JMP SECURITIES

The Howard Hughes Corporation (HHC)

Initiating Coverage at Market Outperform - Tremendous Assets and Earnings Power

MARKET OUTPERFORM | Price: $96.91 | Target Price: $130.00

MARKET DATA

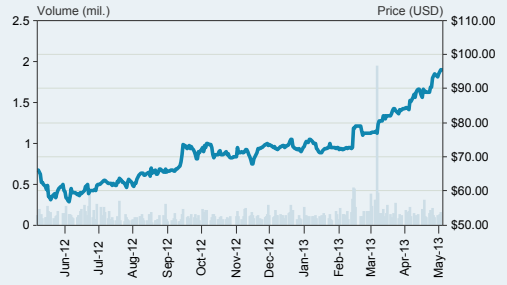
Price	$96.91
52-Week Range:	$55.36 - $95.45
Shares Out. (M):	38.8
Market Cap ($M):	$3,760.1
Average Daily Vol. (000):	153.0
Book Value/Share:	$59.45
Cash (M):	$210
Dividend:	$0.00
Dividend Yield:	0.00%
Float (M):	37.2
LT Debt (M):	$688
Net Debt/Cap.:	16.1%
Net Debt/Total Cap.:	0.1x
ROAE:	1.8%
Secular Growth Rate:	20.0%
Short Interest:	1.0%
Tangible BV/Share:	$56.61

Source: Thomson Reuters and JMP Securities LLC

FY DEC		2012A	2013E	2014E
Revenue ($M)	1Q	$79.8	$69.6	$79.5
	2Q	$93.9	$105.2	$118.4
	3Q	$94.8	$92.2	$102.5
	4Q	$108.4	$105.0	$278.9
	FY	**$376.9**	**$371.9**	**$579.3**
EPS	1Q	$0.27	$0.20	$0.24
	2Q	$0.43	$0.53	$0.61
	3Q	$0.42	$0.36	$0.38
	4Q	$0.59	$0.46	$1.42
	FY	**$1.71**	**$1.57**	**$2.65**
	P/E	56.7x	61.7x	36.6x

Source: Company reports and JMP Securities LLC

STOCK PRICE PERFORMANCE



INVESTMENT HIGHLIGHTS

We are initiating coverage of The Howard Hughes Corp. (HHC) with a Market Outperform rating and a $130 price target based on our NPV analysis and FTM book value of 2.2x. HHC is focused on becoming the preeminent developer of master planned communities (MPC) and mixed-use properties, to drive long-term growth and value. The company's core projects ("Big Six") include South Street Seaport (NYC), Ward Centers (Honolulu, HI), and four MPCs - two outside of Houston, TX, one in Maryland, and one in Las Vegas, NV. With the ability to generate cash flows from major projects in the not too distant future, we see HHC as the best positioned, publicly traded land developer. We are initiating coverage with normalized, warrant-diluted EPS estimates of $1.57 and $2.65 per share in 2013 and 2014, but believe that land development companies, such as HHC, should be judged on annual portfolio milestones specific to the business model that show timely progress toward current or future book value expansion.

Operating portfolio income poised to jump. HHC generated $153mm in operating cash flow in 2012 versus $87mm in 2011. We expect 2013 to be a big construction year on several core operating/development assets that should produce operating cash flow improvement in 2014 and beyond, in our view. Longer term, as income-producing assets are developed and residential units are sold, we believe HHC will transform into a self-funding cash flow generator.

Balance sheet well positioned. Although management may choose to access individual property financing, we assume that the $825mm (JMP est.) of cap ex needed over the next two years will be funded by the following: $272mm of operating cash flow, $315mm in recycled investments, $166mm in cash, and $72mm in debt. Based on our financing assumptions, we see leverage increasing from the current level of 13% to more than 17% in 2014, as capital is used to fund projects.

Upside to our current price target. We believe our valuation is reasonable given HHC's asset base, current operating performance, early stage of the economic recovery, and the future earnings power of the portfolio. As cash flow visibility improves and risk factors decline, we believe there is potential upside to $180 per share based on current development opportunities over the next two to five years.

Peter L. Martin, CFA
pmartin@jmpsecurities.com
(415) 835-8904

Aaron Hecht
ahecht@jmpsecurities.com
(415) 835-3963

VALUATION - $130 PRICE TARGET

Depending on nuances of the assets in the portfolio, the genesis of a company's structure (e.g., spin-out, bankruptcy), and management's views on how to best maximize value, we believe there are several valuation techniques that need to be considered in order to assess the proper value of a portfolio, including:

- **NPV of future cash flows:** discount rates ranging from 10-30% on future developments depending on the risk and visibility of cash flows; 20-25% discount rates are standard in real estate for new stand-alone development projects. Lower rates can be applied to in-fill or expansion in successful projects in regions with geographical or competitive advantages.
- **Cap Rate on retained operating assets:** Appropriate rates, for example of 4-10%, will depend on the particular asset class.
- **Liquidation valuation:** Stated book value in most cases is below market due to the current environment after a period of heavy asset write down.
- **Cash flow multiple:** Relevant multiples based on comparisons for any unique operating assets outside of four real estate asset classes (e.g., title service operations, minerals or other royalty streams, minority equity investments).

We do not view land development business models as quarterly earnings stories given the volatility of operating model cash flows related to the erratic timing of project openings and/or asset sales. We believe that land development companies should be judged on annual portfolio milestones specific to the business model, showing timely progress toward current or future book value expansion, especially at this stage of the housing cycle and considering the lack of development during the recent recession. Many portfolios are just beginning to ramp development again and over time should enhance book value or expand an operating asset portfolio, in our opinion. Currently, we believe FTM book value multiples of 1-3x are appropriate given the upside to stated book value over the next five years, as assets are monetized or developed to potential.

We believe the Land Development industry is poised to benefit from the following positive changes that should enhance investor appreciation of the group, including:

- *Industry fundamentals*: First, housing supply has been woefully underdeveloped over the last five to seven years relative to household formation. Second, homebuilders shut down inventory replenishment programs as the industry rolled over in the mid-2000's in order to deleverage balance sheets, which has left them "land light" in front of strong homebuilder demand. Third, land development requires significant capital and expertise that we believe will limit competition.
- *Master Planned Communities appeal to consumer lifestyle demands*: MPC's are unique assets that offer appealing mixed-use living environments that are highly amenitized. After decades of cookie-cutter developments, homebuyers want a more complete living environment with retail, social, fitness, education, health, and safety for a higher quality of life. MPC's can effectively serve the 80mm echo boomers (age 15-30) with multi-family product, the sandwich generation (age 31-44) with first-time and move-up products, as well as the 77mm baby boomers (45-64) with second move-up and luxury product. We expect additional products and MPC's to meet the growing needs and demands of consumers.

- *Legacy land positions offer early bountiful harvest*: The recent recession decimated developers, both local and regional, that had historically delivered a majority of entitled lots to the housing sector. Survivors of the recession include a handful of local or regional players, private equity funds that have recapitalized some legacy portfolios, and several more sophisticated public homebuilders. We see some attractive assets in these recapitalized portfolios with huge infrastructure investments that were written down at the bottom of the market. These assets require less time and capital to reach monetization, in our opinion, offering potential near-term upside as demand returns to the market.

- *Greater operating asset retention*: We believe more developers, as well as investors, are warming to the concept of retaining income-producing assets, given value creation and long-term reduction in earnings volatility. HHC is a great example of this concept, which we endorse given the in-house, value creation opportunities on unique mixed-use projects that add substantial near-term value to MPC lot sales and have highly visible cash flow streams in the long term. As these portfolios grow, we would not be surprised if several elected REIT status to more efficiently distribute cash flow to shareholders.

- *Portfolio focus*: Most public portfolios include significant legacy assets or operating divisions that are non-core to the long-term strategy, which in many instances dilutes or complicates the pure-play "land" story. We believe investors should view these assets as a source of capital to recycle for higher return projects, whether sold or spun-off, to maximize shareholder value. This process will take time, but business model simplification is a key catalyst for us in closing valuation discounts in several cases.

- *Equity investment opportunity:* These large-scale developments require significant capital before long-term cash flow streams can be harvested. With debt financing unavailable for land purchases, we expect land development to evolve materially into a public market investment opportunity given the following: 1) strengthening of housing fundamentals, 2) longer than average return for the housing cycle given the underpinnings of the recession, and 3) potential outsized returns given industry leading operating leverage. Given that land value is generally +/- 20-30% of the average sale price of a home, theoretically a 10% increase in finished home ASP equates to a 35-40% increase in land price that a builder should be willing to pay for the next lot phase to achieve its standard gross margin, all other factors constant.

Due to the decimation of local developers and financial lenders during the recession, we believe the land development industry is at a key inflection point that could greatly benefit several of the industry's larger players and equity investors.

We view HHC as the shining star of the public group of land developers for the following reasons:

- Iconic assets at low cost basis due to spin-offs, specifically the "Big Six" assets
- Geographical, asset-diverse portfolio in 18 states across all property types
- Tremendous development & redevelopment opportunities within existing asset base, eliminating the need to acquire new assets
- Low existing leverage and growing operating income portfolio to fund future growth and limit the need for outside capital
- Non-core assets that could be a excellent capital source to help fund growth

Figure 1 below is a detailed view of our NPV analysis, which arrives at a value of $130 per share.

FIGURE 1. NPV Valuation Analysis

							Current Book or Cap Rate Value			Development Value Creation							Preferred		Undiscounted
	Acres	Developed Value Acre	Lots/Units Remaining	Lot/Unit Value	Fully Developed SQFT	Value SQFT	Current Asset Value	Legacy Debt	Current Equity	Developed Asset Value	Incremental Development Cost	Legacy + Development Debt	Aggregate Developed Equity	% Owned	Est. Finish Date	Valuation Metric	Valuation Discounted Equity ($M)	NAV Per Share	Aggregate Equity Value ($M)
Residential	5,184	$173,212	43,000	$20,882	N/A	N/A	$897.9	$45	$853	$1,937	$1,126	$1,172	$765	100%	2039	Present value	$155	3.50	$765
Summerlin Shops	106	$45,104	N/A	N/A	1,500,000	$400.00	$4.8	$4	$0	$600	$375	$379	$221	100%	2015	Present value	$61	1.37	$221
Summerlin Hospital Medical Center	N/A	N/A	N/A	N/A	N/A	N/A	$14.3	$0	$14	N/A	N/A	N/A	N/A	6.8%	Finished	Book value	$14	0.32	$14
Golf Courses at Summerlin	N/A	N/A	N/A	N/A	N/A	N/A	$1.8	$0	$2	N/A	N/A	N/A	N/A	N/A	Finished	Book value	$2	0.04	$2
Commercial Remaining	784	$150,000	N/A	N/A	N/A	N/A	$117.6	$0	$118	N/A	N/A	N/A	N/A	100%	N/A	Book value	$118	2.66	$118
Total Summerlin	**6,074**	**$170,624**	**43,000**	**N/A**	**N/A**	**N/A**	**$1,036.4**	**$45**	**$987**	**$2,537**	**$1,501**	**$1,551**	**$986**	**N/A**	**N/A**	**Various**	**$349**	**$7.89**	**$1,119**
Residential	28,400	$2,501	2,750	$25,827	N/A	N/A	$71.0	$0	$71	$380	$63	$63	$317	100%	2022	Present value	$211	4.76	$317
3 Waterway Square	N/A	N/A	N/A	N/A	232,000	$690.37	$23.6	$9	$14	$160	$25	$35	$126	100%	2013	Present value	$116	2.63	$126
4 Waterway Square	N/A	N/A	N/A	N/A	218,551	$362.39	$79.2	$40	$39	N/A	N/A	N/A	N/A	100%	Finished	Cap Rate	$39	0.88	$39
9303 New Trails	N/A	N/A	N/A	N/A	97,705	$265.96	$26.0	$14	$12	N/A	N/A	N/A	N/A	100%	Finished	Cap Rate	$12	0.28	$12
1400 Woodloch Forest Dr.	N/A	N/A	N/A	N/A	95,667	$297.91	$28.5	$0	$29	N/A	N/A	N/A	N/A	100%	Finished	Cap Rate	$29	0.64	$29
20 / 25 Waterway Ave	N/A	N/A	N/A	N/A	49,972	$452.25	$22.6	$14	$8	N/A	N/A	N/A	N/A	100%	Finished	Cap Rate	$8	0.18	$8
Waterway Garage	N/A	N/A	N/A	N/A	21,513	$285.55	$6.1	$0	$6	N/A	N/A	N/A	N/A	100%	Finished	Cap Rate	$6	0.14	$6
2201 Lake Woodlands Drive	N/A	N/A	N/A	N/A	24,119	$155.69	$3.8	$0	$4	N/A	N/A	N/A	N/A	100%	Finished	Cap Rate	$4	0.08	$4
One Hughes Landing	3	$1,964,444	N/A	N/A	3,568,000	$383.50	$5.3	$0	$5	$1,368	$654	$654	$715	100%	N/A	Present value	$841	18.99	$715
Millennium Phase I	N/A	N/A	N/A	N/A	515,000	$139.65	$71.9	$56	$16	N/A	N/A	N/A	N/A	100%	Finished	Cap Rate	$16	0.37	$16
Millenium Phase II	5	$458,333	N/A	N/A	408,200	$5.39	$2.2	$0	$2	$65	$38	$38	$27	82%	2014	Present value	$22	0.50	$27
Woodlands Resort & Conf. Ctr	N/A	N/A	N/A	N/A	310,000	$491.71	$152.4	$95	$57	$209	$75	$170	$39	100%	Finished	Present value	$39	0.87	$39
The Club at Carlton Woods	N/A	N/A	N/A	N/A	N/A	N/A	$15.2	$0	$15	N/A	N/A	N/A	N/A	100%	Finished	Cap Rate	$15	0.34	$15
Commercial Remaining	613	$250,000	N/A	N/A	N/A	N/A	$153.3	$0	$153	N/A	N/A	N/A	N/A	100%	N/A	Cap Rate	$153	3.46	$153
Woodlands Sarofin #1	N/A	N/A	N/A	N/A	N/A	N/A	$7.8	$0	$8	N/A	N/A	N/A	N/A	20%	Finished	Per SQFT	$8	0.18	$8
Stewart Title	N/A	N/A	N/A	N/A	N/A	N/A	$11.3	$0	$11	N/A	N/A	N/A	N/A	50%	Finished	NOI Multiple	$11	0.25	$11
Master Credit Facility	N/A	N/A	N/A	N/A	N/A	N/A	0	$177	($177)	$0	$0	$177	($177)	100%	N/A	Credit Facility	($177)	(3.99)	($177)
Total Woodlands	**29,021**	**$23,435**	**N/A**	**N/A**	**N/A**	**N/A**	**$680.1**	**$405**	**$275**	**$2,183**	**$855**	**$1,136**	**$1,047**	**100%**	**N/A**	**Various**	**$1,354**	**$30.59**	**$1,349**
Residential	3,635	$40,596	18,523	$7,967	N/A	N/A	$147.6	$18	$130	$2,226	$402	$420	$1,806	100%	2036	Present value	$267	6.02	$1,806
Commercial	1,226	$200,000	N/A	N/A	N/A	N/A	$245.2	$0	$245	N/A	N/A	N/A	N/A	100%	2036	Book value	$245	5.54	N/A
Total Bridgeland	**4,861**	**$80,799**	**18,523**	**N/A**	**N/A**	**N/A**	**$392.8**	**$18**	**$375**	**$2,226**	**$402**	**$420**	**$1,806**	**100%**	**2036**	**Various**	**$512**	**$11.56**	**$1,806**
Columbia Office Properties	N/A	N/A	N/A	N/A	323,487	$101.75	$32.9	$0	$33	$77	$24	$24	$53	100%	Finished	Cap Rate	$53	1.20	$53
70 Columbia Corporate Center	N/A	N/A	N/A	N/A	167,513	$162.03	$27.1	$16	$11	$51	$5	$21	$30	100%	Finished	Present value	$9	0.20	$30
Columbia Parcel D	N/A	N/A	N/A	N/A	504,000	$40.28	$20.3	$0	$20	$93	$79	$79	$14	50%	3Q14	Cap Rate	$27	0.62	$14
Columbia Parcel C	N/A	N/A	N/A	N/A	644,100	$35.00	$22.5	$0	N/A	$366	$104	$104	$261	100%	N/A	Present value	$96	2.17	$261
Office options	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Commercial & Other	206	$200,000	N/A	N/A	12,700,000	$315.47	$41.2	$0	$41	$4,006	$2,164	$2,164	$1,842	100%	N/A	Present value	$325	7.35	$1,842
Total Maryland	**206**	**$699,518**	**0**	**N/A**	**N/A**	**N/A**	**$144.1**	**$16**	**$41**	**$4,594**	**$2,376**	**$2,392**	**$2,201**	**100%**	**N/A**	**Various**	**$511**	**$11.53**	**$2,201**
Ala Moana One	N/A	N/A	206	$1,600,000	281,709	$854.70	N/A	$0	N/A	$330	$199	$199	$131	50%	2014	Present value	$57	1.29	$131
High Rise Towers	N/A	N/A	4,000	$1,440,000	6,000,000	$960.00	N/A	$0	N/A	$5,760	$4,068	$4,068	$1,692	100%	N/A	Present value	$902	20.37	$1,692
Commercial and retail	N/A	N/A	N/A	N/A	1,100,000	$1,578.61	$314.9	$229	$86	$1,736	$1,094	$1,323	$413	100%	N/A	Present value	$413	9.34	$413
Total Ward	**60**	**$5,248,810**	**4,206**	**N/A**	**7,381,709**	**N/A**	**$314.9**	**$229**	**$86**	**$7,826**	**$5,361**	**$5,590**	**$2,236**	**100%**	**N/A**	**Present value**	**$1,372**	**$30.99**	**$2,236**
Total South Street Sea Port	**3**	**$35,771,429**	**N/A**	**N/A**	**300,551**	**$357.06**	**$107.3**	**$0**	**$107**	**$1,195**	**$443**	**$443**	**$752**	**100%**		**Present value**	**$993**	**$22.42**	**$752**
Cottonwood Square	N/A	N/A	N/A	N/A	N/A	N/A	$6.2	$0	$6	N/A	N/A	N/A	N/A	100%	N/A	Book value	$6	0.14	$6
Landmark Mall	N/A	N/A	N/A	N/A	N/A	N/A	$13.2	$0	$13	N/A	N/A	N/A	N/A	100%	N/A	Book value	$13	0.30	$13
Park West	N/A	N/A	N/A	N/A	N/A	N/A	$11.9	$0	$12	N/A	N/A	N/A	N/A	100%	N/A	Book value	$12	0.27	$12
Rio West Mall	N/A	N/A	N/A	N/A	N/A	N/A	$17.9	$0	$18	N/A	N/A	N/A	N/A	100%	N/A	Book value	$18	0.40	$18
Riverwalk Marketplace	N/A	N/A	N/A	N/A	250,000	$393.20	$3.2	$0	$3	$98	$79	$79	$19	100%	2013	Present value	$19	0.43	$19
110 N. Wacker	N/A	N/A	N/A	N/A	N/A	N/A	$86.8	$29	$58	N/A	N/A	N/A	N/A	99%	N/A	Book value	$58	1.30	$58
Arizona 2 Lease	N/A	N/A	N/A	N/A	N/A	N/A	$20.7	$0	$21	N/A	N/A	N/A	N/A	100%	N/A	Book value	$21	0.47	$21
Hexalon	N/A	N/A	N/A	N/A	N/A	N/A	$4.0	$0	$4	N/A	N/A	N/A	N/A	1%	N/A	Book value	$4	0.09	$4
Bridges at Mint Hill	N/A	N/A	N/A	N/A	N/A	N/A	$16.6	$0	$17	N/A	N/A	N/A	N/A	100%	N/A	Book value	$17	0.38	$17
Circle T Ranch and Power Center	N/A	N/A	N/A	N/A	N/A	N/A	$0.6	$0	$1	N/A	N/A	N/A	N/A	100%	N/A	Book value	$1	0.01	$1
Alameda Plaza	N/A	N/A	N/A	N/A	85,636	$12.04	$1.0	$0	$1	N/A	N/A	N/A	N/A	100%	N/A	Book value	$1	0.02	$1
AllenTowne	N/A	N/A	N/A	N/A	N/A	N/A	$25.4	$0	$25	N/A	N/A	N/A	N/A	100%	N/A	Book value	$25	0.57	$25
Elk Grove Promenade	N/A	N/A	N/A	N/A	N/A	N/A	$5.7	$0	$6	N/A	N/A	N/A	N/A	100%	N/A	Book value	$6	0.13	$6
Kendall Town Center	N/A	N/A	N/A	N/A	N/A	N/A	$17.7	$0	$18	N/A	N/A	N/A	N/A	100%	N/A	Book value	$18	0.40	$18
Fashion Show Air Rights *80% interest	N/A	N/A	N/A	N/A	N/A	N/A	$0.0	$0	$0	N/A	N/A	N/A	N/A	80%	N/A	Book value	$0	0.00	$0
Century Plaza Mall	N/A	N/A	N/A	N/A	740,000	$7.23	$5.4	$0	$5	N/A	N/A	N/A	N/A	100%	N/A	Book value	$5	0.12	$5
Cottonwood Mall	N/A	N/A	N/A	N/A	N/A	N/A	$19.9	$0	$20	N/A	N/A	N/A	N/A	100%	N/A	Book value	$20	0.45	$20
Lakemoor (Volo) Land	N/A	N/A	N/A	N/A	N/A	N/A	$0.3	$0	$0	N/A	N/A	N/A	N/A	100%	N/A	Book value	$0	0.01	$0
Maui Ranch Land	N/A	N/A	N/A	N/A	N/A	N/A	$0.0	$0	$0	N/A	N/A	N/A	N/A	100%	N/A	Book value	$0	0.00	$0
Village at Redlands	N/A	N/A	N/A	N/A	125,000	$52.80	$6.6	$0	$7	N/A	N/A	N/A	N/A	100%	N/A	Book value	$7	0.15	$7
Redlands Mall	N/A	N/A	N/A	N/A	174,787	$16.63	$2.9	$0	$3	N/A	N/A	N/A	N/A	100%	N/A	Book value	$3	0.07	$3
West Windsor	N/A	N/A	N/A	N/A	N/A	N/A	$21.8	$0	$22	N/A	N/A	N/A	N/A	100%	N/A	Book value	$22	0.49	$22
Total Other	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**$287.6**	**$29**	**$259**	**$98**	**$79**	**$79**	**$19**	**N/A**	**N/A**	**Various**	**$274**	**$6.19**	**$274**
Total Real Estate Value																	$5,366	121.18	$9,737
Cash																	229.20	5.18	229.20
Future sponsors' warrants: 4.8M warrants @ $50 exercise price																	238.90	5.40	238.90
Other assets																	287.94	6.50	287.94
Deferred tax liabilities																	(77.15)	(1.74)	(77.15)
Other liabilities (excluding warrants)																	(303.01)	(6.84)	(303.01)
Net asset value																	$5,742		$10,113
Shares outstanding																	44.28		44.28
NAV per share																	**$129.67**		**$228.40**

