relief, whether injunctive or otherwise, pursuant to Section 105 of the Bankruptcy Code or any other provision of the Bankruptcy Code, to stay, interdict, condition, reduce or inhibit the ability of the Lenders or Agent to enforce any rights it has by virtue of this Agreement, the Loan Documents, or at law or in equity, or any other rights the Lenders or Agent has, whether now or hereafter acquired, against the other Borrower or against any property owned by such other Borrower.

§34.2 Consideration. The Borrowers hereby represent and warrant to the Lenders and Agent that each of them has received good and valuable consideration for the division of the assets described in the Division Agreement, and the Borrowers hereby acknowledge the adequacy and sufficiency of such consideration.

§34.3 Waiver of Defenses. Each of the Borrowers hereby waives and agrees not to assert or take advantage of any defense based upon: (a) any incapacity, lack of authority, death or disability of the other Borrower or any other Person; (b) any failure of the Lenders or Agent to commence an action against the other Borrower or any other Person or to file or enforce a claim against the estate (either in administration, bankruptcy, or any other proceeding) of the other Borrower or any other Person, whether or not demand is made upon the Lenders or Agent to file or enforce such claim; (c) any failure of the Lenders or Agent to give notice of the existence, creation or incurring of any new or additional indebtedness or other obligation or of any action or nonaction on the part of any other Person in connection with the Loan Documents, including the waiver of any conditions to the making of any advance of proceeds of any Loan; (d) any failure on the part of the Lenders or Agent to ascertain the extent or nature of the Collateral or any insurance or other rights with respect thereto, or the liability of any party liable for the Loan Documents or the obligations evidenced or secured thereby, or any failure on the part of the Lenders or Agent to disclose to the Borrowers any facts any of them may now or hereafter know regarding the Borrowers, the Collateral, or such other parties; (e) except as specifically required in the Loan Documents, any notice of intention to accelerate any of the Obligations or any notice of acceleration of the Obligations; (f) any lack of acceptance or notice of acceptance of this Agreement by Lenders or Agent; (g) except as specifically required in the Loan Documents, any lack of presentment, demand, protest, or notice of demand, protest or nonpayment with respect to

any indebtedness or obligations under any of the Loan Documents; (h) any lack of notice of disposition or of manner of disposition of any Collateral; (i) except as specifically required in the Loan Documents, any lack of other notices to which the Borrowers, or either of them, might otherwise be entitled; (j) failure to properly record any document or any other lack of due diligence by the Lenders or Agent in creating or perfecting a security interest in or collection, protection or realization upon any Collateral or in obtaining reimbursement or performance from any person or entity now or hereafter liable for the Loan Documents or any obligation secured thereby; (k) any invalidity or irregularity, in whole or in part, of any one or more of the Loan Documents; (l) the inaccuracy of any representation or other provision contained in any Loan Document; (m) any sale or assignment of the Loan Documents, in whole or in part; (n) any sale or assignment by any of the Borrowers of the Collateral, or any portion thereof, whether or not consented to by the Lenders or Agent; and (o) any lack of commercial reasonableness in dealing with any of the Collateral now or hereafter owned by the other of the Borrowers.

§34.4 Waiver. Each of the Borrowers waives, to the fullest extent that each may lawfully so do, the benefit of all appraisal, valuation, stay, extension, homestead, exemption and redemption laws which such Person may claim or seek to take advantage of in order to prevent or hinder the enforcement of any of the Loan Documents or the exercise by Lenders or Agent of any of their respective remedies under the Loan Documents and, to the fullest extent that the Borrowers may lawfully so do, such Person waives any and all right to have the assets comprised in the security intended to be created by the Security Documents (including, without limitation, those assets owned by the other of the Borrowers) marshaled upon any foreclosure of the lien created by such Security Documents. Each of the Borrowers further agrees that the Lenders and Agent shall be entitled to exercise their respective rights and remedies under the Loan Documents or at law or in equity in such order as they may elect. Without limiting the foregoing, each of the Borrowers further agrees that upon the occurrence of an Event of Default, the Lenders and Agent may exercise any of such rights and remedies without notice to either of the Borrowers except as required by law or the Loan Documents and agrees that neither the Lenders nor Agent shall be required to proceed against the other of the Borrowers or any other person or to proceed against or to exhaust any other security held by the Lenders or Agent at any time or to pursue any other remedy in Lender's or Agent's power or under any of the Loan Documents before proceeding against a Borrower or its assets under the Loan Documents.

§34.5 Subordination. Each of the Borrowers hereby expressly waives any right of contribution from or indemnity against the other, whether at law or in equity, arising from any payments made by such Person pursuant to the terms of this Agreement or the Loan Documents, and each of the Borrowers acknowledges that it has no right whatsoever to proceed against the other for reimbursement of any such payments. In connection with the foregoing, each of the Borrowers expressly waives any and all rights of subrogation to the Lenders or Agent against the other of the Borrowers, and each of the Borrowers hereby waives any rights to enforce any remedy which the Lenders or Agent may have against the other of the Borrowers and any rights to participate in any Collateral or any other assets of the other Borrower. Notwithstanding the foregoing, the Borrowers shall be entitled to the rights and benefits set forth in the Contribution Agreement and the Funding Agreement. In addition to and without in any way limiting the foregoing, each of the Borrowers hereby subordinates any and all indebtedness it may now or hereafter owe to such other Borrower to all indebtedness of the Borrowers to the Lenders and Agent, and agrees with the Lenders and Agent that neither of the Borrowers shall claim any

offset or other reduction of such Borrower's obligations hereunder because of any such indebtedness and shall not take any action to obtain any of the Collateral or any other assets of the other Borrower.

§35. RIGHTS OF THIRD PARTIES

This Agreement and the other Loan Documents are made and entered into for the sole protection and legal benefit of the Borrowers, the Lenders, the Agent and the holders of the Hedge Obligations, and their permitted successors and assigns, and no other Person shall be a direct or indirect legal beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any of the other Loan Documents. All conditions to the performance of the obligations of the Agent and the Lenders under this Agreement, including the obligation to make Loans, are imposed solely and exclusively for the benefit of the Agent and the Lenders and no other Person shall have standing to require satisfaction of such conditions in accordance with their terms or be entitled to assume that the Agent and the Lenders will refuse to make Loans 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 and all of which may be freely waived in whole or in part by the Agent and the Lenders at any time if in their sole discretion they deem it desirable to do so. In particular, the Agent and the Lenders make no representations and assume no obligations as to third parties concerning the quality of the construction by the Borrowers or any of their Restricted Subsidiaries or Unrestricted Subsidiaries, as applicable, of the Vertical Commercial Improvements or other development or the absence therefrom of defects.

§36. PATRIOT ACT

Each Lender and the Agent (for itself and not on behalf of any Lender) hereby notifies the Borrowers and Guarantors that, pursuant to the requirements of the Patriot Act, it is required to obtain, verify and record information that identifies each Borrower, which information includes names and addresses and other information that will allow such Lender or the Agent, as applicable, to identify each Borrower in accordance with the Patriot Act.

[REMAINDER OF PAGE LEFT BLANK]

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement as a sealed instrument the date first set forth above.

BORROWERS:

**THE WOODLANDS COMMERCIAL
PROPERTIES COMPANY, L.P.**, a Texas limited partnership

By: The Woodlands Operating Company, L.P., a Texas limited
partnership, its Authorized Agent

By: /s/ G. Randy Davis
Name: G. Randy Davis
Title: Chief Financial Officer

**THE WOODLANDS LAND DEVELOPMENT COMPANY,
L.P.**, a Texas limited partnership

By: The Woodlands Operating Company, L.P., a Texas limited
partnership, its Authorized Agent

By: /s/ G. Randy Davis
Name: G. Randy Davis
Title: Chief Financial Officer

KEYBANK NATIONAL ASSOCIATION,
individually and as Agent

By: /s/ Eric Hafertepen
Its: Vice President

KeyBank National Association
1200 Abernathy Road, N.E.
Suite 1550
Atlanta, Georgia 30328
Attn: Dan Silbert
Facsimile: 770-510-2195

and

KeyBank National Association
1200 Abernathy Road, N.E.
Suite 1550
Atlanta, Georgia 30328
Attn: Oved Amram
Facsimile: 770-510-2195

COMPASS BANK, individually and as Syndication
Agent

By: /s/ Todd M. Fuller

Name: Todd Fuller

Title: Senior Vice President

Compass Bank
8333 Douglas Avenue
Suite 505
Dallas, Texas 75225
Attn: Todd Fuller
Facsimile: (713) 993-8524

By: /s/ Laurie Funk

Name: Laurie Funk

Title: Credit Banker

JPMorgan Chase Bank, N.A.
707 Travis, 6N
Houston, Texas 77002
Attn: Laurie Funk
Facsimile: (713) 216-2391

ATLAS VENTURE I, LLC

By: /s/ Paul E. Rowsey, III

Name: Paul E. Rowsey, III

Title: President

Atlas Venture I, LLC
3401 Armstrong Avenue
Dallas, Texas 75205
Attn: Sarah Hipp
Facsimile: (214) 443-1911

AMEGY MORTGAGE COMPANY, L.L.C., a Texas limited liability company

By: /s/ Don Hickey

Name: Don Hickey

Title: Senior Vice President

Amegy Mortgage Company, L.L.C.
4576 Research Forest Drive
The Woodlands, Texas 77381
Attn: Don Hickey
Facsimile: (713) 571-5083

By: /s/ Elaine A. Opper

Name: Elaine A. Opper

Title: Executive Vice President

Texas Capital Bank, N.A.
One Riverway
Suite 2100
Houston, Texas 77019
Attn: Angie Hill
Facsimile: (832) 308-7042

WOODFOREST NATIONAL BANK

By: /s/ Dan E. Hauser

Name: Dan E. Hauser

Title: Regional President

Woodforest National Bank
1330 Lake Robbins Drive
Suite 100
The Woodlands, Texas 77380
Attn: Scott Bilinski
Facsimile: (832) 375-3396

CAPITAL ONE, N.A.

