STRATUS PROPERTIES INC
Form 10-K
March 16, 2017

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

FORM 10-K

(Mark One)
[X] ANNUAL REPORT
PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the fiscal year ended
December 31, 2016
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:
000-19989
Stratus Properties Inc.
(Exact name of registrant as specified in its charter)

Delaware	72-1211572
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

212 Lavaca St., Suite 300	
Austin, Texas	78701
(Address of principal executive offices)	(Zip Code)

(512) 478-5788
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	The NASDAQ Stock Market

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. o Yes þ 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. o Yes þ 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. þ Yes o 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). þ Yes o 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 the 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. o

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. o Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company

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

The aggregate market value of common stock held by non-affiliates of the registrant was $152.6 million on February 28, 2017, and $89.3 million on June 30, 2016.

Common stock issued and outstanding was 8,098,140 shares on February 28, 2017, and 8,092,140 shares on June 30, 2016.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our proxy statement for our 2017 annual meeting of stockholders are incorporated by reference into Part III (Items 10, 11, 12, 13 and 14) of this report.

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PART I

Items 1. and 2. Business and Properties.

Except as otherwise described herein or the context otherwise requires, all references to “Stratus,” “we,” “us” and “our” in this Form 10-K refer to Stratus Properties Inc. and all entities owned or controlled by Stratus Properties Inc. All of our periodic reports filed with or furnished to the United States (U.S.) Securities and Exchange Commission (SEC) pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports are available, free of charge, through our website, www.stratusproperties.com, or by submitting a written request via mail to Stratus Investor Relations, 212 Lavaca St., Suite 300, Austin, Texas, 78701. These reports and amendments are available through our website or by request as soon as reasonably practicable after we electronically file or furnish such material with or to the SEC.

All references to “Notes” herein refer to the Notes to Consolidated Financial Statements located in Part II, Item 8. of this Form 10-K.

Overview

We are a diversified real estate company engaged primarily in the acquisition, entitlement, development, management, operation and sale of commercial, hotel, entertainment, and multi- and single-family residential real estate properties, primarily located in the Austin, Texas area, but including projects in certain other select markets in Texas.

We generate revenues from sales of developed properties, from our hotel and entertainment operations and from rental income from our commercial properties. Developed property sales can include an individual tract of land that has been developed and permitted for residential use, a developed lot with a home already built on it or condominium units at the W Austin Residences. We may sell properties under development, undeveloped properties or commercial properties, if opportunities arise that we believe will maximize overall asset values as part of our business plan. See Note 11 for further discussion of our operating segments.

Our principal executive offices are located in Austin, Texas, and our company was incorporated under the laws of the state of Delaware on March 11, 1992. Stratus Properties Inc. was formed to hold, operate and develop the domestic real estate and oil and gas properties of our former parent company. We sold all of our oil and gas properties during the 1990s and have since focused solely on our real estate properties. Our overall strategy has been to enhance the value of our properties by securing and maintaining development entitlements and developing and building real estate projects on these properties for sale or investment. We have also pursued opportunities for new projects that offer the possibility of acceptable returns and risks. See "Business Strategy and Related Risks" in Part II, Items 7. and 7A. for further discussion.

Operations

A description of our four operating segments follows.

Hotel. The W Austin Hotel, which is part of the W Austin Hotel & Residences, includes 251 luxury rooms and suites, a full service spa, gym, rooftop pool and 9,750 square feet of meeting space. We have an agreement with Starwood Hotels & Resorts Worldwide, Inc. (Starwood) for the management of hotel operations at the W Austin Hotel. Revenue per available room for the W Austin Hotel, which is calculated by dividing total room revenue by the average total rooms available during the year, was $259 for 2016, $279 for 2015 and $291 for 2014.

Revenue from our hotel segment accounted for 51 percent of our total revenue for each of 2016 and 2015 and 45 percent for 2014.

Entertainment. The entertainment space at the W Austin Hotel & Residences is occupied by Austin City Limits Live at the Moody Theater (ACL Live) and includes a live music and entertainment venue and production studio with a maximum capacity of approximately 3,000 people. In addition to hosting concerts and private events, ACL Live is the home of Austin City Limits, a television program showcasing popular music legends. ACL Live hosted 223 events in 2016 with an estimated attendance of 237,000, 210 events in 2015 with an estimated attendance of

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245,000 and 207 events in 2014 with an estimated attendance of 231,200. As of February 28, 2017, ACL Live has events booked through April 2018.

Our entertainment business also includes events hosted at other venues through our joint ventures (see "Properties - Unconsolidated Affiliates" below and Note 6).

Revenue from our entertainment segment accounted for 24 percent of our total revenue for 2016 and 2015 and 20 percent for 2014.

Real Estate Operations. The number of developed lots/units, acreage under development and undeveloped acreage as of December 31, 2016, that comprise our real estate operations are presented in the following table.
A developed lot or unit is an individual tract of land or residential unit that has been developed and permitted for residential use. Acreage under development includes real estate for which infrastructure work over the entire property has been completed, is currently being completed or is able to be completed and for which necessary permits have been obtained. The undeveloped acreage shown in the table below is presented according to anticipated uses for multi- and single-family lots and commercial development based upon our understanding of the properties' existing entitlements. However, because of the nature and cost of the approval and development process and uncertainty regarding market demand for a particular use, there is no assurance that the undeveloped acreage will ever be developed. Undeveloped acreage includes real estate that can be sold "as is" (i.e., planning, infrastructure or development work is not currently in progress on such property).

		Acreage Under Development			Undeveloped				
	Developed Lots/Units	Multi-family	Commercial	Total	Single Family	Multi-family	Commercial	Total	Total Acreage
Austin:									
Barton Creek	297	38	—	38	512	289	398	1,199	1,237
Circle C	12	—	—	—	—	36	216	252	252
Lantana	—	—	—	—	—	—	56	56	56
W Austin Residences	2	—	—	—	—	—	—	—	—
The Oaks at Lakeway[a]	—	—	52	52	35	—	—	35	87
Magnolia	—	—	—	—	—	—	124	124	124
West Killeen Market	—	—	9	9	—	—	—	—	9
San Antonio:									
Camino Real	—	—	—	—	—	—	2	2	2
Total	311	38	61	99	547	325	796	1,668	1,767

a. On February 15, 2017, we sold The Oaks at Lakeway (see "Properties - The Oaks at Lakeway" below and Note 13).

Revenue from our real estate operations segment accounted for 13 percent of our total revenue for 2016, 18 percent for 2015 and 28 percent for 2014.

The following table summarizes the estimated development potential, including 20 multi-family units and 63,003 square feet of commercial space currently under development, of our acreage as of December 31, 2016:

	Single Family	Multi-family	Commercial
	(lots)	(units)	(gross square feet)
Barton Creek	156	1,814	1,604,081

Lantana	—	—	485,000
Circle C	—	296	692,857
Magnolia	—	—	351,000
West Killeen Market	—	—	44,000
The Oaks at Lakeway	—	—	19,003
Flores Street	—	6	—
Total	156	2,116	3,195,941

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Commercial Leasing. Our principal commercial leasing holdings at December 31, 2016, consisted of (1) 38,316 square feet of office space, including 9,000 square feet occupied by our corporate office, and 18,327 square feet of retail space at the W Austin Hotel & Residences, (2) a 22,366-square-foot retail complex and a 3,085-square-foot bank building representing the first phase of Barton Creek Village and (3) 236,739 square feet of planned commercial space for The Oaks at Lakeway, an HEB Grocery Company, L.P. (HEB)-anchored retail project, of which 199,956 square feet was open at December 31, 2016. In February 2017, we sold The Oaks at Lakeway, the Barton Creek Village bank building and the Barton Creek Village Phase II land, a 4.1 acre tract of land adjacent to Barton Creek Village (see Note 13).

Revenue from our commercial leasing segment accounted for 12 percent of our total revenue for 2016 and 7 percent for each of 2015 and 2014.

For further information about our operating segments see “Results of Operations” in Part II, Items 7. and 7A. See Note 11 for a summary of our revenues, operating income and total assets by operating segment.

Properties

Our Austin-area properties include the following:

Barton Creek

Calera. Calera is a residential subdivision with plat approval for 155 lots. The initial 16-acre phase of the Calera subdivision included 16 courtyard homes at Calera Court, the last of which were sold in 2012.

The second phase of Calera, Calera Drive, consisted of 53 single-family lots, many of which adjoin the Fazio Canyons Golf Course. During 2013, we sold the remaining six Calera Drive lots.

Construction of the final phase of Calera, known as Verano Drive, was completed in July 2008 and included 71 single-family lots. During 2014, we sold the remaining nine Verano Drive lots.

Amarra Drive. Amarra Drive Phase I, which was the initial phase of the Amarra Drive subdivision, was completed in 2007 and included six lots with sizes ranging from approximately one to four acres. During 2013, we sold the remaining two Phase I lots.

In 2008, we developed Amarra Drive Phase II, which consisted of 35 lots on 51 acres. During 2016, we sold 1 Phase II lot and during 2014, we sold 16 Phase II lots. We did not sell any Phase II lots in 2015, and as of December 31, 2016, 13 Phase II lots remain unsold.

In first-quarter 2015, we substantially completed the development of Amarra Drive Phase III, which consists of 64 lots on 166 acres. During 2016, we sold six Phase III lots and during 2015, we sold ten Phase III lots. As of December 31, 2016, 48 Phase III lots remained unsold. In January 2017, we sold one Phase III lot and as of February 28, 2017, three Phase III lots were under contract.

The Villas at Amarra Drive (Amarra Villas) townhome project is a 20-unit development for which we completed sitework in late 2015. Construction of the first 5 of 20 townhomes commenced in March 2016 and is nearing completion. The townhomes average approximately 4,400 square feet and are being marketed as "lock and leave" properties, with golf course access and cart garages. As of February 28, 2017, one townhome, for which construction has not begun, was under contract.

Santal (formerly Tecoma). The Santal multi-family project is a garden-style apartment complex consisting of 236 units. Construction commenced in January 2015 and was completed within budget in August 2016. As of February 28, 2017, 210 units were leased. Construction of the second 212-unit phase is expected to commence by mid-2017.

Barton Creek Village. The first phase of Barton Creek Village consists of a 22,366-square-foot retail complex and a 3,085-square-foot bank building. As of December 31, 2016, occupancy was 100 percent for the retail complex and the bank building was leased through January 2023. In February 2017, the Barton Creek Village bank building was sold as well as the Barton Creek Village Phase II land, a 4.1 acre tract of land adjacent to Barton Creek Village (see Note 13).