Source: JMP Securities LLC, Company reports

We have made the following key assumptions underlying our NPV analysis:

- 25% discount rate on future developments
- Development includes what has been announced by HHC
- Development costs and margins are based on area comps
- Specific cap rates on operating assets based on asset type
- Stagnant "strategic development" assets at book value

Within our analysis, the "Big Six" represent 90% of total NPV. Ward Centers, in conjunction with any two of the other assets, are valued close to or above the current stock price. Our assumption for "other assets" is less than 5% of total value, which could be conservative, given that two of the assets (Riverwalk and Bridges at Mint Hill) are in the process of being redeveloped. The remaining 5% includes cash and other balance sheet items.

Our $130 NPV is also slightly less than 2.2x FTM book value, which we believe is extremely reasonable given the asset base, current operating performance, early stage of the economic recovery, and the future earnings power of the portfolio. As cash flow visibility improves and risk factors decline, we believe there is potential upside to $180 per share based on current development opportunities over the next two to five years. Ultimately, we believe HHC will develop a dynamic income-producing portfolio of mixed-use assets that would be better served in a REIT structure for tax-efficient income distribution.

In Figure 2, we display our Residential Real Estate comp table which includes the Homebuilding, Manufactured Housing, and Land Development segments.

FIGURE 2. Residential Real Estate Comp Table

Company Name	Ticker	Price 5/3/2013	Rating	Price Target	Mkt Cap ($mm)	52 Week High	52 Week Low	3 mon avg trad vol ('000s)	Ent. Val	Net Debt to Cap	P/E 2012	P/E 2013E	P/E 2014E	Book Value Current	Price to Current Book Value	Dividend Yield	Fiscal Year End
Home Builders																	
Av Homes Inc	AVHI	$13.10	NR	N/A	$156	$16.13	$10.29	21.26	$190	7.3%	-7.8x	-54.8x	N/A	$12.95	1.0x	0.00%	12/31/2012
Beazer Homes Usa Inc	BZH	$19.34	MP	N/A	$461	$20.15	$10.90	1262.24	$1,310	48.8%	-4.1x	-12.2x	45.6x	$9.83	2.0x	0.00%	9/30/2012
Comstock Holding Companies Inc	CHCI	$2.48	NR	N/A	$54	$3.60	$0.48	N/A	$76	104.5%	N/A	N/A	N/A	$0.27	9.1x	0.00%	12/31/2012
D.R. Horton, Inc.	DHI	$26.45	MP	N/A	$8,514	$27.32	$14.37	5868.14	$10,585	30.5%	11.1x	20.1x	14.3x	$11.24	2.4x	0.57%	9/30/2012
Hovnanian Enterprises Inc	HOV	$5.73	MU	$1.25	$926	$7.43	$1.52	7039.79	$2,333	123.8%	61.8x	36.5x	11.3x	($2.92)	-2.0x	0.00%	10/31/2012
Kb Home	KBH	$24.02	MP	N/A	$1,939	$24.32	$6.46	4241.31	$3,234	54.1%	-33.5x	67.6x	19.9x	$4.80	5.0x	0.42%	11/30/2012
Lennar Corp	LEN	$42.11	MP	N/A	$7,789	$43.90	$23.48	4305.57	$11,868	38.2%	14.6x	24.5x	17.6x	$18.18	2.3x	0.38%	11/30/2012
Mdc Holdings Inc	MDC	$37.68	MP	N/A	$1,877	$42.41	$24.60	786.60	$1,984	6.6%	36.6x	20.5x	15.7x	$18.82	2.0x	2.65%	12/31/2012
M/I Homes Inc	MHO	$26.04	MO	$28.00	$621	$29.07	$12.24	545.20	$834	N/A	43.0x	23.2x	15.0x	$10.10	2.6x	--	12/31/2012
Meritage Homes Corp	MTH	$50.93	MP	N/A	$1,812	$51.55	$25.02	619.95	$2,368	34.9%	69.4x	21.8x	14.1x	$19.76	2.6x	0.00%	12/31/2012
Nvr Inc	NVR	$1,022.20	MP	N/A	$5,059	$1,100.00	$721.56	35.11	$4,574	0.0%	30.2x	19.7x	14.0x	$288.06	3.5x	0.00%	12/31/2012
Pultegroup Inc	PHM	$22.32	MP	N/A	$8,498	$22.78	$7.63	9687.72	$9,203	14.6%	32.7x	16.3x	13.8x	$5.87	3.8x	0.00%	12/31/2012
Ryland Group Inc	RYL	$46.83	MP	N/A	$2,054	$47.37	$19.25	1335.25	$3,024	56.4%	61.0x	18.2x	14.0x	$10.19	4.6x	0.26%	12/31/2012
Standard Pacific Corp	SPF	$9.02	MP	N/A	$2,001	$9.65	$4.39	4341.05	$3,259	45.1%	48.0x	28.5x	19.1x	$1.88	4.8x	0.00%	12/31/2012
Tri Pointe Homes Inc	TPH	$18.86	MO	$22.00	$596	$21.25	$17.50	313.92	N/A	N/A	502.9x	73.1x	18.2x	$9.71	1.9x	--	12/31/2012
Toll Brothers Inc	TOL	$35.29	MO	$44.00	$5,912	$38.36	$23.78	3727.15	$7,250	25.1%	51.9x	41.6x	22.0x	$106.39	0.3x	0.00%	10/31/2012
										36.6%	**36.6x**	**21.8x**	**15.4x**		**2.5x**		
Manufactured Homes																	
Mobile Mini Inc	MINI	$28.99	NR	N/A	$1,285	$29.84	$12.60	226.36	$1,927	44.2%	32.7x	24.2x	20.0x	$17.58	1.6x	0.00%	12/31/2012
Mcgrath Rentcorp	MGRC	$29.89	NR	N/A	$738	$31.98	$22.93	54.29	$1,038	45.3%	17.3x	16.0x	14.3x	$14.80	2.0x	3.21%	12/31/2012
Nci Building Systems Inc	NCS	$16.59	NR	N/A	$335	$17.85	$8.92	126.62	$1,152	41.6%	140.2x	44.6x	N/A	-$17.95	-0.9x	--	10/28/2012
Cavco Industries Inc	CVCO	$45.30	NR	N/A	$309	$52.97	$40.43	18.24	$429	8.8%	67.1x	46.8x	34.7x	$25.13	1.8x	0.00%	3/31/2012
Skyline Corp	SKY	$4.70	NR	N/A	$39	$6.16	$3.60	28.50	$15	0.0%	-4.0x	-6.0x	N/A	$6.07	0.8x	0.00%	5/31/2012
Nobility Homes Inc	NOBH	$5.60	NR	N/A	$23	$7.45	$4.34	2.98	$15	0.0%	N/A	N/A	N/A	$8.95	0.6x	0.00%	11/6/2010
Drew Industries Inc	DW	$35.75	NR	N/A	$812	$38.82	$25.00	120.09	$803	0.0%	21.0x	17.3x	12.6x	$12.70	2.8x	0.00%	12/31/2012
Thor Industries Inc	THO	$39.32	NR	N/A	$1,981	$45.75	$26.27	567.41	$1,872	0.0%	16.0x	12.9x	11.3x	$15.16	2.6x	1.83%	7/31/2012
Winnebago Industries Inc	WGO	$18.86	NR	N/A	$507	$22.34	$8.30	348.44	$462	0.0%	35.3x	17.5x	14.9x	$5.18	3.6x	0.00%	8/25/2012
										15.5%	**26.8x**	**17.4x**	**14.6x**		**1.8x**		
Land Development																	
Alexander & Baldwin Inc	ALEX	$33.29	NR	N/A	$1,417	$36.86	$24.50	193.78	$1,652	20.7%	81.2x	88.3x	61.3x	$21.31	1.6x	0.00%	12/31/2012
Brookfield Residential Properties Inc	BRP	$25.35	NR	N/A	$2,938	$26.00	$10.02	225.54	$3,995	45.8%	N/A	26.0x	18.6x	$11.14	2.3x	0.00%	12/31/2012
Forestar Group Inc	FOR	$22.13	MO	$29.00	$749	$23.34	$11.13	448.76	$1,037	34.6%	56.0x	37.5x	25.7x	$14.33	1.5x	0.00%	12/31/2012
St. Joe Co	JOE	$20.10	NR	N/A	$1,805	$24.44	$14.32	413.41	$1,676	0.0%	-670.0x	N/A	287.1x	$5.98	3.4x	0.00%	12/31/2012
Howard Hughes Corp	HHC	$96.91	MO	$130.00	$3,746	$97.35	$55.36	196.98	$4,211	15.5%	248.5x	47.0x	39.9x	$58.36	1.7x	0.00%	12/31/2012
Tejon Ranch Co	TRC	$29.29	NR	N/A	$573	$31.08	$25.10	40.73	$541	0.0%	N/A	N/A	N/A	$13.37	2.2x	0.00%	12/31/2012
American Realty Investors Inc	ARL	$3.98	NR	N/A	$47	$4.37	$1.51	N/A	$864	115.1%	-0.9x	-0.9x	N/A	$3.95	1.0x	0.00%	12/31/2012
Consolidated-Tomoka Land Co	CTO	$36.25	NR	N/A	$209	$40.28	$25.50	7.81	$255	28.5%	302.1x	90.6x	78.8x	$19.68	1.8x	--	12/31/2012
										24.6%	**68.6x**	**42.3x**	**50.6x**		**1.8x**		
S&P 500	.SPX-UT	$1,614.42			$15,116,132	$1,618	$1,267		$17,755,286		15.8x	14.9x	13.9x		N/A		
Builders & Development	TFAggSet(	$55.14			$59,882	$60	$36		$79,219		39.8x	23.3x	15.2x		2.0x		
Composite builders-development-derivativ	TFAggSet(	$43.81			$309,049	$47	$28		$347,535		29.1x	20.6x	15.4x		2.4x		

*Estimates based on consensus figures provided by Thomson

Source: Thomson Reuters & JMP Securities LLC

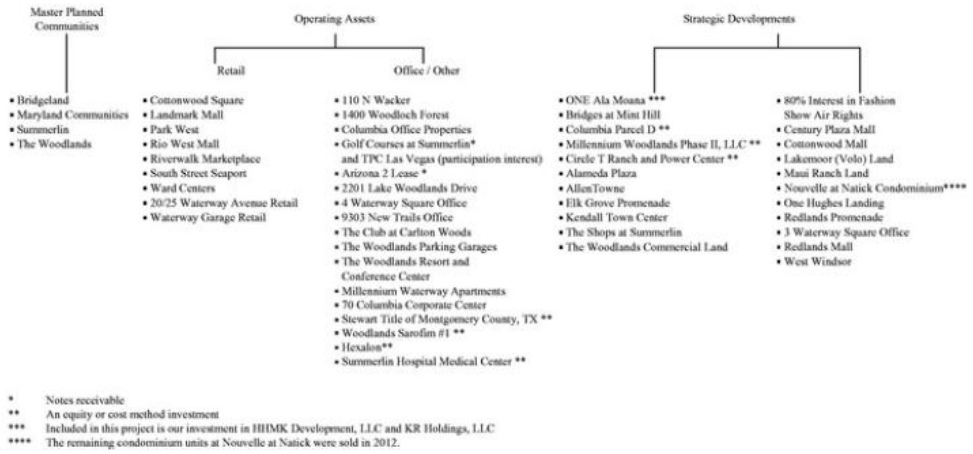
COMPANY DESCRIPTION

The Howard Hughes Corporation, headquartered in Dallas, TX, is focused on becoming the preeminent developer of master planned communities (MPC) and mixed-use properties to drive long-term earnings growth and shareholder value. HHC is structured as a real estate operating company except for one entity, Victoria Ward, Ltd, (Ward), which is a captive REIT. The Ward captive REIT reduces taxable income from retail rents collected on the property.

The genesis of the current portfolio was begun in the 1950's by Howard Hughes by acquiring the land encompassing what is now HHC's Las Vegas MPC (Summerlin). The then Howard Hughes Corporation merged with The Rouse Company in 1996, adding several key assets (South Street Seaport, Columbia, The Woodlands, and Bridgeland). GGP, formerly known as General Growth Properties Inc, then acquired Rouse in 2004, merging retail and mixed-use assets (Ward & several strategic development positions). Today's HHC was incorporated in Delaware in November 2010 to receive, via a tax-free distribution, certain assets and assume certain liabilities of GGP, Inc in connection with its emergence from bankruptcy. The spin-off of HHC was completed on 11/9/2010 and concurrently HHC raised $250mm from Brookfield, Pershing Square, Blackstone, and Fairholme. On July 1, 2011 HHC acquired the remaining interest in "The Woodlands Operating Company, L.P" (The Woodlands) for $117.5mm and, as a result, now consolidates The Woodlands operations within its financial statements, as opposed to the equity method used previously.

HHC has divided its platform into three segments: 1) "Master Planned Communities" (MPC) development and ownership; 2) "Operating Assets" or management and redevelopment/repositioning of existing real estate assets; and 3) "Strategic Developments" or other strategic real estate opportunities related to entitled or un-entitled land or development rights. In Figure 3, we highlight specific assets within each segment.

FIGURE 3. HHC Portfolio by Segment 12/31/12



Source: JMP Securities LLC and Company documents

The *MPC segment* has four major developments - The Woodlands (Houston), Summerlin (Las Vegas), Bridgeland (Houston), and Maryland Communities, in and around Columbia, Maryland, which, itself, is collectively comprised of four separate communities. The MPC's have over 12,500 acres remaining to be sold (Figure 4). The "Maryland Communities" are primarily commercial and multi-family in nature, with no remaining single-family residential acres.