By: /s/ Jason Reeves

Name: Jason Reeves

Title: Vice President

Capital One, N.A.
5718 Westheimer
Suite 600
Houston, Texas 77057
Attn: Ryan Matthews
Facsimile: (713) 435-5117

By: /s/ Luis Donoso

Name: Luis Donoso

Title: Vice President

PNC Bank, National Association
Two Tower Center
18th Floor
E. Brunswick, New Jersey 08816
Attn: Luis Donoso
Facsimile: (732) 220-3744

GREEN BANK, N.A.

By: /s/ J. Cory LeBouf

Name: J. Cory LeBouf

Title: Senior Vice President

Green Bank, N.A.
4000 Greenbriar
Suite 200
Houston, Texas 77098
Attn: J. Cory LeBouf
Facsimile: (713) 275-8259

TRUSTMARK NATIONAL BANK

By: /s/ Amy Walp

Name: Amy Walp

Title: Loan Officer

Trustmark National Bank
10497 Town & Country Way
Suite 860
Houston, Texas 77024
Attn: Amy Walp
Facsimile: (713) 365-0890

THE WRITTEN LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

BORROWERS:

THE WOODLANDS COMMERCIAL PROPERTIES COMPANY, L.P., a Texas limited partnership

By: The Woodlands Operating Company, L.P., a Texas limited partnership, its Authorized Agent

By: /s/ G. Randy Davis
Name: G. Randy Davis
Title: Chief Financial Officer

THE WOODLANDS LAND DEVELOPMENT COMPANY, L.P., a Texas limited partnership

By: The Woodlands Operating Company, L.P., a Texas limited partnership, its Authorized Agent

By: /s/ G. Randy Davis
Name: G. Randy Davis
Title: Chief Financial Officer

EXHIBIT A-1

[RESERVED]

EXHIBIT A-2

FORM OF REVOLVING CREDIT NOTE

\$

, 2011

FOR VALUE RECEIVED, the undersigned THE WOODLANDS LAND DEVELOPMENT COMPANY, L.P., a Texas limited partnership, and THE WOODLANDS COMMERCIAL PROPERTIES COMPANY, L.P., a Texas limited partnership, hereby jointly and severally promise to pay to or order, in accordance with the terms of that certain Second Amended and Restated Master Credit Agreement dated March 29, 2011 (the "Credit Agreement"), as from time to time in effect, among the undersigned, KeyBank National Association, for itself and as Agent, and such other Lenders as may be from time to time named therein, to the extent not sooner paid, on or before the Maturity Date, the principal sum of _____ DOLLARS (\$ _____), or such amount as may be advanced by the payee hereof to Land Company under the Credit Agreement as Revolving Credit Loans with daily interest from the date hereof, computed as provided in the Credit Agreement, on the principal amount hereof from time to time unpaid, at a rate per annum on each portion of the principal amount which shall at all times be equal to the rate of interest applicable to such portion in accordance with the Credit Agreement, and with interest on overdue principal and, to the extent permitted by applicable law, on overdue installments of interest and late charges at the rates provided in the Credit Agreement. Interest shall be payable on the dates specified in the Credit Agreement, except that all accrued interest shall be paid at the stated or accelerated maturity hereof or upon the prepayment in full hereof. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in the Credit Agreement.

Payments hereunder shall be made to KeyBank National Association, as Agent for the payee hereof, at 127 Public Square, Cleveland, Ohio 44114-1306 or at such other address as Agent may designate.

This Note is one of one or more Revolving Credit Notes evidencing borrowings by Land Company under and is entitled to the benefits and subject to the provisions of the Credit Agreement. The principal of this Note may be due and payable in whole or in part prior to the maturity date stated above and is subject to mandatory prepayment in the amounts and under the circumstances set forth in the Credit Agreement, and may be prepaid in whole or from time to time in part, all as set forth in the Credit Agreement.

Notwithstanding anything in this Note or the other Loan Documents to the contrary, it is the intent of the Agent, the Lenders and the Borrowers to conform to and contract in strict compliance with all applicable usury laws from time to time in effect. All agreements (including the Loan Documents) between Agent, the Lenders and the Borrowers (or any other party liable with respect to any indebtedness under the Loan Documents) are hereby limited by the provisions of this Section which shall override and control all such agreements, whether now existing or hereafter arising and whether written or oral. In no way, nor in any event or contingency (including but not limited to prepayment, default, demand for payment, or acceleration of the maturity of any obligation), shall the interest taken, reserved, contracted for, charged or received under this Note, any other Loan Document, or otherwise, exceed the

maximum nonusurious amount permissible under applicable law. If, from any possible construction of this Note, any other Loan Document, or any other document, interest would otherwise be taken, reserved, contracted for, charged or payable in excess of the maximum nonusurious amount, any such construction shall be subject to the provisions of this Section and this Note, such other Loan Document, and such other document shall be automatically reformed and the interest taken, reserved, contracted for, charged or payable shall be automatically reduced to the maximum nonusurious amount permitted under applicable law, without the necessity of execution of any amendment or new document. If any Lender shall ever receive anything of value which is interest or characterized as interest under applicable law and which would apart from this provision be in excess of the maximum lawful nonusurious amount, an amount equal to the amount which would have been excessive interest shall, without penalty, be applied to the reduction of the principal amount owing on the Loans to it (in inverse order of maturity) and not to the payment of interest, or refunded to the Borrowers if and to the extent such amount which would have been excessive exceeds such unpaid principal. The right to accelerate maturity of the Loans and the other Obligations does not include the right to accelerate any interest which has not otherwise accrued on the date of such acceleration, and the Agent and the Lenders do not intend to charge or receive any unearned interest in the event of acceleration. All interest paid or agreed to be paid to the Lenders on the Loans shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full stated term (including any renewal or extension) of the Loans so that the amount of interest on account of the Loans does not exceed the maximum nonusurious amount permitted by applicable law. As used in this Section, the term "applicable law" shall mean such laws as they now exist or may be changed or amended or come into effect in the future. As used in this Section, the term "interest" includes all amounts that constitute, are deemed, or are characterized as interest under applicable law.

If at any time the interest rate (the "Stated Rate") called for under this Note or any other Loan Document exceeds or would exceed the Highest Lawful Rate, the rate at which interest shall accrue hereunder or thereunder shall automatically be limited to the Highest Lawful Rate, and shall remain at the Highest Lawful Rate until the total amount of interest accrued equals the total amount of interest which would have accrued but for the operation of this sentence. Thereafter, interest shall accrue at the Stated Rate unless and until the Stated Rate would again exceed the Highest Lawful Rate, in which case the immediately preceding sentence shall apply.

Borrowers hereby agree that as a condition precedent to any claim seeking usury penalties against a Lender, Borrowers will provide written notice to Agent, advising Agent in reasonable detail of the nature and amount of the violation, and such Lender shall have sixty (60) days after receipt of such notice in which to correct such usury violation, if any, by either refunding such excess interest to Borrowers or crediting such excess interest against the Loans and/or any other indebtedness then owing by Borrowers to such Lender. To the extent that Lenders are relying on Chapter 303, as amended, of the Texas Finance Code to determine the Highest Lawful Rate, Lenders will utilize the weekly rate ceiling from time to time in effect as provided in such Chapter 303, as amended. To the extent United States federal law permits a greater amount of interest than is permitted under Texas law, Lenders will rely on United States federal law instead of such Chapter 303, as amended, for the purpose of determining the Highest Lawful Rate. Additionally, to the extent permitted by applicable law now or hereafter in effect, Lenders may, at Lenders' option and from time to time, implement any other method of

computing the maximum lawful rate under such Chapter 303, as amended, or under other applicable law by giving notice, if required, to Borrowers as provided by applicable law now or hereafter in effect. These provisions will control all agreements between Borrowers, Agents and Lenders.