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Circle C Community

Effective August 2002, the City of Austin (the City) granted final approval of a development agreement (the Circle C settlement), which firmly established all essential municipal development regulations applicable to our Circle C properties until 2032. The City also provided us $15.0 million of cash incentives in connection with the future development of our Circle C and other Austin-area properties. These incentives, which are in the form of credit bank capacity, can be used for City fees and for reimbursement of certain infrastructure costs. Annually, we may elect to sell up to $1.5 million of the incentives to other developers for their use in paying City fees related to their projects as long as the projects are within the desired development zone, as defined within the Circle C settlement. As of December 31, 2016, we have permanently used $11.7 million of the $15.0 million of cash incentives provided by the City, including cumulative sales of $5.1 million to other developers. We also have $1.4 million in credit bank capacity in use as temporary fiscal deposits. At December 31, 2016, available credit bank capacity was $1.9 million.

We are developing the Circle C community based on the entitlements secured in our Circle C settlement with the City. Our Circle C settlement, as amended in 2004, permits development of 1.16 million square feet of commercial space, 504 multi-family units and 830 single-family residential lots.

Meridian. Meridian is an 800-lot residential development at the Circle C community. Development of the final phase of Meridian, which consisted of 57 one-acre lots, was completed in 2014. We sold 19 Meridian lots during each of 2016 and 2015 and 7 Meridian lots during 2014. As of December 31, 2016, 12 Meridian lots remained unsold. In January 2017, we sold two Meridian lots, and as of February 28, 2017, three Meridian lots were under contract.

The St. Mary. We have secured final building permits for The St. Mary, a 240-unit multi-family development in the Circle C community, and intend to either sell the shovel-ready site or, subject to obtaining construction financing, commence construction by the end of 2017.

In July 2015, we completed the sales of our Austin-area Parkside Village and 5700 Slaughter commercial properties, both located in the Circle C community. The Parkside Village retail project, which we owned in a joint venture with LCHM Holdings, LLC, consisted of 90,184 leasable square feet and was sold for $32.5 million. The project included a 33,650-square-foot full-service movie theater and restaurant, a 13,890-square-foot medical clinic and five other retail buildings, including a 14,926-square-foot building, a 10,175-square-foot building, a 8,043-square-foot building, a 4,500-square-foot building and a stand-alone 5,000-square-foot building. The 5700 Slaughter retail project, which we wholly owned, consisted of 25,698 leasable square feet and was sold for $12.5 million. See Note 12 for further discussion.

As of December 31, 2016, our Circle C community had remaining entitlements for 692,857 square feet of commercial space and 296 multi-family units.

Lantana

Lantana is a partially developed, mixed-use real-estate development project. As of December 31, 2016, we had remaining entitlements for approximately 485,000 square feet of office and retail use on 56 acres. Regional utility and road infrastructure is in place with capacity to serve Lantana at full build-out as permitted under our existing entitlements. Our Lantana Place mixed-use development project, comprised of approximately 320,000 square feet of retail, hotel and office uses, is fully designed and permitted, and subject to obtaining construction financing, we expect to begin construction in the second quarter of 2017.

The W Austin Hotel & Residences

In December 2006, we acquired a two-acre city block in downtown Austin for $15.1 million to develop a multi-use project. In 2008, we entered into a joint venture with Canyon-Johnson Urban Fund II, L.P. (Canyon-Johnson) for the development of the W Austin Hotel & Residences. In September 2015, we completed the purchase of Canyon-Johnson's approximate 58 percent interest in the joint venture that owned the W Austin Hotel & Residences. See Note 2 for further discussion.

The W Austin Hotel & Residences contains a 251-room luxury hotel, 159 residential condominium units, 38,316 square feet of leasable office space, including 9,000 square feet occupied by our corporate office, 18,327 square feet of retail space and entertainment space occupied by Austin City Limits Live at the Moody Theater (ACL Live) which includes a live music and entertainment venue and production studio. In December 2010, the hotel at the W

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Austin Hotel & Residences opened, and in January 2011, we began closing on sales of condominium units. There were no sales during 2016 and 2015, and seven condominium units were sold during 2014. As of December 31, 2016, only two condominium units remained unsold, and they are being marketed.

The Oaks at Lakeway

In 2013 and 2014, we acquired 87 acres in the greater Austin area to develop The Oaks at Lakeway project, an HEB-anchored retail project planned for 236,739 square feet of commercial space. As of December 31, 2016, leases for 92 percent of the space, including the HEB store lease, were executed and leasing for the remaining space was under way. The HEB store opened in October 2015, and all other executed leases had commenced as of December 31, 2016. In February 2017, we sold The Oaks at Lakeway for $114.0 million in cash, retaining 34.7 acres of undeveloped property, which is zoned for residential, hotel and civic uses (see Note 13).

Our other Texas properties and development projects include:

Magnolia

In 2014, we acquired 124 acres in the greater Houston area to develop the Magnolia project, an HEB-anchored retail project planned for 351,000 square feet of commercial space. Planning and infrastructure work by the city of Magnolia is complete and road expansion by the Texas Department of Transportation is in progress and expected to be completed in 2017. The HEB store is presently expected to open in early 2019.

West Killeen Market

In 2015, we acquired approximately 21 acres in Killeen, Texas, to develop the West Killeen Market project, an HEB-anchored retail project planned for 44,000 square feet of commercial space and three pad sites adjacent to a 90,000 square-foot HEB grocery store. Construction began in August 2016, and the HEB store is scheduled to open in April 2017.

Unconsolidated Affiliates

Crestview Station. In 2005, we formed a joint venture with Trammell Crow Central Texas Development, Inc. to acquire an approximate 74-acre tract at the intersection of Airport Boulevard and Lamar Boulevard in Austin, Texas. The property, known as Crestview Station (the Crestview Station Joint Venture) is a single-family, multi-family, retail and office development, located on the site of a commuter rail line. As of December 31, 2016, the Crestview Station Joint Venture has sold all of its properties except for one commercial site. We account for our 50 percent interest in the Crestview Station Joint Venture under the equity method.

Guapo Enterprises. In 2013, Stratus and Austin Pachanga Partners, LLC (Pachanga Partners) formed a joint venture, Guapo Enterprises LLC (Guapo) to own, operate, manage and sell the products and services of the Pachanga music festival business. As of December 31, 2016, Stratus' capital contributions to Guapo totaled $0.3 million. Stratus will contribute additional capital to Guapo as necessary to fund its working capital needs. Stratus and Pachanga Partners each have a 50 percent voting interest in Guapo. After Stratus is repaid its original capital contributions and a preferred return (10 percent annually) on those contributions, Stratus will receive 33 percent of any distributions from Guapo. We account for our investment in Guapo under the equity method.

See Note 6 for further discussion of our unconsolidated affiliates.

Competition

We operate in highly competitive industries, namely the real estate development, hotel, entertainment and commercial leasing industries. In the real estate development industry, we compete with numerous public and private developers of varying sizes, ranging from local to national in scope. As a result, we may be competing for investment opportunities, financing and potential buyers with developers that may possess greater financial, marketing or other resources than we have. Our prospective customers generally have a variety of choices of new and existing homes and homesites when considering a purchase. We attempt to differentiate our properties primarily on the basis of community design, quality, uniqueness, amenities, location and developer reputation.

In the hotel industry, competition is generally based on quality and consistency of rooms, restaurant and meeting facilities and services, attractiveness of location, price and other factors. Management believes that we compete favorably in these areas. Our W Austin Hotel competes with other hotels and resorts in our geographic market, including facilities owned locally and facilities owned by national and international chains.

In the entertainment industry, we compete with other venues in Austin, Texas, and venues in other markets for artists likely to perform in the Austin, Texas region. Consequently, touring artists have several alternatives to our venue in scheduling tours. Some of our competitors in venue management have a greater number of venues in certain markets and may have greater financial resources in those markets. We differentiate our entertainment businesses by providing a quality live music experience and promoting our entertainment space through KLRU's broadcast of Austin City Limits.

The commercial leasing industry is highly fragmented among individuals, partnerships and public and private entities, with no dominant single entity or person. Although we may compete against large sophisticated owners and operators, owners and operators of any size can provide effective competition for prospective tenants. We compete for tenants primarily on the basis of property location, rent charged, and the design and condition of improvements.

See Part I, Item 1A. "Risk Factors" for further discussion.

Credit Facility and Other Financing Arrangements

Obtaining and maintaining adequate financing is a critical component of our business. For information about our credit facility and other financing arrangements, see “Capital Resources and Liquidity - Credit Facility and Other Financing Arrangements” in Part II, Items 7. and 7A. and Note 7.

Regulation and Environmental Matters

Our real estate investments are subject to extensive local, city, county and state rules and regulations regarding permitting, zoning, subdivision, utilities and water quality as well as federal rules and regulations regarding air and water quality and protection of endangered species and their habitats. Such regulation has delayed and may continue to delay development of our properties and may result in higher development and administrative costs. See Part I, Item 1A. "Risk Factors" for further discussion.

We have made, and will continue to make, expenditures for the protection of the environment with respect to our real estate development activities. Emphasis on environmental matters will result in additional costs in the future. Based on an analysis of our operations in relation to current and presently anticipated environmental requirements, we currently do not anticipate that these costs will have a material adverse effect on our future operations or financial condition.

Employees

At December 31, 2016, we had a total of 123 employees, 40 of which were full-time employees, located at our Austin, Texas headquarters. We believe we have a good relationship with our employees, none of whom are represented by a union. Since 1996, certain services necessary for our business and operations, including certain administrative, financial reporting and other services, have been performed by FM Services Company (FM Services) pursuant to a services agreement. FM Services is a wholly owned subsidiary of Freeport-McMoRan Inc. Either party may terminate the services agreement at any time upon 60 days notice or earlier upon mutual written agreement.

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Item 1A. Risk Factors

This report contains "forward-looking statements" within the meaning of U.S. federal securities laws. Forward-looking statements are all statements other than statements of historical facts, such as statements regarding projections or expectations related to operational and financial performance or liquidity, reimbursements for infrastructure costs, financing and regulatory matters, development plans and sales of properties, commercial leasing activities, timeframes for development, construction and completion of our projects, capital expenditures, liquidity and capital resources and other plans and objectives of management for future operations and activities. We undertake no obligation to update any forward-looking statements. We caution readers that forward-looking statements are not guarantees of future performance and our actual results may differ materially from those anticipated, projected or assumed in the forward-looking statements. Important factors that can cause our actual results to differ materially from those anticipated in the forward-looking statements include the following:

Risks Relating to our Business and Industries

We need significant amounts of cash to service our debt. If we are unable to generate sufficient cash to service our debt, our liquidity, financial condition and results of operations could be negatively affected.