FIGURE 4. Remaining MPC Saleable Acres

				Remaining Saleable Acres(b)					
Community	Location	Total Gross Acres(a)	People Living in Community (Approx. No.)	Residential (b)	Commercial (c)	Total	Other Acres(d)	Remaining Saleable Residential Lots(e)	Projected Community Sell-Out Date
Summerlin	Las Vegas, NV	22,500	100,000	5,184	890	6,074	—	43,000(f)	2039
Bridgeland	Houston, TX	11,400	6,250	3,635	1,226	4,861	—	18,523	2036
Maryland									
Columbia	Howard County	14,200	100,000	—	—	—	35	—	2022(g)
Gateway	Howard County	630	—	—	63	63	40	—	2018
Emerson	Howard County	520	3,407	—	68	68	—	—	2017
Fairwood	Prince George's County	1,100	2,600	—	11	11	24	—	2017
The Woodlands	Houston, TX	28,400	105,000	857	613	1,470	277	2,750	2022
Total		78,750	317,257	9,676	2,871	12,547	376	64,273	

Source: JMP Securities LLC and Company documents

The potential upside is in the redevelopment or repositioning of many of these assets, as well as the development of new income-producing assets on existing acreage in order to grow operating asset cash flow. Growth in this segment is key to value creation given the returns on several new projects, as well as the ability to reduce the need for outside capital for future development. Development and redevelopment projects range from raw land development, to resumption of construction, to minimal or partial disruption and in some cases, full demolition of existing structures. Although this exciting ramp in the Operating Asset portfolio will require considerable capital, HHC is in the enviable position of having the ability to source project level financing at attractive rates, and in several instances it can use existing land to cover the equity component given the improvement in market values, long operating history of MPC's, and the improved underwriting environment within the credit markets.

The *Operating Asset segment* has 26 properties, investments, and assets which generated $165mm in revenue and $60.7 of operating income in 2012. This growing portfolio is comprised of commercial mixed-use, retail, and office properties: nine of the 26 assets are mixed-use and retail properties, seven office properties (Columbia Office Properties are comprised of six separate office buildings), a resort and conference center, a 36-hole golf & country club, a multi-family apartment building, two equity investments, and five "other assets". We detail current operating assets in Figure 5.

FIGURE 5. HHC Operating Assets Portfolio

Asset	Location	Asset	Depreciation	Debt	Book Equity	Previous Impairment	Land Acerage	BV Per Acre	Current SQFT	Occupied SQFT	Occupancy %	2012 NOI ($M)
Cottonwood Square	Salt Lake City, UT	$6.5	$1.2	$0.0	$5.3	$0.0	N/A	N/A	77,079	57,116	74%	0.43
Landmark Mall	Alexandria, VA	$25.8	$0.9	$0.0	$24.9	$24.4	N/A	N/A	440,357	330,268	75%	0.92
Park West	Peoria, AZ	$93.0	$14.3	$0.0	$78.7	$0.0	N/A	N/A	249,168	162,208	65%	0.83
Rio West Mall	Gallup, New Mexico	$28.0	$17.3	$0.0	$10.6	$0.0	N/A	N/A	341,548	314,566	92%	1.25
Riverwalk Marketplace	New Orleans, LA	$16.4	$0.7	$0.0	$15.7	$56.0	N/A	N/A	193,874	178,752	92%	0.22
South Street Seaport	New York, NY	$11.9	$0.5	$0.0	$11.4	$0.0	N/A	N/A	300,551	276,807	92%	7.51
Ward Centers	Honolulu, HI	$399.5	$39.8	$229.0	$130.7	$0.0	N/A	N/A	1,192,917	1,067,661	90%	22.05
20 / 25 Waterway Ave	The Woodlands, TX	$12.4	$0.5	$0.0	$11.8	$0.0	N/A	N/A	49,972	47,773	96%	1.58
Waterway Garage Retail	The Woodlands, TX	$6.3	$0.2	$0.0	$6.1	$0.0	N/A	N/A	21,513	5,335	25%	0.10
Total Retail		**$599.7**	**$75.4**	**$229.0**	**$295.3**	**$80.4**	**N/A**	**N/A**	**2,866,979**	**2,440,486**	**85.1%**	**34.89**
110 N. Wacker	Chicago, IL	$34.4	$11.6	$29.0	($6.3)	$0.0	N/A	N/A	226,000	226,000	100%	6.07
1400 Woodloch Forest	The Woodlands, TX	$14.6	$5.9	$0.0	$8.7	$0.0	N/A	N/A	95,667	95,667	100%	2.00
Columbia Office Properties	Columbia, MD	$40.0	$11.1	$0.0	$28.9	$0.0	N/A	N/A	323,487	247,791	77%	2.30
2201 Lake Woodlands Drive	The Woodlands, TX	$3.8	$0.0	$0.0	$3.8	$0.0	N/A	N/A	24,119	20,115	83%	0.05
4 Waterway Square	The Woodlands, TX	$23.6	$0.0	$40.1	($16.6)	$0.0	N/A	N/A	218,551	217,021	99%	5.54
9303 New Trails	The Woodlands, TX	$15.5	$0.5	$13.7	$1.2	$0.0	N/A	N/A	97,705	96,728	99%	1.82
70 Columbia Corporate Center	Columbia, MD	$15.8	$0.1	$16.0	($0.4)	$0.0	N/A	N/A	167,513	115,081	68.7%	1.90
Total Office		**$147.5**	**$29.3**	**$98.9**	**$19.4**	**$0.0**	**N/A**	**N/A**	**1,153,042**	**903,322**	**78.3%**	**19.69**
Golf Courses at Summerlin	Las Vegas, NV	$1.8	$0.0	$0.0	$1.8	$0.0	N/A	N/A	N/A	N/A	N/A	N/A
Arizona 2 Lease	Phoenix, Arizona	N/A	N/A	N/A	N/A	$0.0	N/A	N/A	N/A	N/A	N/A	6.90
The Club at Carlton Woods	The Woodlands, TX	$15.2	$0.1	$0.0	$15.2	$0.0	N/A	N/A	N/A	N/A	N/A	(4.24)
The Woodlands Parking Garages	The Woodlands, TX	$6.0	$0.1	$0.0	$5.9	$0.0	N/A	N/A	N/A	N/A	N/A	(1.13)
The Woodlands Resort and Conference Center	The Woodlands, TX	$55.3	$1.2	$0.0	$54.0	$0.0	N/A	N/A	N/A	N/A	N/A	10.67
Millennium Waterway Apartments	The Woodlands, TX	$71.9	$1.3	$55.6	$15.0	$0.0	N/A	N/A	N/A	N/A	N/A	4.73
Stewart Title of Montgomery County, TX	Montgomery County, T	N/A	N/A	$0.0	N/A	$0.0	N/A	N/A	N/A	N/A	N/A	1.88
Woodlands Sarofim #1	The Woodlands, TX	N/A	N/A	$0.0	N/A	$0.0	N/A	N/A	129,790	N/A	N/A	0.62
GGP Promissory Note		N/A	N/A	$0.0	N/A	$0.0	N/A	N/A	N/A	N/A	N/A	0.32
Summerlin Hospital Medical Center	Las Vegas, NV	N/A	N/A	$0.0	N/A	$0.0	32	N/A	N/A	N/A	N/A	2.38
Total Other		**$150.2**	**$2.7**	**$55.6**	**$91.9 #**	**$0.0**	**N/A**	**N/A**	**129,790**	**N/A**		**22.12**

Source: JMP Securities LLC and Company documents

HHC has completed the crux of the entitlement process within its communities, enabling monetization to accelerate in a "lot-short" housing environment. Residential sales include standard, custom, and high-density parcels for a full range of products and price points. HHC's builder contracts also contain participation clauses for the sale of finished homes, which, in the current environment, is nicely incremental. Commercial sales include parcels for retail, office, and resort services, as well as those designated for government, school, and other not-for-profit entities.

Strategic Development segment: Includes 21 properties that will require substantial capital to reposition or redevelop for the assets to maximize use and return. In Figure 6, we detail current strategic development assets.

FIGURE 6. HHC Strategic Development Portfolio

Asset	Location	Asset	Depreciation	Debt	Book Equity	Previous Impairment	Land Acerage	BV Per Acre	Current SQFT	Occupied SQFT	Occupancy %	2012 NOI ($M)
One Ala Moana	Honolulu, HI	$24.4	$0.0	$0.0	$24.4	$0.0	N/A	N/A	N/A	N/A	N/A	N/A
Bridges at Mint Hill	Charlotte, NC	$16.6	$0.0	$0.0	$16.6	$0.0	210	79,138	N/A	N/A	N/A	N/A
Columbia Parcel D	Columbia, MD	$20.3	$0.0	$0.0	$20.3	$0.0	4	4,833,333	N/A	N/A	N/A	N/A
Millennium Woodlands Phase II	The Woodlands, TX	$2.2	$0.0	$0.0	$2.2	$0.0	5	458,333	N/A	N/A	N/A	N/A
Circle T Ranch and Power Center	Fort Worth, TX	N/A	N/A	N/A	N/A	$0.0	279	N/A	N/A	N/A	N/A	N/A
Alameda Plaza	Pocatello, ID	$1.1	$0.0	$0.0	$1.0	$0.0	11	101,048	85,636	N/A	N/A	N/A
AllenTowne	Dallas, TX	$25.4	$0.0	$0.0	$25.4	$0.0	238	106,790	N/A	N/A	N/A	N/A
Elk Grove Promenade	Elk Grove, CA	$5.7	$0.0	$0.0	$5.7	$0.0	100	56,660	N/A	N/A	N/A	N/A
Kendall Town Center	Miami, FL	$17.7	$0.0	$0.0	$17.7	$0.0	70	252,371	N/A	N/A	N/A	N/A
The Shops at Summerlin	Las Vegas, NV	$4.8	$0.0	$0.0	$4.8	$0.0	106	45,104	N/A	N/A	N/A	N/A
The Woodlands Commercial Land	The Woodlands, TX	N/A	N/A	N/A	N/A	$0.0	N/A	N/A	N/A	N/A	N/A	N/A
Fashion Show Air Rights *80% interest	Las Vegas, NV	$0.0	$0.0	$0.0	$0.0	$0.0	N/A	N/A	N/A	N/A	N/A	N/A
Century Plaza Mall	Birmingham, AL	$5.4	$0.0	$0.0	$5.4	$12.9	63	84,937	740,000	N/A	N/A	N/A
Cottonwood Mall	Salt Lake City, UT	$19.9	$0.0	$0.0	$19.9	$0.0	54	368,352	N/A	N/A	N/A	N/A
Lakemoor (Volo) Land	Volo, IL	$0.3	$0.0	$0.0	$0.3	$0.0	40	8,025	N/A	N/A	N/A	N/A
Maui Ranch Land	Maui, HI	$0.0	$0.0	$0.0	$0.0	$0.0	10	0	N/A	N/A	N/A	N/A
Nouvelle at Natick Condominium	Natick, Mass	$0.0	$0.0	$0.0	$0.0	$4.1	N/A	N/A	N/A	N/A	N/A	N/A
One Hughes Landing	Houston, TX	$5.3	$0.0	$0.0	$5.3	$0.0	2.7	1,964,444	N/A	N/A	N/A	N/A
Village at Redlands	Redlands, TX	$6.6	$0.0	$0.0	$6.6	$0.0	10	660,000	125,000	N/A	N/A	N/A
3 Waterway Square Office	Houston, TX	$23.6	$0.0	$9.2	$14.4	$0.0	N/A	N/A	232,000	N/A	N/A	N/A
Redlands Mall	Redlands, TX	$2.9	$0.0	$0.0	$2.9	$0.0	N/A	N/A	174,787	N/A	N/A	N/A
West Windsor	Princeton, NJ	$21.8	$0.0	$0.0	$21.8	$0.0	658	33,184	N/A	N/A	N/A	N/A
Total Strategic Developments		**$203.9**	**$0.0**	**$9.2**	**$194.7**	**$17.0**	**1,860**	**$109,599**				

Source: JMP Securities LLC and Company documents

Many of these projects were postponed due to the recession and will likely require a review of existing strategic plans given the large scale nature of the developments. In most cases, we list the assets at stated book value and believe that a good portion of these assets will be sold to generate capital to redeploy on higher return MPC developments.

PORTFOLIO INSIGHTS 1: BIG SIX ASSETS TO DRIVE SHAREHOLDER VALUE

We define the "Big Six" assets as - The Woodlands MPC (Houston, Texas), Bridgeland MPC (Houston, Texas), Summerlin MPC (Las Vegas, Nevada), South Street Seaport (mixed-use redevelopment in lower Manhattan, New York City), Maryland Communities (mixed-use redevelopment in Columbia, Maryland) and Victoria Ward Centers (mixed-use redevelopment in Honolulu, Hawaii). We see these development projects as the key assets driving HHC shareholder value going forward. Returns, or value creation, generated on the continuing development of the "Big Six" is so compelling that we believe many assets deemed "Strategic Developments" will be sold to limit the need for outside capital sources and to focus management resources.

Below, we provide details on the "Big Six" assets, the current development status, and future development opportunities that are incorporated into our NPV analysis:

The Woodlands: A mixed-use MPC 27 miles north of Houston on 28,400 acres that began in 1974 and was ranked third nationally in 2012 (Figure 7).

FIGURE 7. The Woodlands Area Map

Source: www.thewoodlands.com

As shown on the map, the community has a waterway system with a taxi connecting all amenities of The Woodlands MPC community, a unique feature. Currently there are 39,800 homes, 105,000 residents, and north of 1,870 businesses employing 52,000 people. Population is expected to grow to 130,000 by 2020.

On July 1, 2011, HHC acquired JP Morgan's 47.5% economic interest in The Woodlands pursuant to a Partnership Interest Purchase Agreement. HHC paid $20.0 million in cash at closing and the remaining $97.5 million of the purchase price was represented by a non-interest bearing promissory note, which was repaid on December 1, 2011. Following the acquisition, HHC owns 100% of The Woodlands and controls all aspects related to the management and development of The Woodlands MPC.

HHC currently has full or partial ownership in the following operating assets within The Woodlands MPC:

- Commercial Properties: 863,042 sq ft
  - 463,042 sq ft completed:
    - *4 Waterway Square* - 218,551 sq ft over nine floors of Class A office space completed in 2010 within The Woodlands Town Center that is 100% leased.
    - *9303 New Trails* - 97,705 sq ft over four floors of Class B office space completed in 2008 with the Research Forest district that is 100% leased. This property formerly housed staff of The Woodlands and is now leased by a third party.
    - *1400 Woodloch Forest Dr* - 95,667 sq ft of five-story class B office space completed in 1981 at the entrance of The Woodlands Town Center that is 100% leased.
    - *Woodloch Forest garage* - 1,000 spaces adjacent to the building and 300 additional spaces available for future office development.
    - *2201 Lake Woodlands Dr* - 24,119 sq ft of two-story class C office space completed in 1994, located in the East Shore commercial district, that is 100% leased.
  - 427,000 sq ft under construction:
    - *3 Waterway Square (strategic dev)* - 232,000 sq ft within an 11-story building at a total cost of $51.4mm. The building is 90% pre-leased with a May 2013 completion date and July 2013 opening. Year one net rent per sq ft is expected to average $27.80 with NOI of $5.9mm by 3Q13.
    - *One Hughes Landing (strategic dev)* - 195,227 sq ft within eight stories and an adjacent parking garage with 632 spaces, to be built at a total cost of $52.8mm, with a $9mm equity investment. The project is financed with $38.0mm of non-recourse debt at a rate of LIBOR +2.65% and has an initial maturity in November 2015. The building is currently 28% pre-leased with an additional 7% in occupancy just requiring signatures. The projected completion date is September 2013 and estimated NOI is $5.2mm or 10.3% projected return on cost. This is the first building in the Hughes Landing development that is envisioned to take roughly five years and contain 1.6mm sq ft of office; 250,000 sq ft of retail, restaurant and entertainment; 1,000 multi-family units; and 175 room hotel.

- Minority interest ownership: non-consolidated JV, accounted for under the equity method.
  - *Woodlands Sarofin #1*: 20% interest in three office/industrial buildings with 129,790 sq ft constructed between 1980 and 2002, located in the Research Forest district.
  - *Stewart Title:* 50% interest in Stewart Title, which handles the majority or the residential and commercial land sale closings in The Woodlands.

- *Retail*: 201,280 sq ft and service space.
  - *20 & 25 Waterway Ave* - 49,972 sq ft of retail completed in 2009 and 2007, located in The Waterway Square commercial district in the Town Center.
  - *Waterway Garage* - located in the Town Center, this five-story garage contains 1,933 parking spaces that were completed in 2009.
  - *Waterway Retail* - 21,513 sq ft retail portion of the garage completed in 2011 and currently 41.3% leased.

- Multi-family:
  - *Millennium Phase I*: On May 31, 2012, HHC bought out its partner's interest for 100% of the 393 unit apartment building for $72mm, which included the assumption of a 10 year non-recourse $55.6mm mortgage at 3.75%. The property is 93.1% leased and is expected to generate $4.9mm of NOI annually.
  - *JV on Phase II of Millennium (strategic dev)*: On 5/14/12, HHC again partnered with The Dinerstein Companies (TDC) on Phase II of Millennium, which is the construction of a 314-unit class A apartment complex. The cost is expected to be $38.4mm on initial occupancy in April 2014. HHC contributed the 4.8 acres of land valued at $15.5mm vs. a $2.2mm stated book value. TDC, the managing partner, contributed $3.0mm in cash and a construction loan of $37.7mm, which it guaranteed. HHC has an 81.5% majority interest in the JV, but will report its interest under the equity method. Construction began in 2Q12, with completion expected in 2Q14.

- Resort & Conference Center:
  - The Woodlands Resort & Conference Center: 440 rooms, 90,000 sq ft of conference center and restaurant facilities. Rev par was up 14.7% to roughly $110/night, generating NOI of $10.7mm in 2012 versus $7.7mm in 2011. In February 2013, HHC closed on a $95mm loan to refinance the existing $36mm mortgage and begin a $75mm renovation of the main building, meeting rooms, fitness area, and bungalows near the main building, which are very dated. The loan has a term of three years with three one-year extensions at LIBOR, plus 3.5% and interest only for the initial term. The redevelopment will replace 206 rooms originally built in the early 1970's with a new 184 guest room and suite wing and will also update another 222 existing rooms and suites. Also included, is the installation of a 1,000-ft lazy river amenity, 120-seat prime steak house restaurant near the golf course, update of the 13,000 sq ft spa and fitness facility, as well as expansion of the arrival area to a 3,036 sq ft "living room" concept for more social interaction.

- The Club at Carlton Woods: An 18-hole Jack Nicklaus course and 18-hole Tom Fazio course, along with two club houses, a spa, tennis courts, a golf learning center, and 78,000 sq ft of fitness facilities located in one of the most exclusive communities in The Woodlands. There are currently 646 total members and the facility operates at a loss. In October 2012, a new membership program was initiated to drive membership by adding a variety of new options with reduced, refundable initiation fees and lower price points. Since inception, the new program has generated 61 previews that led to 40 total memberships. Year-to-date in 2013, the conversion ratio from preview to full membership is 93%.

