Howard Hughes Corp
Form 10-Q
May 01, 2018

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

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2018

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 001-34856

THE HOWARD HUGHES CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	36-4673192
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)

13355 Noel Road, 22nd Floor, Dallas, Texas 75240
(Address of principal executive offices, including zip code)

(214) 741-7744
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(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 No

The number of shares of common stock, $0.01 par value, outstanding as of April 25, 2018 was 43,019,093.

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THE HOWARD HUGHES CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
UNAUDITED

(In thousands, except share amounts)	March 31, 2018	December 31, 2017
Assets:		
Investment in real estate:		
Master Planned Community assets	$1,633,492	$1,642,278
Buildings and equipment	2,365,773	2,238,617
Less: accumulated depreciation	(325,026)	(321,882)
Land	273,444	277,932
Developments	1,412,153	1,196,582
Net property and equipment	5,359,836	5,033,527
Investment in Real Estate and Other Affiliates	85,911	76,593
Net investment in real estate	5,445,747	5,110,120
Cash and cash equivalents	632,838	861,059
Restricted cash	132,105	103,241
Accounts receivable, net	14,384	13,041
Municipal Utility District receivables, net	203,436	184,811
Notes receivable, net	8,310	5,864
Deferred expenses, net	90,839	80,901
Prepaid expenses and other assets, net	210,327	370,027
Total assets	$6,737,986	$6,729,064
Liabilities:		
Mortgages, notes and loans payable, net	$2,895,771	$2,857,945
Deferred tax liabilities	143,581	160,850
Accounts payable and accrued expenses	619,271	521,718
Total liabilities	3,658,623	3,540,513
Commitments and Contingencies (see Note 10)		
Equity:		
Preferred stock: $.01 par value; 50,000,000 shares authorized, none issued	—	—
Common stock: $.01 par value; 150,000,000 shares authorized, 43,491,595 shares issued and 42,986,302 outstanding as of March 31, 2018 and 43,300,253 shares issued and 43,270,880 outstanding as of December 31, 2017	436	433
Additional paid-in capital	3,310,421	3,302,502
Accumulated deficit	(175,879)	(109,508)
Accumulated other comprehensive loss	(797)	(6,965)
Treasury stock, at cost, 505,293 and 29,373 shares as of March 31, 2018 and December 31, 2017, respectively	(60,743)	(3,476)
Total Stockholders' equity	3,073,438	3,182,986
Noncontrolling interests	5,925	5,565
Total equity	3,079,363	3,188,551
Total liabilities and equity	$6,737,986	$6,729,064

See Notes to Condensed Consolidated Financial Statements.

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THE HOWARD HUGHES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
UNAUDITED

(In thousands, except per share amounts)	Three Months Ended March 31, 2018	2017
Revenues:		
Condominium rights and unit sales	$10,837	$80,145
Master Planned Community land sales	46,565	53,481
Minimum rents	49,395	46,326
Tenant recoveries	12,760	11,399
Hospitality revenues	23,061	19,711
Builder price participation	5,081	4,661
Other land revenues	4,131	10,582
Other rental and property revenues	9,849	5,457
Total revenues	161,679	231,762
Expenses:		
Condominium rights and unit cost of sales	6,729	60,483
Master Planned Community cost of sales	26,043	25,869
Master Planned Community operations	10,325	9,394
Other property operating costs	23,175	18,508
Rental property real estate taxes	8,127	7,537
Rental property maintenance costs	3,197	3,028
Hospitality operating costs	15,567	13,845
Provision for doubtful accounts	776	535
Demolition costs	6,671	65
Development-related marketing costs	6,078	4,205
General and administrative	24,264	18,117
Depreciation and amortization	28,188	25,524
Total expenses	159,140	187,110
Operating income before other items	2,539	44,652
Other:		
Gains on sales of properties	—	32,215
Other income, net	—	687
Total other	—	32,902
Operating income	2,539	77,554
Interest income	2,076	622
Interest expense	(16,609)	(17,858)
Loss on redemption of senior notes due 2021	—	(46,410)
Warrant liability loss	—	(12,562)
Gain on acquisition of joint venture partner's interest	—	5,490
Equity in earnings from Real Estate and Other Affiliates	14,386	8,520
Income before taxes	2,392	15,356

Provision for income taxes	558	9,697
Net income	1,834	5,659
Net income attributable to noncontrolling interests	(360)	—
Net income attributable to common stockholders	$1,474	$5,659
Basic income per share:	$0.03	$0.14
Diluted income per share:	$0.03	$0.13

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
(In thousands)	2018	2017
Net income	$1,834	$5,659
Other comprehensive income:		
Interest rate swaps (a)	8,045	433
Capitalized swap interest income (expense) (b)	10	(75)
Adoption of ASU 2018-02 (c)	(1,148)	—
Adoption of ASU 2017-12 (d)	(739)	—
Other comprehensive income	6,168	358
Comprehensive income	8,002	6,017
Comprehensive income attributable to noncontrolling interests	(360)	—
Comprehensive income attributable to common stockholders	$7,642	$6,017

(a) Amounts are shown net of deferred tax expense of $2.1 million and $0.3 million for the three months ended March 31, 2018 and 2017, respectively.