Our business strategy requires us to rely on cash flow from operations and our debt agreements as our primary sources of funding for our liquidity needs. As of December 31, 2016, our outstanding debt totaled $291.1 million and our cash and cash equivalents totaled $13.6 million. Our level of indebtedness could have significant consequences. For example, it could:

- Increase our vulnerability to adverse changes in economic and industry conditions;

- Require us to dedicate a substantial portion of our cash flow from operations and proceeds from asset sales to pay or provide for our indebtedness, thus reducing the availability of cash flows to fund working capital, capital expenditures, acquisitions, investments and other general corporate purposes;

- Limit our flexibility to plan for, or react to, changes in our business and the market in which we operate;

- Place us at a competitive disadvantage to our competitors that have less debt; and

- Limit our ability to borrow money to fund our working capital, capital expenditures, debt service requirements and other financing needs.

Historically, much of our debt has been renewed or refinanced in the ordinary course of business. Current economic conditions in our areas of operations could deteriorate, which may impact our ability to refinance our debt and obtain renewals or replacement of credit enhancement devices on favorable terms or at all. As a result, in the future we may not be able to obtain sufficient external sources of liquidity on attractive terms, if at all, or otherwise renew, extend or refinance a significant portion of our outstanding debt scheduled to become due in the near future. In addition, there can be no assurance that we will maintain cash reserves and generate sufficient cash flow from operations in an amount sufficient to enable us to service our debt or to fund our other liquidity needs. Any of these occurrences may have a material adverse effect on our liquidity, financial condition and results of operations. For example, our inability to extend, repay or refinance our debt when it becomes due, including upon a default or acceleration event, could force us to sell properties on unfavorable terms or ultimately result in foreclosure on properties pledged as collateral, which could result in a loss of our investment and harm our reputation.

The terms of the agreements governing our indebtedness include restrictive covenants and require that certain financial ratios be maintained. For example, the minimum stockholders' equity covenant contained in several of our debt agreements requires us to maintain total stockholders’ equity of no less than $110.0 million. At December 31, 2016, our total stockholders’ equity was $131.0 million and, as a result, we were in compliance with this covenant. Failure to comply with any of these covenants could result in a default that may, if not cured, accelerate the payment under our debt obligations which would likely have a material adverse effect on our liquidity, financial condition and results of operations. Our ability to comply with our covenants will depend upon our future economic performance. These covenants may adversely affect our ability to finance our future operations or capital needs or to engage in other business activities that may be desirable or advantageous to us.

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In order to maintain compliance with the covenants in our debt agreements and carry out our business plan, we may need to raise additional capital through equity transactions or obtain waivers or modifications of covenants from our lenders. Such additional funding may not be available on acceptable terms, if at all, when needed. We also may need to incur additional indebtedness in the future in the ordinary course of business to fund our development projects and our operations. There can be no assurance that such additional financing would be available when needed or, if available, offered on acceptable terms. If new debt is added to current debt levels, the risks described above could intensify.

We are periodically rated by nationally recognized credit rating agencies. Any downgrades in our credit rating could impact our ability to borrow by increasing borrowing costs as well as limiting our access to capital. In addition, a downgrade could require us to post cash collateral and/or letters of credit, which would adversely affect our cash flow and liquidity.

Additionally, a portion of our outstanding debt bears interest at variable rates. See “Disclosures About Market Risks” in Part II, Items 7. and 7A. for more information.

We are vulnerable to concentration risks because our operations are almost exclusive to the Austin, Texas market.

Our real estate operations are primarily, and our hotel and entertainment venue operations are entirely, located in Austin, Texas. Because of our geographic concentration and limited number of projects, our operations are more vulnerable to local economic downturns and adverse project-specific risks than those of larger, more diversified companies. The performance of the Austin economy greatly affects our sales and consequently the underlying values of our properties. Our geographic concentration may create increased vulnerability during regional economic downturns, which can significantly affect our financial condition and results of operations. See "Overview - Real Estate Market Conditions" in Part II, Items 7. and 7A. for more information.

The success of our business is significantly related to general economic conditions and, accordingly, our business could be harmed by any slowdown or deterioration in the economy.

Periods of economic weakness or recession; significantly rising interest rates; declining employment levels; declining demand for real estate; declining real estate values; conditions which negatively shape public perception of travel, including travel-related accidents, the financial condition of the airline, automotive and other transportation-related industries; or the public perception that any of these events or conditions may occur or be present, may negatively affect our business. These economic conditions can result in a general decline in acquisition, disposition and leasing activity, demand for hotel rooms and related lodging services, a general decline in the value of real estate and in rents, which in turn reduces revenue derived from property sales and leases and hotel operations as well as revenues associated with development activities. These conditions also can lead to a decline in property sales prices as well as a decline in funds invested in existing commercial real estate and related assets and properties planned for development. In addition, during periods of economic slowdown and recession, many consumers have historically reduced their discretionary spending, and our entertainment businesses depend on discretionary consumer and corporate spending. A reduction in consumer spending historically is accompanied by a decrease in attendance at live entertainment, sporting and leisure events, which may result in reductions in ticket sales, sponsorship opportunities and our ability to generate revenue with our entertainment businesses.

During an economic downturn, investment capital is usually constrained and it may take longer for us to dispose of real estate investments. As a result, the value of our real estate investments may be reduced and we could realize losses or diminished profitability. If economic and market conditions decline, our business performance and profitability could deteriorate. If this were to occur, we could fail to comply with certain financial covenants in our

debt agreements, which would force us to seek amendments with our lenders. No assurance can be given that we would be able to obtain any necessary waivers or amendments on satisfactory terms, if at all.

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Changes in weather conditions or natural disasters could adversely affect our business, financial condition and results of operations.

Our performance may be adversely affected by weather conditions. For our real estate operations, adverse weather may delay development or damage property, resulting in substantial repair or replacement costs to the extent not covered by insurance, a reduction in property values, or a loss of revenue, each of which could have a material adverse effect on our business, financial condition and results of operations. Our competitors may be affected differently by such changes in weather conditions or natural disasters depending on the location of their supplies or operations. Adverse weather conditions also may affect our live music events. Due to weather conditions, we may be required to reschedule an event to another available day, which would increase our costs for the event and could negatively affect the attendance at the event, as well as concession and merchandise sales, which could adversely affect our financial condition and results of operations.

Our insurance coverage on our properties may be inadequate to cover any losses we may incur.

We maintain insurance on our properties, including property, liability, fire and extended coverage. However, there are certain types of losses, generally of a catastrophic nature, such as hurricanes and floods or acts of war or terrorism that may be uninsurable or not economical to insure. We use our discretion when determining amounts, coverage limits and deductibles for insurance. These terms are determined based on retaining an acceptable level of risk at a reasonable cost. This may result in insurance coverage that in the event of a substantial loss would not be sufficient to pay the full current market value or current replacement cost of our lost investment. Inflation, changes in building codes and ordinances, environmental considerations and other factors also may make it unfeasible to use insurance proceeds to replace a building or other facility after it has been damaged or destroyed. Under such circumstances, the insurance proceeds we receive may be inadequate to restore our economic position in a property. In addition, we may become liable for injuries and accidents occurring during the construction process that are underinsured.

The loss of certain key senior management personnel could negatively affect our business.

We depend on our two executive officers and other key personnel. Our Chairman, President and Chief Executive Officer has been employed by the company since its inception in 1992. He has served as President since August 1996, Chief Executive Officer since May 1998 and Chairman of the Board since August 1998. The loss of any of our key senior management personnel could negatively affect our business.

Risks Relating to Hotel Operations

We are subject to the business, financial and operating risks common to the hotel industry, any of which could reduce our revenues.

Revenue from our hotel segment accounted for 51 percent of our total revenue for the fiscal year ended December 31, 2016. Business, financial and operating risks common to the hotel industry include:

- Changes in desirability of geographic regions and geographic concentration of our operations and customers;
- Decreases in the demand for hotel rooms and related lodging services, including a reduction in business travel as a result of alternatives to in-person meetings (including virtual meetings hosted online or over private teleconferencing networks) or due to general economic conditions;
-

Decreased corporate or governmental travel-related budgets and spending, as well as cancellations, deferrals or renegotiations of group business such as industry conventions;

- Negative public perception of corporate travel-related activities;

- The effect of internet intermediaries and other new industry entrants on pricing and our increasing reliance on technology;

- The costs and administrative burdens associated with complying with applicable laws and regulations in the U.S., including health, safety and environmental laws, rules and regulations and other governmental and regulatory action;
- Changes in operating costs including, but not limited to, energy, water, labor costs (including the effect of labor shortages and unionization), food costs, workers' compensation and health-care related costs, insurance and unanticipated costs related to acts of nature and their consequences; and
- Cyclical over-building in the hotel industry.

External perception of the W Austin Hotel could negatively affect our results of operations.

Starwood manages hotel operations at the W Austin Hotel. Our ability to attract and retain guests depends, in part, upon the external perceptions of Starwood and the quality of the W Austin Hotel and its services and we have to spend money periodically to keep the properties well maintained, modernized and refurbished. The reputation of the W Austin Hotel may be negatively affected if Starwood fails to act responsibly or comply with regulatory requirements in a number of areas, such as safety and security, sustainability, responsible tourism, environmental management, human rights and support for the local communities where Starwood manages and/or owns properties. The considerable increase in the use of social media over recent years has greatly expanded the potential scope and scale, and increased the rapidity of the dissemination of negative publicity that could be generated by any adverse incident or failure on the part of hotel operators. An adverse incident involving associates or guests and any media coverage resulting therefrom may cause a loss of consumer confidence in the Starwood brand which could negatively affect our results of operations. Additionally, the Starwood brand could be adversely affected by Marriott International, Inc.'s acquisition of Starwood, which was completed in September 2016.

Our revenues, profits or market share could be harmed if we are unable to compete effectively in the hotel industry in Austin.

The hotel industry in Austin is highly competitive. The W Austin Hotel competes for customers with other hotel and resort properties in Austin, ranging from national and international hotel brands to independent, local and regional hotel operators. We compete based on a number of factors, primarily including quality and consistency of rooms, restaurant and meeting facilities and services, attractiveness of location and price. Some of our competitors may have substantially greater marketing and financial resources than we do, and if we are unable to successfully compete in these areas, our operating results could be adversely affected.

Historically, the Austin market has had a limited number of high-end hotel accommodations. However, hotel capacity is being expanded by other hotel operators in Austin, including several properties in close proximity to the W Austin Hotel. As new rooms come on-line, increased competition could lead to an excess supply of hotel rooms in the Austin market, thereby causing Starwood to increase promotional incentives for hotel guests and/or reduce rates. Increased competition in the Austin market from new hotels or hotels that have recently undergone substantial renovation could have an adverse effect on occupancy, average daily rate and revenue per available room.