The undersigned and Lenders expressly agree that in no event shall the provisions of Chapter 346 of the Texas Finance Code (which regulates certain revolving credit loan accounts and revolving triparty accounts) apply to this Note or to any advance made pursuant to the terms of this Note.

In case an Event of Default shall occur, the entire principal amount of this Note may become or be declared due and payable in the manner and with the effect provided in said Credit Agreement.

This Note shall be governed by and construed in accordance with the laws of the State of Texas (without giving effect to the conflict of laws rules of any jurisdiction).

The undersigned maker and all guarantors and endorers, hereby waive presentment, demand, notice, protest, notice of intention to accelerate the indebtedness evidenced hereby, notice of acceleration of the indebtedness evidenced hereby and all other demands and notices in connection with the delivery, acceptance, performance and enforcement of this Note, except as specifically otherwise provided in the Credit Agreement, and assent to extensions of time of payment or forbearance or other indulgence without notice.

This Note, together with the other Revolving Credit Notes executed pursuant to the Credit Agreement contemporaneously with the execution hereof, are executed in amendment and restatement of the "Revolving Credit Notes" under the Original Credit Agreement.

IN WITNESS WHEREOF the undersigned have by their duly authorized officers, executed this Note under seal as of the day and year first above written.

**THE WOODLANDS COMMERCIAL
PROPERTIES COMPANY, L.P.**, a Texas limited partnership

By: The Woodlands Operating Company, L.P., a Texas limited partnership, its Authorized Agent

By: _____
Name: G. Randy Davis
Title: Chief Financial Officer

[CONTINUED ON NEXT PAGE]

**THE WOODLANDS LAND DEVELOPMENT COMPANY,
L.P.**, a Texas limited partnership

By: The Woodlands Operating Company, L.P., a Texas limited partnership, its Authorized Agent

By: _____
Name: G. Randy Davis
Title: Chief Financial Officer

EXHIBIT B-1

FORM OF COMMERCIAL COMPANY SECURED TERM LOAN NOTE

\$

, 2011

FOR VALUE RECEIVED, the undersigned THE WOODLANDS COMMERCIAL PROPERTIES COMPANY, L.P., a Texas limited partnership, and THE WOODLANDS LAND DEVELOPMENT COMPANY, L.P., a Texas limited partnership, hereby jointly and severally promise to pay to _____ or _____ order, in accordance with the terms of that certain Second Amended and Restated Master Credit Agreement dated March 29, 2011 (the "Credit Agreement"), as from time to time in effect, among the undersigned, KeyBank National Association, for itself and as Agent, and such other Lenders as may be from time to time named therein, to the extent not sooner paid, on or before the Maturity Date, the principal sum of _____ DOLLARS (\$ _____), with daily interest from the date hereof, computed as provided in the Credit Agreement, on the principal amount hereof from time to time unpaid, at a rate per annum on each portion of the principal amount which shall at all times be equal to the rate of interest applicable to such portion in accordance with the Credit Agreement, and with interest on overdue principal and, to the extent permitted by applicable law, on overdue installments of interest and late charges at the rates provided in the Credit Agreement. Interest shall be payable on the dates specified in the Credit Agreement, except that all accrued interest shall be paid at the stated or accelerated maturity hereof or upon the prepayment in full hereof. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in the Credit Agreement.

Payments hereunder shall be made to KeyBank National Association, as Agent for the payee hereof, at 127 Public Square, Cleveland, Ohio 44114-1306 or at such other address as Agent may designate.

This Note is one of one or more Commercial Company Secured Term Loan Notes evidencing borrowings by Commercial Company under and is entitled to the benefits and subject to the provisions of the Credit Agreement. The principal of this Note may be due and payable in whole or in part prior to the maturity date stated above and is subject to mandatory prepayment in the amounts and under the circumstances set forth in the Credit Agreement, and may be prepaid in whole or from time to time in part, all as set forth in the Credit Agreement.

Notwithstanding anything in this Note or the other Loan Documents to the contrary, it is the intent of the Agent, the Lenders and the Borrowers to conform to and contract in strict compliance with all applicable usury laws from time to time in effect. All agreements (including the Loan Documents) between Agent, the Lenders and the Borrowers (or any other party liable with respect to any indebtedness under the Loan Documents) are hereby limited by the provisions of this Section which shall override and control all such agreements, whether now existing or hereafter arising and whether written or oral. In no way, nor in any event or contingency (including but not limited to prepayment, default, demand for payment, or acceleration of the maturity of any obligation), shall the interest taken, reserved, contracted for, charged or received under this Note, any other Loan Document, or otherwise, exceed the maximum nonusurious amount permissible under applicable law. If, from any possible

construction of this Note, any other Loan Document, or any other document, interest would otherwise be taken, reserved, contracted for, charged or payable in excess of the maximum nonusurious amount, any such construction shall be subject to the provisions of this Section and this Note, such other Loan Document, and such other document shall be automatically reformed and the interest taken, reserved, contracted for, charged or payable shall be automatically reduced to the maximum nonusurious amount permitted under applicable law, without the necessity of execution of any amendment or new document. If any Lender shall ever receive anything of value which is interest or characterized as interest under applicable law and which would apart from this provision be in excess of the maximum lawful nonusurious amount, an amount equal to the amount which would have been excessive interest shall, without penalty, be applied to the reduction of the principal amount owing on the Loans to it (in inverse order of maturity) and not to the payment of interest, or refunded to the Borrowers if and to the extent such amount which would have been excessive exceeds such unpaid principal. The right to accelerate maturity of the Loans and the other Obligations does not include the right to accelerate any interest which has not otherwise accrued on the date of such acceleration, and the Agent and the Lenders do not intend to charge or receive any unearned interest in the event of acceleration. All interest paid or agreed to be paid to the Lenders on the Loans shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full stated term (including any renewal or extension) of the Loans so that the amount of interest on account of the Loans does not exceed the maximum nonusurious amount permitted by applicable law. As used in this Section, the term "applicable law" shall mean such laws as they now exist or may be changed or amended or come into effect in the future. As used in this Section, the term "interest" includes all amounts that constitute, are deemed, or are characterized as interest under applicable law.

If at any time the interest rate (the "Stated Rate") called for under this Note or any other Loan Document exceeds or would exceed the Highest Lawful Rate, the rate at which interest shall accrue hereunder or thereunder shall automatically be limited to the Highest Lawful Rate, and shall remain at the Highest Lawful Rate until the total amount of interest accrued equals the total amount of interest which would have accrued but for the operation of this sentence. Thereafter, interest shall accrue at the Stated Rate unless and until the Stated Rate would again exceed the Highest Lawful Rate, in which case the immediately preceding sentence shall apply.

Borrowers hereby agree that as a condition precedent to any claim seeking usury penalties against a Lender, Borrowers will provide written notice to Agent, advising Agent in reasonable detail of the nature and amount of the violation, and such Lender shall have sixty (60) days after receipt of such notice in which to correct such usury violation, if any, by either refunding such excess interest to Borrowers or crediting such excess interest against the Loans and/or any other indebtedness then owing by Borrowers to such Lender. To the extent that Lenders are relying on Chapter 303, as amended, of the Texas Finance Code to determine the Highest Lawful Rate, Lenders will utilize the weekly rate ceiling from time to time in effect as provided in such Chapter 303, as amended. To the extent United States federal law permits a greater amount of interest than is permitted under Texas law, Lenders will rely on United States federal law instead of such Chapter 303, as amended, for the purpose of determining the Highest Lawful Rate. Additionally, to the extent permitted by applicable law now or hereafter in effect, Lenders may, at Lenders' option and from time to time, implement any other method of computing the maximum lawful rate under such Chapter 303, as amended, or under other

applicable law by giving notice, if required, to Borrowers as provided by applicable law now or hereafter in effect. These provisions will control all agreements between Borrowers, Agents and Lenders.

In case an Event of Default shall occur, the entire principal amount of this Note may become or be declared due and payable in the manner and with the effect provided in said Credit Agreement.

This Note shall be governed by and construed in accordance with the laws of the State of Texas (without giving effect to the conflict of laws rules of any jurisdiction).

The undersigned maker and all guarantors and endorsers, hereby waive presentment, demand, notice, protest, notice of intention to accelerate the indebtedness evidenced hereby, notice of acceleration of the indebtedness evidenced hereby and all other demands and notices in connection with the delivery, acceptance, performance and enforcement of this Note, except as specifically otherwise provided in the Credit Agreement, and assent to extensions of time of payment or forbearance or other indulgence without notice.

This Note, together with the other Commercial Company Secured Term Loan Notes executed pursuant to the Credit Agreement contemporaneously with the execution hereof, are executed in amendment and restatement of the "Commercial Company Secured Term Loan Notes" under the Original Credit Agreement.

IN WITNESS WHEREOF the undersigned has by its duly authorized officers, executed this Note under seal as of the day and year first above written.

