STRATUS PROPERTIES INC
Form 10-Q
May 10, 2017

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

FORM 10-Q

(Mark One)

[X]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended March 31, 2017 or
[ ]	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from to Commission File Number: 001-37716

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)

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 ¨ 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 ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer þ
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
Emerging growth company ¨	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes þ No
On April 28, 2017, there were issued and outstanding 8,126,502 shares of the registrant’s common stock, par value $0.01 per share.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

STRATUS PROPERTIES INC.
CONSOLIDATED BALANCE SHEETS (Unaudited)
(In Thousands)

	March 31, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	$27,083	$ 13,597
Restricted cash	9,757	11,892
Real estate held for sale	20,442	21,236
Real estate under development	101,405	111,373
Land available for development	17,902	19,153
Real estate held for investment, net	184,159	239,719
Deferred tax assets	27,141	17,223
Other assets	14,079	17,982
Total assets	$401,968	$ 452,175
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable	$12,153	$ 6,734
Accrued dividend	8,127	—
Accrued liabilities, including taxes	12,749	13,240
Debt	199,859	291,102
Deferred gain	39,324	—
Other liabilities	9,426	10,073
Total liabilities	281,638	321,149
Commitments and contingencies		
Equity:		
Stockholders’ equity:		
Common stock	93	92
Capital in excess of par value of common stock	184,889	192,762
Accumulated deficit	(43,670)	(41,143)
Common stock held in treasury	(21,057)	(20,760)
Total stockholders’ equity	120,255	130,951
Noncontrolling interests in subsidiaries	75	75
Total equity	120,330	131,026
Total liabilities and equity	$401,968	$ 452,175

The accompanying Notes to Consolidated Financial Statements (Unaudited) are an integral part of these consolidated financial statements.

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STRATUS PROPERTIES INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (Unaudited)
(In Thousands, Except Per Share Amounts)

	Three Months Ended March 31,	
	2017	2016
Revenues:		
Real estate operations	$2,164	$2,255
Leasing operations	2,281	2,053
Hotel	10,314	10,575
Entertainment	5,905	4,143
Total revenues	20,664	19,026
Cost of sales:		
Real estate operations	1,976	2,209
Leasing operations	1,685	862
Hotel	7,165	7,681
Entertainment	4,377	3,044
Depreciation	2,141	1,682
Total cost of sales	17,344	15,478
General and administrative expenses	3,396	3,075
Profit participation in sale of The Oaks at Lakeway	2,538	—
Gain on sales of assets	(1,115)	—
Total	22,163	18,553
Operating (loss) income	(1,499)	473
Interest expense, net	(1,975)	(1,969)
Gain (loss) on interest rate derivative instruments	86	(374)
Loss on early extinguishment of debt	(532)	(837)
Other income, net	5	4
Loss before income taxes and equity in unconsolidated affiliates' (loss) income	(3,915)	(2,703)
Equity in unconsolidated affiliates' (loss) income	(17)	98
Benefit from income taxes	1,262	922
Net loss and total comprehensive loss attributable to common stockholders	$(2,670)	$(1,683)
Basic and diluted net loss per share attributable to common stockholders	$(0.33)	$(0.21)
Basic and diluted weighted-average shares of common stock outstanding	8,101	8,071
Dividends declared per share of common stock	$1.00	$—

The accompanying Notes to Consolidated Financial Statements (Unaudited) are an integral part of these consolidated financial statements.

STRATUS PROPERTIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In Thousands)