(b) The deferred tax impact was immaterial for the three months ended March 31, 2018. Amount is net of deferred tax benefit of $0.1 million for the three months ended March 31, 2017.

(c) The Company adopted Accounting Standards Update ("ASU") 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, as of January 1, 2018. See Note 2 - Accounting Policies and Pronouncements for further discussion.

(d) The Company adopted ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, as of January 1, 2018. See Note 2 - Accounting Policies and Pronouncements for further discussion.

See Notes to Condensed Consolidated Financial Statements.

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THE HOWARD HUGHES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
UNAUDITED

(In thousands, except shares)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Shares	Treasury Stock Amount	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance December 31, 2016	39,802,064	$398	$2,853,269	$(277,912)	$(6,786)	(12,061)	$(1,231)	$2,567,738	$3,772	$2,571,510
Net income	—	—	—	5,659	—	—	—	5,659	—	5,659
Interest rate swaps, net of tax of $254	—	—	—	—	433	—	—	433	—	433
Capitalized swap interest, net of tax of $41	—	—	—	—	(75)	—	—	(75)	—	(75
Stock plan activity	249,378	3	8,841	—	—	—	—	8,844	—	8,844
Exercise of Warrants	272,598	3	30,932	—	—	—	—	30,935	—	30,935
Balance, March 31, 2017	40,324,040	404	2,893,042	(272,253)	(6,428)	(12,061)	(1,231)	2,613,534	3,772	2,617,306
Balance December 31, 2017	43,300,253	433	3,302,502	(109,508)	(6,965)	(29,373)	(3,476)	3,182,986	5,565	3,188,551
Net income	—	—	—	1,474	—	—	—	1,474	360	1,834
Preferred dividend payment on behalf of subsidiary	—	—	—	—	—	—	—	—	—	—
Interest rate swaps, net of tax of $2,126	—	—	—	—	8,045	—	—	8,045	—	8,045
Capitalized swap interest, net of tax of $3	—	—	—	—	10	—	—	10	—	10
Adoption of ASU 2014-09	—	—	—	(69,732)	—	—	—	(69,732)	—	(69,732
Adoption of ASU 2017-12	—	—	—	739	(739)	—	—	—	—	—
Adoption of ASU 2018-02	—	—	—	1,148	(1,148)	—	—	—	—	—
Repurchase of common shares	—	—	—	—	—	(475,920)	(57,267)	(57,267)	—	(57,267

Stock plan activity	191,342	3	7,919	—	—	—	—	7,922	—	7,922
Balance, March 31, 2018	43,491,595	$436	$3,310,421	$(175,879)	$(797)	(505,293)	$(60,743)	$3,073,438	$5,925	$3,079,363

See Notes to Condensed Consolidated Financial Statements.

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THE HOWARD HUGHES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED

	Three Months Ended March 31,	
(In thousands)	2018	2017
Cash Flows from Operating Activities:		
Net income	$1,834	$5,659
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation	24,850	21,540
Amortization	3,002	3,984
Amortization of deferred financing costs	1,469	1,638
Amortization of intangibles other than in-place leases	336	(483)
Straight-line rent amortization	(3,052)	(1,291)
Deferred income taxes	248	8,888
Restricted stock and stock option amortization	2,684	1,906
Gains on sales of properties	—	(32,215)
Gain on acquisition of joint venture partner's interest	—	(5,490)
Warrant liability loss	—	12,562
Loss on redemption of senior notes due 2021	—	46,410
Equity in earnings from Real Estate and Other Affiliates, net of distributions	(9,532)	(4,281)
Provision for doubtful accounts	776	535
Master Planned Community land acquisitions	(506)	(1,415)
Master Planned Community development expenditures	(42,092)	(43,623)
Master Planned Community cost of sales	23,189	23,327
Condominium development expenditures	(78,964)	(86,279)
Condominium rights and unit cost of sales	6,729	60,483
Percentage of completion revenue recognition from sale of condominium rights and unit sales	—	(80,145)
Net changes:		
Accounts and notes receivable	(6,100)	3,178
Prepaid expenses and other assets	1,590	16,509
Change in restricted cash operating accounts	—	—
Condominium deposits received	40,762	11,847
Deferred expenses	(3,759)	(1,682)
Accounts payable and accrued expenses	(49,885)	(59,109)
Other, net	—	128
Cash used in operating activities	(86,421)	(97,419)
Cash Flows from Investing Activities:		
Property and equipment expenditures	(1,295)	(2,559)
Operating property improvements	(17,600)	(4,722)
Property developments and redevelopments	(90,682)	(111,674)
Acquisition of partner's interest in Las Vegas 51s	—	(15,404)
Proceeds for reimbursement of development costs	—	10,597
Proceeds from sales of properties	—	36,000
Proceeds from Tax Increment Financings	11,731	—
Distributions from Real Estate and Other Affiliates	748	—
Note issued to Real Estate and Other Affiliates	(2,783)	—