**THE WOODLANDS COMMERCIAL
PROPERTIES COMPANY, L.P.**, a Texas limited partnership

By: The Woodlands Operating Company, L.P., a Texas limited partnership, its Authorized Agent

By: _____
Name: G. Randy Davis
Title: Chief Financial Officer

[CONTINUED ON NEXT PAGE]

**THE WOODLANDS LAND DEVELOPMENT COMPANY,
L.P.**, a Texas limited partnership

By: The Woodlands Operating Company, L.P., a Texas limited partnership, its Authorized Agent

By: _____
Name: G. Randy Davis
Title: Chief Financial Officer

EXHIBIT B-2

FORM OF LAND COMPANY SECURED TERM LOAN NOTE

\$

, 2011

FOR VALUE RECEIVED, the undersigned THE WOODLANDS LAND DEVELOPMENT COMPANY, L.P., a Texas limited partnership, and THE WOODLANDS COMMERCIAL PROPERTIES COMPANY, L.P., a Texas limited partnership, hereby jointly and severally promise to pay to or order, in accordance with the terms of that certain Second Amended and Restated Master Credit Agreement dated March 29, 2011 (the "Credit Agreement"), as from time to time in effect, among the undersigned, KeyBank National Association, for itself and as Agent, and such other Lenders as may be from time to time named therein, to the extent not sooner paid, on or before the Maturity Date, the principal sum of _____ DOLLARS (\$ _____), with daily interest from the date hereof, computed as provided in the Credit Agreement, on the principal amount hereof from time to time unpaid, at a rate per annum on each portion of the principal amount which shall at all times be equal to the rate of interest applicable to such portion in accordance with the Credit Agreement, and with interest on overdue principal and, to the extent permitted by applicable law, on overdue installments of interest and late charges at the rates provided in the Credit Agreement. Interest shall be payable on the dates specified in the Credit Agreement, except that all accrued interest shall be paid at the stated or accelerated maturity hereof or upon the prepayment in full hereof. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in the Credit Agreement.

Payments hereunder shall be made to KeyBank National Association, as Agent for the payee hereof, at 127 Public Square, Cleveland, Ohio 44114-1306 or at such other address as Agent may designate.

This Note is one of one or more Land Company Secured Term Loan Notes evidencing borrowings by Land Company under and is entitled to the benefits and subject to the provisions of the Credit Agreement. The principal of this Note may be due and payable in whole or in part prior to the maturity date stated above and is subject to mandatory prepayment in the amounts and under the circumstances set forth in the Credit Agreement, and may be prepaid in whole or from time to time in part, all as set forth in the Credit Agreement.

Notwithstanding anything in this Note or the other Loan Documents to the contrary, it is the intent of the Agent, the Lenders and the Borrowers to conform to and contract in strict compliance with all applicable usury laws from time to time in effect. All agreements (including the Loan Documents) between Agent, the Lenders and the Borrowers (or any other party liable with respect to any indebtedness under the Loan Documents) are hereby limited by the provisions of this Section which shall override and control all such agreements, whether now existing or hereafter arising and whether written or oral. In no way, nor in any event or contingency (including but not limited to prepayment, default, demand for payment, or acceleration of the maturity of any obligation), shall the interest taken, reserved, contracted for, charged or received under this Note, any other Loan Document, or otherwise, exceed the maximum nonusurious amount permissible under applicable law. If, from any possible

construction of this Note, any other Loan Document, or any other document, interest would otherwise be taken, reserved, contracted for, charged or payable in excess of the maximum nonusurious amount, any such construction shall be subject to the provisions of this Section and this Note, such other Loan Document, and such other document shall be automatically reformed and the interest taken, reserved, contracted for, charged or payable shall be automatically reduced to the maximum nonusurious amount permitted under applicable law, without the necessity of execution of any amendment or new document. If any Lender shall ever receive anything of value which is interest or characterized as interest under applicable law and which would apart from this provision be in excess of the maximum lawful nonusurious amount, an amount equal to the amount which would have been excessive interest shall, without penalty, be applied to the reduction of the principal amount owing on the Loans to it (in inverse order of maturity) and not to the payment of interest, or refunded to the Borrowers if and to the extent such amount which would have been excessive exceeds such unpaid principal. The right to accelerate maturity of the Loans and the other Obligations does not include the right to accelerate any interest which has not otherwise accrued on the date of such acceleration, and the Agent and the Lenders do not intend to charge or receive any unearned interest in the event of acceleration. All interest paid or agreed to be paid to the Lenders on the Loans shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full stated term (including any renewal or extension) of the Loans so that the amount of interest on account of the Loans does not exceed the maximum nonusurious amount permitted by applicable law. As used in this Section, the term "applicable law" shall mean such laws as they now exist or may be changed or amended or come into effect in the future. As used in this Section, the term "interest" includes all amounts that constitute, are deemed, or are characterized as interest under applicable law.

If at any time the interest rate (the "Stated Rate") called for under this Note or any other Loan Document exceeds or would exceed the Highest Lawful Rate, the rate at which interest shall accrue hereunder or thereunder shall automatically be limited to the Highest Lawful Rate, and shall remain at the Highest Lawful Rate until the total amount of interest accrued equals the total amount of interest which would have accrued but for the operation of this sentence. Thereafter, interest shall accrue at the Stated Rate unless and until the Stated Rate would again exceed the Highest Lawful Rate, in which case the immediately preceding sentence shall apply.

Borrowers hereby agree that as a condition precedent to any claim seeking usury penalties against a Lender, Borrowers will provide written notice to Agent, advising Agent in reasonable detail of the nature and amount of the violation, and such Lender shall have sixty (60) days after receipt of such notice in which to correct such usury violation, if any, by either refunding such excess interest to Borrowers or crediting such excess interest against the Loans and/or any other indebtedness then owing by Borrowers to such Lender. To the extent that Lenders are relying on Chapter 303, as amended, of the Texas Finance Code to determine the Highest Lawful Rate, Lenders will utilize the weekly rate ceiling from time to time in effect as provided in such Chapter 303, as amended. To the extent United States federal law permits a greater amount of interest than is permitted under Texas law, Lenders will rely on United States federal law instead of such Chapter 303, as amended, for the purpose of determining the Highest Lawful Rate. Additionally, to the extent permitted by applicable law now or hereafter in effect, Lenders may, at Lenders' option and from time to time, implement any other method of computing the maximum lawful rate under such Chapter 303, as amended, or under other

applicable law by giving notice, if required, to Borrowers as provided by applicable law now or hereafter in effect. These provisions will control all agreements between Borrowers, Agents and Lenders.

In case an Event of Default shall occur, the entire principal amount of this Note may become or be declared due and payable in the manner and with the effect provided in said Credit Agreement.

This Note shall be governed by and construed in accordance with the laws of the State of Texas (without giving effect to the conflict of laws rules of any jurisdiction).

The undersigned maker and all guarantors and endorsers, hereby waive presentment, demand, notice, protest, notice of intention to accelerate the indebtedness evidenced hereby, notice of acceleration of the indebtedness evidenced hereby and all other demands and notices in connection with the delivery, acceptance, performance and enforcement of this Note, except as specifically otherwise provided in the Credit Agreement, and assent to extensions of time of payment or forbearance or other indulgence without notice.

This Note, together with the other Land Company Secured Term Loan Notes executed pursuant to the Credit Agreement contemporaneously with the execution hereof, are executed in amendment and restatement of the "Land Company Secured Term Loan Notes" under the Original Credit Agreement.

IN WITNESS WHEREOF the undersigned has by its duly authorized officers, executed this Note under seal as of the day and year first above written.

**THE WOODLANDS COMMERCIAL
PROPERTIES COMPANY, L.P.**, a Texas limited partnership

By: The Woodlands Operating Company, L.P., a Texas limited partnership, its Authorized Agent

By: _____
Name: G. Randy Davis
Title: Chief Financial Officer

**THE WOODLANDS LAND DEVELOPMENT COMPANY,
L.P.**, a Texas limited partnership

By: The Woodlands Operating Company, L.P., a Texas limited partnership, its Authorized Agent

By: _____
Name: G. Randy Davis
Title: Chief Financial Officer

EXHIBIT C-1

[RESERVED]

EXHIBIT C-2

FORM OF REQUEST FOR LOAN

(LAND COMPANY)

KeyBank National Association,
for itself and as Agent
1200 Abernathy Road, N.E.
Suite 1550
Atlanta, Georgia 30328
Attn: Dan Silbert
Ladies and Gentlemen:

Pursuant to the provisions of §2.6 of the Second Amended and Restated Master Credit Agreement dated March 29, 2011, as from time to time in effect (the "Credit Agreement"), among The Woodlands Commercial Properties Company, L.P. and The Woodlands Land Development Company, L.P. (individually a "Borrower" and collectively the "Borrowers"), KeyBank National Association, for itself and as Agent, and the other Lenders from time to time party thereto, the undersigned Borrower hereby requests and certifies as follows:

1. Revolving Credit Loan. The undersigned Borrower hereby requests a Revolving Credit Loan under §2.1 of the Credit Agreement:

Principal Amount: \$

Type (LIBOR Rate, Base Rate):

Interest Period:

Drawdown Date: , 20

by credit to the general account of the undersigned Borrower with the Agent at the Agent's Head Office.