	Three Months Ended March 31,	
	2017	2016
Cash flow from operating activities:		
Net loss	$(2,670)	$(1,683)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	2,141	1,682
Cost of real estate sold	1,032	970
Gain on sale of assets	(1,115)	—
(Gain) loss on interest rate derivative contracts	(86)	374
Loss on early extinguishment of debt	532	837
Debt issuance cost amortization and stock-based compensation	442	365
Equity in unconsolidated affiliates' loss (income)	17	(98)
Deposits	(1,156)	(114)
Deferred income taxes	(9,775)	(22)
Purchases and development of real estate properties	(3,668)	(3,125)
Municipal utility district reimbursement	2,172	—
Decrease (increase) in other assets	2,434	(710)
Increase (decrease) in accounts payable, accrued liabilities and other	812	(3,182)
Net cash used in operating activities	(8,888)	(4,706)
Cash flow from investing activities:		
Capital expenditures	(2,301)	(13,868)
Proceeds from sale of assets	117,261	—
Payments on master lease obligations	(322)	—
Other, net	(100)	(187)
Net cash provided by (used in) investing activities	114,538	(14,055)
Cash flow from financing activities:		
Borrowings from credit facility	15,200	5,500
Payments on credit facility	(48,746)	(1,931)
Borrowings from project loans	3,698	160,424
Payments on project and term loans	(62,080)	(149,882)
Stock-based awards net payments	(236)	(158)
Financing costs	—	(943)
Net cash (used in) provided by financing activities	(92,164)	13,010
Net increase (decrease) in cash and cash equivalents	13,486	(5,751)
Cash and cash equivalents at beginning of year	13,597	17,036
Cash and cash equivalents at end of period	$27,083	$11,285

The accompanying Notes to Consolidated Financial Statements (Unaudited), which include information regarding noncash transactions, are an integral part of these consolidated financial statements.

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STRATUS PROPERTIES INC.
CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)
(In Thousands)

	Stockholders' Equity								
	Common Stock				Common Stock Held in Treasury				
	Number of Shares	At Par Value	Capital in Excess of Par Value	Accum-ulated Deficit	Number of Shares	At Cost	Total Stockholders' Equity	Noncontrolling Interests in Subsidiaries	Total Equity
Balance at December 31, 2016	9,203	$ 92	$ 192,762	$ (41,143)	1,105	$ (20,760)	$ 130,951	$ 75	$ 131,026
Adjustment for cumulative effect of change in accounting for stock-based compensation	—	—	—	143	—	—	143	—	143
Cash dividend declared	—	—	(8,127)	—	—	—	(8,127)	—	(8,127)
Exercised and issued stock-based awards	40	1	62	—	—	—	63	—	63
Stock-based compensation	—	—	192	—	—	—	192	—	192
Tender of shares for stock-based awards	—	—	—	—	12	(297)	(297)	—	(297)
Total comprehensive loss	—	—	—	(2,670)	—	—	(2,670)	—	(2,670)
Balance at March 31, 2017	9,243	$ 93	$ 184,889	$ (43,670)	1,117	$ (21,057)	$ 120,255	$ 75	$ 120,330
Balance at December 31, 2015	9,160	$ 91	$ 192,122	$ (35,144)	1,093	$ (20,470)	$ 136,599	$ 75	$ 136,674
Exercised and issued stock-based awards	37	1	(1)	—	—	—	—	—	—
Stock-based compensation	—	—	139	—	—	—	139	—	139
Tax benefit for stock-based awards	—	—	132	—	—	—	132	—	132
Tender of shares for stock-based awards	—	—	—	—	12	(290)	(290)	—	(290)
Total comprehensive loss	—	—	—	(1,683)	—	—	(1,683)	—	(1,683)
Balance at March 31, 2016	9,197	$ 92	$ 192,392	$ (36,827)	1,105	$ (20,760)	$ 134,897	$ 75	$ 134,972

The accompanying Notes to Consolidated Financial Statements (Unaudited) are an integral part of these consolidated financial statements.

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STRATUS PROPERTIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. GENERAL
The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2016, included in Stratus Properties Inc.'s (Stratus) Annual Report on Form 10-K (Stratus 2016 Form 10-K) filed with the United States (U.S.) Securities and Exchange Commission. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments considered necessary for a fair statement of the results for the interim periods reported. With the exception of the accounting for the deferred gain on the sale of The Oaks at Lakeway, all such adjustments are, in the opinion of management, of a normal recurring nature. Operating results for the three-month period ended March 31, 2017, are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

2. EARNINGS PER SHARE
Stratus' basic and diluted net loss per share of common stock was calculated by dividing the net loss attributable to common stockholders by the weighted-average shares of common stock outstanding during the period. The weighted-average shares exclude approximately 128 thousand shares of common stock for first-quarter 2017 and 125 thousand shares of common stock for first-quarter 2016 associated with restricted stock units that were anti-dilutive because of the net losses and outstanding stock options with exercise prices less than the average market price of Stratus' common stock.