Proceeds from repayment of note to Real Estate Affiliate	—	(724)
Maturity of long term investment	—	3,455
Cash used in investing activities	(99,881)	(85,031)
Cash Flows from Financing Activities:		
Proceeds from mortgages, notes and loans payable	62,967	944,663
Principal payments on mortgages, notes and loans payable	(24,059)	(881,476)
Premium paid to redeem 2021 senior notes	—	(39,966)
Purchase of treasury stock	(57,267)	—
Special Improvement District bond funds released from escrow	230	581
Deferred financing costs and bond issuance costs, net	(163)	(9,215)
Taxes paid on stock options exercised and restricted stock vested	(1,713)	(4,589)
Stock options exercised	6,950	11,271
Cash (used in) provided by financing activities	(13,055)	21,269
Net change in cash, cash equivalents and restricted cash	(199,357)	(161,181)
Cash, cash equivalents and restricted cash at beginning of period	964,300	915,139
Cash, cash equivalents and restricted cash at end of period	$764,943	$753,958

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THE HOWARD HUGHES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED

(In thousands)	Three Months Ended March 31, 2018	2017
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$45,652	$42,997
Interest capitalized	17,500	16,305
Income taxes paid	—	429
Non-Cash Transactions:		
Special Improvement District bond transfers associated with land sales	2,854	2,542
Accrued interest on construction loan borrowing	252	1,011
Capitalized stock compensation	533	531
Acquisition of Las Vegas 51s		
Furniture and fixtures	—	87
Developments	—	65
Accounts receivable	—	633
Other assets	—	33,313
Other liabilities	—	(2,294)

See Notes to Condensed Consolidated Financial Statements.

NOTE 1 BASIS OF PRESENTATION AND ORGANIZATION

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), with intercompany transactions between consolidated subsidiaries eliminated. In accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as issued by the Securities and Exchange Commission (the "SEC"), these Condensed Consolidated Financial Statements do not include all of the information and disclosures required by GAAP for complete financial statements. Readers of this Quarterly Report on Form 10-Q ("Quarterly Report") should refer to The Howard Hughes Corporation's ("HHC" or the "Company") audited Consolidated Financial Statements, which are included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (the "Annual Report"), filed on February 26, 2018 with the SEC. Approximately $103.2 million in restricted cash was reclassified from Prepaid expenses and other assets, net at December 31, 2017 to conform to the 2018 presentation. In the opinion of management, all normal recurring adjustments necessary for a fair presentation of the financial position, results of operations, comprehensive income, cash flows and equity for the interim periods have been included. The results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 and future fiscal years.

Management has evaluated for disclosure or recognition all material events occurring subsequent to the date of the Condensed Consolidated Financial Statements up to the date and time this Quarterly Report on Form 10-Q was filed.

Impact of new accounting standard related to Revenue

In May 2014, the Financial Accounting Standards Board ("FASB") and International Accounting Standards Board issued Accounting Standards Update ("ASU") 2014-09, Revenues from Contracts with Customers (Topic 606). The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. HHC adopted Topic 606 and all its related amendments (the "New Revenue Standard") as of January 1, 2018 (the "Adoption Date") using the modified retrospective transition method. Accordingly, prior period amounts presented have not been adjusted.