Below we describe remaining development opportunities:

- *Residential*: 857 acres of unsold land, representing 2,750 lots. HHC moved to an auction process in the fall of 2012 to maximize value on the remaining lots. The average price per lot moved over $100k and average price per acre to over $400k due to the new sales format. The aggregate sale price on the first 375 lots auctioned under the new process increased $16.7mm, or 49%, versus the previous process. Based on the increase in lot pricing, the remaining 2,750 will result in an incremental $196mm in cash flow, which we believe is conservative given the growing demand in The Woodlands. Under the new auction format, HHC expects to meter lot sales to continue to enhance returns and subsequently extend the complete sell-out of all of The Woodlands lots out five to seven years, versus two to three years at the previous pace.
- *Commercial*: 890 acres remaining to be sold or developed that are designated for:
  - 613 acres for third-party land sales, and
  - 277 acres for HHC to develop and hold
    - 108 acres of multi-family or condos
    - 36 acres of retail development
    - 13 acres of hotel facilities
    - 35 acres of mixed use
    - 85 acres of commercial office

Since buying out the JV interest in The Woodlands in 2011 to take complete control of the MPC, HHC also made a change in its strategy for commercial property sales. Previously, commercial land sales generated cash to deliver dividends to the parent companies. Going forward, HHC would like to develop and hold the assets given strong fundamentals within The Woodlands Town Center. HHC now looks to control office, residential, hotel, multi-family, and golf in order to have more input on the mix and quality of the new vertical product. On a same-store basis, net operating assets generated NOI of $26.4mm in 2012 versus $12.7mm in 2011, a 108% increase.

There are two Houston area developments expected to add considerable demand to the market for residential, retail, and commercial space of The Woodlands and the Bridgeland MPC's:

- ExxonMobil corporate campus: just south of The Woodlands on a 385-acre parcel, the company is constructing a campus that will include 20 buildings, totaling 3 million sq ft. Exxon expects to relocate a total of 10,000 employees to this location beginning in 2014 through 2015.
- The Grand Parkway freeway link: The 180-mile State Highway 99, or "Grand Parkway", that will cross seven counties, is in the process of being completed (late 2013/early 2014) and is at the back of the property. It will have three exchanges serving Bridgeland and provide direct access to the "Town Center". The highway is expected to connect the "Energy Corridor" to The Woodlands by 2015, saving 30-60 minutes of current travel time between regions. The new ExxonMobil Campus headquarters is centrally located between the two MPC's, which should provide strong demand for homes, in our view.

Moreover, with lower commute times between The Woodlands and the Bridgeland MPC's due to a newly constructed freeway, in our view, the development scenario is very attractive.

Bridgeland: The HHC team for The Woodlands MPC is also managing the development of Bridgeland, the second Houston-based MPC, which comprises 11,400 acres. HHC is leveraging The Woodlands' nearly 40 years of master planned community development experience to replicate the success at Bridgeland, which is located 40 miles southwest of The Woodlands and is in the early stages of its development life cycle. The first residents arrived in June 2006 and, as of the end of 2012, the property had 1,800 homes and 6,250 residents. Bridgeland ranked 15th nationally in 2012 among MPC's with $21.9mm in land sales, up 31% year over year. Bridgeland is still young relative to other developments and is well timed to fill the void as The Woodlands slowly sells out over the next several years.

HHC's ultimate plan for the community includes four villages - Lakeland, Parkland, Prairieland, and Creekland - with an 800-acre "Town Center" mixed-use district, 3,000 acres of waterways, and 60 miles of trails to connect residents of the distinct villages (Figure 8).

FIGURE 8. Bridgeland Map

Source: www.bridgeland.com

Bridgeland is expected to have more than 20,000 homes and 65,000 residents upon completion. As of 12/31/12, there were approximately 3,635 residential acres, or 18,523 lots, and 1,226 commercial acres remaining to be sold. Residential inventory represents 20-25 years of expected future sales.

Currently, HHC is developing the first of five neighborhoods in the Lakeland Village (65% complete) with ten builders selling product, ranging from $170k to $1mm+. HHC secured $158.1mm of non-recourse financing commitments for Bridgeland, including a $140mm revolver to fund horizontal land improvements. HHC is awaiting a permit from the EPA to build on 806 acres of land. Without the permit, it is likely that Bridgeland will have a slower sales pace than expected in 2013, resulting in a year-over-year decline in revenues.

Commercial sales within Bridgeland are currently limited until the freeway entrances that will deliver traffic to the town center are complete and the MPC reaches critical mass to generate demand for retail, office, and lodging. Development of the Bridgeland "Town Center" is planned to begin in Phase I in three years.

Summerlin: Located nine miles west of downtown Las Vegas, at the base of the Red Rock foothills, this 22,500 acre MPC is divided into three regions (North, South, and West) and has been active for over 20 years, with initial residents moving in 1991. There are currently ~40K homes with 100K residents, 26 schools, 9 golf courses, and additional facilities. The MPC has consistently been one of the top ranked communities, placing 12th in the Robert Lesser poll in 2012 with the sale of 158 lots, three super pads (232 lots), and 10 custom lots, for a total land revenue of $32mm.

FIGURE 9. Summerlin MPC

Source: www.summerlin.com

HHC has participation interests in the two developments with golf courses, TPC Summerlin and TPC Las Vegas. Currently, HHC is entitled to receive residual payments from the PGA through October 31, 2021, comprised of 75% of net operating profits and 90% of all profits from membership sales at TPC Summerlin, until the initial investment in the courses has been recouped. Upon receipt of the original $23.5mm investment, HHC is entitled to 20% of all operating profits from the two courses through the end of the agreement. As of year-end 2012, the remaining balance on the investment was roughly $6.1mm versus book value of $1.8mm. HHC also receives a distribution from its Summerlin Hospital investment once a year, typically in the first quarter. In 2011 and 2012, HHC received $3.9mm and $2.4mm versus $0 in 2010, due to a capital project at the hospital.

Nineteen of the 30 planned villages have been built and are connected by 150 miles of trails, adjacent to the Red Rock Canyon Conservation Area. As of December 31, 2012, Summerlin had 13 active communities, with only six having more than 10 units remaining to be sold, and less than 50 units in other subdivisions. HHC will open several new neighborhoods with 508 lots coming to market in 2013. Summerlin has approximately 5,184 residential acres and 890 commercial acres left to be sold. Below, we detail the remaining development opportunities:

- *Shops at Summerlin (strategic development)*: 1.5mm sq ft mixed-use downtown development site on 106 acres that front Interstate 215 and are within a 400-acre site in downtown Summerlin. The project began in 2008 and already had a steel frame erected and paved parking lots, when it was halted due to the recession. In 2012, HHC finalized the design of the sites 1.5mm sq ft with a breakdown of 1.1mm sq ft for a Fashion Center with three anchor tenants, small-shop retail and restaurants, 200,000 sq ft of office space, and 280,000 sq ft of big box and junior anchor retail space, adjacent to the Fashion Center. In 2012, HHC obtained signed commitments from Macy's for 180,000 sq ft and from Dillard's for 200,000 sq ft, as anchor tenants. Construction is expected to resume in 2013, once a sufficient level of leasing and construction financing is secured.

- *Summerlin South*: 385 unsold and entitled commercial acres with no restrictions and 18k residential units. This development incurred $345.9mm of impairments in 2010 due to a change in the business plan to: 1) low-density versus high-density development; 2) sale of undeveloped pads versus finished lots; and 3) a reduction in saleable acreage assumptions for a high-end village due to development challenges. No impairments have been incurred since this time.

- *Summerlin West*: unsold and entitled for 5.75mm sq ft of commercial space on up to roughly 505 acres and 25k residential units.

With the addition of The Shops, we believe Summerlin, based on design and amenities, is one of the top-living choices in the Las Vegas valley for families and executives. Moreover, given the recession, there is little MPC competition slated to come on the market. Upon completion, Summerlin's population is estimated to total 220,000 residents, or slightly more than double today's population.

Based on our channel checks, there has been a material pick-up in activity in Summerlin despite flat lot sales in 2012. New home sales were up 119% in 2012 and state legislation to slow foreclosure sales has reduced standing inventory in the area. Lots sales closed or in escrow are running at $31.4mm, which is up year over year. During the downturn, HHC lost several builders in the development and is actively looking for additional builders.

South Street Seaport: Comprised of three mid-rise buildings (Tin, Uplands, and the New Market Building) and the Pier 17 pavilion shopping mall, located in a historic waterfront district on the East River in Manhattan with views back to Brooklyn. HHC's waterfront property lease is a ground lease with the City of New York expiring in 2072 and the office retail space lease runs through 2072.

FIGURE 10. South Street Seaport Map

Source: www.southstreetseaport.com

HHC currently leases approximately 300,551 sq ft of retail on the waterfront and another 24,000 sq ft sublet to retailers at the base of adjacent 1.1m sq ft office tower that generated $5.7mm of NOI in 2011 and $6.5mm(e) in 2012 ex. the Hurricane Sandy charge. Following Hurricane Sandy on October 29, 2012, HHC and the New York City Economic Development Corporation examined the pier and its supporting structure and found no permanent damage. After remediation, the pier was reopened on December 6, 2012, but damaged buildings have not reopened. HHC is preparing an insurance claim that it anticipates will cover "substantially" all of the cost of property damage and loss of income due to the storm. Many tenants were notified that leases would not be renewed, or in some cases would be terminated, due to the damage and pending redevelopment of the property, which recently received final approvals; these actions have sparked several lawsuits.

Redevelopment Project: On June 29, 2012, HHC and the New York City Economic Development Corporation entered into an agreement to amend and restate the South Street Seaport ground lease. The new agreement allows for the redevelopment of Pier 17, which consists of approximately 195,000 sq ft of leasable space. On March 21, 2013, HHC announced final approval from the NYC Council for its Uniform Land Use Review Procedure (UPURP) for the project. The project had been approved by the Landmarks Preservation Commission with the support of Community Board 1 in 2012 and the City Planning Commission in February 2013. Construction was expected to start in June 2013 and conclude in the fall of 2015, but we believe accommodations to the city council and current tenants hurt by Hurricane Sandy at the start of the redevelopment have delayed construction until after Labor Day 2013, with completion by the end of 2015.

Other "accommodations" include:

- Contributions to the South Street Seaport Museum
- Incorporation of a locally and regionally sourced food market open seven days a week at South Street Seaport by October 2014 as part of the redevelopment. Reports include two markets located in the Tin and Link Buildings, at 10,000 sq ft versus the 50,000 sq ft market in the Fulton Fish Building that neighborhood advocates had been pushing for. HHC has guaranteed the market, but still has the right to redevelop the buildings.
- Complimentary access to the open-air rooftop venue for events on select dates throughout the year for community based organizations.

We estimate redevelopment costs to be $225mm versus HHC's forecast of $200mm. Pending tenant lawsuits are not expected to delay the start of construction. The restated ground lease will become effective when HHC meets certain milestones, the most important of which is the start of construction. At the that time, the restated lease will have fixed rent of $1.2mm with 3% escalators and a $1.5mm rent credit to be taken over 30 months. HHC has guaranteed completion of the project and agreed to pay $1.1mm in esplanade maintenance costs over a five-year period. The initial esplanade payment of $210,000 per year escalates annually at CPI for the duration of the lease. The upside to South Street Seaport is the transition of current rents on the pier from roughly $75 per sq ft to an estimated $200 per sq ft post renovation. HHC has named RKF as the exclusive consultant and leasing agent on the project. We envision subsequent phases of the project could include a Whole Foods in the historic building along the esplanade and possibly an office/hotel on an adjacent pad, but this is many years off.

Maryland Communities: This property is comprised of four distinct projects - Columbia, Gateway, Emerson, and Fairwood.

FIGURE 11. Downtown Columbia, Maryland Map

Source: Company filings

We detail the developments below:

- Columbia - situated between Baltimore and D.C., and home to 100,000 people on 14,000 acres that opened in the 1960's. There is a full range of housing options located in nine villages linked to a "Town Center". Columbia has 5,500 businesses, occupying 26mm sq ft and 500+ stores in 4.8mm sq ft of retail space. Since 2005, many government agencies have been relocated to Fort George G. Meade, which is just 11 miles from Columbia. By 2020, the overall workforce is expected to increase 25% to 70K+ from 2012 given the base's focus on cyber security and the protection of domestic IT assets from foreign threats. Fort Meade supports another 170K+ jobs locally. Given the age of the MPC, HHC believes there is tremendous opportunity to update the 1.6mm sq ft of office space located near downtown Columbia. HHC currently owns five office buildings and is a master tenant of a sixth. The buildings total 491,000 sq ft in the heart of downtown Columbia, and include the following office and mixed-use properties:
    - American City Building - Master ground lease with a 2020 initial expiration and 2060 final expiration.
    - Columbia Association Building - This four-story, 43,369 sq ft building has a town center location overlooking Lake Kittamaqundi. The building contains ample parking and has convenient access to the area.
    - Columbia Exhibit Building - This building is comprised of 20,057 sq ft and offers space to small- and mid-size businesses. Its location provides access to the Columbia Town Center market.
    - Ridgely Building - This three-story, 39,888 sq ft corporate office building is adjacent to a Sheraton Hotel and amenities offered within the Columbia Town Center.
    - 70 Columbia Center - acquired in August 2012, as HHC exercised an option on one of the seven building options that it controls, acquiring a 167,513K sq ft Class A office building from its lender. Exercise of the option provides a participation right to the lender for 30% of the appreciation in the market value of the property after HHC's cumulative preferred return of 10%, after debt service, on its invested capital in the property. Cash flow is split pro-rata between HHC's original $5mm equity contribution for improvements, any additional equity contributed (total $7m), and the loan amount. HHC assumed a $16mm non-recourse note at 4.25%. At the time of acquisition, occupancy was 23.7%; however, a new tenant, Enterprise Business Partners, will occupy 76,308 sq ft to increase occupancy to 68.7% and generate $1.9mm in net operating income starting in 2013.
    - Columbia Regional Building - 89,000 sq ft building designed by Frank Gehry which was the former headquarters of the Rouse Company, acquired by HHC's predecessor GGP. The building is being repositioned as a mixed-use project with Whole Foods, which executed a lease in July 2012 for 41,000 sq ft, and the Columbia Association Inc, assuming an additional 27,556 sq ft for an upscale fitness center on the ground level under a lease signed in November 2012. HHC will invest $23.1mm in the building with project level financing expected and construction to begin in 2Q13, with completion by 3Q14. Stabilized NOI is expected to be $2.2mm in 2Q15 versus the current annual loss of $0.8mm.

- Merriweather Post Pavilion (Crescent area) - an outdoor amphitheater and concert venue designed by Frank Gehry, is expected to be a central draw for the area.
- *Columbia Parcel D JV multi-family* (*strategic dev*) - HHC contributed four acres at a $3.0mm book value/appraised value of $20.3mm to a local partner, Kettler-Orchard, for a 50% interest in the Phase 1 development of a 380 unit Class A apartment building with 10,000 sq ft of retail space. Upon the closing of the construction loan, the JV will recognize the appraised value or the land contribution and return $3.6mm in cash to HHC. In addition to cost overruns, additional equity, and construction guarantees, the JV partner is responsible for financing and managing the project. Total cost is $95.7mm and has an expected completion date of 3Q14. HHC's costs related to the project are $5.9mm exclusive of the land. All approvals have been obtained to begin construction.

The following Columbia opportunities remain:

- 2010 entitlements:
  - 5,500 new residential units
  - 4.3mm sq ft of commercial office space
  - 1.25m sq ft of retail space
  - 640 hotel rooms
- *Columbia Parcel C:* Phase 2 of the Parcel D project under the same approval allows for up to an additional 437 apartment units and 76,000 sq ft of retail in the two parcels - C & D.
- *GGP development agreement & six remaining office building options*: HHC secured a Preferred Residential and Office Development Covenant that provides the right of first refusal on new project densities of residential and office with the Columbia Mall Ring Road. The covenant expires in 2030. The agreements also provide a five-year right of first refusal and a subsequent six-month purchase option to acquire six office buildings and associated parking lots, totaling less than 20 acres.
- Merriweather Post Pavilion (Crescent area) high rises: 35 acres of raw land and sub-divided land parcels. HHC is going to the Howard County planning department this year to propose at least 4mm sq ft of high rise buildings that would have a Central Park-like setting.

The restoration and redevelopment of the Columbia Regional Building in the downtown district is expected to be the catalyst for future development. A full build-out of the area will include up to 13 million sq ft of mixed-use development.

- Gateway - 630-acre premier MPC located in Howard County, Maryland that has 63 commercial acres remaining to be sold.
- Emerson - 520-acre MPC in Howard County that opened in 2002 with 1,210 homes and 3,407 residents. The residential component is complete, but 68 commercial acres remain to be sold and are fully entitled for build-out.
- Fairwood - 1,100-acre MPC in Prince George's County, MD that opened in 2002, containing 1,200 homes and 2,600 residents; 11 commercial acres remain for sale.

Ward Centers: Comprised of roughly 60 acres extending down Ala Moana Beach Park in Honolulu, HI, between the water and a main highway, as well as Ala Moana Center to the north and public property to the south. Ala Moana shopping center, a 10-minute walk, is Hawaii's largest shopping area and posts one of the highest sales per sq ft figures in the world. Waikiki and downtown Honolulu are within one mile of the property. Current Ward Center operations include a 665,000 sq ft shopping district with seven specialty centers and 140 unique shops (more local than chain stores), a variety of restaurants, and an entertainment center with a 16-screen theater.

FIGURE 12. Ward Centers Map

Source: JMP Securities LLC and Company documents

In January 2009, the state-run Hawaii Community Development Authority (HCDA), which controls permitting of the area, approved a 15-year master plan that entitles HHC to develop a mixed-use development of roughly 9.3mm sq ft, including up to 7.6mm sq ft of residential space with over 22 high-rise towers, or 4,000 condominium units, at an average of 1,500 sq ft. In January 2011, a development agreement was executed with the HCDA. It is our understanding that in 2012, HHC went back to the HCDA for minor revisions including views, living, and cultural improvements. We see completion of the entire master plan as a 15-25 year project that will transform Ward Centers into Ward Centers with unique neighborhoods and open spaces, bustling retail with food and entertainment venues, as well as commercial space for the ideal live/work environment.

Phase I Ward Centers Shops was completed in May 2012, with TJ Maxx occupying the entire second floor, a 36,000 sq ft space, with the 34,000 sq ft on the first floor still vacant. TJ Maxx will generate $1mm in NOI, on construction costs of $20.5mm, or $574 per sq ft. The vacant first floor has incurred $12.2mm of the projects total $16.4mm cost to complete. In addition, 30,000 sq ft was renovated in 2012 and is to be occupied in early 2013, which will add $0.9mm in NOI, exclusive of percentage rents. The Ward Centers Shops currently generate $23mm in NOI.