2. Use of Proceeds. Such Revolving Credit Loan shall be used for the following purposes permitted by §7.11 of the Credit Agreement:

[Describe]

3. No Default. The undersigned Principal Financial Officer of the Borrower certifies that the Borrower is and will be in compliance with all covenants under the Loan Documents after giving effect to the making of the Revolving Credit Loan requested hereby. No condemnation proceedings are pending or to the Borrower's knowledge threatened against any Mortgaged Property.

4. Representations True. Each of the representations and warranties made by or on behalf of any of the Borrowers, the Guarantors and the Restricted Subsidiaries of a Borrower contained in the Credit Agreement, in the other Loan Documents or in any document or instrument delivered pursuant to or in connection with the Credit Agreement was true as of the

date as of which it was made and shall also be true at and as of the Drawdown Date for the Revolving Credit Loan requested hereby, with the same effect as if made at and as of such Drawdown Date (except to the extent of changes resulting from transactions contemplated or permitted by the Credit Agreement and the other Loan Documents and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse, and except to the extent that such representations and warranties relate expressly to an earlier date) and no Default or Event of Default has occurred and is continuing.

5. Other Conditions. All other conditions to the making of the Revolving Credit Loan requested hereby set forth in §11 of the Credit Agreement have been satisfied. (Reference title update, if applicable.)

6. Drawdown Date. Except to the extent, if any, specified by notice actually received by the Agent prior to the Drawdown Date specified above, the foregoing representations and warranties shall be deemed to have been made by the Borrowers on and as of such Drawdown Date.

7. Definitions. Terms defined in the Credit Agreement are used herein with the meanings so defined.

IN WITNESS WHEREOF, I have hereunto set my hand this day of , 20 .

**THE WOODLANDS LAND DEVELOPMENT COMPANY,
L.P.**, a Texas limited partnership

By: The Woodlands Operating Company, L.P., a Texas limited partnership, its Authorized Agent

By: _____
Name: G. Randy Davis
Title: Chief Financial Officer

EXHIBIT D

FORM OF REQUEST FOR EXTENSION OF LOANS

KeyBank National Association,
for itself and as Agent
1200 Abernathy Road, N.E.
Suite 1550
Atlanta, Georgia 30328
Attn: Dan Silbert
Ladies and Gentlemen:

Pursuant to the provisions of §4.15 of the Second Amended and Restated Master Credit Agreement dated March 29, 2011, as from time to time in effect (the "Credit Agreement"), among The Woodlands Commercial Properties Company, L.P. and The Woodlands Land Development Company, L.P. (collectively the "Borrowers"), KeyBank National Association, for itself and as Agent, and the other Lenders from time to time party thereto, the Borrowers hereby request and certify as follows:

1. Extension Request. The Borrowers hereby irrevocably request that the Maturity Date be extended to [insert date as permitted by §4.15].
2. No Default. The undersigned Principal Financial Officers of the Borrowers certify that no Default or Event of Default has occurred and is continuing.
3. Other Conditions. All other conditions to the extension to the Maturity Date requested hereby set forth in §4.15 of the Credit Agreement have been satisfied.
4. Definitions. Terms defined in the Credit Agreement are used herein with the meanings so defined.

[CONTINUED ON NEXT PAGE]

EXHIBIT E
FORM OF
COMPLIANCE CERTIFICATE

KeyBank National Association, for itself and as Agent
1200 Abernathy Road, N.E.
Suite 1550
Atlanta, Georgia 30328
Attn: Dan Silbert

Ladies and Gentlemen:

Reference is made to the Second Amended and Restated Master Credit Agreement dated March 29, 2011 (the "Credit Agreement") by and among The Woodlands Commercial Properties Company, L.P. and The Woodlands Land Development Company, L.P. (collectively the "Borrowers"), KeyBank National Association, for itself and as Agent, and the other Lenders from time to time party thereto. Terms defined in the Credit Agreement and not otherwise defined herein are used herein as defined in the Credit Agreement.

Pursuant to the Credit Agreement, the Borrowers are furnishing to you herewith (or have most recently furnished to you) the financial statements of the Borrowers and their respective subsidiaries for the fiscal period ended _____ (the "Balance Sheet Date"). Such financial statements have been prepared in accordance with generally accepted accounting principles (other than the inclusion of footnotes with respect to quarterly reports) and present fairly the financial position of the Borrowers and the subsidiaries covered thereby at the date thereof and the results of their operations for the periods covered thereby, subject in the case of interim statements only to normal year end audit adjustments.

This certificate is submitted in compliance with requirements of §5.5, §7.4(e) or §10.14 of the Credit Agreement. If this certificate is provided under a provision other than §7.4(e), the calculations provided below are made using the financial statements of the Borrowers and their respective Restricted Subsidiaries as of the Balance Sheet Date adjusted in the best good faith estimate of the Borrowers to give effect to the making of a Revolving Credit Loan, extension of the Maturity Date, acquisition or disposition of property or other event that occasions the preparation of this certificate; and the nature of such event and the Borrowers' estimate of its effects are set forth in reasonable detail in an attachment hereto. The undersigned officers of the Borrowers are its Principal Financial Officers.

The undersigned officers have caused the provisions of the Credit Agreement to be reviewed and have no knowledge of any Default or Event of Default. (Note: If the signer does have knowledge of any Default or Event of Default, the form of certificate should be revised to specify the Default or Event of Default, the nature thereof, the actions taken, being taken or proposed to be taken by the Borrowers with respect thereto in order to cure such Default or Event of Default and the time period required to cure such Default or Event of Default.)

The Borrowers are providing the following information to demonstrate compliance as of the date hereof with the following covenants:

[SEE ATTACHED EXHIBIT 1]

[Remainder of page intentionally left blank].

EXHIBIT E – Page 2

EXHIBIT F

FORM OF ASSIGNMENT AND ACCEPTANCE AGREEMENT

THIS ASSIGNMENT AND ACCEPTANCE AGREEMENT (this "Agreement") dated _____, _____, by and between _____ ("Assignor"), and _____ ("Assignee").

W I T N E S E T H:

WHEREAS, Assignor is a party to that certain Second Amended and Restated Master Credit Agreement, dated March 29, 2011, by and among The Woodlands Commercial Properties Company, L.P., a Texas limited partnership ("Commercial Company"), The Woodlands Land Development Company, L.P., a Texas limited partnership ("Land Company"; Commercial Company and Land Company are hereinafter referred to collectively as the "Borrowers"), KeyBank National Association, the other lenders that are or may become a party thereto, and KeyBank National Association, as Agent (the "Loan Agreement"); and

WHEREAS, Assignor desires to transfer to Assignee [**Describe assigned Commitments**] under the Loan Agreement and its rights with respect to the Commitment assigned and its Outstanding Loans with respect thereto;

NOW, THEREFORE, for and in consideration of the sum of Ten and No/100 Dollars (\$10.00) and other good and valuable considerations, the receipt and sufficiency of which are hereby acknowledged, Assignor and Assignee hereby agree as follows:

1. **Definitions.** Terms defined in the Loan Agreement and used herein without definition shall have the respective meanings assigned to such terms in the Loan Agreement.

2. **Assignment.**

(a) Subject to the terms and conditions of this Agreement and in consideration of the payment to be made by Assignee to Assignor pursuant to Paragraph 5 of this Agreement, effective as of the "Assignment Date" (as defined in Paragraph 7 below), Assignor hereby irrevocably sells, transfers and assigns to Assignee, without recourse, (i) a \$ _____ Commercial Company Secured Term Loan Commitment, (ii) a \$ _____ Land Company [**Describe assigned Commitments**] Commitment, and a _____ percent (%) Land Company [**Describe assigned Commitments**] Commitment Percentage, and a corresponding interest in and to all of the other rights and obligations under the Loan Agreement and the other Loan Documents (the assigned interests being hereinafter referred to as the "Assigned Interests"), including Assignor's share of all outstanding Commercial Company [**Describe assigned Loan**] Loans and Land Company [**Describe assigned Loan**] Loans with respect to the Assigned Interests and the right to receive interest and principal on and all other fees and amounts with respect to the Assigned Interests, all from and after the Assignment Date, all as if Assignee were an original Lender under and signatory to the Loan Agreement having a Commercial Company [**Describe assigned Commitment**] Commitment Percentage and Land Company [**Describe assigned Commitment**] Commitment Percentage equal to the amount of the respective Assigned Interests.

(b) Assignee, subject to the terms and conditions hereof, hereby assumes all obligations of Assignor with respect to the Assigned Interests from and after the Assignment Date as if Assignee were an original Lender under and signatory to the Loan Agreement and the "Bank Intercreditor Agreement" (as hereinafter defined), which obligations shall include, but shall not be limited to, the obligation to make **[Describe assigned Loan]** Loans to the Borrowers with respect to the Assigned Interests and to indemnify the Agent as provided therein (such obligations, together with all other obligations set forth in the Loan Agreement and the other Loan Documents are hereinafter collectively referred to as the "Assigned Obligations"). Assignor shall have no further duties or obligations with respect to, and shall have no further interest in, the Assigned Obligations or the Assigned Interests.