HHC recorded a cumulative effect adjustment of $69.7 million, net of taxes of $19.6 million, to increase Accumulated deficit as of the Adoption Date due to the impact of adopting Topic 606. As discussed in the Company's Annual Report, condominium rights and unit sales revenues were previously required to be recognized under the percentage of completion method. Under the new guidance, revenue and cost of sales for condominium units sold are not recognized until the construction is complete, the sale closes and the title to the property has transferred to the buyer (point in time). Additionally, certain real estate selling costs, such as the costs related to the Company's condominium model units, are either expensed immediately or capitalized as property and equipment and depreciated over their estimated useful life. The cumulative effect adjustments as of the Adoption Date consists of:

- A decrease in Condominium receivables of $154.2 million,
- An increase in Buildings and equipment, net, of $3.4 million,
- An increase to Developments of $150.8 million,
- An increase to Prepaid expenses and other assets of $5.6 million,
- An increase to Accounts payable and accrued expenses of $95.0 million,
- A decrease to Deferred tax liabilities of $19.6 million, and
- An increase in Accumulated deficit of $69.7 million, net of taxes of $19.6 million.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

For the three months ended March 31, 2018, the following financial statement line items are affected as a result of HHC's adoption of the New Revenue Standard:

	Three Months Ended March 31, 2018		
Condensed Consolidated Balance Sheet	Recognition Under Previous Guidance	Impact of Adoption of ASC Topic 606	Recognition Under ASC Topic 606
Buildings and equipment, net	$2,038,288	$ 2,459	$2,040,747
Developments	1,171,469	240,684	1,412,153
Deferred expenses, net	84,001	6,838	90,839
Prepaid expenses and other assets, net	487,731	(277,404)	210,327
Deferred tax liabilities	174,340	(30,759)	143,581
Accounts payable and accrued expenses	511,323	107,948	619,271
Accumulated deficit	(71,266)	(104,613)	(175,879)
Condensed Consolidated Statement of Operations			
Condominium rights and unit sales	153,702	(142,865)	10,837
Condominium rights and unit cost of sales	104,587	(97,858)	6,729
Depreciation and amortization	27,199	989	28,188
Operating income before other items	48,536	(45,997)	2,539
Provision for income taxes	11,674	(11,116)	558
Net income	36,714	(34,880)	1,834
Net income attributable to common stockholders	36,354	(34,880)	1,474
Condensed Consolidated Statement of Comprehensive Income			
Net income	36,714	(34,880)	1,834
Comprehensive income	42,882	(34,880)	8,002
Comprehensive income attributable to common stockholders	42,522	(34,880)	7,642
Condensed Consolidated Statement of Cash Flows			
Net income	36,714	(34,880)	1,834
Depreciation and amortization	27,199	989	28,188
Deferred income taxes	11,364	(11,116)	248
Condominium rights and unit cost of sales	104,587	(97,858)	6,729
Percentage of completion revenue recognition from sale of condominium rights and unit sales	(142,865)	142,865	—

See Note 2 - Accounting Policies and Pronouncements for further discussion of accounting policies impacted by the Company's adoption of the New Revenue Standard and disclosures required by the New Revenue Standard.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

NOTE 2 ACCOUNTING POLICIES AND PRONOUNCEMENTS

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

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, that allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The effective date of the standard is for fiscal periods, and interim periods within those years, beginning after December 15, 2018. The amendments must be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. Early adoption is permitted. The Company adopted ASU 2018-02 as of January 1, 2018, and an election was made to reclassify $1.1 million from accumulated other comprehensive income to retained earnings.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, to enable entities to better portray the economic results of their risk management activities in their financial statements. The ASU expands an entity’s ability to hedge nonfinancial and financial risk components and reduce complexity in fair value hedges of interest rate risk and eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. The ASU also eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same Consolidated Statements of Operations line as the hedged item. The effective date of the standard is for fiscal periods, and interim periods within those years, beginning after December 15, 2018. The new standard must be adopted using a modified retrospective approach with early adoption permitted. The Company adopted ASU 2017-12 as of January 1, 2018 and, as a result, $0.7 million of ineffectiveness recognized prior to 2018 for its swaps was reclassified to Accumulated deficit from Accumulated other comprehensive income.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting, to provide clarity and reduce the diversity in practice and cost and complexity when applying the guidance in Topic 718, Compensation-Stock Compensation. Stakeholders observed that the definition of the term “modification” is broad and that its interpretation results in diversity in practice. The ASU states that when an entity concludes that a change is not substantive, then modification accounting does not apply. The effective date of the standard is for fiscal periods, and interim periods within those years, beginning after December 15, 2017. The new standard must be adopted prospectively to an award modified on or after the adoption date. Early adoption is permitted. The Company adopted ASU 2017-09 as of January 1, 2018 and, as a result, will apply this guidance to any modifications made to either the stock option or restricted stock award plans.