Near-term redevelopment opportunities include four projects on four separate blocks:

- *Phase II Ward Centers Shops* - commenced in July 2012 on 57,000 sq ft of retail to be completed by the fall of 2013. Total cost is $26.2mm, with $5.4mm on the books as of year-end 2012. The space is 100% pre-leased by Nordstrom Rack and Pier One, which are vacating existing space in the Ward, but will add approximately $1.0mm in additional NOI upon completion.

- *One Ala Moana condo tower (strategic dev)* - an 18-story, reserved, luxury condominium tower with 206 units. This is the only high-end project in the area and it sold out in two days at an average price per sq ft of $1,170, or $1.6mm per unit. The tower is located above the five-story Nordstrom parking garage attached to the Ala Moana Center. The project is a 50/50 joint venture between HHC and an entity owned by two local developers, Kobayashi Group and The MacNaughton Group, called HKMK Development, LLC, and a subsequent 50/50 JV with the same partner, called KR Holdings, LLC. Each partner will equally fund development costs of the project with construction beginning in 2Q13 and intended completion by the end of 2014.

  The group has secured a $40mm non-recourse mezzanine financing from List Island Properties LLC and A&B Properties at a blended rate of 12%, which must be drawn in full at the construction loan closing date, maturing in April 2018. The mezzanine lenders also have a profit interest in the project, which entitles them to a share of any profit, after the development JV receives its return of capital, plus a 13% preferred ROIC. Upon the closing of the first mortgage loan, HHC will transfer air rights to the condo project at a $47.5mm valuation into the JV. HHC's book value on the rights, exclusive of development rights was $22.8mm as of year-end 2012. At an assumed cost of $900 per sq ft, including the value of HHC's air rights, the project is expected to generate approximately $66mm in total profit ($73mm in total proceeds in letter). This investment is accounted for under the equity method.

- *Phase I Ward Centers:*
  - *Renovation of the IBM office building* - This $24.4mm office building renovation is expected to be completed by year-end 2013. The majority of the building will remain as office leases, with a portion being converted to serve as the information and sales center for the Ward Centers development. This iconic Honolulu building is located just across from the Phase 1 Ward Centers Shops development mentioned above.
  - *Three mixed-use residential towers* - A total of 625 units, with at least 125 units in an individual back row tower, to satisfy the developments' 20% reserved housing requirement. The first two towers will be oriented for ocean views, with pricing above $1,200 per sq ft on average, with 30% profit margins. Resale comps for towers in the area range from $900-$1,400 per sq ft, depending on the view and floor level. A new mid-market, price-point tower with 340 units near the Ala Moana shopping center owned by A&B Properties, Inc. pre-sold 282 units by year-end 2012 at $475-$900 per sq ft. Construction on tower one is scheduled to begin in 2014. The ground floor of each tower will have 10k of retail space at $75-100 per sq ft for incremental NOI.

HHC has plans to have three towers under development, which could strategically suppress competition or create a unit glut if others push forward with too many projects. Our market research shows absorption is +/- 400 units annually, so timing relative to other projects will be a factor, given that the area is the primary high rise development location.

We see the following key drivers among the Big Six projects:

- Low cost basis on iconic assets in great markets
- Ability to source project level financing with little equity contribution
- Abundant redevelopment & repositioning opportunities with high returns, limiting the need to deploy capital on other assets
- Sales of non-core assets to limit need for outside capital
- Tremendous cross-selling potential of top national retail tenants
- Retention of income-producing assets and condo sales to drive cash flow growth, which will initially limit the need for outside capital. We see the deleveraging process occurring about three to four years out given project completion timing.

We believe that the cash flow generated post-development for additional aspects of the Big Six assets during the next three years could result in the initiation of a dividend or the election of REIT status.

PORTFOLIO INSIGHTS 2: INCREMENTAL INCOME AND REDEVELOPMENT OPPORTUNITIES

Below we highlight HHC assets outside of the Big Six development projects. We have broken these into two segments: "Other Operating Assets" if it is, or will be, generating income and "Strategic Developments" for long-term assets. In both cases, these assets require capital or, as we feel is the case for several of these assets, could be sold to generate capital to be redeployed in higher-return projects within the core developments.

Other Operating Assets: HHC owns several mixed-use and retail properties that could improve its operating performance by the redevelopment or repositioning of the assets, given the age and strong demographics.

FIGURE 13. Other Operating Assets

Asset	Location	Asset	Depreciation	Debt	Book Equity	Previous Impairment	Land Acerage	BV Per Acre	Current SQFT	Occupied SQFT	Occupancy %	2012 NOI ($M)
Cottonwood Square	Salt Lake City, UT	$6.5	$1.2	$0.0	$5.3	$0.0	N/A	N/A	77,079	57,116	74%	0.43
Landmark Mall	Alexandria, VA	$25.8	$0.9	$0.0	$24.9	$24.4	N/A	N/A	440,357	330,268	75%	0.92
Park West	Peoria, AZ	$93.0	$14.3	$0.0	$78.7	$0.0	N/A	N/A	249,168	162,208	65%	0.83
Rio West Mall	Gallup, New Mexico	$28.0	$17.3	$0.0	$10.6	$0.0	N/A	N/A	341,548	314,566	92%	1.25
Riverwalk Marketplace	New Orleans, LA	$16.4	$0.7	$0.0	$15.7	$56.0	N/A	N/A	193,874	178,752	92%	0.22
110 N. Wacker	Chicago, IL	$34.4	$11.6	$29.0	($6.3)	$0.0	N/A	N/A	226,000	226,000	100%	6.07
Columbia Office Properties	Columbia, MD	$40.0	$11.1	$0.0	$28.9	$0.0	N/A	N/A	323,487	247,791	77%	2.30
Arizona 2 Lease	Phoenix, Arizona	N/A	N/A	N/A	N/A	$0.0	N/A	N/A	N/A	N/A	N/A	6.90
GGP Promissory Note		N/A	N/A	$0.0	N/A	$0.0	N/A	N/A	N/A	N/A	N/A	0.32

Source: Company filings & JMP Securities LLC

Several of the projects are subject to consents and approvals to improve tenant mix, add gross leasable area, or reposition the asset for alternative uses. HHC's retail assets alone include 2.9mm total sq ft of leasable area. Below we detail HHC's "other operating assets":

- *Landmark Mall (Alexandria, VA)* - 879,294 sq ft mall anchored by Macy's and Sears located nine miles west of Washington, D.C. and the Pentagon. As part of The Van Dorn Small Area Plan, the site could allow up to 5.5mm sq ft of net new density.
- *Park West (Peoria, AZ)* - A 249,168 sq ft open air shopping, dining, and entertainment complex one mile northwest of the Arizona Cardinals football stadium and the Phoenix Coyote hockey arena. There are development rights for an additional 100,000 sq ft of retail, restaurant, and hotel space. On November 5, 2012, HHC acquired four adjacent parcels to Park West totaling 18 acres, for $1.2mm. A national restaurant/entertainment client will take 18,500 sq ft in 2Q13 to raise occupancy to 75.6%, but the market remains weak. Many of the existing tenants may not be able to cover operating expenses due to low traffic, which could lower expected cash flow and necessitate an impairment charge. This is an asset that could be put up for sale given existing issues.
- *Rio West Mall (Gallup, NM)* - 521,194 sq ft enclosed shopping center with access from Interstate 40 and Route 66.

- *Riverwalk Marketplace (New Orleans, LA)* - 193,874 of current leasable sq. footage located along the Mississippi River in downtown New Orleans, adjacent to the Convention Center and Audubon Aquarium. On July 2012, HHC announced its plans to redevelop Riverwalk into an upscale outlet center, "The Outlet Collection at Riverwalk". The redevelopment will add 50,000 sq ft for a total of 250,000 and will be the first downtown outlet center, with several dining and entertainment options. Cost is estimated at $80mm and HHC has commitments for a majority of the property and is in the process of getting mortgage financing. The project sits on four separate ground leases and does not have ideal access.

- *Cottonwood Square (Salt Lake City, UT)* - 77,079 sq ft community center located near HHC's Cottonwood Mall property.

- *110 N. Wacker (Chicago, IL)* - a 99% interest in an entity that owns a 226,000 sq ft of office building in downtown Chicago. The building is subject to a ground lease that expires in 2055. The building is 100% leased by a subsidiary of General Growth Properties (GGP) through 2019. GGP has several options to extend the lease through 2055, but HHC has the right to terminate GGP's lease with six months notice following the expiration of the initial term in 2019. HHC currently collects $6.1mm in annual lease payments from GGP.

- *GGP Promissory Note (Phoenix, AZ)* - $6.9mm per year booked as interest income and principal through 2015 from GGP for what approximates lease payments on the Arizona 2 Office in Phoenix, AZ. HHC has no ownership or rights to the property or payments after 2015.

- *Head Acquisition benefit* - 100% interest in Hexalon Real Estate, which has a 1.42% interest in Head Acquisition, L.P., a JV between GGP, Simon Property Group, and Westfield Group that owns certain retail mall interests. Hexalon receives quarterly preferred interest payments from Head that totaled $321k in 2012. More importantly, Hexalon possesses significant tax attributes related to deferred interest that HHC could utilize to reduce future taxable income by $77mm, net of a valuation allowance of $9.9mm as of 12/31/12. This tax attribute carries out indefinitely until it is fully utilized.

Strategic Developments: In some cases, these assets will require significant capital and repositioning to generate a return, and in other cases, a return above the cost of capital hurdle rate. Most expenses are related to carry costs such as property taxes, insurance, and maintenance.

FIGURE 14. Strategic Developments

Asset	Location	Asset	Depreciation	Debt	Book Equity	Previous Impairment	Land Acerage	BV Per Acre	Current SQFT	Occupied SQFT	Occupancy %	2012 NOI ($M)
Bridges at Mint Hill	Charlotte, NC	$16.6	$0.0	$0.0	$16.6	$0.0	210	79,138	N/A	N/A	N/A	N/A
Circle T Ranch and Power Center	Fort Worth, TX	N/A	N/A	N/A	N/A	$0.0	279	N/A	N/A	N/A	N/A	N/A
Alameda Plaza	Pocatello, ID	$1.1	$0.0	$0.0	$1.0	$0.0	11	101,048	85,636	N/A	N/A	N/A
AllenTowne	Dallas, TX	$25.4	$0.0	$0.0	$25.4	$0.0	238	106,790	N/A	N/A	N/A	N/A
Elk Grove Promenade	Elk Grove, CA	$5.7	$0.0	$0.0	$5.7	$0.0	100	56,660	N/A	N/A	N/A	N/A
Kendall Town Center	Miami, FL	$17.7	$0.0	$0.0	$17.7	$0.0	70	252,371	N/A	N/A	N/A	N/A
The Woodlands Commercial Land	The Woodlands, TX	N/A	N/A	N/A	N/A	$0.0	N/A	N/A	N/A	N/A	N/A	N/A
Fashion Show Air Rights *80% interest	Las Vegas, NV	$0.0	$0.0	$0.0	$0.0	$0.0	N/A	N/A	N/A	N/A	N/A	N/A
Century Plaza Mall	Birmingham, AL	$5.4	$0.0	$0.0	$5.4	$12.9	63	84,937	740,000	N/A	N/A	N/A
Cottonwood Mall	Salt Lake City, UT	$19.9	$0.0	$0.0	$19.9	$0.0	54	368,352	N/A	N/A	N/A	N/A
Lakemoor (Volo) Land	Volo, IL	$0.3	$0.0	$0.0	$0.3	$0.0	40	8,025	N/A	N/A	N/A	N/A
Maui Ranch Land	Maui, HI	$0.0	$0.0	$0.0	$0.0	$0.0	10	0	N/A	N/A	N/A	N/A
Village at Redlands	Redlands, TX	$6.6	$0.0	$0.0	$6.6	$0.0	10	660,000	125,000	N/A	N/A	N/A
3 Waterway Square Office	Houston, TX	$23.6	$0.0	$9.2	$14.4	$0.0	N/A	N/A	232,000	N/A	N/A	N/A
Redlands Mall	Redlands, TX	$2.9	$0.0	$0.0	$2.9	$0.0	N/A	N/A	174,787	N/A	N/A	N/A
West Windsor	Princeton, NJ	$21.8	$0.0	$0.0	$21.8	$0.0	658	33,184	N/A	N/A	N/A	N/A

Source: Company filings & JMP Securities LLC

We expect many of the assets located outside of the core six assets to be sold as market demand dictates in order to redeploy capital into the higher return projects. If one of the assets was redeveloped, it would be reclassified as an "Operating Asset" upon completion.

Below we detail strategic developments outside of the ongoing projects within the "Big Six" assets:

- *Alameda Plaza (Pocatello, ID):* 10.5 acre site with 85.636 sq ft of vacant retail space at the intersection of Yellowstone Park Highway and Alameda Road that is for sale. HHC sold 104,705 sq ft and 11.5 acres of the site for $4.5mm in 2012.
- *AllenTowne (Allen, TX):* 238 acres located at the high traffic intersection of Highway 121 and US Highway 75, which is 27 miles northeast of downtown Dallas.
- *Bridges at Mint Hill (Charlotte, NC):* On September 8, 2011, HHC and the owner of the adjoining parcel, Childress Klein, entered into a JV to develop a shopping center on the parcels located southeast of Charlotte. HHC contributed $4.5mm in 10/2012 to pay off the existing mortgage on the partners' property plus land for a 90.5% interest in the JV. The combined parcel, consisting of 210 acres with 120 developable acres, is currently zoned for approximately 1.3mm sq ft of retail, hotel, and commercial development. The combined parcel is divided by a small stream known as Goose Creek, which, under the plan, will be connected by small bridges and will require the expansion of roads and installation of an offsite force main for sewer utility.
- *Century Plaza (Birmingham, AL):* A shuttered mall on a 63 acre parcel with 740,000 sq ft of GLA. The site is located on the southeastern side of town on US Route 78 near Interstate 20 across from the Eastwood Village. There is no current plan for redevelopment and it has been written down based on best estimates.
- *Circle T Ranch & Circle T Power Center (Fort Worth, TX):* 50% JV with Hillwood properties, a local developer, comprised of 279 acres on two parcels located at the intersection of Texas Highways 114 and 170, about 20 miles north of downtown. Circle T Ranch (Westlake Retail Associates, Ltd.) is 128 acres, while the Circle T Power Center (170 Retail Associates) is 151 acres. This JV is unconsolidated and accounted for under the equity method.
- *Cottonwood Mall (Holladay, UT):* Redevelopment of a 54-acre in-fill site located 7.5 miles from downtown Salt Lake City that began in 2008; however, the recent recession delayed completion. The entire mall was demolished except for Macy's, which still operates as a stand-alone store. The site is entitled for 575,000 sq ft of retail, 195,000 sq ft of office and 614 residential units. HHC is exploring retailer interest in the site.
- *Elk Grove Promenade (Elk Grove, CA):* Roughly 100 acre site entitled for a 1.1mm sq ft outdoor shopping center located 17 miles southeast of Sacramento. Construction began in 2007, but was stopped as the recession took hold. The project is under evaluation given improvement in market conditions.

- *Fashion Show Air Rights (Las Vegas, NV):* In a binding agreement with GGP, HHC has the right to acquire, for nominal consideration, an 80% ownership interest in the air rights above portions of Fashion Show Mall located on the Las Vegas Strip. This right is expected to become effective May 2017. It is contingent upon the satisfaction of a number of conditions and GGP's scheduled repayment of existing loans and guarantees on the Fashion Show Mall and Shops at the Palazzo in 2017.

- *Kendall Town Center (Kendall, FL):* 70-acre site, 20 miles southwest of downtown Miami entitled for 621,300 sq ft of retail, 60,000 sq ft of office space, and a 50,000 sq ft community center. Since 2008, HHC has monetized several parcels of the original site: 1) 31 acres to Baptist Hospital in 2008 for a 133-bed hospital and 62K sq ft MOB; 2) five acres in 2011 and 18 acres in 2009 that are expected to become a 120-bed hotel with office, retail space, and a senior housing development; 3) a 14-acre deed to the property owners' association; and 4) a 3-acre deed to the County.

- *Lakemoor (Volo) Land (Lakemoor, Il):* a 40-acre vacant parcel designated as farmland located 50 miles north of Chicago in a growing suburb. The project has no utilities in place.

- *Maui Ranch Land (Maui, HI):* Two 10-acre, undeveloped, land-locked parcels that are not adjacent, but are near the Kula Forest Preserve. The land is zoned for native vegetation, has no ground right of way access to the land, infrastructure, or utilities in the surrounding area. The parcels were included in the Ward Center purchase at the time of the original transaction.

- *Redlands Promenade (Redlands, CA):* 174,787 sq ft enclosed single-level shopping center with tenants including: CVS, Denny's, and Union Bank with outside facing entrances. The interior portion of the mall was closed in 2010. The site is located in downtown Redlands and was originally envisioned as a mixed-use retail and residential development.

- *West Windsor (West Windsor, NJ):* 658 acres comprised of two large parcels and a third small parcel. This is the former Wyeth Agricultural Research & Development Campus on US Route One near Princeton, NJ. A development feasibility study of the site is in process.

LEGAL PROCEEDINGS

While nothing material is mentioned in the most recent 10K, we are aware that several tenants are pursuing lawsuits to prevent lease termination. Two lawsuits filed by South Street Seaport tenants include:

- Bridgewater: Owners of the high-end catering hall located at South Street Seaport have filed a breach of contract suit, alleging that they have been blocked from reopening after Hurricane Sandy and that the landlord is evicting them from the property. The building was "yellow tagged" (denoting restricted use) by the City following the storm.
- Six Pier 17 restaurants: Owners of these restaurants located in Link Building sued HHC, alleging that the landlord has refused to reopen the building in order to force them out of leases in advance of the Pier 17 makeover.

We do not believe these lawsuits will affect the start date of the South Street Seaport project later this year.

MANAGEMENT, COMPENSATION, & TOP SHAREHOLDERS

Management Team

The HHC management team was formed before the spin-off and we believe it should continue to grow as the company expands operations. Many asset level members we met with have intimate knowledge of the properties, which in many cases go back to Rouse, which owned the assets before being acquired by General Growth. Below, we highlight key members of management:

David Weinreb, CEO: Prior to joining HHC in November 2010, Mr. Weinreb (age 48) served as Chairman and CEO of TPMC Realty Corporation, a real estate investment firm (since 1993).

Grant Herlitz, President: Mr. Herlitz (age 41) served as President and CFO of TPMC Realty Corporation along with Mr. Weinreb, before joining HHC in November 2010. Mr. Herlitz had been with TPMC since 2000, when he joined the firm as the Vice President of Investments.