Additionally, some of our hotel rooms are booked through third-party internet travel intermediaries as well as lesser-known online travel service providers. In addition, travelers can book stays on websites that facilitate the short-term rental of homes and apartments from owners, thereby providing an alternative to hotel rooms. Increased internet bookings could have an adverse effect on occupancy, average daily rate and revenue per available room.

Risks Relating to Entertainment Businesses

We face intense competition in the live music industry, and we may not be able to maintain or increase our current revenue, which could adversely affect our business, financial condition and results of operations.

Revenue from our entertainment businesses accounted for 24 percent of our total revenue for the fiscal year ended December 31, 2016. Our entertainment businesses compete in a highly competitive industry, and we may not be able to maintain or increase our current revenue as a result of such competition. The live music industry competes with other forms of entertainment for consumers' discretionary spending and within this industry we compete with other venues to book artists. Our competitors compete with us for key employees who have relationships with popular music artists and that have a history of being able to book such artists for concerts and tours. These

competitors may engage in more extensive development efforts, undertake more far-reaching marketing campaigns, adopt more aggressive pricing policies and make more attractive offers to existing and potential artists. Our competitors may develop services, advertising options or music venues that are equal or superior to those we provide or that achieve greater market acceptance and brand recognition than we achieve. It is possible that new competitors may emerge and rapidly acquire significant market share.

Other variables related to our entertainment businesses that could adversely affect our financial performance by, among other things, leading to decreases in overall revenue, the number of sponsors, event attendance, ticket prices and fees or profit margins include:

- An increased level of competition for advertising dollars, which may lead to lower sponsorships as we attempt to retain advertisers or which may cause us to lose advertisers to our competitors offering better programs that we are unable or unwilling to match;
- Unfavorable fluctuations in operating costs, which we may be unwilling or unable to pass through to our customers via ticket prices;
- Competitors' offerings that may include more favorable terms than we do in order to obtain events for the venues they operate;
- Technological changes and innovations that we are unable to adopt or are late in adopting that offer more attractive entertainment alternatives than we or other live entertainment providers currently offer, which may lead to a reduction in attendance at live events, a loss of ticket sales or lower ticket fees;
- Other entertainment options available to our audiences that we do not offer;
- General economic conditions which could cause our consumers to reduce discretionary spending;
- Unfavorable changes in labor conditions which may require us to spend more to retain and attract key employees;
- Interruptions in our ticketing systems and infrastructures and data loss or other breaches of our network security; and
- Changes in consumer preferences.

Additionally, our entertainment operations are seasonal. The results of operations from our entertainment segment vary from quarter to quarter and year over year, and the financial performance in certain quarters or years may not be indicative of, or comparable to, our financial performance in subsequent quarters or years.

Personal injuries and accidents may occur in connection with our live music events, which could subject us to personal injury or other claims and increase our expenses, as well as reduce attendance at our live music events, causing a decrease in our revenue.

There are inherent risks involved with producing live music events. As a result, personal injuries and accidents have, and may, occur from time to time, which could subject us to claims and liabilities for personal injuries. Incidents in connection with our live music events at the Moody Theater or festival sites that we rent through our joint ventures could also result in claims or reduce attendance at our events, which could cause a decrease in our revenue or reduce our operating income. We maintain insurance policies that provide coverage for personal injuries sustained by persons

at our venues or events or accidents in the ordinary course of business, and there can be no assurance that such insurance will be adequate at all times and in all circumstances.

Risks Relating to Real Estate Operations

The real estate business is highly competitive and many of our competitors are larger and financially stronger than we are.

The real estate business is highly competitive. We compete with a large number of companies and individuals that have significantly greater financial, sales, marketing and other resources than we have. Our competitors include

local developers who are committed primarily to particular markets and also national developers who acquire properties throughout the U.S. A downturn in the real estate industry could significantly increase competition among developers. Increased competition could cause us to increase our selling incentives and/or reduce our prices. An oversupply of real estate properties available for sale or lease, as well as the potential significant discounting of prices by some of our competitors, may adversely affect our results of operations.

Our results of operations, cash flows and financial condition are greatly affected by the performance of the real estate industry.

Revenue from our real estate operations segment accounted for 13 percent of our total revenue for the fiscal year ended December 31, 2016. The U.S. real estate industry is highly cyclical and is affected by changes in global, national and local economic conditions and events such as general employment and income levels, availability of financing, interest rates, consumer confidence and overbuilding of or decrease in demand for residential and commercial real estate. Our real estate activities are subject to numerous factors beyond our control, including local real estate market conditions (both where our properties are located and in areas where our potential customers reside), substantial existing and potential competition, general national, regional and local economic conditions, fluctuations in interest rates and mortgage availability, changes in demographic conditions and changes in government regulations or requirements. Any of the foregoing factors could result in a reduction or cancellation of sales and/or lower gross margins for sales. Lower than expected sales could have a material adverse effect on the level of our profits and the timing and amounts of our cash flows.

Real estate investments often cannot easily be converted into cash and market values may be adversely affected by these economic circumstances, market fundamentals, and competitive and demographic conditions. Because of the effect these factors have on real estate values, it is difficult to predict the level of future sales or sales prices that will be realized for individual assets.

Our operations are subject to an intensive regulatory approval process and opposition from environmental groups, either or both of which could cause delays and increase the costs of our development efforts or preclude such developments entirely.

Before we can develop a property, we must obtain a variety of approvals from local and state governments with respect to such matters as zoning and other land use issues, and subdivision, site planning and environmental issues under applicable regulations. Some of these approvals are discretionary. Because government agencies and special interest groups have in the past expressed concerns about our development plans in or near Austin, our ability to develop these properties and realize future income from our properties could be delayed, reduced, prevented or made more expensive.

Several special interest groups have in the past opposed our plans in the Austin area and have taken various actions to partially or completely restrict development in some areas, including areas where some of our most valuable properties are located. We have actively opposed these actions. However, because of the regulatory environment that has existed in the Austin area and the opposition of these special interest groups, there can be no assurance that an unfavorable ruling would not have a significant long-term adverse effect on the overall value of our property holdings.

Our operations are subject to environmental regulation, which can change at any time and could increase our costs.

Real estate development is subject to state and federal environmental regulations and to possible interruption or termination because of environmental considerations, including, without limitation, air and water quality and protection of endangered species and their habitats.

Certain of the Barton Creek and Lantana properties include nesting territories for the Golden-cheeked Warbler, a federally listed endangered species. In 1995, we received a permit from the U.S. Wildlife Service pursuant to the Endangered Species Act, which to date has allowed the development of the Barton Creek and Lantana properties free of restrictions under the Endangered Species Act related to the maintenance of habitat for the Golden-cheeked Warbler.

Additionally, in April 1997, the U.S. Department of Interior listed the Barton Springs Salamander as an endangered species after a federal court overturned a March 1997 decision by the Department of Interior not to list the Barton

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Springs Salamander based on a conservation agreement between the State of Texas and federal agencies. The listing of the Barton Springs Salamander has not affected, nor do we anticipate it will affect, our Barton Creek and Lantana properties for several reasons, including the results of technical studies and the U.S. Fish and Wildlife Service 10(a) permit obtained by us in 1995. The development permitted by the 2002 Circle C settlement with the City has been reviewed and approved by the U.S. Fish and Wildlife Service and, as a result, we also do not anticipate that the 1997 listing of the Barton Springs Salamander will affect our Circle C properties.

In January 2013, the U.S. Department of the Interior announced that it had conducted an economic assessment of the potential designation of critical habitat for four species of Central Texas salamanders. Although this potential designation of habitat has not affected, nor do we anticipate that it will affect, our Barton Creek, Lantana or Circle C properties for several reasons, including prior studies and approvals, and our existing U.S. Fish and Wildlife Service 10(a) permit obtained in 1995, future endangered species listings or habitat designations could impact development of our properties.

We are making, and will continue to make, expenditures with respect to our real estate development for the protection of the environment. Emphasis on environmental matters will result in additional costs in the future. New environmental regulations or changes in existing regulations or their enforcement may be enacted and such new regulations or changes may require significant expenditures by us. The recent trend toward stricter standards in environmental legislation and regulations is likely to continue and could have a material adverse effect on our operating costs.

Risks Relating to Commercial Leasing

Unfavorable changes in market and economic conditions could negatively affect occupancy or rental rates, which could negatively affect our financial condition and results of operations.

Another decline in the real estate market and economic conditions could significantly affect rental rates. Occupancy and rental rates in our market, in turn, could significantly affect our profitability and our ability to satisfy our financial obligations. The risks that could affect conditions in our market include the following:

- Local conditions, such as oversupply of office space, a decline in the demand for office space or increased competition from other available office buildings;

- The inability or unwillingness of tenants to pay their current rent or rent increases; and

- Declines in market rental rates.

Additionally, tenants at our retail properties face continual competition in attracting customers from various on-line and other competitors. Our competitors and those of our tenants could have a material adverse effect on our ability to lease space in our retail properties and on the rents we can charge or the concessions we can grant. Further, as new technologies emerge, the relationship among customers, retailers, and shopping centers are evolving on a rapid basis. If we are unable to adapt to such new technologies and relationships on a timely basis, our financial performance will be adversely impacted.

We cannot predict with certainty whether any of these conditions will occur or whether, and to what extent, they will have an adverse effect on our operations.

Risks Relating to Ownership of Shares of Our Common Stock

Our common stock is thinly traded; therefore, our stock price may fluctuate more than the stock market as a whole.

As a result of the thin trading market for shares of our common stock, our stock price may fluctuate significantly more than the stock market as a whole or the stock prices of similar companies. Without a larger public float, shares of our common stock will be less liquid than the shares of common stock of companies with broader public ownership, and as a result, the trading prices for shares of our common stock may be more volatile. Among other things, trading of a relatively small volume of shares of our common stock may have a greater effect on the trading price than would be the case if our public float were larger.

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Item 1B. Unresolved Staff Comments

None.

Item 3. Legal Proceedings

We are from time to time involved in legal proceedings that arise in the ordinary course of our business. We do not believe, based on currently available information, that the outcome of any legal proceeding will have a material adverse effect on our financial condition or results of operations. We maintain liability insurance to cover some, but not all, potential liabilities normally incident to the ordinary course of our business as well as other insurance coverage customary in our business, with such coverage limits as management deems prudent.

Item 4. Mine Safety Disclosures

Not applicable.

Executive Officers of the Registrant

Certain information as of February 28, 2017, regarding our executive officers is set forth in the following table and accompanying text. Each of our executive officers serves at the discretion of our board of directors.

Name	Age	Position or Office
William H. Armstrong III	52	Chairman of the Board, President and Chief Executive Officer
Erin D. Pickens	55	Senior Vice President and Chief Financial Officer

Mr. Armstrong has been employed by us since our inception in 1992. Mr. Armstrong has served as President since August 1996, Chief Executive Officer since May 1998 and Chairman of the Board since August 1998.