3. Representations and Requests of Assignor.

(a) Assignor represents and warrants to Assignee (i) that it is legally authorized to, and has full power and authority to, enter into this Agreement and perform its obligations under this Agreement; (ii) that as of the date hereof, before giving effect to the assignment contemplated hereby the amount of Assignor's Commercial Company Secured Term Loan Commitment is \$ and the aggregate outstanding principal balance of the Commercial Company Secured Term Loans made by it equals \$, (iii) that it has forwarded to the Agent the Commercial Company Secured Term Loan Note held by Assignor, if any, (iv) that as of the date hereof, before giving effect to the assignment contemplated hereby the amount of Assignor's Land Company **[Describe assigned Commitment]** Commitment is \$ and the aggregate outstanding principal balance of the Land Company **[Describe assigned Commitment]** Loans made by it equals \$, (v) that it has forwarded to the Agent the Land Company **[Describe assigned Note]** Note held by Assignor, if any. Assignor makes no representation or warranty, express or implied, and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Loan Documents or the execution, legality, validity, enforceability, genuineness or sufficiency of any Loan Document or any other instrument or document furnished pursuant thereto or in connection with the Loan, the collectability of the Loans, the continued solvency of the Borrowers or the Guarantors or the continued existence, sufficiency or value of the Collateral or any assets of the Borrowers or the Guarantors which may be realized upon for the repayment of the Loans, or the performance or observance by the Borrowers or the Guarantors of any of their respective obligations under the Loan Documents to which it is a party or any other instrument or document delivered or executed pursuant thereto or in connection with the Loan; other than that it is the legal and beneficial owner of, or has the right to assign, the interests being assigned by it hereunder and that such interests are free and clear of any adverse claim.

(b) If the applicable box is checked below, Assignor requests that the Agent obtain replacement notes for each of Assignor and Assignee as provided in the Loan Agreement.

Replacement Note Requested for Assignor

Replacement Note Requested for Assignee

4. Representations of Assignee. Assignee makes and confirms to the Agent, Assignor and the other Lenders all of the representations, warranties and covenants of a Lender under Articles 14 and 18 of the Loan Agreement and Paragraph 4 of the Bank Intercreditor Agreement. Without limiting the foregoing, Assignee (a) represents and warrants that it is legally authorized to, and has full power and authority to, enter into this Agreement and perform its obligations under this Agreement; (b) confirms that it has received copies of such documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Agreement; (c) agrees that it has and will, independently and without reliance upon Assignor, any other Lender or the Agent and based upon such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in evaluating the Loans, the Loan Documents, the creditworthiness of the Borrowers and the Guarantors and the value of the assets of the Borrowers and the Guarantors, and taking or not taking action under the Loan Documents and any intercreditor agreement among the Lenders and the Agent (the "Bank Intercreditor Agreement"); (d) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers as are reasonably incidental thereto pursuant to the terms of the Loan Documents and the Bank Intercreditor Agreement; (e) agrees that, by this Assignment, Assignee has become a party to and will perform in accordance with their terms all the obligations which by the terms of the Loan Documents and the Bank Intercreditor Agreement are required to be performed by it as a Lender; (f) represents and warrants that Assignee is an Eligible Assignee; (g) agrees that if Assignee is not incorporated under the laws of the United States of America or any State, it has on or prior to the date hereof delivered to Borrowers and Agent certification as to its exemption from deduction or withholding of any United States federal income taxes; and (h) if Assignee is an assignee of a portion of the Revolving Credit Loans, it has a net worth or unfunded capital commitment as of the date hereof of not less than \$200,000,000.00 unless waived in writing by Borrowers and Agent.

5. Payments to Assignor. In consideration of the assignment made pursuant to Paragraph 1 of this Agreement, Assignee agrees to pay to Assignor on the Assignment Date, an amount equal to \$ _____ representing the aggregate principal amount outstanding of the **[Described assigned Loans]** Loans owing to Assignor under the Loan Agreement and the other Loan Documents with respect to the Assigned Interests.

6. Payments by Assignor. Assignor agrees to pay the Agent on the Assignment Date the registration fee required by §18.2 of the Loan Agreement.

7. Effectiveness.

(a) The effective date for this Agreement shall be _____ (the "Assignment Date"). Following the execution of this Agreement, each party hereto shall deliver its duly executed counterpart hereof to the Agent for acceptance and recording in the Register by the Agent.

(b) Upon such acceptance and recording and from and after the Assignment Date, (i) Assignee shall be a party to the Loan Agreement and the Bank Intercreditor Agreement and, to the extent of the Assigned Interests, have the rights and obligations of a Lender thereunder, and (ii) Assignor shall, with respect to the Assigned Interests, relinquish its rights and be released from its obligations under the Loan Agreement and the Bank Intercreditor Agreement.

(c) Upon such acceptance and recording and from and after the Assignment Date, the Agent shall make all payments in respect of the rights and interests assigned hereby accruing after the Assignment Date (including payments of principal, interest, fees and other amounts) to Assignee.

(d) All outstanding LIBOR Rate Loans shall continue in effect for the remainder of their applicable Interest Periods and Assignee shall accept the currently effective interest rates on its Assigned Interest of each LIBOR Rate Loan.

8. Notices. Assignee specifies as its address for notices and its Lending Office for all assigned Loans, the offices set forth below:

Notice Address: _____

Attn: _____
Facsimile: _____

Domestic Lending Office: Same as above

LIBOR Lending Office: Same as above

9. Payment Instructions. All payments to Assignee under the Loan Agreement shall be made as provided in the Loan Agreement in accordance with the following instructions:

10. Governing Law. THIS AGREEMENT IS INTENDED TO TAKE EFFECT AS A SEALED INSTRUMENT FOR ALL PURPOSES AND TO BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF TEXAS (WITHOUT REFERENCE TO CONFLICT OF LAWS).

11. Counterparts. This Agreement may be executed in any number of counterparts which shall together constitute but one and the same agreement.

12. Amendments. This Agreement may not be amended, modified or terminated except by an agreement in writing signed by Assignor and Assignee, and consented to by Agent.

13. Successors. This Agreement shall inure to the benefit of the parties hereto and their respective successors and assigns as permitted by the terms of Loan Agreement and the Bank Intercreditor Agreement.

[signatures on following page]

EXHIBIT F – Page 5

IN WITNESS WHEREOF, intending to be legally bound, each of the undersigned has caused this Agreement to be executed on its behalf by its officers thereunto duly authorized, as of the date first above written.

ASSIGNEE:

By: _____
Title: _____

ASSIGNOR:

By: _____
Title: _____

RECEIPT ACKNOWLEDGED AND
ASSIGNMENT CONSENTED TO BY:
KEYBANK NATIONAL ASSOCIATION,
as Agent

By: _____
Title: _____

ASSIGNMENT APPROVED BY :¹

**THE WOODLANDS COMMERCIAL PROPERTIES
COMPANY, L.P.,**
a Texas limited partnership

By: The Woodlands Operating Company, L.P.,
a Texas limited partnership, its Authorized Agent

By: _____
Name: G. Randy Davis
Title: Chief Financial Officer

**THE WOODLANDS LAND DEVELOPMENT COMPANY,
L.P.,** a Texas limited partnership

By: The Woodlands Operating Company, L.P.,
a Texas limited partnership, its Authorized Agent

By: _____
Name: G. Randy Davis
Title: Chief Financial Officer

¹ Include to the extent required by the Credit Agreement.

EXHIBIT G

FORM OF CONFIDENTIALITY AGREEMENT

[Letterhead of Assignee or Participant]

[Date]

KeyBank National Association, as Agent
1200 Abernathy Road, N.E.
Suite 1550
Atlanta, Georgia 30328
The Woodlands Commercial Property Company, L.P.
c/o The Woodlands Operating Company, L.P.
2201 Timberloch Place
The Woodlands, Texas 77380
The Woodlands Land Development Company, L.P.
c/o The Woodlands Operating Company, L.P.
2201 Timberloch Place
The Woodlands, Texas 77380

RE: \$270,000,000 Revolving Credit and Secured Term Loan Facility to The Woodlands Commercial Properties Company, L.P. and The Woodlands Land Development Company, L.P. (collectively the “Borrowers”)

Ladies and Gentlemen:

We are interested in acquiring *[describe interest]* (the “Interest”) in that certain \$270,000,000 revolving credit, and/or secured term loan (the “Loan”) made by KeyBank National Association, individually and as Agent, and the other “Lenders” (collectively, the “Lenders”) which are a party to that certain Second Amended and Restated Master Credit Agreement dated March 29, 2011, among the Lenders, the Agent and the Borrowers (the “Credit Agreement”) and in connection therewith we have requested certain information which is not available to the general public. Capitalized terms used herein that are not otherwise defined herein shall have the meanings set forth in the Credit Agreement.