Andrew Richardson, CFO: Mr. Richardson (age 46), was the CFO of publicly traded Northstar Realty Finance Corp since 2006. Northstar focused on investments in real estate loans, fixed income securities, and net-leased properties. He joined HHC in March 2011. Mr. Richardson has previous experience in capital markets and investment banking, specifically M&A, as well as five years at Ernst &Young, employed as a CPA.

Peter Riley, SVP, Secretary & General Counsel: Mr. Riley (age 57), was a partner at K&L Gates with a focus on the tax aspects of real estate assets before joining HHC in May 2011. Previously, Mr. Riley let the tax department at Kelly, Hart and Hallman.

Mr. William Ackman, Board Chairman (CEO of Pershing Square Capital Management) sought out Mr. Weinreb given a relationship and history with the company's assets and personal knowledge of his real estate acumen.

Compensation

Under the HHC executive compensation plan no participant will be: 1) paid in cash more than $10mm; 2) receive more than 200,000 shares of stock in aggregate; or 3) during any calendar year, for the first time by a participant, exercise incentive stock options in excess of $100,000. The compensation committee will specify the time period and performance objective metrics (wide range of financial metrics listed in filings), that will determine the award for each participant and can vary year to year.

For example, in 2011 the minimum target for the 2011 plan was consolidated gross revenues of at least $67mm, which was achieved and the maximum on the plan was paid. The threshold, target, and maximum level of performance incentive compensation is 50%/100%/150% of annual base for the CEO and President, 60% /100%/140% for CFO, and 40%/60%/80% for General Counsel. The CEO's employment agreement was amended to cap private air travel reimbursement at $400,000 per year. Besides annual compensation, HHC also has long-term incentive compensation awards for employee retention in the form of common stock awards. The Board has adopted a policy for recovery of incentive awards if financial results are later restated.

In November 2010 and February 2011, HHC entered into warrant agreements with the CEO, President, and CFO, representing 2,862,687 underlying shares in exchange for $19mm in cash at commencement of employment. The CEO purchased a warrant to acquire 2,367,985 shares for $15mm, the President purchased a warrant to acquire 315,731 for $2.0mm, and the CFO purchased a warrant to acquire 178,971 for $2.0mm, all in cash. The CEO and President have exercise prices at $42.23 and the CFO at $54.50 per share. The warrants are exercisable in November 2016 and expire by February 2018.

The board is comprised of ten members, expanded from nine in 2011. According to the 2012 proxy, the annual retainer per member is $112,000, which is paid 50% in cash and 50% in stock. The retainer can be taken 100% in stock if so chosen by the member. Two directors (Mr. Tansky and Ms. Tighe) have chosen to receive their annual retainers entirely in restricted stock. Meeting fees and committee service compensation is nominal except for the audit chairperson and members who receive $30,000 and $15,000, respectively. Mr. Ackman waived all compensation relating to his service as a director.

In 2010, the Board adopted stock ownership guidelines for non-management directors that are required to own shares of the company's common stock with a value equal to 5x the annual retainer for Board service. Compliance can be achieved within five years of becoming a director.

In connection with HHC's spin-off from GGP in November 2010, Pershing Square and Brookfield purchased shares of the company's stock for an aggregate price of $178.5mm. Under the terms of HHC's stockholder agreements, Pershing Square currently has the ability to designate three members to HHC's Board of Directors if beneficial ownership is over 17.5% fully diluted and two board designees at 10%+ fully diluted ownership. Brookfield has the right for one member as long as it owns at least 10% interest on a fully disclosed basis; however, it did not exercise that right when its appointee, Mr. Arthur, resigned.

FIGURE 15. HHC Top Shareholders

Filer Name	%O/S	Position	Style	Source
Horizon Kinetics LLC	14.2%	5,606,325	Core Growth	13F
PERSHING SQUARE CAPITAL MANAGEMENT L P	9.0%	3,568,017	Hedge Fund	13D
General Trust Co	5.6%	2,210,025	N/A	Proxy
Brookfield Asset Management	4.7%	1,863,214	Yield	13D
The Vanguard Group, Inc	4.1%	1,630,225	Index	13F
Citi Investment Research	3.8%	1,506,156	Broker Dealer	13F
Morgan Stanley & Co.	3.8%	1,501,540	Broker Dealer	13F
SG Americas Securities, LLC	3.2%	1,249,861	Broker Dealer	13F
BlackRock Institutional Trust Company, N.A.	2.8%	1,105,129	Index	13F
Harris Associates, L.P.	2.3%	921,760	Core Value	13F
Credit Suisse Securities (USA)	2.3%	904,310	Broker Dealer	13F
New South Capital Management, Inc	2.2%	865,121	Core Growth	13F
Gilder Gagnon Howe & Co.	1.1%	424,713	Hedge Fund	13F

Source: Thomson Reuters

According to Thomson data, Horizon Kinetics LLC, Pershing Square Capital Management, L.P. ("Pershing Square"), General Trust Company, and Brookfield Retail Holdings LLC ("Brookfield") beneficially owned 14.2%, 9.0%, 5.6% and 4.7% respectively, of HHC common stock (excluding shares issuable upon exercise of warrants). As of November 2010, HHC and Pershing entered into a "standstill agreement" limiting the economic interest in HHC to 40%, and to not take any action inconsistent with HHC's corporate governance principals or share voting guidelines.

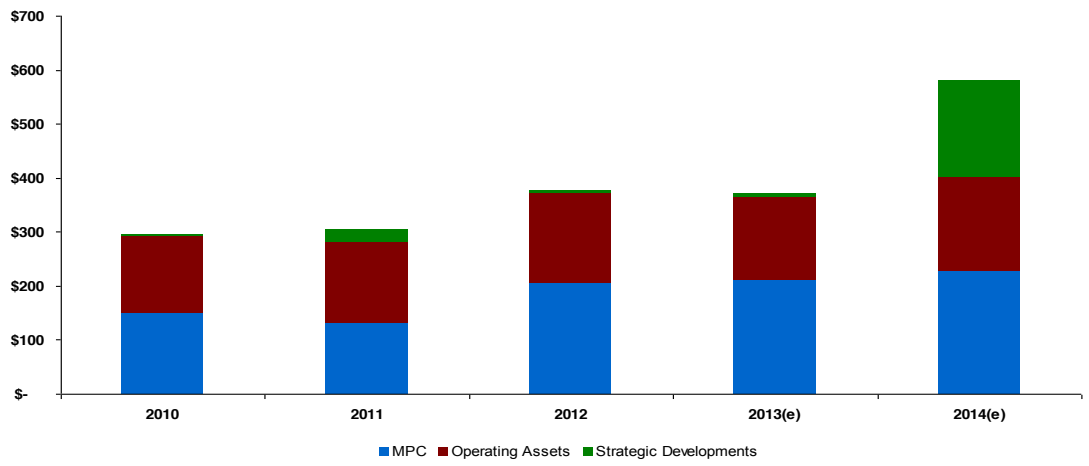
FINANCIAL EXPECTATIONS

As we mentioned earlier in this report, we do not look at HHC as a quarterly earnings story given the volatility of operating model cash flows related to the timing of project openings and/or asset sales. We believe that land development companies should be judged on annual portfolio milestones specific to the business model that show timely progress towards current or future book value expansion, especially at this stage of the housing cycle, considering the lack of development during the recession. In the section below, we detail our annual earnings assumptions and outlook.

Earnings Outlook:

As a result of our opinion of quarterly earnings for land development companies, our model takes a conservative approach to earnings power in the near term and we track development projects and trends that impact our numbers going forward. Longer term, as income-producing assets are developed and lots/condos are sold, we believe HHC will transform into a self-funding cash flow generator. In Figure 16 below, we display annual revenue generated from HHC's three segments (MPC, Operating, and Strategic) from 2010 - 2014(E).

FIGURE 16. HHC Revenues



Source: JMP Securities LLC and Company filings

Revenues were relatively constant around $300mm from 2010-2011, as MPC sales were muted in conjunction with a less than favorable housing environment. The 23% of yr/yr revenue growth in 2012 was a function of material improvement in MPC sales, highlighted by the auction process held at The Woodlands in 4Q12.

In 2013, we are expecting a marginal revenue decline as improved activity in Summerlin is offset by lower sales for Bridgeland and South Street Seaport, which will be completely offline post Labor Day. Residential sales in The Woodlands will be a wildcard due to the timing of auctions; however, demand remains strong. In 2014, we look for 55%+ revenue growth as a number of income-producing assets come online, MPC's grow modestly and Ala Moana sales are recognized. Below we provide a more detailed look at our assumptions.

2013 Assumptions

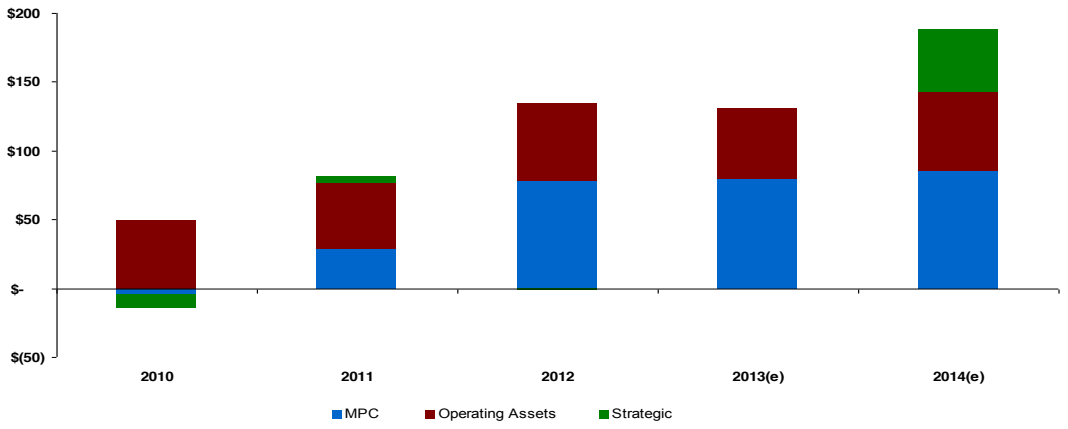
- South Street Seaport repositioning through 2015 and not generating income until completed
- Material increase in Summerlin sales volume and pricing
- Residential sales in The Woodlands are slowed to capture margin
- Repositioning of specific assets in Ward Centers provides an incremental NOI benefit
- Activity at Columbia Office Properties provides an incremental NOI benefit
- One-half year of operating income associated with newly developed 3 Waterway

2014 Assumptions

- MPC sales volume up 8% yr/yr
- Benefit from Riverwalk Marketplace refurbishment
- Modest increase in The Woodlands Conference Center NOI due to repositioning
- Ala Moana Condo Sales (Strategic Developments)
- Partial-year benefit from Millennium Woodlands Phase II
- Full-year benefit of 3 Waterway
- Full-year benefit from One Hughes Landing

Based on our assumptions, we are expecting gross segment income and consolidated earnings to be slightly down in 2013, before increasing in 2014. In Figure 17, we display gross segment income from 2010 - 2014.

FIGURE 17. Gross Income, 2010 - 2014(E)

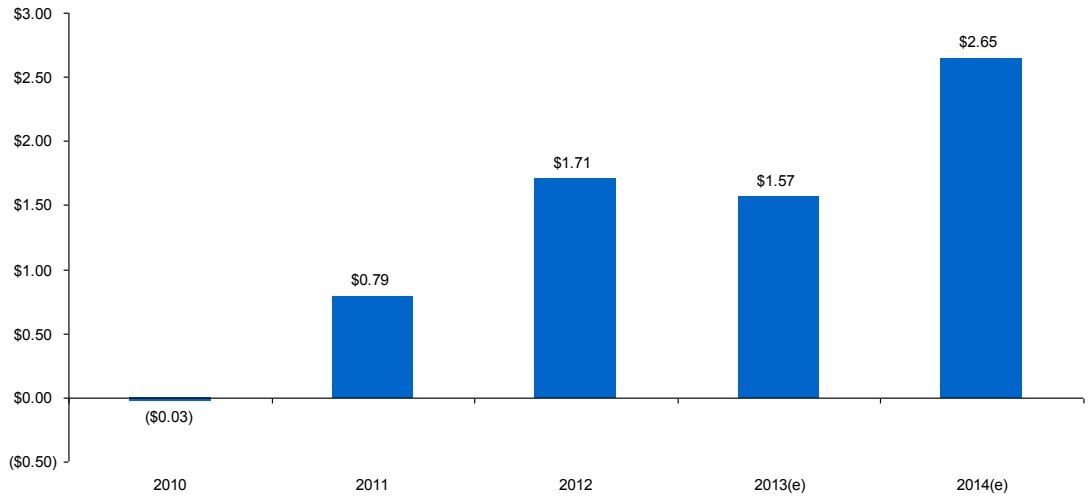


Source: JMP Securities LLC and Company filings

We note that it is highly possible yr/yr growth could be achieved through better than expected contributions out of The Woodlands. Regardless, we see management creating long-term shareholder value wherever possible. We also believe there is upside to our numbers out of Summerlin, as homebuilders are increasing demand for finished lots in Las Vegas.

For 2013 and 2014, we are looking for normalized, warrant diluted, pre-tax EPS of $1.57 and $2.65 per share. Our EPS analysis normalizes for taxes, warranty liabilities, tax indemnity charges, and other items that we view as non-recurring to the business model.

FIGURE 18. Normalized EPS, 2010 - 2014(E)



**GAAP and normalized net income are calculated in our model in the back of this report*

**2013 & 2014 assume warrants are diluted for purposes of EPS*

Source: JMP Securities LLC based on Company filings

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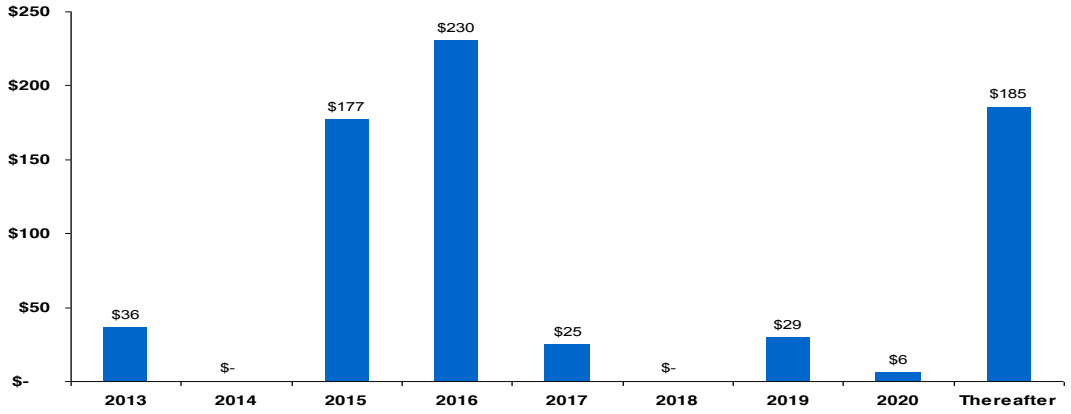
In the near term, we expect HHC to partially recognize its $24.7mm valuation gain on Ala Moana once condo rights are sold to the joint venture. We will reflect the gains in our model as they are booked.

LEVERAGE AND LIQUIDITY

As of FYE12, HHC had $229mm in cash and $185mm in availability on its lines of credit, for $418mm in total liquidity. In Figure 19 below, we display HHC's debt maturity schedule.

FIGURE 19. Debt Maturity Schedule, 2013 - 2020 and Beyond



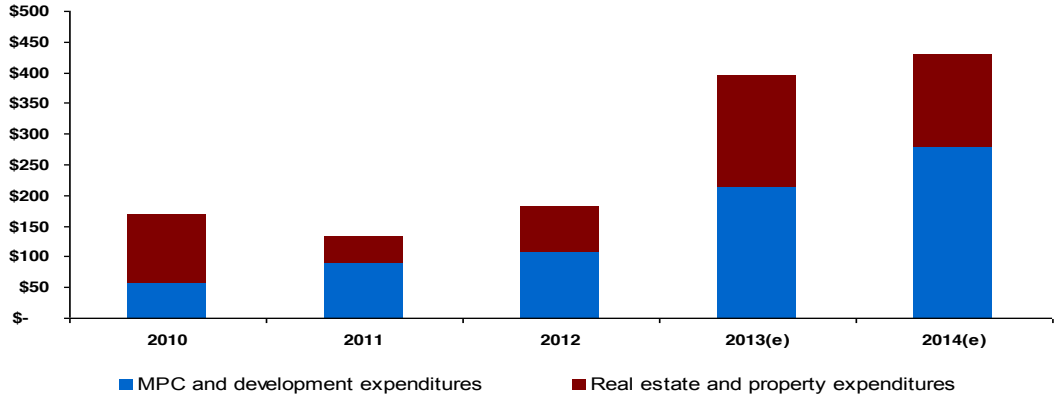
**$36mm of debt due in 2013 was refinanced subsequent to FYE12*

Source: JMP Securities LLC based on Company filings

With no material maturities over the next two years and availability through liquid credit markets, we believe there is limited refinancing risk at this time. The $36mm 2013 maturity was associated with The Woodlands Conference Center and was refinanced as part of a larger construction loan in February. The 2015 and 2016 maturities include The Woodlands Master Credit facility and Ward Centers debt; both projects carry material equity.

HHC has significant capital needs both near- and long-term in order to develop assets. For 2013 and 2014, we are estimating $394mm and $430mm of required capital for development (Figure 20).

FIGURE 20. HHC Development & Property Expenditures



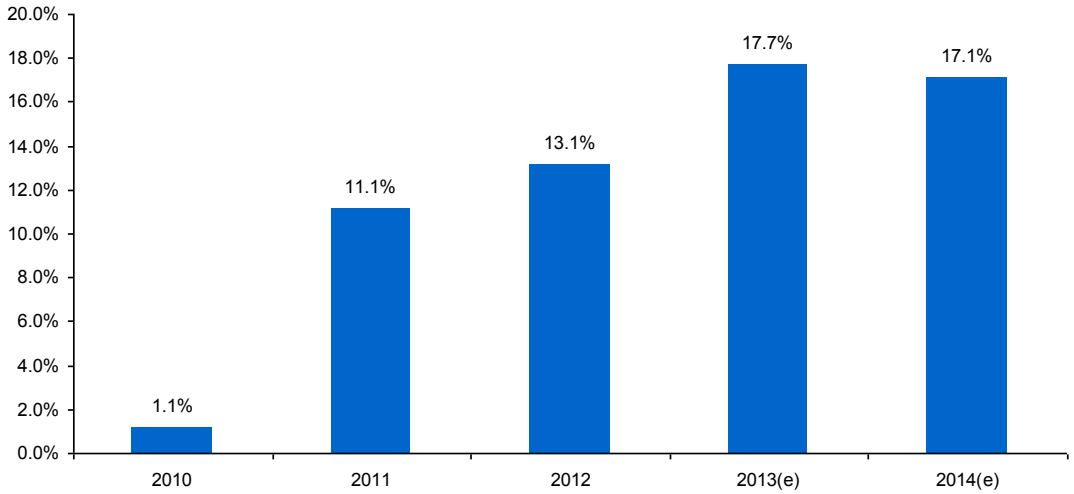
Source: JMP Securities LLC and Company filings

Although management may choose to access individual property financing, we assume that the $825mm of cap ex that we estimate will be required over the next two years will be funded by the following:

- $272mm in operating cash flow
- $315mm in recycled investments
- $166mm in cash
- $72mm in debt

Based on our financing assumptions, we see leverage increasing from current levels of 13% to more than 17% in 2014 as capital is used to fund projects. In Figure 21 below, we display leverage on a net debt to capital basis from 2010 - 2014.