In February 2017, the FASB issued ASU 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20). The standard defines an “in-substance non-financial asset” as a financial asset promised to a counterparty in a contract if substantially all the fair value of the assets is concentrated in nonfinancial assets. The ASU also provides guidance for accounting for partial sales of non-financial assets such as real estate. The effective date of the standard is for fiscal periods, and interim periods within those years, beginning after December 15, 2017. The new standard must be adopted retrospectively with early adoption permitted. The Company adopted ASU 2017-05 as of January 1, 2018, and it did not have a material effect on the Company’s financial position or results of operations as the Company has no partial sales in the current period.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350). This standard is intended to simplify the subsequent measurement of goodwill by eliminating step two from the goodwill impairment test. Instead, an entity will perform only step one of its quantitative goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and then recognizing the impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. An entity will still have the option to perform a qualitative assessment for a reporting unit to determine if the quantitative step one impairment test is necessary. The effective date of the standard is for fiscal periods, and interim periods within those years, beginning after December 15, 2019. The new standard must be adopted prospectively with early adoption permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows - Restricted Cash, which requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The effective date of the standard is for fiscal periods, and interim periods within those years, beginning after December 15, 2017. As required, the Company adopted ASU 2016-18 retrospectively as of January 1, 2018, resulting in presentation of an additional

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UNAUDITED

$39.7 million in cash used in operating activities and $2.5 million in cash provided for investing activities for the three months ended March 31, 2017, related to an additional $37.2 million of changes in restricted cash on the consolidated statements of cash flows in the respective period. The nature of these restrictions relates primarily to escrowed condominium deposits and other amounts related to taxes, insurance, legally restricted security deposits and leasing costs held in escrow.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. The standard addresses how certain cash receipts and payments are presented and classified in the statement of cash flows, including debt extinguishment costs, distributions from equity method investees and contingent consideration payments made after a business combination. The effective date of this standard is for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company adopted this standard retrospectively, as of January 1, 2018. ASU 2016-15 had no impact on the Company's presentation of operating, investing and financing activities related to certain cash receipts and payments on its consolidated statements of cash flows for the three months ended March 31, 2017.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses. The standard modifies the impairment model for most financial assets, including trade accounts receivables and loans, and will require the use of an “expected loss” model for instruments measured at amortized cost. Under this model, entities will be required to estimate the lifetime expected credit loss on such instruments and record an allowance to offset the amortized cost basis of the financial asset, resulting in a net presentation of the amount expected to be collected on the financial asset. The effective date of the standard is for fiscal years, and for interim periods within those years, beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the adoption of ASU 2016-13 on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 is codified in Accounting Standards Codification (“ASC”) 842. The standard amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The effective date of this standard is for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. The standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application. The Company is currently evaluating the impact of adopting ASU 2016-02 on the consolidated financial statements. The Company anticipates a material increase to assets and liabilities as it will be required to capitalize its ground leases, office leases and certain office equipment leases where the Company is the lessee.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which will require entities to recognize changes in equity investments with readily determinable fair values in net income. For equity investments without readily determinable fair values, the ASU permits the application of a measurement alternative using the cost of the investment, less any impairments, plus or minus changes resulting from observable price changes for an identical or similar investment of the same issuer. The effective date of the standard is for fiscal periods, and interim periods within those years, beginning after December 15, 2017, and it must be adopted via a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The Company adopted the guidance as of January 1, 2018. As none of the Company's equity investments have readily determinable fair values, the adoption of this ASU does not have an impact on its consolidated financial statements.

The New Revenue Standard and related policy updates

As discussed in Note 1 - Basis of Presentation and Organization, as of the Adoption Date of the New Revenue Standard, revenues from contracts with customers (excluding lease-related revenues) are recognized when control of the promised goods or services is transferred to HHC's customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

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The following table presents HHC revenues disaggregated by revenue source:

(In thousands)	Three Months Ended March 31, 2018
Revenues	
From contracts with customers	
Recognized at a point in time:	
Condominium rights and unit sales	$ 10,837
Master Planned Community land sales	46,565
Hospitality revenues	23,061
Builder price participation	5,081
Total revenue from contracts with customers	85,544
Recognized at a point in time and/or over time:	
Other land revenues	4,131
Other rental and property revenues	9,849
Total other income	13,980
Rental and other income (lease-related revenues)	
Minimum rents	49,395
Tenant recoveries	12,760
Total rental income	62,155
Total revenues	$ 161,679
Revenues by segment	
Master Planned Community Revenue	$ 55,765
Operating Segment Revenue	91,258
Strategic Developments Revenue	14,656
Total revenues	$ 161,679

Below is a discussion of the performance obligations, significant judgments and other required disclosures related to revenues from contracts with customers.

Condominium Rights and Unit Sales

Revenue from the sale of an individual unit in a condominium project is recognized at a point in time (i.e., the closing) when HHC satisfies the single performance obligation to construct a condominium project and transfer control of a completed unit to a buyer. The transaction price, which is the amount of consideration the Company receives upon delivery of the completed condominium unit to the buyer, is allocated to this single obligation and is received at closing less any amounts previously paid on deposit.