Ms. Pickens has served as our Senior Vice President since May 2009 and as our Chief Financial Officer since June 2009. Ms. Pickens previously served as Executive Vice President and Chief Financial Officer of Tarragon Corporation from November 1998 until April 2009, and as Vice President and Chief Accounting Officer from September 1996 until November 1998 and Accounting Manager from June 1995 until August 1996 for Tarragon and its predecessors. Tarragon Corporation filed for voluntary reorganization under Chapter 11 of the U.S. Bankruptcy Code on January 12, 2009, and emerged from bankruptcy on July 6, 2010.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Performance Graph

The following graph compares the change in the cumulative total stockholder return on our common stock from December 31, 2011, through December 31, 2016, with the cumulative total return of (a) the Standard & Poor's (S&P) 500 Stock Index, (b) the Dow Jones U.S. Real Estate Index and (c) the below custom peer group of real estate related companies:

Alexander & Baldwin, Inc. (ALEX)
Consolidated-Tomoka Land Co. (CTO)
Forestar Group Inc. (FOR)
The Howard Hughes Corporation (HHC)
Maui Land & Pineapple Company, Inc. (MLP)
The St. Joe Company (JOE)
Tejon Ranch Co. (TRC)

This comparison assumes $100 invested on December 31, 2011, in (a) our common stock, (b) the S&P 500 Stock Index, (c) the Dow Jones U.S. Real Estate Index and (d) the custom peer group.

The total returns shown assume that dividends are reinvested. The stock price performance shown below is not necessarily indicative of future price performance.

Comparison of Cumulative Total Return
Stratus Properties Inc., S&P 500 Stock Index,
Dow Jones U.S. Real Estate Index and Custom Peer Group

	December 31,					
	2011	2012	2013	2014	2015	2016
Stratus Properties Inc.	$100	$109	$219	$177	$261	$419
S&P 500 Stock Index	100	116	154	175	177	198
Dow Jones U.S. Real Estate Index	100	119	121	154	157	169
Custom Peer Group	100	148	194	193	170	185

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Common Stock

Our common stock trades on The Nasdaq Stock Market (NASDAQ) under the symbol "STRS". The following table sets forth, for the periods indicated, the range of high and low sales prices of our common stock, as reported by NASDAQ.

	2016		2015	
	High	Low	High	Low
First Quarter	$25.05	$18.45	$13.95	$11.01
Second Quarter	24.24	15.75	15.11	12.56
Third Quarter	25.50	17.11	16.50	13.60
Fourth Quarter	36.06	23.17	20.98	14.91

As of February 28, 2017, there were 370 holders of record of our common stock.

Common Stock Dividends

The declaration of dividends is at the discretion of our Board of Directors (the Board); however, our ability to pay dividends is restricted by the terms of our Comerica credit facility which prohibits us from paying a dividend on our common stock without the bank’s prior written consent. On March 15, 2017, we announced that our Board, after receiving written consent from Comerica Bank, declared a special cash dividend of $1.00 per share payable on April 18, 2017, to stockholders of record on March 31, 2017. The special cash dividend was declared after the Board’s consideration of the results of the recent sale of The Oaks at Lakeway and in connection with the Board’s decision to conclude its previously announced formal review of strategic alternatives. Comerica’s consent to the payment of this special dividend is not indicative of the bank’s willingness to consent to the payment of future dividends. The declaration of future dividends, which is subject to our Board's discretion and the restrictions under our Comerica credit facility, will depend on our financial results, cash requirements, projected compliance with covenants in our debt agreements, outlook and other factors deemed relevant by our Board.

Unregistered Sales of Equity Securities

None.

Issuer Purchases of Equity Securities

The following table sets forth information with respect to shares of our common stock that we repurchased under the board-approved open market share purchase program during the three-month period ended December 31, 2016.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[a]	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs[a]
October 1 to 31, 2016	—	$ ——	—	991,695
November 1 to 30, 2016	—	—	—	991,695
December 1 to 31, 2016	—	—	—	991,695

Total	—	$	—	991,695

a. In November 2013, the Board approved an increase in our open-market share purchase program, initially authorized in 2001, for up to 1.7 million shares of our common stock. The program does not have an expiration date.

Our Comerica credit facility requires lender approval of any common stock repurchases.

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Item 6. Selected Financial Data

The selected consolidated financial data shown below is derived from our audited consolidated financial statements. These historical results are not necessarily indicative of results that you can expect for any future period. You should read this data in conjunction with Items 7. and 7A. "Management’s Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures About Market Risk" and Item 8. "Financial Statements and Supplementary Data".

	2016	2015	2014	2013	2012
	(In Thousands, Except Per Share Amounts)				
Years Ended December 31:					
Revenues	$80,341	$80,871	$94,111	$127,710	$115,737
Operating income	1,177	25,732 [a,b]	10,364 [c,d]	14,151 [b,d]	2,781
Equity in unconsolidated affiliates' income (loss)	51	(1,299)	1,112	(76)	(29)
(Loss) income from continuing operations, net of taxes	(5,999) [e]	14,377 [a,b]	18,157 [c,d,f]	5,894 [b,d]	(9,118)
Income from discontinued operations, net of taxes	—	3,218 [g]	—	—	4,805 [g]
Net (loss) income	(5,999) [e]	17,595 [a,b]	18,157 [c,d,f]	5,894 [b,d]	(4,313)
Net (loss) income attributable to common stockholders	(5,999) [e]	12,177 [a,b]	13,403 [c,d,f]	2,585 [b,d]	(1,586)
Basic net (loss) income per share:					
Continuing operations	$(0.74)	$1.11	$1.67	$0.32	$(0.80)
Discontinued operations	—	0.40	—	—	0.60
Basic net (loss) income per share	$(0.74)	$1.51	$1.67	$0.32	$(0.20)
Diluted net (loss) income per share:					
Continuing operations	$(0.74)	$1.11 [a,b]	$1.66 [c,d,f]	$0.32 [b,d]	$(0.80)
Discontinued operations	—	0.40 [g]	—	—	0.60 [g]
Diluted net (loss) income per share	$(0.74)	$1.51 [a,b]	$1.66 [c,d,f]	$0.32 [b,d]	$(0.20)
Average shares outstanding:					
Basic	8,089	8,058	8,037	8,077	7,966
Diluted	8,089	8,091	8,078	8,111	7,966
At December 31:					
Real estate held for sale	$21,236	$25,944	$12,245	$18,133	$60,244
Real estate held for investment, net	239,719	186,626	178,065	182,530	189,331
Real estate under development	111,373	139,171	123,921	76,891	31,596
Land available for development	19,153	23,397	21,368	21,404	49,569
Total assets	452,175	430,105	400,117	344,498	377,697
Debt	291,102	260,592	193,907	148,887	135,604
Stockholders' equity	130,951	136,599	136,443	123,621	121,687
Noncontrolling interests in subsidiaries	75	75	38,643	45,695	87,208

a. Includes a gain of $20.7 million ($10.8 million to net income attributable to common stockholders or $1.34 per share) associated with the sales of Parkside Village and 5700 Slaughter.

b. Includes a gain of $0.6 million ($0.4 million to net income attributable to common stockholders or $0.05 per share) in 2015 associated with the sale of a tract of undeveloped land and $2.1 million ($2.1 million to net income attributable to common stockholders or $0.26 per share) in 2013 associated with undeveloped land sales.

c. Includes a gain of $1.5 million ($1.0 million to net income attributable to common stockholders or $0.12 per share) associated with a litigation settlement. Also includes lease termination charges of $0.3 million ($0.2 million to net income attributable to common stockholders or $0.02 per share) recorded by the commercial leasing segment.

d. Includes income of $0.6 million ($0.4 million to net income attributable to common stockholders or $0.05 per share) in 2014 and $1.8 million ($1.8 million to net income attributable to common stockholders or $0.22 per share) in 2013 related to insurance settlements, and $0.4 million ($0.3 million to net income attributable to common stockholders or $0.03 per share) in 2014 and $1.1 million ($1.1 million to net income attributable to common stockholders or $0.13 per share) in 2013, for the recovery of building repair costs.

e. Includes a loss on early extinguishment of debt totaling $0.8 million ($0.5 million to net loss attributable to common stockholders or $0.06 per share) associated with prepayment of the Bank of America loan (see Note 7).

f. Includes a credit to provision for income taxes of $12.1 million, $1.50 per share, for the reversal of valuation allowances on deferred tax assets.

g. Includes the results of 7500 Rialto Boulevard, which was sold in February 2012, including a gain on the sale of $5.1 million ($5.1 million to net income attributable to common stockholders or $0.65 per share) in 2012 and recognition of a previously deferred gain of $5.0 million ($3.2 million to net income attributable to common stockholders or $0.40 per share) in 2015.

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Items 7. and 7A. Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures About Market Risk

OVERVIEW

In Management's Discussion and Analysis of Financial Condition and Results of Operations, "we," "us," "our" and "Stratus" refer to Stratus Properties Inc. and all entities owned or controlled by Stratus Properties Inc. You should read the following discussion in conjunction with our consolidated financial statements and the related discussion of "Business and Properties" and "Risk Factors" included elsewhere in this Form 10-K. The results of operations reported and summarized below are not necessarily indicative of future operating results, and future results could differ materially from those anticipated in forward-looking statements (refer to "Cautionary Statement" for further discussion). All subsequent references to "Notes" refer to Notes to Consolidated Financial Statements located in Part II, Item 8. "Financial Statements and Supplementary Data."

We are a diversified real estate company engaged primarily in the acquisition, entitlement, development, management, operation and sale of commercial, hotel, entertainment, and multi- and single-family residential real estate properties, primarily located in the Austin, Texas area, but including projects in certain other select markets in Texas. We generate revenues and cash flows from sales of developed properties, from our hotel and entertainment operations and from rental income from our commercial properties. See Note 11 for further discussion of our operating segments and "Business Strategy and Related Risks" for a discussion of our business strategy.

General. Developed property sales can include an individual tract of land that has been developed and permitted for residential use, a developed lot with a home already built on it or condominium units at the W Austin Residences. We may sell properties under development, undeveloped properties or commercial properties, if opportunities arise that we believe will maximize overall asset values as part of our business plan.

The number of developed lots/units, acreage under development and undeveloped acreage as of December 31, 2016, that comprise our real estate operations are presented in the following table.