3. DISPOSITIONS
On February 15, 2017, Stratus sold The Oaks at Lakeway to FHF I Oaks at Lakeway, LLC for $114.0 million in cash. Net cash proceeds were $50.8 million after repayment of the Lakeway construction loan (see Note 5). Stratus used a portion of these net cash proceeds to pay indebtedness outstanding under the Comerica Bank credit facility. 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. Stratus projects that its master lease payment obligation, which currently approximates $170,000 per month, will decline over time until leasing is complete and all leases are assigned to the purchaser, which is projected to occur by February 2019. The hotel tenant is expected to begin paying rent and commence construction of its building in May 2017.

Stratus agreed to guarantee the obligations of its selling subsidiary under the sales agreement, up to a liability cap of two percent of the purchase price. This cap does not apply to Stratus' obligation to satisfy the selling subsidiary's indemnity obligations for its broker commissions or similar compensation or Stratus' liability in guaranteeing the selling subsidiary's obligations under the master leases.To secure its obligations under the master leases, Stratus has provided a $1.5 million irrevocable letter of credit with a three-year term. As a result of Stratus' continuing involvement under the master lease agreements with the purchaser, the transaction does not qualify as a sale under U.S. generally accepted accounting principles. Accordingly, a deferred gain totaling $39.7 million was recorded and is being reduced by payments made under the master lease agreements, which totaled $0.3 million in first-quarter 2017. All or a portion of the deferred gain may be recognized in future periods when Stratus' continuing involvement ends or substantially all of the risks and rewards of ownership have transferred to the buyer and any remaining obligation for Stratus' support under the master leases is less than the deferred gain.

Upon the sale of The Oaks at Lakeway, HEB Grocery Company, L.P. (HEB) earned a profit participation of $2.5 million (of which $2.2 million was paid at closing), which is presented separately in the Consolidated Statements of Comprehensive Loss.

On February 28, 2017, Stratus completed the sale of its 3,085-square-foot bank building and an adjacent 4.1 acre undeveloped tract of land in Barton Creek, for $3.1 million. Stratus recorded a $1.1 million gain on sales of assets in first-quarter 2017 and paid $2.1 million on the Barton Creek Village term loan (see Note 5).

4. FAIR VALUE MEASUREMENTS

Fair value accounting guidance includes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

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The carrying value for certain Stratus financial instruments (i.e., cash and cash equivalents, restricted cash, accounts payable, accrued dividend and accrued liabilities) approximates fair value because of their short-term nature and generally negligible credit losses.

A summary of the carrying amount and fair value of Stratus' other financial instruments follows (in thousands):

	March 31, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Liabilities:				
Debt	$199,859	$201,553	$291,102	$293,620
Interest rate swap agreement	341	341	427	427

Debt. Stratus' debt is recorded at cost and is not actively traded. Fair value is estimated based on discounted future expected cash flows at estimated current market interest rates. Accordingly, Stratus' debt is classified within Level 2 of the fair value hierarchy. The fair value of debt does not represent the amounts that will ultimately be paid upon the maturities of the loans.

Interest Rate Swap Agreement. The interest rate swap does not qualify for hedge accounting and changes in its fair value are recorded in the Consolidated Statements of Comprehensive Loss. Stratus evaluated the counterparty credit risk associated with the interest rate swap agreement, which is considered a Level 3 input, but did not consider such risk to be significant. Therefore, the interest rate swap agreement is classified within Level 2 of the fair value hierarchy.

5. DEBT AND EQUITY

Debt. The components of Stratus' debt are as follows (in thousands):

	March 31, 2017	December 31, 2016
Goldman Sachs loan	$146,550	$ 147,025
Lakeway construction loan	—	57,912
Comerica Bank credit facility	13,000	46,547
Santal construction loan	31,907	30,286
Barton Creek Village term loan	3,442	5,555
Amarra Villas credit facility	4,960	3,777
Total debt[a]	$199,859	$ 291,102

a. Includes net reductions for unamortized debt issuance costs of $1.6 million at March 31, 2017, and $2.2 million at December 31, 2016.