The Company receives cash payments in the form of escrowed condominium deposits from customers who have contracted to purchase a condominium unit based on billing schedules established in HHC's condominium purchase agreement contracts. The Company holds these contract assets in Restricted cash, unless released from escrow in accordance with the escrow agreement and on approval of HHC's lender to fund construction of a project. A corresponding condominium contract deposit liability is established at the date of receipt, representing a portion of HHC's unsatisfied performance obligation at each reporting date. These deposits, along with the balance of the contract value, are recognized at closing upon satisfaction of HHC's performance obligation and transfer of title to the buyer. Condominium receivables, a conditional right to consideration for satisfaction of HHC's completed obligations, were established under legacy GAAP for condominium units for which revenue was previously recognized under the percentage of completion method. As of the Adoption Date, condominium receivables are recorded only in limited circumstances.

Real estate project costs directly associated with a condominium project, which are HHC's costs to fulfill contracts with condominium buyers, are capitalized while all other costs are expensed as incurred. Total estimated project costs include direct costs such as the carrying value of the land, site planning, architectural, construction and financing costs, as well as indirect cost allocations. The allocations include costs which clearly relate to the specific project, including certain infrastructure and amenity costs which benefit the project as well as others, and are based upon the relative sales value of the units. Costs incurred to sell condominium units are evaluated for capitalization in accordance with ASC 340-40, and incremental costs of obtaining a contract and costs to fulfill a contract are capitalized only if the costs relate directly to a specifically identified contract, enhance resources to satisfy performance obligations in the future and are expected to be recovered.

Master Planned Community Land Sales

Revenues from land sales are recognized at a point in time when the land sale closing process is complete. The transaction price has both fixed and variable components, with the fixed price stipulated in the contract and representative of a single performance obligation. See Builder Price Participation ("BPP") below for a discussion of the variable component. The fixed transaction price, which is the amount of consideration received in full upon transfer of the land title to the buyer, is allocated to this single obligation and is received at closing of the land sale less any amounts previously paid on deposit.

The Company receives cash payments in the form of land purchase deposits from homebuilders or other commercial buyers who have contracted to purchase land, and HHC holds any escrowed deposits in Restricted cash or Cash and cash equivalents based on the terms of the contract.

In situations where the Company has completed the closing of a developed land parcel or superpad and consideration is paid in full, but a portion of HHC's performance obligation relating to the enhancement of the land is still unsatisfied, revenue related to HHC's obligation is recognized over time. The Company recognizes only the portion of the improved land sale where the improvements are fully satisfied based on a cost input method. The aggregate amount of the transaction price allocated to the unsatisfied obligation is recorded as deferred land sales and is presented in Accounts payable and accrued expenses. The Company measures the completion of HHC's unsatisfied obligation based on the costs remaining relative to the total cost at the date of closing.

When developed residential or commercial land is sold, the cost of sales includes actual costs incurred and estimates of future development costs benefiting the property sold. In accordance with ASC 970-360-30-1, when developed land is sold, costs are allocated to each sold superpad or lot based upon the relative sales value. For purposes of allocating development costs, estimates of future revenues and development costs are re-evaluated throughout the year, with adjustments being allocated prospectively to the remaining parcels available for sale. For certain parcels of land, including acquired parcels that the Company does not intend to develop or for which development was complete at the date of acquisition, the specific identification method is used to determine the cost of sales.

Hospitality revenues

Hospitality revenues are recognized at a point in time in accordance with the pattern of each related service. Lodging is recognized on daily increments, while retail services such as food and beverage are recognized at the point of sale. The transaction price is fixed, clearly stipulated and representative of a single performance obligation in all cases. The duration of all contracts with customers of HHC's hospitality lodging and related services is generally short.

Builder Price Participation

BPP is the variable component of the transaction price for Master Planned Community Land Sales. BPP is earned when a developer that acquired land from HHC develops and sells a home to an end user at a price higher than a predetermined breakpoint. The excess over the breakpoint is shared between HHC and the developer at the time of closing on the sale of the home based on a percentage previously agreed upon.

The Company concluded that as of the Adoption Date and as of March 31, 2018, BPP was constrained and accordingly, the Company did not recognize an estimate of variable consideration. The Company's conclusion is based on the following factors:

- BPP is highly susceptible to factors outside HHC's influence such as unemployment and interest rates;
- The time between the sale of land to a developer and closing on a completed home can take up to three years; and
- Historical experience is of little value when it comes to predicting future home prices.

The Company evaluates contracts with homebuilders with respect to BPP at each reporting period to determine whether a change in facts and circumstances has eliminated the constraint and will record an estimate of BPP revenue, if applicable.