		Acreage							
		Under Development			Undeveloped				
	Developed Lots/Units	Multi-Family	Commercial	Total	Single Family	Multi-family	Commercial	Total	Total Acreage
Austin:									
Barton Creek	297	38	—	38	512	289	398	1,199	1,237
Circle C	12	—	—	—	—	36	216	252	252
Lantana	—	—	—	—	—	—	56	56	56
W Austin Residences	2	—	—	—	—	—	—	—	—
The Oaks at Lakeway[a]	—	—	52	52	35	—	—	35	87
Magnolia	—	—	—	—	—	—	124	124	124
West Killeen Market	—	—	9	9	—	—	—	—	9
San Antonio:									
Camino Real	—	—	—	—	—	—	2	2	2
Total	311	38	61	99	547	325	796	1,668	1,767

a. On February 15, 2017, we sold The Oaks at Lakeway but retained 34.7 acres of undeveloped land adjacent to the project.

Our residential holdings at December 31, 2016, are principally in southwest Austin, Texas, and include developed lots and townhomes under development at Barton Creek, developed lots at the Circle C community, and condominium

units at the W Austin Residences. See "Development Activities - Residential" for further discussion. Our commercial holdings at December 31, 2016, consist of the office and retail space at the W Austin Hotel & Residences, the first phase of Barton Creek Village, The Oaks at Lakeway and the first phase of the Santal multi-family project. See "Development Activities - Commercial" for further discussion.

The W Austin Hotel & Residences is located on a two-acre city block in downtown Austin and contains a 251-room luxury hotel, 159 residential condominium units (of which the remaining two unsold units were being marketed as of December 31, 2016), and office, retail and entertainment space. The hotel is managed by Starwood Hotels & Resorts Worldwide, Inc. The entertainment space, occupied by Austin City Limits Live at the Moody Theater (ACL Live), includes a live music and entertainment venue and production studio. Our 3TEN ACL Live venue, which is

located on the site of the W Austin Hotel & Residences, opened in March 2016. The 3TEN ACL Live venue has a capacity of approximately 350 people and is designed to be more intimate than ACL Live, which can accommodate approximately 3,000 people.

In 2016, our revenues totaled $80.3 million and our net loss attributable to common stockholders totaled $6.0 million, compared with revenues of $80.9 million and net income attributable to common stockholders of $12.2 million for 2015 and revenues of $94.1 million and net income attributable to common stockholders of $13.4 million for 2014. The decrease in revenues in 2016 and 2015, compared with 2014, primarily relates to fewer condominium unit sales at the W Austin Residences and fewer lot sales.

Our results for 2016 included higher net interest expense and an increase in general and administrative expenses primarily because of costs associated with our successful proxy contest and review of strategic alternatives totaling $3.1 million. Higher interest expense reflects increased borrowings and higher interest rates associated with our refinancing of the W Austin Hotel & Residences with longer-term, fixed-rate debt and construction loans to support our development projects. The W Austin Hotel & Residences refinancing resulted in a loss on early extinguishment of debt totaling $0.8 million. Our results for 2015 included a gain of $20.7 million on the sales of our Parkside Village and 5700 Slaughter commercial developments and the recognition of a deferred gain associated with the 2012 sale of 7500 Rialto totaling $5.0 million (see Note 12 for further discussion). The results for 2015 also included a gain of $0.6 million associated with an undeveloped land sale. The results for 2014 included income of $1.5 million associated with a litigation settlement, $0.6 million associated with an insurance settlement and $0.4 million associated with the recovery of building repair costs associated with damage caused by the June 2011 balcony glass breakage incidents at the W Austin Hotel & Residences. The results for 2014 also included credits to the provision for income taxes of $12.1 million, primarily associated with the reversal of the valuation allowance on our deferred tax assets.

At December 31, 2016, we had total debt of $291.1 million, but we made significant debt repayments in February 2017 in connection with the sale of The Oaks at Lakeway (see "Debt Maturities and Other Contractual Obligations" and Note 13 for further discussion). For discussion of operating cash flows and debt transactions see "Capital Resources and Liquidity" below.

Real Estate Market Conditions

Because of the concentration of our assets primarily in the Austin, Texas area, market conditions in this region significantly affect our business. Our future operating cash flows and our ability to develop and sell our properties will be dependent on the level and profitability of our real estate sales. In turn, these sales will be significantly affected by future real estate market conditions in and around Austin, Texas, including development costs, interest rate levels, the availability of credit to finance real estate transactions, demand for residential and commercial real estate, and regulatory factors including our use and development entitlements. These market conditions historically move in periodic cycles, and can be volatile.

In addition to the traditional influence of state and federal government employment levels on the local economy, the Austin area has been influenced by growth in the technology sector. The Austin-area population increased by 20 percent from 2009 through 2016, largely because of an influx of technology companies and related businesses. Median family income levels in Austin also increased during the period from 2009 through 2015, rising 17 percent. The expanding economy resulted in rising demands for residential housing, commercial office space and retail services. From 2009 through 2015, sales tax receipts in Austin rose by 46 percent, an indication of the increase in business activity during the period.

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The following chart compares Austin's five-county median family income and metro area population for 1999, 2009 and the most current information available for 2015 and 2016, based on United States (U.S.) Census Bureau data and City of Austin (the City) data.
Based on the City’s fiscal year of October 1 through September 30, the chart below compares Austin’s sales tax revenues for 1999, 2009 and 2015 (the latest period for which data is available).
Source: Comprehensive Annual Financial Report for the City of Austin, Texas

Real estate development in southwest Austin, where most of the property in our real estate operations segment is located, has historically been constrained as a result of various restrictions imposed by the City. Additionally, several special interest groups have traditionally opposed development in southwest Austin. During 2008 and 2009, economic conditions resulted in a general decline in leasing activity across the U.S. and caused vacancy rates to

increase in most markets, including Austin. Vacancy rates for various types of developed properties in Austin have improved since 2009, and the vacancy rates as of December 31, 2016 and 2015, are noted below.

	Vacancy Rates	
Building Type	2016	2015
Office Buildings (Class A)	9%[a]	10%[a]
Multi-Family Buildings	4%[b]	4 %[b]
Retail Buildings	4%[b]	5 %[b]

a. CB Richard Ellis: Austin MarketView
b. Marcus & Millichap Research Services, CoStar Group, Inc.

BUSINESS STRATEGY AND RELATED RISKS

Stratus Properties Inc. was formed in 1992 to hold, operate and develop the domestic real estate and oil and gas properties of our former parent company. We sold all of our oil and gas properties during the 1990s and have since focused solely on our real estate properties. Our overall strategy has been to enhance the value of our properties by securing and maintaining development entitlements and developing and building real estate projects on these properties for sale or investment. We have also pursued opportunities for new projects that offer the possibility of acceptable returns and risks.

In April 2016, we announced that our Board of Directors (the Board) authorized management to explore a full range of strategic alternatives to enhance value for our stockholders, including, but not limited to, a sale of Stratus, a sale of certain of our core assets, a share repurchase program, and continuing our long-term plans to develop the value of our properties. After conducting a thorough process of evaluating seven financial advisors suggested by the Board, and full Board in-person interviews of three finalists, we engaged Hentschel & Company, a premier boutique investment banking advisory firm focused on the real estate industry, as financial advisor in connection with the review of strategic alternatives. With Hentschel, Stratus engaged in an extensive process approaching 105 potential transaction parties including public, private, domestic and foreign investors, of which 24 executed nondisclosure agreements and were provided access to a data room. There were no restrictions on the form or nature of the transaction to be proposed, no price or form of consideration requirements, and no requirements concerning retention or compensation of management. Stratus and its financial advisor engaged in meetings, discussions and negotiations with many of these participants, 10 of whom submitted written or verbal indications of interest. None of the participants ultimately sustained an indication of interest in acquiring the entire company at a price per share at or above Stratus' recent trading prices. The Board, in consultation with its financial advisor, determined that the indications of interest would not at this time provide adequate value to stockholders. Accordingly, the formal strategic review process has concluded; however, Stratus' Board will continue to review the strategic direction of the company, and remains open to considering proposals that will provide value to Stratus' stockholders. As the formal strategic review process has concluded, the Board decided to allow our stockholder rights plan to expire in accordance with its terms on March 9, 2017.

We are continuing our successful program of actively developing our properties and strategically marketing and selling developed assets at appropriate times. As discussed below in “Development Activities - Commercial - The Oaks at Lakeway” and Note 13, we completed the sales of (i) The Oaks at Lakeway for $114.0 million in cash and (ii) our 3,085-square-foot bank building in Barton Creek Village and an adjacent undeveloped 4.1 acre tract of land for $3.1 million in cash in February 2017. In addition, we (i) continue to advance our development projects and plans, including the HEB grocery-anchored retail projects in Killeen and Magnolia (ii) have secured permits for and expect to break ground by mid-2017 on the second 212-unit phase of the Santal multi-family project in Barton Creek Section N, (iii) subject to obtaining construction financing, expect to begin construction of Lantana Place, a mixed-use development project comprised of approximately 320,000 square feet of retail, hotel and office uses in second-quarter

2017, (iv) have secured final building permits for The St. Mary, a 240-unit multi-family development in the Circle C community, and intend to either sell the shovel-ready site or, subject to obtaining construction financing, commence construction, by the end of 2017, (v) continue to market our completed single-family homesites in Barton Creek and Circle C, (vi) have leased approximately 90 percent of the first phase of our Santal multi-family units as of February 28, 2017; and (vii) are nearing completion of construction of the first 5 of the 20 townhomes in our Amarra Villas project in Barton Creek. In July 2015, we completed the sales of our Austin-area Parkside Village and 5700 Slaughter commercial properties, both located in the Circle C community, for $32.5 million and $12.5 million, respectively.

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Additionally, on September 28, 2015, we completed the purchase of Canyon-Johnson Urban Fund II, L.P.'s (Canyon-Johnson's) approximate 58 percent interest in the Block 21 Joint Venture, for $62.0 million. See Note 2 for further discussion. In connection with our acquisition of Canyon-Johnson's interest in the Block 21 Joint Venture, we completed the refinancing of the W Austin Hotel & Residences. See "Capital Resources and Liquidity - Credit Facility and Other Financing Arrangements."

We believe that Austin and surrounding sub-markets continue to be desirable locations. Many of our developments are in locations where development approvals have historically been subject to regulatory constraints, which has made it difficult to obtain entitlements. Our Austin assets, which are located in desirable areas with significant regulatory constraints, are highly entitled and now have utility capacity for full buildout. As a result, we believe that through strategic planning, development and marketing, we can maximize and fully realize their value. Our development plans require significant additional capital, and may be pursued through joint ventures or other means. In addition, our strategy is subject to continued review by our board of directors and may change as a result of the outcome of our recently-announced review of strategic alternatives, market conditions or other factors deemed relevant by our board of directors.