FIGURE 21. Net Debt to Capital, 2010 - 2014(E)



*Does not assume the warrants are exercised

Source: JMP Securities LLC and Company filings

If current warrants outstanding were diluted, cash generation would decrease leverage by roughly 7.6% to 10.1% in 2013(E).

Longer term, we expect leverage to increase until an inflection point is reached where recurring cash flow and monetization of condominium projects will allow for debt reduction at a rapid pace. The timing of the inflection point is variable based on absorption rates, but the structure is in place for the story to play out and in our opinion, the assets are of the highest quality.

Other Balance Sheet Items

HHC has certain assets and liabilities that are unique to the company, including:

- **Warrants:** As of FYE12 there were sponsor warrants to purchase 1.916mm shares of common stock and management warrants to purchase 2.862mm shares of common stock. The sponsor warrants have an exercise price of $50.00 and management warrants have an exercise price ranging from $42.23 to $54.50 per share. Assuming the conversion of all warrants and stock options, the diluted share count would be 41.119mm as of FYE12. For GAAP reporting purposes, the warrants are not diluted, as they are anti-dilutive, and out of the money stock options are not converted.

- **Net Operating Loss Carry Forwards:** As of FYE12, HHC had operating loss and tax credit carry forwards of $59mm Federal, $273mm State, and $2.3mm Federal AMT.

- **Deferred Tax Assets:** As of FYE12, HHC had gross deferred tax assets of $410.5mm and gross deferred liabilities of $386.1mm. The company has a valuation allowance amount of $101.5mm against certain deferred tax assets, which we believe is more likely to be realized than not.

- **Tax Indemnity:** Several HHC subsidiaries are involved in a dispute with the IRS related to years when the subsidiaries fell under the General Growth Properties (GGP) umbrella. GGP has provided HHC with indemnity up to 93.75% of any and all losses, claims, and damages. Under certain circumstances, GGP has agreed to be responsible for interest or penalties attributable to MPC taxes in excess of the $303.8mm ("indemnity cap"), to the extent assessed by the IRS.

- **Special Improvement District Bonds (SIDB):** The Summerlin MPC uses SIDB to finance certain common infrastructure improvements. The bonds are issued by municipalities and are secured by assessments on the land. The Summerlin MPC pays the debt service on these bonds annually, which are covered by residential land sales. As Summerlin sells land, purchasers assume a proportionate share of the bond obligation. The majority of proceeds from issued bonds is held in a construction escrow account and disbursed to HHC as infrastructure projects are completed.

INVESTMENT RISKS

Macroeconomic environment. HHC's operating segments are affected by the direction of the economic environment in the form of demand for housing (single & multi-family), hotel/resort activity, consumer spending, and the need for commercial office space.

Land development process. Finding attractive land to purchase, entitle, and develop is becoming more difficult as population continues to move further from city centers and political and environmental concerns retard prospects for growth in certain areas.

Interest Rates. HHC has significant capital needs in order to develop, add value, and monetize its current assets. A higher cost of capital could delay plans and limit total return. Real estate property valuation is materially influenced by the cost of capital. Interest rate increases could result in cap rate expansion and real estate value deterioration. As of December 31, 2012, HHC had $480.0 million of variable-rate debt outstanding, of which $172.0 million has been swapped to fixed-rate. Annual interest expense would increase approximately $3.1 million for every 1% increase in interest rates on this balance.

Lease renewal. Given the amount of square footage leased, HHC could be impacted by lower renewal percentages and at lower rates. Moreover, attracting new tenants could require tenant improvements, renovations, or concessions.

Natural disasters. A number of HHC's properties are located in areas which are subject to disasters, including hurricanes, floods, earthquakes, and oil spills. Several of HHC's key properties, including Ward Center, South Street Seaport, and Riverwalk Marketplace are located in coastal regions and could be affected by natural disasters.

Federal taxes related to spin-off. HHC is challenging an IRS ruling on a $144mm tax bill related to land sales in its Summerlin MPC. The company was notified by the IRS in February 2011 that it allegedly underpaid taxes in 2007 and 2008 related to the project. The dispute centers on the "completed contract method" (CCM) accounting practice, which is under scrutiny by the IRS. The IRS contends that HHC should pay taxes as lots are sold and not wait until the project is nearly finished. HHC believes the method is correct under the IRS exemption for home construction given that profit is not known until the end of a project due to upfront development costs such as roads, sewer, water, electricity, and common areas. The case was heard by the United States Tax Court in November 2012. We expect the tax court to rule on the case within the next twelve months.

General Growth Properties (GGP) has agreed to indemnify HHC against 93.75% of any losses and/or claims in each case for taxes related to sales of certain assets in the Master Planned Communities segment prior to March 31, 2010. HHC will be responsible for the remainder of any such taxes. As of December 31, 2012, the maximum amount covered by the GGP indemnity was $283.0 million plus applicable interest. Moreover, if the IRS is successful in litigation with respect to such audits, HHC may be required to change its method of tax accounting for certain transactions, which could affect the timing of future tax payments, increasing tax payments in the short term relative to the current tax cost projections. This is not strictly an HHC issue, but an industry issue as it would require property developers to pay taxes on a "percentage of completion" accounting method, which is a much less favorable approach.

FIGURE 22. Income Statement

Howard Hughes Corp. (NYSE: HHC) FY12/31 - $ 000's	2010	2011A Mar	2011A Jun	2011A Sep	2011A Dec	2011A	2012A Mar	2012A Jun	2012A Sep	2012A Dec	2012A	2013E Mar	2013E Jun	2013E Sep	2013E Dec	2013E	2014E Mar	2014E Jun	2014E Sep	2014E Dec	2014E
Total Revenues	**142.72**	**53.10**	**50.82**	**86.67**	**85.09**	**275.69**	**79.77**	**93.94**	**94.82**	**108.37**	**376.89**	**69.59**	**105.16**	**92.17**	**104.98**	**371.91**	**79.45**	**118.39**	**102.51**	**278.95**	**579.30**
MPC cost of sales	23.39	15.44	9.44	27.03	18.20	70.11	18.74	22.98	21.44	26.20	89.36	14.31	27.72	24.11	28.15	94.29	15.83	30.14	26.44	30.58	102.98
MPC operations	30.10	5.71	4.94	10.73	11.33	32.72	9.71	9.98	9.94	9.54	39.17	7.15	10.92	9.97	9.53	37.58	7.61	11.68	10.73	10.14	40.16
Rental Property Real Estate Taxes	13.72	3.47	2.63	2.01	2.48	10.59	3.84	3.17	3.57	3.06	13.64	3.56	3.56	3.56	3.56	14.23	3.56	3.56	3.56	3.56	14.23
Rental Property Maintenance Costs	6.50	1.56	1.56	2.16	1.80	7.08	1.96	2.09	2.26	2.35	8.66	2.06	2.10	2.13	2.17	8.47	2.23	2.26	2.30	2.34	9.14
Other Property Op. Costs	36.64	9.72	10.14	14.96	16.14	50.95	14.06	15.04	16.93	16.73	62.76	13.47	13.71	13.00	16.83	57.01	14.49	14.70	13.99	18.08	61.27
Condominium unit cost of sales	1.00	2.98	5.27	5.47	0.74	14.47	0.06	0.04	0.00	0.00	0.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	123.25	123.25
Resort and Conference center operations	0.00	0.00	0.00	6.35	6.87	13.22	7.41	7.37	6.97	7.36	29.11	6.68	8.96	6.67	7.45	29.76	8.16	10.95	8.15	9.11	36.37
Provision for Doubtful Accounts	1.78	0.01	0.30	(0.14)	(0.41)	(0.24)	0.00	0.16	0.24	0.94	1.34	0.35	0.35	0.35	0.35	1.38	0.35	0.35	0.35	0.35	1.38
G&A	21.54	5.02	7.66	8.67	11.19	32.54	9.82	8.16	9.34	8.53	35.85	10.23	8.14	9.50	8.60	36.47	10.70	8.51	9.94	8.99	38.13
Depreciation & Amortization	16.56	3.20	3.19	7.21	3.19	16.78	5.06	5.89	6.76	6.71	24.43	7.27	8.04	8.76	9.79	33.86	10.16	11.20	12.24	11.67	45.28
Impairment	503.36	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Expenses	**654.59**	**47.11**	**45.13**	**84.46**	**71.52**	**248.22**	**70.66**	**74.88**	**77.45**	**81.43**	**304.42**	**65.08**	**83.49**	**78.04**	**86.42**	**313.03**	**73.08**	**93.34**	**87.69**	**218.06**	**472.17**
Operating Income	**(511.87)**	**5.99**	**5.69**	**2.22**	**13.57**	**27.47**	**9.10**	**19.06**	**17.36**	**26.94**	**72.47**	**4.51**	**21.68**	**14.13**	**18.56**	**58.88**	**6.38**	**25.04**	**14.82**	**60.89**	**107.13**
Interest Income	0.37	2.51	2.24	2.34	2.78	9.88	2.33	2.34	2.38	2.39	9.44	2.10	2.10	2.10	2.10	8.39	2.10	2.10	2.10	2.10	8.39
Interest Expense	(2.42)	0.00	0.00	0.00	0.00	0.00	0.00	(0.20)	(0.45)	(0.32)	(0.97)	(0.37)	(0.37)	(0.37)	(0.37)	(1.48)	(0.48)	(0.48)	(0.48)	(0.37)	(1.80)
Warrant Liability Gain (Loss)	(140.90)	(126.05)	56.91	169.90	0.82	101.58	(121.85)	23.43	(64.30)	(22.29)	(185.02)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reduction in tax indemity rec	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(8.78)	(2.87)	(8.61)	(20.26)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Equity in Income of RE Affiliates	9.41	5.51	2.11	0.17	0.79	8.58	2.68	0.45	0.31	0.25	3.68	2.77	0.27	0.27	0.27	3.58	2.77	0.27	0.27	0.27	3.58
Inv in real estate affiliate basis adj	0.00	0.00	0.00	(6.05)	0.00	(6.05)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reorganization costs	(57.28)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Early extinguishment of debt	0.00	0.00	0.00	(11.31)	0.00	(11.31)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Income before taxes	**(702.69)**	**(112.03)**	**66.95**	**157.26**	**17.96**	**130.15**	**(107.74)**	**36.29**	**(47.57)**	**(1.64)**	**(120.66)**	**9.01**	**23.67**	**16.12**	**20.56**	**69.37**	**10.77**	**26.93**	**16.71**	**62.88**	**117.30**
Income Tax Exp (benefit)	(633.46)	2.46	0.96	(7.76)	(13.98)	(18.33)	3.78	1.30	2.62	(0.82)	6.89	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Loss	**(69.23)**	**(114.49)**	**65.99**	**165.02**	**31.94**	**148.47**	**(111.52)**	**34.99**	**(50.19)**	**(0.82)**	**(127.54)**	**9.01**	**23.67**	**16.12**	**20.56**	**69.37**	**10.77**	**26.93**	**16.71**	**62.88**	**117.30**
Net Inc. attrib to noncontrolling int	(0.20)	(0.03)	(0.02)	(0.73)	(0.51)	(1.29)	(0.74)	(0.68)	0.78	(0.11)	(0.75)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net inc (loss) attrib to common stk	**(69.43)**	**(114.52)**	**65.97**	**164.30**	**31.43**	**147.18**	**(112.26)**	**34.31**	**(49.41)**	**(0.93)**	**(128.29)**	**9.01**	**23.67**	**16.12**	**20.56**	**69.37**	**10.77**	**26.93**	**16.71**	**62.88**	**117.30**
Normalizing items	68.08	128.50	(55.95)	(166.35)	(14.80)	(108.60)	125.64	(13.35)	69.79	30.08	212.16	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Normalized net income	**(1.35)**	**13.99**	**10.02**	**(2.06)**	**16.63**	**38.58**	**13.38**	**20.96**	**20.38**	**29.15**	**83.88**	**9.01**	**23.67**	**16.12**	**20.56**	**69.37**	**10.77**	**26.93**	**16.71**	**62.88**	**117.30**
Diluted EPS Per Share	($1.84)	($3.02)	$1.74	$4.33	$0.83	$3.78	($2.96)	$0.90	($1.30)	($0.02)	($3.36)	$0.23	$0.60	$0.41	$0.52	$1.76	$0.27	$0.68	$0.42	$1.59	$2.97
Normalized Diluted EPS	**($3.77)**	**($2.96)**	**$1.77**	**$4.43**	**$0.46**	**$3.70**	**($2.86)**	**$1.17**	**($1.16)**	**$0.18**	**($2.67)**	**$0.20**	**$0.53**	**$0.36**	**$0.46**	**$1.57**	**$0.24**	**$0.61**	**$0.38**	**$1.42**	**$2.65**
Normalized + warrant diluted	($0.03)	$0.29	$0.21	($0.04)	$0.34	$0.79	$0.27	$0.43	$0.42	$0.59	$1.71	$0.20	$0.53	$0.36	$0.46	$1.57	$0.24	$0.61	$0.38	$1.42	$2.65
Diluted Shares Outstanding	37.73	37.91	37.90	37.91	37.95	38.98	37.95	37.97	37.92	38.78	38.13	39.50	39.51	39.52	39.53	39.51	39.54	39.55	39.56	39.57	39.55
Diluted Shares (including warrant dilution)	48.59	48.77	48.76	48.77	48.81	48.78	48.82	48.84	48.78	49.64	49.02	44.28	44.29	44.30	44.31	44.29	44.32	44.33	44.34	44.35	44.33
Margins																					
MPC	-10.3%	15.9%	31.5%	7.7%	33.5%	21.8%	29.6%	32.7%	35.3%	47.9%	37.7%	35.6%	36.8%	37.4%	39.4%	37.5%	35.1%	36.6%	37.3%	39.1%	37.3%
Operating asset	35.1%	35.6%	34.2%	29.8%	29.9%	32.4%	33.7%	40.4%	35.2%	27.0%	34.2%	32.1%	38.3%	33.2%	27.6%	33.0%	32.4%	38.7%	33.3%	27.9%	33.3%
Strategic	-358.5%	-5.5%	-1.7%	38.3%	14.9%	14.9%	-275.6%	-196.0%	40.2%	119.6%	-28.7%	-519.0%	-519.0%	24.3%	59.4%	2.6%	59.4%	59.4%	59.4%	25.9%	27.7%
Consolidated	18.4%	25.0%	29.6%	20.3%	31.2%	26.4%	29.7%	35.3%	35.5%	39.5%	35.4%	32.1%	36.3%	35.5%	35.5%	35.1%	34.7%	38.1%	36.4%	29.4%	33.1%
G&A as % of revenues	15.1%	9.4%	15.1%	10.0%	13.1%	11.8%	12.3%	8.7%	9.8%	7.9%	9.5%	14.7%	7.7%	10.3%	8.2%	9.8%	13.5%	7.2%	9.7%	3.2%	6.6%
Interest rate	#VALUE!	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.3%	0.2%	0.6%	0.2%	0.2%	0.2%	0.2%	0.8%	0.2%	0.2%	0.2%	0.2%	1.0%
Normalized pretax margin	0.0%	26.4%	19.8%	-1.5%	20.1%	14.5%	17.7%	23.0%	20.7%	27.0%	22.5%	12.9%	22.5%	17.5%	19.6%	18.7%	13.6%	22.8%	16.3%	22.5%	20.2%
Tax rate	90.1%	-2.2%	1.4%	-4.9%	-77.8%	-14.1%	-3.5%	3.6%	-5.5%	49.8%	-5.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Normalized net income margin	-0.9%	26.3%	19.7%	-2.4%	19.5%	14.0%	16.8%	22.3%	21.5%	26.9%	22.3%	12.9%	22.5%	17.5%	19.6%	18.7%	13.6%	22.8%	16.3%	22.5%	20.2%
Growth -Yr/Yr																					
MPC revenue							60.6%	133.2%	18.4%	54.4%	57.0%	-17.5%	24.8%	12.3%	-9.4%	2.2%	8.4%	7.9%	8.9%	7.5%	8.1%
Operating asset revenue							6.4%	12.6%	14.4%	10.8%	11.1%	-6.9%	-1.3%	-13.2%	-2.1%	-5.8%	11.3%	12.4%	11.2%	11.3%	11.6%
Strategic revenue							-90.2%	-94.0%	-49.2%	-125.9%	-80.9%	-57.6%	-50.5%	-63.7%	-456.9%	12.3%	1424.5%	1424.5%	86.3%	5147.6%	3226.2%
Consolidated revenue							19.6%	39.1%	9.5%	28.1%	23.4%	-12.6%	12.1%	-2.7%	-2.9%	-1.2%	14.2%	12.6%	11.2%	165.7%	55.8%
MPC EBITDA							198.3%	142.0%	441.8%	120.6%	171.8%	-0.8%	40.4%	19.0%	-25.5%	1.6%	6.9%	7.3%	8.6%	6.7%	7.4%
Operating asset EBITDA							1.0%	33.0%	35.2%	0.2%	17.4%	-11.4%	-6.4%	-18.1%	-0.1%	-9.4%	12.2%	13.5%	11.5%	12.9%	12.6%
Strategic EBITDA							390.6%	604.2%	-46.8%	-307.1%	-137.0%	-20.1%	31.2%	-78.0%	-277.2%	-110.2%	-274.4%	-274.4%	354.7%	2185.2%	35101.0%
Consolidated EBITDA							42.0%	65.7%	91.7%	62.2%	65.3%	-5.5%	15.3%	-2.6%	-12.7%	-1.9%	23.3%	18.1%	14.1%	119.6%	47.0%
G&A							95.8%	6.5%	7.7%	-23.8%	10.2%	4.1%	-0.2%	1.7%	0.8%	1.7%	4.6%	4.5%	4.6%	4.5%	4.5%
Interest expense							#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	84.8%	-16.9%	15.2%	53.1%	28.7%	28.7%	28.7%	0.0%	21.6%
Normalized pre-tax margin							0.7%	115.5%	-1576.1%	70.7%	112.3%	-36.2%	9.4%	-17.7%	-29.7%	-18.0%	19.5%	13.8%	3.6%	205.9%	69.1%
Taxes							54.0%	35.7%	-133.7%	-94.2%	-137.6%	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Normalized net income							-4.4%	109.2%	-1090.9%	75.3%	117.4%	-32.6%	12.9%	-20.9%	-29.5%	-17.3%	19.5%	13.8%	3.6%	205.9%	69.1%