In February 2017, Stratus repaid the Lakeway construction loan with proceeds from the sale of The Oaks at Lakeway and paid $2.1 million on the Barton Creek Village term loan (see Note 3). As of March 31, 2017, Stratus had $32.0 million available under its $45.0 million revolving loan under its Comerica Bank credit facility.

On August 5, 2016, a Stratus subsidiary entered into a $9.9 million construction loan agreement with Southside Bank (the West Killeen Market loan) to fund the construction of the West Killeen Market project. No amounts had been drawn as of March 31, 2017.

For a description of Stratus' loans, refer to Note 7 in the Stratus 2016 Form 10-K.

Interest Expense and Capitalization. Interest expense (before capitalized interest) totaled $3.3 million for first-quarter 2017 and $3.7 million for first-quarter 2016. Stratus' capitalized interest costs totaled $1.4 million for first-quarter 2017 and $1.8 million for first-quarter 2016, primarily related to development activities at Barton Creek in 2017, and Barton Creek and The Oaks at Lakeway in 2016.

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Equity. Under Stratus' Comerica Bank credit facility, Stratus is not permitted to pay a dividend on its common stock without the bank's prior written consent. On March 15, 2017, Stratus announced that its Board of Directors (the Board), after receiving written consent from Comerica Bank, declared a special cash dividend of $1.00 per share ($8.1 million) 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 sale of The Oaks at Lakeway. Comerica Bank'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 is at the discretion of the Board, subject to the restrictions under Stratus' Comerica Bank credit facility, and will depend on Stratus' financial results, cash requirements, projected compliance with covenants in its debt agreements, outlook and other factors deemed relevant by the Board.

6. INCOME TAXES

Stratus' accounting policy for and other information regarding its income taxes is further described in Notes 1 and 8 in the Stratus 2016 Form 10-K.

Stratus had deferred tax assets (net of deferred tax liabilities) totaling $27.1 million at March 31, 2017, and $17.2 million at December 31, 2016. The increase in deferred tax assets of $9.9 million in 2017 is primarily associated with the deferred gain on the sale of The Oaks at Lakeway. Stratus' income tax benefit for first-quarter 2017 includes current income tax expense of $8.5 million offset by a deferred tax benefit of $9.8 million. Stratus' future results of operations may be negatively impacted by an inability to realize a tax benefit for future tax losses or for items that will generate additional deferred tax assets.

The difference between Stratus' consolidated effective income tax rate for first-quarter 2017 and first-quarter 2016, and the U.S. Federal statutory income tax rate of 35 percent, was primarily attributable to the Texas state margin tax.

7. BUSINESS SEGMENTS

Stratus currently has four operating segments: Real Estate Operations, Leasing Operations, Hotel and Entertainment.

The Real Estate Operations segment is comprised of Stratus' real estate assets (developed, under development and available for development), which consists of its properties in Austin, Texas (the Barton Creek community, the Circle C community, Lantana and the condominium units at the W Austin Hotel & Residences); in Lakeway, Texas located in the greater Austin area (Lakeway); and in Magnolia, Texas, located in the greater Houston area (Magnolia).

The Leasing Operations segment includes the office and retail space at the W Austin Hotel & Residences, a retail building in Barton Creek Village, the Santal multi-family project and the West Killeen Market in Killeen, Texas.

The Hotel segment includes the W Austin Hotel located at the W Austin Hotel & Residences in downtown Austin, Texas.

The Entertainment segment includes ACL Live, a live music and entertainment venue and production studio at the W Austin Hotel & Residences. In addition to hosting concerts and private events, this venue is the home of Austin City Limits, a television program showcasing popular music legends. The Entertainment segment also includes revenues and costs associated with events hosted at other venues, including 3TEN ACL Live, which opened in March 2016 on the site of the W Austin Hotel & Residences, and the results of the Stageside Productions joint venture with Pedernales Entertainment LLC (see Note 2 in the Stratus 2016 Form 10-K for further discussion).