As used herein, “Confidential Information” means all financial certificates, data, reports, interpretations, forecasts, records and other information of a financial nature concerning or relating to the Borrowers which is not available to the general public and which you, your affiliates or representatives may provide to us in the course of our consideration of a possible acquisition of the Interest, together with financial analyses, compilations, studies or other documents, whether or not prepared by you or any of the Lenders which contain or otherwise reflect such financial information. Notwithstanding the foregoing, Confidential Information shall not include (i) information which was already in our possession prior to our consideration of a possible acquisition of the Interest or (ii) information which is obtained by us from a third person who is not prohibited from transmitting the information to us.

We agree that all Confidential Information will be held and treated by us and our agents, directors, officers, employees, investment advisors, partners, contractual counterparties in any

swap agreement or such contractual counterparty's professional advisors (collectively, "Representatives") in confidence and will not, except as hereinafter provided, without your prior consent, be disclosed by us or our Representatives other than in connection with our consideration of a possible acquisition of the Interest or in connection with a further transfer of the Interest. Moreover, we further agree (i) to disclose Confidential Information only to our Representatives who need to know the Confidential Information for purposes of our consideration of a possible acquisition of the Interest and who will be advised by us of this agreement or to others in connection with a potential transfer of the interest (provided that such potential assignee or participant shall execute a confidentiality agreement as required by the Credit Agreement), and (ii) that we shall be responsible for any breach of this agreement by our Representatives. The written Confidential Information will be promptly returned to you or destroyed as and when you may request, if we do not acquire the Interest.

In the event that we are requested or required (by oral questions, interrogatories, requests for information or documents, subpoena, "civil investigative demand" or other process) to disclose any Confidential Information, we will provide you with prompt notice of any such request or requirement so that you (or the Borrowers or other Lenders, as appropriate) may seek an appropriate protective order or waive our compliance with the provisions of this agreement. If a protective order or the receipt of a waiver hereunder has not been obtained, or if prior notice is not possible, and we are, in the opinion of our counsel, compelled to disclose Confidential Information, we may disclose that portion of the Confidential Information which our counsel advises us that we are compelled to disclose. In any event, we will not oppose action by you (or the Borrowers or the Lenders) to obtain an appropriate protective order or other reliable assurance that confidential treatment will be accorded the Confidential Information. Nothing herein shall prevent the disclosure of the Confidential Information to the extent necessary to enforce the Loan Documents (provided that reasonable efforts shall be used to cause the Confidential Information to remain confidential).

We agree to indemnify and hold you harmless from any damage, loss, cost or liability, (including attorneys' fees and court costs) arising or resulting from our breach of the agreement.

Neither party hereto shall be under any obligation to the other not expressly contained herein, including any obligation to proceed with a transaction, until definitive transaction documentation has been executed and delivered. This agreement will be governed by and construed in accordance with the internal laws of the State of Texas and may only be amended by a writing.

If the foregoing reflects your agreement, kindly sign and return the duplicate copy of this agreement to us.

Very truly yours,

[Name of Assignee or Participant]

By: _____

Name: _____

Title: _____

AGREED AND ACCEPTED THE FIRST DAY WRITTEN
ABOVE

[Name]

By: _____

Name: _____

Title: _____

EXHIBIT H

FORM OF JOINDER AGREEMENT

THIS JOINDER AGREEMENT (“Joinder Agreement”) is executed as of _____, 20____, by _____, a _____ (“Joining Party”), and delivered to KeyBank National Association, as Agent, pursuant to §5.6 of the Second Amended and Restated Master Credit Agreement dated as of March 29, 2011, as from time to time in effect (the “Credit Agreement”), among The Woodlands Commercial Properties Company, L.P. and The Woodlands Land Development Company, L.P. (the “Borrowers”), KeyBank National Association, for itself and as Agent, and the other Lenders from time to time party thereto. Terms used but not defined in this Joinder Agreement shall have the meanings defined for those terms in the Credit Agreement.

RECITALS

A. Joining Party is required, pursuant to §5.6 of the Credit Agreement, to become an additional Guarantor under the Guaranty and the Guarantor Contribution Agreement.

B. Joining Party expects to realize direct and indirect benefits as a result of the availability to Borrower of the credit facilities under the Credit Agreement.

NOW, THEREFORE, Joining Party agrees as follows:

AGREEMENT

1. Joinder. By this Joinder Agreement, Joining Party hereby becomes a “Subsidiary Guarantor” and a “Guarantor” under the Guaranty and the Guarantor Contribution Agreement, and the other Loan Documents with respect to all the Obligations of Borrower now or hereafter incurred under the Credit Agreement and the other Loan Documents. Joining Party agrees that Joining Party is and shall be bound by, and hereby assumes, all representations, warranties, covenants, terms, conditions, duties and waivers applicable to a Subsidiary Guarantor and Guarantor under the Guaranty, the Guarantor Contribution Agreement and the other Loan Documents. Without limiting the foregoing, Joining Party hereby unconditionally guarantees the payment and performance of the Obligations as defined in the Guaranty, as required thereunder.

2. Representations and Warranties of Joining Party. Joining Party represents and warrants to Agent that, as of the Effective Date (as defined below), except as disclosed in writing by Joining Party to Agent on or prior to the date hereof and approved by the Agent in writing, the representations and warranties contained in the Credit Agreement and the other Loan Documents are true and correct in all material respects as applied to Joining Party as a Subsidiary Guarantor and a Guarantor on and as of the Effective Date as though made on that date. As of the Effective Date, all covenants and agreements in the Loan Documents of the Subsidiary Guarantor are true and correct with respect to Joining Party and no Default or Event of Default shall exist or might exist upon the Effective Date in the event that Joining Party becomes a Subsidiary Guarantor.

3. Joint and Several. Joining Party hereby agrees that, as of the Effective Date, the Guaranty, the Guarantor Contribution Agreement, and the other Loan Documents heretofore delivered to the Agent and the Lenders shall be a joint and several obligation of Joining Party to the same extent as if executed and delivered by Joining Party, and upon request by Agent, will promptly become a party to the Guaranty, the Guarantor Contribution Agreement and the other Loan Documents to confirm such obligation.

4. Further Assurances. Joining Party agrees to execute and deliver such other instruments and documents and take such other action, as the Agent may reasonably request, in connection with the transactions contemplated by this Joinder Agreement.

5. **GOVERNING LAW. THIS AGREEMENT SHALL BE DEEMED TO BE A CONTRACTUAL OBLIGATION UNDER, AND SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF TEXAS.**

6. Counterparts. This Agreement may be executed in any number of counterparts which shall together constitute but one and the same agreement.

7. The effective date (the "Effective Date") of this Joinder Agreement is _____, 20__.

IN WITNESS WHEREOF, Joining Party has executed this Joinder Agreement under seal as of the day and year first above written.

"JOINING PARTY"

_____,
a _____

By: _____

Name: _____

Title: _____

[SEAL]

ACKNOWLEDGED:

KEYBANK NATIONAL ASSOCIATION, as Agent

By: _____

Its: _____

[Printed Name and Title]

**SCHEDULE 1.1
LENDERS AND COMMITMENTS**

Lenders	Total Commitment	Term Facility					Revolver Facility	Revolver Loan %
		Total Term Loan	Land	% Land	Commercial	Commercial %		
KeyBank National Association 127 Public Square Cleveland, Ohio 44114-1306 Attn: Real Estate Capital Services LIBOR Lending Office Same as above	65,000,000.00	43,000,000.00	37,941,176.47	25.294117647058800%	5,058,823.53	25.294117647058800%	22,000,000.00	22.000%
Compass Bank 8333 Douglas Ave, Suite 505 Dallas, Texas 75225 Attn: Todd Fuller LIBOR Lending Office Same as above	32,000,000.00	18,000,000.00	15,882,352.94	10.588235294117600%	2,117,647.06	10.588235294117600%	14,000,000.00	14.000%
JPMorgan Chase Bank, N.A. 707 Travis, 6N Houston, Texas 77002 Attn: Laurie Funk LIBOR Lending Office Same as above	28,000,000.00	15,500,000.00	13,676,470.59	9.117647058823530%	1,823,529.41	9.117647058823530%	12,500,000.00	12.500%
Atlas Venture I, L.L.C. 3401 Armstrong Ave Dallas, Texas 75205 Attn: Sarah Hipp LIBOR Lending Office Same as above	27,000,000.00	27,000,000.00	23,823,529.41	15.882352941176500%	3,176,470.59	15.882352941176500%	0.00	0.000%
Woodforest National Bank 1330 Lake Robbins Drive, Suite 100 The Woodlands, Texas 77380 Attn: Scott Bilinski, LIBOR Lending Office Same as above	20,000,000.00	12,000,000.00	10,588,235.29	7.058823529411760%	1,411,764.71	7.058823529411770%	8,000,000.00	8.000%