Other land revenues - over time and point in time

Other land revenues recognized over time include ground maintenance revenue, HOA fee revenue and revenue from providing exclusive cable and internet services at the Company's Master Planned Communities ("MPCs") for the benefit of the tenants and owners of the communities. These revenues are recognized over time, as time elapses. The amount of consideration and the duration are fixed, as stipulated in the related agreements, and represent a single performance obligation.

Other land revenues also include transfer fees on the secondary sales of homes in the MPCs segment, forfeitures of earnest money deposits by buyers of HHC's condominium units, and other miscellaneous items. These items are recognized at a point in time when the real estate closing process is complete or HHC has a legal right to the respective fee or deposit.

Other rental and property revenue - over time and point in time

Other rental and property revenues related to contracts with customers is generally comprised of baseball related ticket sales, retail operations, advertising and sponsorships. Season ticket sales are recognized over time as games take place. Sponsorships generally cover a season and the related revenue is recognized over time, as time elapses. Single tickets and retail operations are recognized at a point in time, at the time of sale. In all cases, the transaction prices are fixed, stipulated in the ticket, contract, or product, and representative in each case of a single performance obligation. From time to time, the Company enters into advertising and sponsorship agreements that allow third parties to display their advertising and products at HHC's venues for a certain amount of time. Consideration for these services is fixed as specified in each respective agreement, is related to a single performance obligation in each case and HHC recognizes the related revenue over time, as time elapses.

Contract Assets and Liabilities

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

The Company had no contract assets as of January 1, 2018 and as of March 31, 2018. The beginning and ending balances of contract liabilities and significant activity during the period is as follows:

Contract

(In thousands)	Liabilities
Balance as of January 1, 2018	$179,179
Consideration earned during the period	(8,067)
Consideration received during the period	44,043
Balance as of March 31, 2018	$215,155

Remaining Unsatisfied Performance Obligations

The Company’s remaining unsatisfied performance obligations as of March 31, 2018 represent a measure of the total dollar value of work to be performed on contracts executed and in progress. These performance obligations are associated with contracts that generally are noncancellable by the customer after 30 days; however, purchasers of HHC's condominium units have the right to

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cancel the contract should the Company elect not to construct the condominium unit within a certain period of time or materially change the design of the condominium unit. The aggregate amount of the transaction price allocated to the Company's remaining unsatisfied performance obligations as of March 31, 2018 is $1.1 billion. The Company expects to recognize this amount as revenue over the following periods:

(In thousands)	Less than 1 year	1-2 years	3 years and thereafter
Total remaining unsatisfied performance obligations	$690,059	$202,716	$234,609

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

NOTE 3 REAL ESTATE AND OTHER AFFILIATES

The Company's investments in Real Estate and Other Affiliates that are reported in accordance with the equity and cost methods are as follows:

	Economic/Legal Ownership		Carrying Value		Share of Earnings/Dividends	
	March 31,	December 31,	March 31,	December 31,	Three Months Ended March 31,	
($ in thousands)	2018	2017	2018	2017	2018	2017
Equity Method Investments						
Master Planned Communities:						
The Summit (a)	— %	— %	$57,015	$ 45,886	$ 11,128	$ 5,280
Operating Assets:						
Las Vegas 51s, LLC (b)	100 %	100 %	—	—	—	(152)
Constellation (b)	100 %	100 %	—	—	—	64
The Metropolitan Downtown Columbia (c)	50 %	50 %	—	—	80	57
Stewart Title of Montgomery County, TX	50 %	50 %	3,579	3,673	82	26
Woodlands Sarofim #1	20 %	20 %	2,697	2,696	20	7
m.flats/TEN.M (d)	50 %	50 %	5,648	6,521	(937)	—
Strategic Developments:						
Circle T Ranch and Power Center	50 %	50 %	4,456	4,455	—	—
HHMK Development	50 %	50 %	10	10	—	—
KR Holdings	50 %	50 %	—	749	672	11
33 Peck Slip	35 %	35 %	8,651	8,651	—	(156)
			82,056	72,641	11,045	5,137
Cost method investments			3,855	3,952	3,341	3,383
Investment in Real Estate and Other Affiliates			$85,911	$ 76,593	$ 14,386	$ 8,520

(a) Please refer to the schedules below and elsewhere in this Quarterly Report for relevant financial statement information.

(b)

HHC acquired this joint venture partner’s interest in 2017 and has fully consolidated the assets and liabilities of the entity.

(c) The Metropolitan Downtown Columbia was in a deficit position of $3.1 million and $2.6 million at March 31, 2018 and December 31, 2017, respectively, due to distributions from operating cash flows in excess of basis. This deficit balance is presented in Accounts payable and accrued expenses at March 31, 2018 and December 31, 2017.