Stratus uses operating income or loss to measure the performance of each segment. General and administrative expenses, which primarily consist of employee salaries, wages and other costs, are managed on a consolidated basis and are not allocated to Stratus' operating segments. The following segment information reflects management determinations that may not be indicative of what the actual financial performance of each segment would be if it were an independent entity. The following segment information was prepared on the same basis as Stratus' consolidated financial statements (in thousands).

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	Real Estate Operations[a]	Leasing Operations	Hotel	Entertainment	Eliminations and Other[b]	Total
Three Months Ended March 31, 2017:						
Revenues:						
Unaffiliated customers	$ 2,164	$ 2,281	$10,314	$ 5,905	$ —	$20,664
Intersegment	13	210	91	40	(354)	—
Cost of sales, excluding depreciation	1,976	1,693	7,189	4,508	(163)	15,203
Depreciation	57	763	979	376	(34)	2,141
General and administrative expenses	—	—	—	—	3,396 [c]	3,396
Profit participation	—	2,538	—	—	—	2,538
Gain on sales of assets	—	(1,115)	—	—	—	(1,115)
Operating income (loss)	$ 144	$ (1,388)	$2,237	$ 1,061	$ (3,553)	$(1,499)
Capital expenditures[d]	$ 3,668	$ 2,031	$247	$ 23	$ —	$5,969
Total assets at March 31, 2017	174,022	65,483	104,498	37,066	20,899	401,968
Three Months Ended March 31, 2016:						
Revenues:						
Unaffiliated customers	$2,255	$2,053	$10,575	$4,143	$—	$19,026
Intersegment	8	136	89	33	(266)	—
Cost of sales, excluding depreciation	2,209	870	7,710	3,105	(98)	13,796
Depreciation	60	476	846	335	(35)	1,682
General and administrative expenses	—	—	—	—	3,075	3,075
Operating (loss) income	$(6)	$843	$2,108	$736	$(3,208)	$473
Capital expenditures[d]	$3,125	$13,757	$87	$24	$—	$16,993
Total assets at March 31, 2016	197,616	81,290	106,284	42,311	12,121	439,622

a. Includes sales commissions and other revenues together with related expenses.

b. Includes consolidated general and administrative expenses and eliminations of intersegment amounts.

c. General and administrative costs were higher in first-quarter 2017, compared with first-quarter 2016, primarily reflecting charges totaling $0.3 million for professional fees and incentive compensation.

d. Also includes purchases and development of residential real estate held for sale.

8. NEW ACCOUNTING STANDARD

In March 2016, the FASB issued an ASU that simplifies various aspects of the accounting for share-based payment transactions, including the income tax consequences, statutory tax withholding requirements, an accounting policy election for forfeitures and the classification on the statement of cash flows. Stratus adopted this ASU on January 1, 2017, on a modified retrospective basis and recorded a cumulative effect adjustment of $0.1 million to its opening accumulated deficit balance.

9. SUBSEQUENT EVENTS

On April 28, 2017, a Stratus subsidiary entered into a $26.3 million construction loan with Southside Bank (the Loan) to finance the initial phase of Lantana Place, a mixed-used development project with leasable space for retail and restaurant use, anchored by a Moviehouse Theater & Eatery and a 145-room hotel site. Interest on the Loan is variable at the one-month London Interbank Offered Rate plus 2.75 percent, subject to a minimum interest rate of 3.0 percent. Payments of interest only will be due and payable monthly beginning June 1, 2017, and regularly thereafter through November 1, 2020. The principal balance of the Loan outstanding after November 1, 2020, will be payable in equal monthly installments of principal and interest based on a 30-year amortization. The Loan must be repaid in full on or before April 28, 2023. The Loan can be prepaid without penalty. As of April 28, 2017, no amounts were outstanding under the Loan.