In years past, economic conditions, including the constrained capital and credit markets, negatively affected the execution of our business plan, primarily by decreasing our pace of development to match economic and market conditions. We responded to these conditions by successfully restructuring our existing debt, including reducing interest rates and extending maturities, which enabled us to preserve our development opportunities until market conditions improved. Economic conditions have improved and we believe we have the financial flexibility to fully exploit our development opportunities and resources. Most of our funding for purchases and development of real estate properties and capital expenditures comes from project-specific loans. In February 2017, after completing the sale of our interest in The Oaks at Lakeway, we repaid the outstanding balance of our revolving line of credit with Comerica Bank. As a result, as of February 28, 2017, we had $45 million of availability under the facility, which matures in August 2017.

Although we have significant recurring costs, including property taxes, maintenance and marketing, we believe we will have sufficient sources of debt financing and cash from operations to address our cash requirements. See “Capital Resources and Liquidity” below regarding recent debt repayments and refinancing and Part 1, Item 1A. “Risk Factors” for further discussion.

CRITICAL ACCOUNTING POLICIES

Management’s discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the U.S. The preparation of these financial statements requires that we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. We base these estimates on historical experience and on assumptions that we consider reasonable under the circumstances; however, reported results could differ from those based on the current estimates under different assumptions and/or conditions. The areas requiring the use of management’s estimates are discussed in Note 1 under the heading “Use of Estimates.” We believe that our most critical accounting policies relate to our real estate and commercial leasing assets and deferred tax assets.

Management has reviewed the following discussion of its development and selection of critical accounting estimates with the audit committee of our board of directors.

Real Estate, Hotel, Entertainment Venue and Commercial Leasing Assets. Real estate held for sale is stated at the lower of cost or fair value less costs to sell. The cost of real estate sold includes acquisition, development, construction and carrying costs and other related costs through the development stage. Real estate under development and land available for development are stated at cost. Real estate held for investment, which includes the hotel and entertainment venue at the W Austin Hotel & Residences and our commercial leasing assets, is also stated at cost.

When events or circumstances indicate that an asset's carrying amount may not be recoverable, an impairment test is performed. For real estate held for sale, if estimated fair value less costs to sell is less than the related carrying amount, a reduction of the asset's carrying value to fair value less costs to sell is required. For real estate under development, land available for development and real estate held for investment, if the projected undiscounted cash flow from the asset is less than the related carrying amount, a reduction of the carrying amount of the asset to fair value is required. Measurement of an impairment loss is based on the fair value of the asset. Generally, we determine fair value using valuation techniques such as discounted expected future cash flows.

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In developing estimated future cash flows for impairment testing for our real estate assets, we have incorporated our own market assumptions including those regarding real estate prices, sales pace, sales and marketing costs, and infrastructure costs. Our assumptions are based, in part, on general economic conditions, the current state of the real estate industry, expectations about the short- and long-term outlook for the real estate market, and competition from other developers in the area in which we develop our properties. These assumptions can significantly affect our estimates of future cash flows. For those properties held for sale and deemed to be impaired, we determine fair value based on appraised values, adjusted for estimated costs to sell, as we believe this is the value for which the property could be sold. We recorded no impairment losses during the three-year period ended December 31, 2016 (see Note 1).

The estimate of our future revenues is also important because it is the basis of our development plans and also a factor in our ability to obtain the financing necessary to complete such plans. If our estimates of future cash flows from our properties differ from expectations, then our financial position and liquidity may be impacted, which could result in our default under certain debt instruments or result in our suspending some or all of our development activities.

Deferred Tax Assets. The carrying amounts of deferred tax assets are required to be reduced by a valuation allowance if, based on the available evidence, it is more likely than not that such assets will not be realized. Accordingly, we assess the need to establish valuation allowances for deferred tax assets periodically based on the more-likely-than-not realization threshold criterion. In the assessment for a valuation allowance, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, our experience with operating loss and tax credit carryforwards not expiring unused, and tax planning alternatives. This process involves significant management judgment about assumptions that are subject to change based on variances between projected and actual operating performance and changes in our business environment or operating or financing plans.

We regularly evaluate the recoverability of our deferred tax assets, considering available positive and negative evidence, including earnings history and the forecast of future taxable income. In 2014, we concluded that there was sufficient positive evidence that our deferred tax assets (net of deferred tax liabilities) will be realized. Accordingly, we reversed the valuation allowance against our deferred tax assets during 2014 (see Note 8). We had deferred tax assets (net of deferred tax liabilities) totaling $17.2 million at December 31, 2016.

Our future results of operations may be negatively impacted by our inability to realize a tax benefit for future tax losses or for items that will generate additional deferred tax assets that are more likely than not to not be realized.

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DEVELOPMENT ACTIVITIES

Residential. As of December 31, 2016, the number of our residential developed lots/units, lots under development and lots for potential development by area are shown below:

	Residential Lots/Units			
	Developed	Under Development	Potential Development[a]	Total
Barton Creek:				
Amarra Drive:				
Phase II lots	13	—	—	13
Phase III lots	48	—	—	48
Amarra Villas	—	20	170	190
Section N:				
Santal multi-family Phase I	236	—	—	236
Santal multi-family Phase II	—	—	212	212
Other Section N	—	—	1,412	1,412
Other Barton Creek sections	—	—	156	156
Circle C:				
Meridian	12	—	—	12
The St. Mary	—	—	240	240
Tract 102 multi-family	—	—	56	56
Flores Street	—	—	6	6
W Austin Residences:				
Condominium units	2	—	—	2
Total Residential Lots/Units	311	20	2,252	2,583

a. Our development of the properties identified under the heading “Potential Development” is dependent upon the approval of our development plans and permits by governmental agencies, including the City. Those governmental agencies may not approve one or more development plans and permit applications related to such properties or may require us to modify our development plans. Accordingly, our development strategy with respect to those properties may change in the future. While we may be proceeding with approved infrastructure projects on some of these properties, they are not considered to be “under development” for disclosure in this table unless other development activities necessary to fully realize the properties’ intended final use are in progress or scheduled to commence in the near term.

Calera. Calera is a residential subdivision in Barton Creek with plat approval for 155 lots. The initial 16-acre phase of the Calera subdivision included 16 courtyard homes at Calera Court. The second phase of the Calera subdivision, Calera Drive, consisted of 53 single-family lots. Construction of the final phase, known as Verano Drive, was completed in July 2008 and included 71 single-family lots. During 2014, we sold the remaining 9 Verano Drive lots for $3.5 million.

Amarra Drive. Amarra Drive Phase I, which was the initial phase of the Amarra Drive subdivision, was completed in 2007 and included six lots with sizes ranging from approximately one to four acres. Amarra Drive Phase II, which consisted of 35 lots on 51 acres, was substantially completed in October 2008. During 2014, we sold 16 Phase II lots for $8.2 million. We did not sell any Phase II lots in 2015, and we sold one Phase II lot for $0.6 million in 2016. As of December 31, 2016, 13 Phase II lots remained unsold.

In first-quarter 2015, we substantially completed the development of Amarra Drive Phase III, which consists of 64 lots on 166 acres. During 2016, we sold 6 Phase III lots for $4.4 million and during 2015, we sold 10 Phase III lots for

$7.0 million. As of December 31, 2016, 48 Phase III lots remain unsold. During January 2017, one Phase III lot was sold and as of February 28, 2017, three Phase III lots were under contract.

The Amarra Villas townhome project is a 20-unit development for which we completed site work in late 2015. Construction of the first 5 of 20 townhomes commenced in March 2016 and construction is nearing completion. The townhomes average approximately 4,400 square feet and are being marketed as "lock and leave" properties, with golf course access and cart garages. As of February 28, 2017, one townhome, for which construction has not yet begun, was under contract.

Section N. The Santal multi-family project, a garden-style apartment complex, was completed within budget in August 2016 and consists of 236 units. We began recognizing rental revenue, which is included in the Commercial

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Leasing segment, in January 2016. As of February 28, 2017, 210 units were leased. Construction of the second 212-unit phase is expected to commence by mid-2017.

Circle C. We are developing the Circle C community based on the entitlements secured in our Circle C settlement with the City. Our Circle C settlement, as amended in 2004, permits development of 1.16 million square feet of commercial space, 504 multi-family units and 830 single-family residential lots. See "Properties" under Part 1, Items 1. and 2. for further discussion of our Circle C settlement with the City.

Meridian. Meridian is an 800-lot residential development at the Circle C community. Development of the final phase of Meridian, which consisted of 57 one-acre lots, was completed in 2014. During 2016, we sold 19 Meridian lots for $5.3 million, during 2015, we sold 19 Meridian lots for $5.4 million, and during 2014, we sold 7 Meridian lots for $2.0 million. As of December 31, 2016, 12 Meridian lots remained unsold. During January 2017, two Meridian lots were sold and as of February 28, 2017, three Meridian lots were under contract.

The St. Mary. We have secured final building permits for The St. Mary, a 240-unit multi-family development in the Circle C community, and intend to either sell the shovel-ready site or, subject to obtaining construction financing, commence construction by the end of 2017.

W Austin Residences. As of December 31, 2014, we had sold 157 condominium units (including 7 units for $11.9 million in 2014), with 2 remaining condominium units available for sale and continuing to be marketed as of December 31, 2016.

Commercial. As of December 31, 2016, the number of square feet of our commercial property developed, under development and our remaining entitlements for potential development (excluding property associated with our unconsolidated joint venture with Trammell Crow Central Texas Development, Inc. relating to Crestview Station in Austin (the Crestview Station Joint Venture)) are shown below:

	Commercial Property			
	Developed	Under Development	Potential Development [a]	Total
Barton Creek:				
Treaty Oak Bank	3,085	—	—	3,085
Barton Creek Village Phase I	22,366	—	—	22,366
Barton Creek Village Phase II	—	—	16,000	16,000
Entry corner	—	—	5,000	5,000
Amarra retail/office	—	—	83,081	83,081
Section N	—	—	1,500,000	1,500,000
Circle C:				
Tract 110	—	—	614,500	614,500
Tract 114	—	—	78,357	78,357
Lantana:				
Tract GR1	—	—	325,000	325,000
Tract G07	—	—	160,000	160,000
W Austin Hotel & Residences:				
Office	38,316	—	—	38,316
Retail	18,327	—	—	18,327
The Oaks at Lakeway	217,736	19,003	—	236,739
Magnolia	—	—	351,000	351,000

West Killeen Market	—	44,000	—	44,000
Total Square Feet	299,830	63,003	3,132,938	3,495,771

a. Our development of the properties identified under the heading “Potential Development” is dependent upon the approval of our development plans and permits by governmental agencies, including the City. Those governmental agencies may not approve one or more development plans and permit applications related to such properties or may require us to modify our development plans. Accordingly, our development strategy with respect to those properties may change in the future. While we may be proceeding with approved infrastructure projects on some of these properties, they are not considered to be “under development” for disclosure in this table unless other development activities necessary to fully realize the properties’ intended final use are in progress or scheduled to commence in the near term.