Lenders	Total Commitment	Term Facility					Revolver Facility	Revolver Loan %
		Total Term Loan	Land	% Land	Commercial	Commercial %		
Texas Capital Bank, N.A. One Riverway, Suite 2100 Houston, Texas 77019 Attn: Angie Hill LIBOR Lending Office Same as above	20,000,000.00	11,000,000.00	9,705,882.35	6.470588235294120%	1,294,117.65	6.470588235294120%	9,000,000.00	9.000%
Amegy Mortgage Company, L.L.C. 4576 Research Forest Drive The Woodlands, Texas 77381 Attn: Don Hickey LIBOR Lending Office Same as above	20,000,000.00	11,000,000.00	9,705,882.35	6.470588235294120%	1,294,117.65	6.470588235294120%	9,000,000.00	9.000%
Capital One, N.A. 5718 Westheimer, Suite 600 Houston, Texas 77057 Attn: Ryan Matthews LIBOR Lending Office Same as above	18,000,000.00	10,000,000.00	8,823,529.41	5.882352941176470%	1,176,470.59	5.882352941176470%	8,000,000.00	8.000%
PNC Bank, National Association Two Tower Center 18th Floor East Brunswick, New Jersey 08816 Attn: Luis Donoso LIBOR Lending Office Same as above	15,000,000.00	8,500,000.00	7,500,000.00	5.000000000000000%	1,000,000.00	5.000000000000000%	6,500,000.00	6.500%
Green Bank, N.A. 4000 Greenbriar, Suite 200 Houston, Texas 77098 Attn: J. Cory LeBouf LIBOR Lending Office Same as above	15,000,000.00	8,500,000.00	7,500,000.00	5.000000000000000%	1,000,000.00	5.000000000000000%	6,500,000.00	6.500%

Lenders	Total Commitment	Term Facility					Revolver Facility Land only	Revolver Loan %
		Total Term Loan	Land	% Land	Commercial	Commercial %		
Trustmark National Bank 10497 Town & Country Way, Suite 860 Houston, Texas 77027 Attn: Amy Walp LIBOR Lending Office Same as above	10,000,000.00	5,500,000.00	4,852,941.18	3.235294117647060%	647,058.82	3.235294117647060%	4,500,000.00	4.500%
	270,000,000.00	170,000,000.00	150,000,000.00	100.00%	20,000,000.00	100.00%	100,000,000.00	100.000%

SCHEDULE 1.2

BORROWING BASE

SCHEDULE 1.2 – Page 1

SCHEDULE 1.3

QUALIFYING INCOME PROPERTIES

SCHEDULE 1.3 – Page 1

SCHEDULE 1.4

PARTIAL INTERESTS

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SCHEDULE 1.5

PARTNERSHIPS

SCHEDULE 1.5 – Page 1

SCHEDULE 1.6

NOTE RECEIVABLES

SCHEDULE 1.6 – Page 1

SCHEDULE 3.6

STIPULATED COMMITMENT REDUCTION AMOUNTS

A. <u>For Period Ending:</u>	Stipulated Commitment Reduction Amount for Such Period Is:
March 29, 2012 (First Anniversary)	\$ 10,000,000.00
March 29, 2013 (Second Anniversary)	\$ 25,000,000.00
March 29, 2014 (Third Anniversary)	\$ 30,000,000.00
B. <u>For Extension Term:</u>	Stipulated Commitment Reduction Amount for Such Period Is:
Period Ending June 29, 2014	\$ 10,000,000.00
Period Ending September 29, 2014	\$ 10,000,000.00
Period Ending December 29, 2014	\$ 10,000,000.00

SCHEDULE 6.3

TITLE TO PROPERTIES; LEASES

SCHEDULE 6.3 – Page 1

SCHEDULE 6.7

LITIGATION

SCHEDULE 6.7 – Page 1

SCHEDULE 6.15

TRANSACTIONS OF AFFILIATES

SCHEDULE 6.15 – Page 1

SCHEDULE 6.16

ERISA COMPLIANCE

None.

SCHEDULE 6.17

ERISA MATTERS

None.

SCHEDULE 6.20

ENVIRONMENTAL MATTERS

SCHEDULE 6.20 – Page 1

SCHEDULE 6.21

SUBSIDIARIES

SCHEDULE 6.21 – Page 1

SCHEDULE 6.27

RIGHT OF FIRST REFUSALS, PURCHASE OPTIONS, ETC.

SCHEDULE 7.19

UNPLEDGED PARTIAL INTERESTS

1. Woodlands-Sarofim #1, Ltd.

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SCHEDULE 7.19	UNPLEDGED PARTIAL INTERESTS

THE HOWARD HUGHES CORPORATION**LIST OF SUBSIDIARIES**

4 Waterway Holdings, LLC	Delaware
110 Holding, LLC	Delaware
110 Wacker, LLC	Delaware
170 Retail Associates, Ltd.	Texas
170 Retail Holding, LLC	Delaware
9303 New Trails Holdings, LLC	Delaware
ACB Parking Business Trust	Maryland
Alameda Plaza, LLC	Delaware
AllenTowne Mall, LLC	Delaware
American City Building Corporation	Maryland
Beverage Operations, Inc.	Texas
Bridgeland Development, LP	Maryland
Bridgeland GP, LLC	Delaware
Bridgeland Partner, LLC	Maryland
Bridges at Mint Hill, LLC	Delaware
Bridges at Mint Hill Member, LLC	Delaware
Century Plaza L.L.C.	Delaware
Clover Acquisitions LLC	Delaware
Cottonwood Mall, LLC	Delaware
Cottonwood Square, LLC	Delaware
Cypress LA, 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 Corporation	Maryland
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
Hex Holding, LLC	Delaware
Hexalon Real Estate, LLC	Delaware
HHMK Development, LLC	Delaware
Howard Hughes Properties, Inc.	Nevada
Howard Hughes Management, Co. LLC	Delaware
HRD Parking Deck Business Trust	Maryland
HRD Parking, Inc.	Maryland
Kapiolani Residential 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
LRVC Business Trust	Maryland
Merchantwired Interest, Inc.	Maryland
MerchantWired, LLC	Delaware
Merriweather Post Business Trust	Maryland
Natick Residence LLC	Delaware
Oakland Ridge Industrial Development Corporation	Maryland
Parcel C Business Trust	Maryland
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 East, LLC	Delaware
Princeton Land, LLC	Delaware
Red Rock Investment, LLC	Nevada
Redlands Land Acquisition Company L.L.C.	Delaware
Redlands Land Acquisition Company L.P.	Delaware
Rio West L.L.C.	Delaware
Riverwalk Marketplace (New Orleans), 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 Centre, LLC	Delaware
Summerlin Corporation	Delaware
Summerlin Hospital Medical Center, L.P.	Delaware
THC-HRE, LLC	Maryland
The Howard Hughes Company, LLC	Delaware
The Howard Research And Development Corporation	Maryland
The Hughes Corporation	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 Land Development Company, L.P.	Texas
The Woodlands Operating Company, L.P.	Texas
Timbermill-94 Limited	Texas
Town Center Development Company GP, LLC	Texas
Town Center Development Company, LP	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, LLC	Texas
TWCPC Holdings, L.P.	Texas
TWLDC Holdings GP, LLC	Texas
TWLDC Holdings, LP	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
VW Condominium Development, LLC	Delaware
Volo Land, LLC	Delaware
Ward Gateway-Industrial-Village, LLC	Delaware
Ward Plaza-Warehouse, LLC	Delaware
Waterway Ave Partners, L.L.C.	Texas
WECCR General Partnership	Texas
WECCR, Inc.	Texas

West Kendall Holdings, LLC
Westlake Retail Associates, Ltd.
Westlake Retail Holding, LLC
Wincopin Restaurant Business Trust
Woodlands Acquisition, LLC
Woodlands Office Equities-95, Ltd.
Woodlands Sarofim #1, Ltd.

Maryland
Texas
Delaware
Maryland
Texas
Texas
Texas

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-170432, 333-174031, 333-171909 and 333-171910 on Form S-8 of our reports dated February 29, 2012, relating to the financial statements and financial statement schedule of The Howard Hughes Corporation and subsidiaries (the "Company") (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the allocations of certain operating expenses from General Growth Properties, Inc included in the Company's combined financial statements prior to November 9, 2010), and the effectiveness of the Company's internal control over financial reporting, appearing in this Annual Report on Form 10-K of the Company for the year ended December 31, 2011.

/s/ Deloitte & Touche LLP

Dallas, Texas
February 29, 2012

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, 2011 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: February 27, 2012

**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 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: February 29, 2012

/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 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: February 29, 2012

/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 Annual Report on Form 10-K of The Howard Hughes Corporation (the "Company") for the period ended December 31, 2011, 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.

/s/ David R. Weinreb

David R. Weinreb

Chief Executive Officer

February 29, 2012

/s/ Andrew C. Richardson

Andrew C. Richardson

Chief Financial Officer

February 29, 2012