The Loan is secured by the Lantana Place project and all subsequent improvements, including all leases and rents associated with the development. The Loan contains affirmative and negative covenants usual and customary for loan agreements of this nature, including, but not limited to, a financial covenant to maintain a debt service coverage ratio of at least 1.35 to 1.00 at all times beginning on December 31, 2019. Stratus will guarantee the Loan until the development is able to maintain a debt service ratio of 1.50 to 1.00 for a period of six consecutive months.

Stratus evaluated events after March 31, 2017, and through the date the financial statements were issued, and determined any events or transactions occurring during this period that would require recognition or disclosure are appropriately addressed in these financial statements.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

In Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A), “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 financial statements, the related MD&A and the discussion of our business and properties included in our Annual Report on Form 10-K for the year ended December 31, 2016 (2016 Form 10-K) filed with the United States Securities and Exchange Commission (SEC). 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 (Unaudited) located in Part I, Item 1. “Financial Statements” of this Form 10-Q, unless otherwise stated.

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 rental income from our leased properties and from our hotel and entertainment operations. See Note 7 for further discussion of our operating segments.

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 value as part of our business plan. See "Business Strategy and Related Risks" below.

The number of developed lots/units, acreage under development and undeveloped acreage as of March 31, 2017, that comprise our real estate development 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	296	20	—	20	512	289	394	1,195	1,215
Circle C	7	—	—	—	—	36	216	252	252
Lantana	—	—	—	—	—	—	56	56	56
W Austin Residences	2	—	—	—	—	—	—	—	—
Lakeway	—	—	—	—	35	—	—	35	35
Magnolia	—	—	—	—	—	—	124	124	124
West Killeen Market	—	—	9	9	—	—	—	—	9
San Antonio:									
Camino Real	—	—	—	—	—	—	2	2	2
Total	305	20	9	29	547	325	792	1,664	1,693

On February 15, 2017, we sold The Oaks at Lakeway, which included 52 acres of land under development at December 31, 2016, but we retained 34.7 acres of undeveloped land adjacent to the project (see Lakeway in above table).

For first-quarter 2017, our revenues increased to $20.7 million and our net loss attributable to common stockholders totaled $2.7 million, compared with revenues of $19.0 million and net loss attributable to common stockholders of $1.7 million for first-quarter 2016. The increase in revenues in first-quarter 2017 primarily reflects increased entertainment revenue relating to a larger number of shows hosted and higher ticket sales at ACL Live, as well as revenue from 3TEN ACL Live. The results for first-quarter 2017 include a $2.5 million charge ($1.6 million to net loss attributable to common stockholders) for profit participation costs and a $0.5 million loss ($0.3 million to net loss attributable to common stockholders) on early extinguishment of debt (see "Results of Operations"), both related to our sale of The Oaks at Lakeway (see "Business Strategy and Related Risks"), partly offset by a $1.1

million gain ($0.7 million to net loss attributable to common stockholders) on the sale of a bank building and an adjacent undeveloped 4.1 acre tract of land at Barton Creek (see "Development Activities"). In January 2016, we refinanced debt associated with our wholly owned W Austin Hotel & Residences with longer-term, fixed-rate debt, and reported a loss on early extinguishment of debt totaling $0.8 million ($0.5 million to net loss attributable to common stockholders) in first-quarter 2016.

We used the proceeds from the February 2017 sale of The Oaks at Lakeway to repay the Lakeway construction loan and our outstanding balances under the Comerica Bank credit facility (see "Development Activities - Commercial" and Note 3 for further discussion). After borrowing $13.0 million under the Comerica Bank credit facility in March 2017, at March 31, 2017, we had total debt of $199.9 million and total cash and cash equivalents of $27.1 million, compared with total debt of $291.1 million and cash and cash equivalents of $13.6 million at December 31, 2016. For a discussion of operating cash flows and debt transactions, see "Capital Resources and Liquidity" below.

BUSINESS STRATEGY AND RELATED RISKS

Our strategy has been to manage our diverse asset base of residential, commercial, hotel and entertainment real estate located in the premier Austin, Texas, market and in other select, fast-growing Texas markets. We enhance the value of our residential, multi-family and commercial properties by securing and maintaining development entitlements and developing and building real estate projects on these properties for sale or investment. Our hotel is located in downtown Austin, immediately adjacent to our primary entertainment and ticket venue, Austin City Limits Live, which is central to Austin’s world renowned, vibrant music scene.