Barton Creek. The first phase of Barton Creek Village consists of a 22,366-square-foot retail complex and a 3,085-square-foot bank building. As of December 31, 2016, occupancy was 100 percent for the retail complex, and the bank building is leased through January 2023. In February 2017, we sold the 3,085-square-foot bank building and the Barton Creek Village Phase II land (see Note 13).

Circle C. In July 2015, we completed the sales of our Austin-area Parkside Village and 5700 Slaughter commercial properties, both located in the Circle C community. The Parkside Village retail project, which we owned in a joint venture with LCHM Holdings, LLC, consisted of 90,184 leasable square feet and was sold for $32.5 million. The project included a 33,650-square-foot full-service movie theater and restaurant, a 13,890-square-foot medical clinic and five other retail buildings, including a 14,926-square-foot building, a 10,175-square-foot building, a 8,043-square-foot building, a 4,500-square-foot building and a stand-alone 5,000-square-foot building. The 5700 Slaughter retail project, which we previously wholly owned, consisted of 25,698 leasable square feet and was sold for $12.5 million. See Note 12 for further discussion.

Lantana. Lantana is a partially developed, mixed-use real-estate development project. As of December 31, 2016, we had entitlements for approximately 485,000 square feet of office and retail space on the remaining 56 acres. Regional utility and road infrastructure is in place with capacity to serve Lantana at full build-out as permitted under our existing entitlements. Our Lantana Place mixed-use development project, comprised of approximately 320,000 square feet of retail, hotel and office uses, is fully designed and permitted, and subject to obtaining construction financing, we expect to begin construction in the second quarter of 2017.

W Austin Hotel & Residences. The W Austin Hotel & Residences has 38,316 square feet of leasable office space, including 9,000 square feet occupied by our corporate office, and 18,327 square feet of retail space. As of December 31, 2016, both the office and retail space were substantially fully occupied.

The Oaks at Lakeway. The Oaks at Lakeway is an HEB Grocery Company, L.P. (HEB)-anchored retail project planned for 236,739 square feet of commercial space located in Lakeway, Texas in the Lake Travis community. As of December 31, 2016, leases for 92 percent of the space, including the HEB lease, were executed and leasing for the remaining space was under way. The HEB store opened in October 2015 and all other executed leases, with exception of the hotel lease, had commenced as of December 31, 2016.

On February 15, 2017, we completed the sale of The Oaks at Lakeway to FHF I Oaks at Lakeway, LLC (FHF) for $114.0 million in cash. Net cash proceeds totaled $50.8 million after payment of transaction expenses, a net profits participation payment due to HEB, and payoff of the balance of the Lakeway construction loan. As required by the terms of our credit agreement with Comerica, a portion of the net cash proceeds were used to pay indebtedness outstanding under our Comerica credit facility, which resulted in Stratus having only project-specific debt outstanding as of February 28, 2017. We believe the sale provides strong evidence of the value created by our strategy, including our grocery-anchored retail development program.

The project, which was 100% owned by Stratus, was developed on tracts we acquired between May 2013 and September 2014. The sale excluded 34.7 acres of undeveloped property, which is zoned for residential, hotel and civic uses.

The parties entered into three master lease agreements at closing: (1) one covering unleased in-line retail space, with a 5-year term, (2) one covering four unleased pad sites, three of which have 10-year terms, and one of which has a 15-year term, and (3) one covering the hotel pad with a 99-year term. The hotel pad is currently leased and the master hotel lease will become effective only if the current hotel lessee defaults prior to completion of the hotel. As specified conditions are met, primarily consisting of the tenant executing a lease, commencing payment of rent and taking

occupancy, leases will be assigned to the purchaser and the corresponding property will be removed from the master lease, reducing our selling subsidiary's master lease payment obligation. We project that our master lease payment obligation will approximate $170,000 per month and will decline over time until leasing is complete and all leases are assigned to the purchaser, which is projected to occur by February 2019. To secure our obligations under the master leases, we provided a $1.5 million irrevocable letter of credit with a three-year term.

With respect to the master leases, if we are not successful in leasing unleased space as projected, or tenants currently paying rent default prior to their leases being assigned to the purchaser, our selling subsidiary would be responsible for the attributable lease payments to the purchaser through the earlier of (1) the time alternative lease arrangements can be made and the lease is assigned to the purchaser and (2) the end of the term of the applicable master lease.

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As a result of our continuing involvement under the master lease agreements with the purchaser, the transaction does not qualify as a sale under generally accepted accounting principles in the U.S. Accordingly, a deferred gain will be recorded in other liabilities and will be reduced by payments made under the master lease agreements. All or a portion of the deferred gain may be recognized in future periods when Stratus' continuing involvement ends or the maximum exposure under the master leases is less than the deferred gain.

Magnolia. The Magnolia project is an HEB-anchored retail project planned for 351,000 square feet of commercial space. Planning and infrastructure work by the city of Magnolia is complete and road expansion by the Texas Department of Transportation is in progress and expected to be completed in 2017. The HEB store is presently expected to open in early 2019.

West Killeen Market. In 2015, we acquired approximately 21 acres in Killeen, Texas, to develop the West Killeen Market project, an HEB-anchored retail project planned for 44,000 square feet of commercial space and three pad sites adjacent to a 90,000 square-foot HEB grocery store. Construction began in August 2016, and the HEB store is scheduled to open in April 2017.

UNCONSOLIDATED AFFILIATE

Crestview Station. Crestview Station is a single-family, multi-family, retail and office development, located on the site of a commuter rail line. The Crestview Station Joint Venture sold substantially all of its multi-family and commercial properties in 2007 and one commercial site in 2008. In 2014, the Crestview Station Joint Venture sold the remaining residential land to DR Horton for $17.5 million.

As of December 31, 2016, the Crestview Station Joint Venture has sold all of its properties except for one commercial site. We account for our 50 percent interest in the Crestview Station Joint Venture under the equity method. See Note 6 for further discussion of Crestview Station.

RESULTS OF OPERATIONS

We are continually evaluating the development and sale potential of our properties and will continue to consider opportunities to enter into transactions involving our properties. As a result, and because of numerous other factors affecting our business activities as described herein, our past operating results are not necessarily indicative of our future results. We use operating income or loss to measure the performance of each operating segment. General and administrative expenses primarily consist of employee salaries, wages and other costs, and beginning January 1, 2016, are managed on a consolidated basis and are not allocated to Stratus' operating segments. The segment disclosures for 2015 and 2014 have been recast to be consistent with the presentation of general and administrative expenses as part of "Corporate, eliminations and other."

The following table summarizes our operating results for the years ended December 31 (in thousands):

	2016	2015	2014
Operating income (loss):			
Hotel	$8,058	$5,065	$6,256
Entertainment	2,546	3,086	3,085
Real estate operations	824	3,671	7,291
Commercial leasing	2,369	22,514 [a]	2,107
Corporate, eliminations and other	(12,620)	(8,604)	(8,375)
Operating income	$1,177	$25,732	$10,364
Interest expense, net	$(9,408)	$(4,065)	$(3,751)

Income from discontinued operations, net of taxes	$—	$3,218	$—
Net (loss) income	$(5,999)	$17,595	$18,157
Net income attributable to noncontrolling interests in subsidiaries[b]	$—	$(5,418)	$(4,754)
Net (loss) income attributable to common stockholders	$(5,999)	$12,177	$13,403

a. Includes a gain of $20.7 million on the sales of our Parkside Village and 5700 Slaughter commercial developments.
b. Primarily relates to Canyon-Johnson's share in the Block 21 Joint Venture, which we acquired in 2015.

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We have four operating segments: Hotel, Entertainment, Real Estate Operations and Commercial Leasing (see Note 11). The following is a discussion of our operating results by segment.

Hotel

The following table summarizes our Hotel operating results for the years ended December 31 (in thousands):

	2016	2015	2014
Hotel revenue	$40,727	$41,651	$42,860
Hotel cost of sales, excluding depreciation	29,248	30,789	30,753
Depreciation	3,421	5,797	5,851
Operating income	$8,058	$5,065	$6,256

Hotel Revenue. Hotel revenue primarily includes revenue from W Austin Hotel room reservations and food and beverage sales. Revenue per available room (REVPAR), which is calculated by dividing total room revenue by the average total rooms available during the year, was $259 in 2016, compared with $279 in 2015 and $291 in 2014. In 2015 and 2016, 2,656 new hotel rooms were added to the Austin hotel market, and another 1,662 rooms are expected to be added during 2017. The increase in supply of hotel rooms is expected to cause hotel revenue to decline further in 2017.

Hotel Cost of Sales. Hotel operating costs totaled $29.2 million in 2016 and $30.8 million in each of 2015 and 2014. Lower costs in 2016, compared with 2015 and 2014, primarily reflect a reduction in employee costs.
Hotel Depreciation. Hotel depreciation decreased to $3.4 million for 2016, compared to $5.8 million in 2015 and $5.9 million in 2014, primarily reflecting certain furniture and equipment being fully depreciated as of December 31, 2015.

Entertainment

The following table summarizes our Entertainment operating results for the years ended December 31 (in thousands):

	2016	2015	2014
Entertainment revenue	$19,705	$19,800	$19,108
Entertainment cost of sales, excluding depreciation	15,698	15,426	14,763
Depreciation	1,461	1,288	1,260
Operating income	$2,546	$3,086	$3,085

Entertainment Revenue. Entertainment revenue primarily reflects the results of operations for ACL Live, including ticket sales, revenue from private events, sponsorships, personal seat license sales and suite sales, and sales of concessions and merchandise. Entertainment revenue also reflects revenues associated with events hosted at venues other than ACL Live, including 3TEN ACL Live, and production of recorded content for artists performing at ACL Live or 3TEN ACL Live, as well as the results of the Stageside Productions joint venture with Pedernales Entertainment LLC. Revenues from the Entertainment segment will vary from period to period as a result of factors such as the price of tickets and number of tickets sold, as well as the number and type of events. Entertainment revenue in 2016 approximated 2015 revenue and increased in 2015, compared with 2014, primarily reflecting higher private event revenue and higher ancillary revenue per attendee.

Certain key operating statistics specific to the concert and event hosting industry are included below to provide additional information regarding our ACL Live operating performance, for the years ended December 31.

	2016	2015	2014
Events:			
Events hosted	223	210	207
Estimated attendance	237,000	245,000	231,200
Ancillary net revenue per attendee	$46.21	$44.89	$41.91

Ticketing:		
Number of tickets sold	175,023	168,506