(d) Property was transferred from Strategic Developments to Operating Assets during the three months ended March 31, 2018.

As of March 31, 2018, HHC is not the primary beneficiary of any of the joint ventures listed above because it does not have the power to direct activities that most significantly impact the economic performance of the joint ventures, and therefore, the Company reports its interests in accordance with the equity method. As of March 31, 2018, approximately $187.6 million of indebtedness was secured by the properties owned by HHC's Real Estate and Other Affiliates of which HHC's share was approximately $86.8 million based upon economic ownership. All of this indebtedness is without recourse to HHC.

HHC is the primary beneficiary of three variable interest entities ("VIEs") which are consolidated in the financial statements. The creditors of the consolidated VIEs do not have recourse to the Company. As of March 31, 2018, the carrying values of the assets and liabilities associated with the operations of the consolidated VIEs were $22.8 million and $1.2 million, respectively. As of December 31, 2017, the carrying values of the assets and liabilities associated with the operations of the consolidated VIEs were

$24.8 million and $2.7 million, respectively. The assets of the VIEs are restricted for use only by the particular VIEs and are not available for the Company's general operations.

During the first quarter of 2015, HHC formed DLV/HHPI Summerlin, LLC (“The Summit”), a joint venture with Discovery Land Company (“Discovery”), contributed land with a book basis of $13.4 million and transferred Special Improvement District ("SID") bonds related to such land with a carrying value of $1.3 million to the joint venture at the agreed upon capital contribution value of $125.4 million, or $226,000 per acre. Discovery is required to fund up to a maximum of $30.0 million of cash as its capital contribution, and the Company has no further capital obligations. The gains on the contributed land will be recognized in Equity in earnings from Real Estate and Other Affiliates as the joint venture sells lots.

After the Company receives its capital contribution of $125.4 million and a 5.0% preferred return on such capital contribution, Discovery is entitled to cash distributions by the joint venture until it has received two times its equity contribution. Any further cash distributions are shared equally. Given the nature of the venture’s capital structure and the provisions for the liquidation of assets, the Company's share of the venture’s income-producing activities is recognized based on the Hypothetical Liquidation Book Value ("HLBV") method. Under this method, HHC recognizes income or loss based on the change in its underlying share of the venture's net assets on a hypothetical liquidation basis as of the reporting date.

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

(In millions)	March 31, 2018	December 31, 2017
Total Assets	$189.8	$ 166.9
Total Liabilities	131.9	118.9
Total Equity	57.9	48.0

	Three Months Ended March 31,	
(In millions)	2018	2017
Revenues (a)	$23.4	$11.5
Net income	11.1	5.3
Gross Margin	13.3	6.5

(a) Revenues related to land sales at the joint venture are recognized on a percentage of completion basis as The Summit follows the private company timeline for implementation of the New Revenue Standard of January 1, 2019. The Company has evaluated this impact and concluded that it is not material to HHC's consolidated financial statements.

NOTE 4 RECENT TRANSACTIONS

On April 30, 2018, the Company closed on a $494.5 million construction loan for 110 North Wacker. The loan initially bears interest at LIBOR plus 3.00% and has an initial maturity date of April 30, 2022. On April 30, 2018, HHC executed a joint venture agreement with USAA. After execution of the joint venture agreement, HHC will own

32.70% of the joint venture's equity capital.

On February 23, 2018, the Company repurchased 475,920 shares of HHC common stock, par value $0.01 per share, in a private transaction with an unaffiliated entity at a purchase price of $120.33 per share, or approximately $57.3 million in the aggregate. The repurchase transaction was consummated on February 21, 2018 and was funded with cash on hand. The shares were added to the Company's treasury stock upon repurchase.

NOTE 5 IMPAIRMENT

The Company reviews its long-lived assets for potential impairment indicators whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. With respect to the Investment in Real Estate and Other Affiliates, a series of operating losses of an underlying asset or other factors may indicate that a decrease in value has occurred which is other than temporary. The investment in each Real Estate and Other Affiliate is evaluated periodically and as deemed necessary for recoverability and valuation declines that are other than temporary. No impairment charges were recorded during the three months ended March 31, 2018 or during the year ended December 31, 2017. The Company periodically evaluates its strategic alternatives with respect to each of its properties and may revise its strategy from time to time, including its intent to hold an asset on a long-term basis or the timing of potential asset dispositions. These changes in strategy could result in impairment charges in future periods.

NOTE 6 OTHER ASSETS AND LIABILITIES

Prepaid Expenses and Other Assets

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

(In thousands)	March 31, 2018	December 31, 2017
Straight-line rent	$42,188	$ 39,136
Intangibles	34,465	