In March 2017, we announced that our Board of Directors (the Board) concluded the formal strategic review process 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. None of the participants in the process ultimately sustained an indication of interest in acquiring the entire company at a price per share at or above Stratus’ recent trading prices. Our Board, in consultation with its financial advisor, determined that the indications of interest would not at this time provide adequate value to stockholders.

We are continuing our successful program of actively developing our properties and strategically marketing and selling developed assets at appropriate times in order to maximize stockholder value. As discussed below in "Development Activities - Commercial" and Note 3, in February 2017, we completed the sales of The Oaks at Lakeway for $114.0 million in cash and 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. After completing the sale of The Oaks at Lakeway, we repaid the Lakeway construction loan and all amounts then outstanding under our credit facility with Comerica Bank, as well as $2.2 million of the $2.5 million profit participation payment due to HEB Grocery Company L.P. (HEB).

In March 2017, our Board declared a special cash dividend of $1.00 per share ($8.1 million) that was paid on April 18, 2017, to stockholders of record on March 31, 2017. The dividend was declared after the Board’s consideration of the results of our sale of The Oaks at Lakeway.

Our active development plan includes completion of both residential and commercial development projects that are available to strategically market and sell at appropriate times in order to maximize stockholder value. Our development portfolio consists of approximately 1,700 acres of undeveloped land with development plans that include necessary regulatory approvals, entitlements and utility capacity. We believe that our portfolio, along with management’s extensive experience in Austin-area real estate development, support our ability to obtain project financing and/or seek joint venture partners including on the development projects described in "Development Activities - Commercial".

At March 31, 2017, we had consolidated debt of $199.9 million. The reduction of $91.2 million in first-quarter 2017, was primarily from use of the proceeds from the sale of The Oaks at Lakeway. During first-quarter 2017, our operating cash flows reflect purchases and development of real estate properties totaling $3.7 million, funded primarily from construction and term loans. As of March 31, 2017, we had $32.0 million available under our $45.0 million revolving loan under our Comerica Bank credit facility, which matures in August 2017.

As of March 31, 2017, we have $15.2 million of scheduled debt maturities in 2017 and $34.4 million in 2018. We have significant recurring costs, including property taxes, maintenance and marketing, and we believe we will have

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sufficient sources of debt financing and cash from operations to meet our cash requirements. See "Capital Resources and Liquidity" below regarding recent debt repayments and “Risk Factors” included in Part 1, Item 1A. of our 2016 Form 10-K for further discussion.

DEVELOPMENT ACTIVITIES

Residential. As of March 31, 2017, the number of our multi-and single-family 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	47	—	—	47
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	7	—	—	7
The St. Mary	—	—	240	240
Tract 102 multi-family	—	—	56	56
Lakeway	—	—	100	100
Flores Street	—	—	6	6
W Austin Residences:				
Condominium units	2	—	—	2
Total Residential Lots/Units	305	20	2,352	2,677

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 of Austin (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 or planning activities for some of these properties, they are not considered to be “under development” for disclosure in this table until construction activities have begun.

Current Activities.

During first-quarter 2017, we sold one Phase III lot at Amarra Drive for $0.7 million and five Meridian lots for $1.5 million. As of April 28, 2017, three Phase III lots at Amarra Drive and two lots at Meridian were under contract. Also, as of April 28, 2017, two Amarra Villas townhomes were under contract, one for which construction has not begun.

As of April 28, 2017, nearly 100 percent of the 236 units at our Santal multi-family Phase I project were leased.

For further discussion of our multi- and single-family residential properties listed in the table above, see MD&A in our 2016 Form 10-K.

Commercial. As of March 31, 2017, 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 Tramell Crow Central Texas Development, Inc. relating to Crestview Station in Austin) are shown below:

	Commercial Property			
	Developed	Under Development	Potential Development[a]	Total
Barton Creek:				
Barton Creek Village	22,366	—	—	22,366
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:				