Source: JMP Securities LLC, Company filings

FIGURE 23. Balance Sheet

Howard Hughes Corp. (NYSE: HHC) FY12/31 - $ 000's BALANCE SHEET STATEMENT	2010	2011A Mar	2011A Jun	2011A Sep	2011A Dec	2011A	2012A Mar	2012A Jun	2012A Sep	2012A Dec	2012A
Assets											
Investments in Real Estate:											
MPC assets	1350.648	1348.531	1348.138	1611.125	1602.437	1602.437	1348.531	1348.138	1611.125	1602.437	1602.437
Land	180.976	180.976	180.976	259.557	234.190	234.190	180.976	180.976	259.557	234.190	234.190
Buildings & Equipment	336.950	342.797	344.636	523.871	545.343	545.343	342.797	344.636	523.871	545.343	545.343
Undepreciated real estate	1868.574	1872.304	1873.750	2394.553	2381.970	2381.970	1872.304	1873.750	2394.553	2381.970	2381.970
Less accumulated depreciation	(78.93)	(86.116)	(88.894)	(94.771)	(91.605)	(91.61)	(96.692)	(101.169)	(106.387)	(112.491)	(112.49)
Development in Progress	293.403	293.954	292.550	190.287	207.760	207.760	200.552	204.450	224.370	273.613	273.613
Net Property & Equipment	**2083.046**	**2080.142**	**2077.406**	**2490.069**	**2498.125**	**2498.125**	**1976.164**	**1977.031**	**2512.536**	**2543.092**	**2543.092**
Investment in & loans to Affiliates	149.543	151.093	153.133	61.214	58.790	58.790	63.091	32.597	36.162	32.179	32.179
Net Investment in Real Estate	**2232.589**	**2231.235**	**2230.539**	**2551.283**	**2556.915**	**2556.915**	**2039.255**	**2009.628**	**2548.698**	**2575.271**	**2575.271**
Cash & Cash Equivalents	284.682	280.481	275.956	293.363	227.566	227.566	209.974	254.288	272.854	229.197	229.197
Accounts Receivable, net	8.154	7.094	7.039	15.555	20.089	20.089	13.991	15.315	13.425	13.905	13.905
Municipal Utility District receivables, net	28.103	0	0.000	110.054	86.599	86.599	90.428	94.710	105.487	89.720	89.720
Notes receivable, net	38.954	38.883	37.405	39.141	35.354	35.354	33.690	30.182	28.677	27.953	27.953
Tax indemnity receivable, including interest	323.525	325.555	327.444	329.668	331.771	331.771	333.750	326.972	326.150	319.622	319.622
Deferred Expenses	6.619	6.076	5.903	7.899	10.338	10.338	11.609	12.549	12.740	12.891	12.891
Prepaid Expenses & Other Assets, net	100.081	137.223	141.145	130.013	130.961	130.961	130.619	119.987	124.752	143.470	143.470
Total Assets	**3022.707**	**3026.547**	**3025.431**	**3476.976**	**3399.593**	**3399.593**	**2863.316**	**2863.631**	**3432.783**	**3412.029**	**3412.029**
Liabilities & Equity											
Mortgages, Notes, Loans Payable	318.660	314.924	306.668	708.172	606.477	606.477	598.287	659.397	683.804	688.312	688.312
Deferred Tax Liabilities	78.680	79.639	79.267	72.339	75.966	75.966	77.868	76.876	75.538	77.147	77.147
Warrant Liabilites	227.348	355.393	298.483	128.586	127.764	127.764	249.615	226.185	290.488	123.573	123.573
Uncertain tax position liability	140.076	142.329	144.255	146.985	129.939	129.939	131.934	133.404	135.468	132.492	132.492
Accounts Payable & Accrued Exp.	78.836	69.640	65.839	122.079	129.848	129.848	113.944	119.435	136.760	170.521	170.521
Total Liabilities	**843.600**	**961.925**	**894.512**	**1178.161**	**1069.994**	**1069.994**	**1171.648**	**1215.297**	**1322.058**	**1192.045**	**1192.045**
Total Stockholder's equity	2178.283	2063.832	2130.110	2293.762	2329.599	2329.599	2212.890	2245.974	2196.361	2305.238	2305.238
Non-controlling interest	0.824	0.79	0.809	5.053	5.014	5.014	5.750	6.432	5.651	5.759	5.759
Total Equity	**2179.107**	**2064.622**	**2130.919**	**2298.815**	**2334.613**	**2334.613**	**2218.640**	**2252.406**	**2202.012**	**2310.997**	**2310.997**
Total Liabilities & Equity	**3022.707**	**3026.547**	**3025.431**	**3476.976**	**3404.607**	**3404.607**	**3390.288**	**3467.703**	**3524.070**	**3503.042**	**3503.042**
Ratios											
Return on Assets (annualized)	-	-	8.7%	20.3%	3.7%	-	-14.2%	4.9%	-6.4%	-0.1%	-4.0%
Return on equity (annualized)	-	-	12.6%	29.8%	5.5%	-	-19.6%	6.3%	-9.0%	-0.1%	-5.6%
Book value	-	$54.45	$56.21	$60.50	$61.39	-	$58.30	$59.15	$57.93	$59.45	-
Tangible book	-	$51.71	$53.47	$57.59	$58.08	-	$55.04	$56.07	$54.89	$56.61	-
Cash per share	-	$7.40	$7.28	$7.74	$6.00	-	$5.53	$6.70	$7.20	$5.91	-
DSO	-	12.0	12.5	16.2	21.2	15.5	15.8	14.7	12.7	11.5	13.7
A/P days on hand	-	142.8	142.3	142.0	170.0	149.3	156.3	156.2	174.7	208.0	173.8
Sales/Assets	-	9.5%	9.1%	13.6%	13.3%	11.4%	15.6%	18.7%	14.9%	16.8%	16.5%
Total Debt	-	314.92	306.67	708.17	606.48	606.48	598.29	659.40	683.80	688.31	688.31
Net Debt	-	$34.4	$30.7	$414.8	$378.9	$378.9	$388.3	$405.1	$411.0	$459.1	$459.1
Debt/Equity	-	15.3%	14.4%	30.9%	26.0%	21.6%	27.0%	29.4%	31.1%	29.9%	29.3%
Debt to Cap	-	10.4%	10.1%	20.4%	17.8%	14.7%	17.6%	19.0%	19.4%	19.6%	18.9%
Net Debt/Total Capitalization	1.1%	1.1%	1.0%	11.9%	11.1%	6.3%	11.5%	11.7%	11.7%	13.1%	12.0%
Net debt to undepreciated real estate		1.8%	1.6%	17.3%	15.9%	9.2%	20.7%	21.6%	17.2%	19.3%	19.7%

FY12/31 - $ 000's BALANCE SHEET STATEMENT	2013E Mar	2013E Jun	2013E Sep	2013E Dec	2013E	2014E Mar	2014E Jun	2014E Sep	2014E Dec	2014E
Assets										
Investments in Real Estate:										
MPC assets	1576.986	1566.995	1556.165	1545.288	1545.288	1538.706	1527.390	1514.961	1502.576	1502.576
Land	234.190	234.190	234.190	234.190	234.190	234.190	234.190	234.190	234.190	234.190
Buildings & Equipment	632.400	730.457	815.013	932.037	932.037	1015.766	1148.996	1255.526	1228.789	1228.789
Undepreciated real estate	2450.469	2526.334	2587.801	2682.109	2711.515	2750.234	2859.099	2938.225	2884.641	2965.555
Less accumulated depreciation	(118.31)	(124.74)	(131.75)	(139.58)	(139.58)	(147.70)	(156.66)	(166.46)	(175.80)	(175.80)
Development in Progress	273.613	273.613	273.613	273.613	273.613	273.613	273.613	273.613	273.613	273.613
Net Property & Equipment	**2605.773**	**2675.210**	**2729.668**	**2816.147**	**2816.147**	**2876.146**	**2976.049**	**3045.381**	**2982.458**	**2982.458**
Investment in & loans to Affiliates	149.543	149.543	149.543	149.543	149.543	149.543	149.543	149.543	149.543	149.543
Net Investment in Real Estate	**2755.316**	**2824.753**	**2879.211**	**2965.690**	**2965.690**	**3025.689**	**3125.592**	**3194.924**	**3132.001**	**3132.001**
Cash & Cash Equivalents	422.698	383.201	364.611	328.339	328.339	435.017	369.070	338.637	296.756	296.756
Accounts Receivable, net	12.616	15.333	12.610	13.870	13.870	14.040	17.227	14.021	15.441	15.441
Municipal Utility District receivables, net	89.720	89.720	89.720	89.720	89.720	89.720	89.720	89.720	89.720	89.720
Notes receivable, net	27.953	27.953	27.953	27.953	27.953	27.953	27.953	27.953	27.953	27.953
Tax indemnity receivable, including interest	319.622	319.622	319.622	319.622	319.622	319.622	319.622	319.622	319.622	319.622
Deferred Expenses	12.891	12.891	12.891	12.891	12.891	12.891	12.891	12.891	12.891	12.891
Prepaid Expenses & Other Assets, net	103.914	147.326	130.757	148.921	148.921	114.123	161.237	143.374	162.383	162.383
Total Assets	**3744.730**	**3820.798**	**3837.374**	**3907.005**	**3907.005**	**4039.056**	**4123.311**	**4141.142**	**4056.767**	**4056.767**
Liabilities & Equity										
Mortgages, Notes, Loans Payable	747.212	747.212	747.212	747.212	747.212	947.212	947.212	947.212	747.212	747.212
Deferred Tax Liabilities	77.147	77.147	77.147	77.147	77.147	77.147	77.147	77.147	77.147	77.147
Warrant Liabilites	123.573	123.573	123.573	123.573	123.573	123.573	123.573	123.573	123.573	123.573
Uncertain tax position liability	132.492	132.492	132.492	132.492	132.492	132.492	132.492	132.492	132.492	132.492
Accounts Payable & Accrued Exp.	85.021	133.932	130.757	175.997	175.997	93.374	146.579	143.374	191.907	191.907
Total Liabilities	**1165.445**	**1214.356**	**1211.181**	**1256.421**	**1256.421**	**1373.798**	**1427.003**	**1423.798**	**1272.331**	**1272.331**
Total Stockholder's equity	2579.285	2606.442	2626.193	2650.583	2650.5834	2665.258	2696.308	2717.344	2784.436	2784.4355
Non-controlling interest	5.759	5.759	5.759	5.759	5.759	5.759	5.759	5.759	5.759	5.759
Total Equity	**2585.044**	**2612.2009**	**2631.9522**	**2656.3424**	**2656.3424**	**2671.01725**	**2702.0672**	**2723.1029**	**2790.1945**	**2790.1945**
Total Liabilities & Equity	**3750.489**	**3826.557**	**3843.133**	**3912.764**	**3912.764**	**4044.815**	**4129.070**	**4146.901**	**4062.526**	**4062.526**
Ratios										
Return on Assets (annualized)	1.0%	2.5%	1.7%	2.1%	1.8%	1.1%	2.6%	1.6%	6.1%	2.9%
Return on equity (annualized)	1.5%	3.6%	2.5%	3.1%	2.7%	1.6%	4.0%	2.5%	9.1%	4.3%
Book value	$61.04	$61.64	$62.07	$62.61	-	$62.93	$63.61	$64.07	$65.57	-
Tangible book	$58.56	$59.16	$59.59	$60.13	-	$60.45	$61.13	$61.59	$63.09	-
Cash per share	$10.70	$9.70	$9.23	$8.31	-	$11.00	$9.33	$8.56	$7.50	-
DSO	16.3	13.1	12.3	11.9	13.4	15.9	13.1	12.3	5.0	11.6
A/P days on hand	133.2	160.5	170.7	207.6	168.0	134.3	161.3	171.8	83.8	137.8
Sales/Assets	10.1%	14.9%	12.8%	14.2%	13.0%	10.5%	15.2%	12.8%	35.6%	18.5%
Total Debt	747.21	747.21	747.21	747.21	747.21	947.21	947.21	947.21	747.21	747.21
Net Debt	$324.5	$364.0	$382.6	$418.9	$418.9	$512.2	$578.1	$608.6	$450.5	$450.5
Debt/Equity	29.0%	28.7%	28.5%	28.2%	28.6%	35.5%	35.1%	34.9%	26.8%	33.1%
Debt to Cap	19.9%	19.5%	19.4%	19.1%	19.5%	23.4%	22.9%	22.8%	18.4%	21.9%
Net Debt/Total Capitalization	8.7%	9.5%	10.0%	10.7%	9.7%	12.7%	14.0%	14.7%	11.1%	13.1%
Net debt to undepreciated real estate	13.2%	14.4%	14.8%	15.6%	14.5%	18.6%	20.2%	20.7%	15.6%	18.8%

Source: JMP Securities LLC, Company filings

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Market Outperform (MO): JMP Securities expects the stock price to outperform relevant market indices over the next 12 months.
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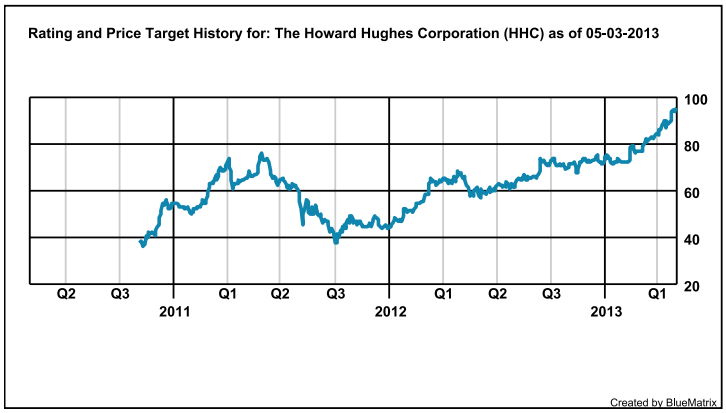
JMP Rating	Regulatory Equivalent	# Co's Under Coverage	*% of Total*	Regulatory Equivalent	# Co's Under Coverage	*% of Total*	# Co's Receiving IB Services in Past 12 Months	*% of Co's With This Rating*
MARKET OUTPERFORM	Buy	232	*60.26%*	Buy	232	*60.26%*	66	*28.45%*
MARKET PERFORM	Hold	148	*38.44%*	Hold	148	*38.44%*	17	*11.49%*
MARKET UNDERPERFORM	Sell	5	*1.30%*	Sell	5	*1.30%*	0	*0%*
TOTAL:		385	*100%*		385	*100%*	83	*21.56%*

Stock Price Chart of Rating and Target Price Changes:

Note: First annotation denotes initiation of coverage or 3 years, whichever is shorter. If no target price is listed, then the target price is N/A. In accordance with NASD Rule 2711, the chart(s) below reflect(s) price range and any changes to the rating or price target as of the end of the most recent calendar quarter. The action reflected in this note is not annotated in the stock price chart. Source: JMP Securities.



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Jeffrey H. Spurr
Director of Research
(415) 835-3903

RESEARCH PROFESSIONALS

FINANCIAL SERVICES

Asset Managers
David Trone (212) 906-3525
Chris Ross, CFA (212) 906-3532

Commercial & Specialty Finance
Christopher York (415) 835-8965
Kevin Chen (404) 848-7774

Consumer Finance
David M. Scharf (415) 835-8942
Kevane A. Wong (415) 835-8976

Financial Processing & Outsourcing
David M. Scharf (415) 835-8942
Kevane A. Wong (415) 835-8976

Insurance
Matthew J. Carletti (312) 768-1784
Christine Worley (312) 768-1786

Investment Banks & Brokers
David Trone (212) 906-3525
Chris Ross, CFA (212) 906-3532

Mortgage Finance
Steven C. DeLaney (404) 848-7773
Trevor Cranston, CFA (415) 869-4431
Charter Robinson (757) 613-8955

HEALTHCARE

Biotechnology
Liisa A. Bayko (312) 768-1785
Heather Behanna, Ph.D. (312) 768-1795
Jason N. Butler, PhD (212) 906-3505
Christopher T. Radom, PhD (212) 906-3519
Michael G. King, Jr. (212) 906-3520
Carter L. Gould (212) 906-3522
Eric Joseph (212) 906-3514
John L. Newman, PhD (212) 906-3510
Caroline Palomeque (212) 906-3509

Healthcare Services & Facilities
Peter L. Martin, CFA (415) 835-8904
Aaron Hecht (415) 835-3963
Brian Nelson (617) 235-8516

Medical Devices
David Turkaly (212) 906-3563
John Gillings (212) 906-3564

Medical Devices & Molecular Diagnostics
J. T. Haresco, III, PhD (415) 869-4477
Ralph Fong (415) 835-8916

REAL ESTATE

Housing & Land Development
Peter L. Martin, CFA (415) 835-8904
Aaron Hecht (415) 835-3963

Lodging & Property Services
William C. Marks (415) 835-8944
Whitney Stevenson (415) 835-8948

REITs: Healthcare
Peter L. Martin, CFA (415) 835-8904
Aaron Hecht (415) 835-3963
Brian Nelson (617) 235-8516

REITs: Office, Industrial, & Diversified
Mitch Germain (212) 906-3546

TECHNOLOGY

Communications Equipment & Internet Security
Erik Suppiger (415) 835-3918
Christopher Slaymaker (415) 835-3920

Internet & Digital Media
Ronald V. Josey III (212) 906-3528
Peter Lunenburg (212) 906-3537

Software
Patrick Walravens (415) 835-8943
Peter Lowry (415) 869-4418
Greg McDowell (415) 835-3934

Wireless & Cloud Computing Technologies
Alex Gauna (415) 835-8998
Michael Wu (415) 835-8996

ADDITIONAL CONTACTS

Thomas R. Wright
Director of Equities
(212) 906-3599

Dan Wychulis
Director of Institutional Sales
(617) 235-8530

600 Montgomery Street, Suite 1100
San Francisco, CA 94111
www.jmpsecurities.com