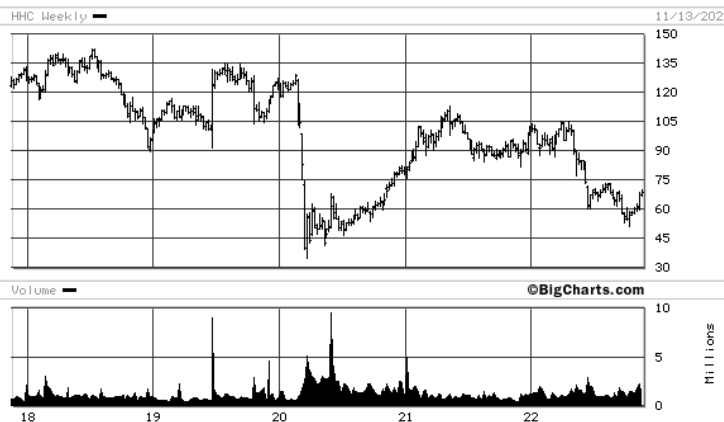


The Howard Hughes Corporation

NYSE: HHC

GICS Sector: Real Estate
November 11, 2022

Dow Jones Indus:	33,747.86
S&P 500:	3,992.93
Russell 2000:	1,882.74
Index Component:	N/A



AAF History

Report Type	Update
Initially Probed	June 9, 2017
Last Probed	
Trigger	
Situation	Business Value; Hidden Assets

Selected Financial Summary (\$MM)

	2019	2020	2021	TTM
Revenues:	\$1,300.5	\$699.5	\$1,427.9	\$1,925.2
NOI	\$210.7	\$191.1	\$226.5	\$227.8
Net Debt/Total Capital	48.5%	38.6%	41.1%	46.0%
Core FFO per share	\$6.77	\$0.98	\$5.63	\$9.96
EPS	\$1.71	(\$0.50)	\$1.03	\$4.74

Fiscal Year End: December

Capitalization and Trading Multiples (\$MM)*

Share Price	\$67.62	2019	2020	2021	
Diluted Shares (MM)	49.5	P/FFO	10.0x	69.0x	12.0x
Market Cap	\$3,345.2	P/E	39.5x	NMF	65.6x
Debt	\$4,624.4	EV/Sales	3.3x	6.1x	3.0x
Cash	\$354.6	Price/Book	0.9x	1.0x	1.0x
Enterprise Value	\$7,615.0				

*All valuation ratios above derived from current EV or market cap

Trading Statistics

Dividend Rate	Nil	Avg. Daily Volume (3mo) (MM)	25.2
Dividend Yield	N/A	Short % of Float	5.4%
Payout Ratio	N/A		

	High	Low
52-Week	\$104.90	\$53.55
5-Year	\$142.01	\$40.42

Valuation

Intrinsic Value	\$104	Time Horizon	N/A
Implied Upside	53%		
Hidden Assets	Yes		
Description	HHC has various hidden assets including the Seaport District in NYC and Ward Village in Hawaii		

Share Ownership

	Economic	Voting
Bill Ackman/Pershing Square	26.0%	

Major Shareholders

Vanguard	11.3%
Baillie Gifford & Co.	6.6%

Clients of Boyar Asset Management, Inc. own 3,411 shares of Howard Hughes common stock at a cost of \$114.04 a share.

Analysts employed by Boyar's Intrinsic Value Research LLC own shares of Howard Hughes common stock.

Overview

The Howard Hughes Corporation ("Howard Hughes," "HHC," or "the Company") develops, owns, and manages land, commercial, and residential real estate. Recognizing the long-term value of HHC's assets, we featured the stock in June 2017 because of the significant discount the assets were trading at relative to our then estimation of net asset value (NAV). The shares have been a laggard since then, with a ~46% retracement versus gains of 8% in the Dow Jones U.S. Real Estate and 64% in the S&P 500 indices, respectively. However, much of the weakness in HHC has occurred since April of this year, with the shares having rapidly declined 35% in just these past ~6 months, from ~\$104/share to ~\$68. The retracement is a product of surging interest rates, which are dampening demand for new housing starts, elevating cap rates (unfavorable for the value of commercial real estate) and creating ripple effects throughout real estate markets. Though real estate property values may adjust amid higher interest rates, HHC's stock seems to be already priced for a bear-case scenario, making it look like a bargain to even a discounted NAV and creating a favorable risk-versus-reward setup.

HHC specializes in master-planned communities (MPCs), which are large-scale, mixed-use communities that offer residents a host of nearby amenities, commercial enterprises, and essential services. It sells land to homebuilders within the MPCs, and its operating assets, located primarily within its MPCs, are an assortment of high-quality commercial properties that in 2021

The Howard Hughes Corporation

generated net operating income (NOI) of \$227 million, up from \$191 million a year prior, and \$255 million (annualized) in 3Q 2022. Given that its operating assets are predominantly contained to its own MPCs, the Company has effective local monopolies over the supply in a given area. The Company also develops and sells premier condominiums along the coastline in Hawaii and has an array of assets around Pier 17 in the Seaport district of New York City. NOI from its Operating Assets division—plus residential land sales (in MPCs) to builders and condo sales (Strategic Developments) to residents—provide the Company with significant free cash flow over time. Although Hawaii has experienced strong results (and a robust outlook due to strong demand for housing in the supply constrained area), the Seaport has been a disappointment and a source of investor scrutiny. Nevertheless, the Seaport accounts for just a small portion of our NAV estimate, and its prospects are improving, thanks to the recent grand opening of the Tin Building (an assortment of restaurants and high-end markets) and strong post-COVID results from The Rooftop concert venue at Pier 17.

The Company has exposure to affluent markets with favorable migration trends. The U.S. housing market remains critically undersupplied, with an estimated shortage of between 3.8 million (according to Freddie Mac¹) and 5.3 million (according to Realtor.com²) units. (The Company estimates a shortage of 4.5-4.8 million units today.) Phoenix, which will be the site of 100,000 new households for HHC over the years ahead, was in the top 3 in-migration metropolitan areas in the country over the past few years.³ Favorable migration dynamics also exist in regions where other MPCs are located, such as Las Vegas and Houston.

Inside ownership is high due to Chairman Bill Ackman's ~27% stake held within his hedge fund, Pershing Square Capital. Mr. Ackman is interested in appreciably increasing that stake at the depressed share price: his firm enacted a modified Dutch auction tender offer to buy 6.3 million shares at a price of \$61-\$70/share (upped from a prior offer of \$52.25-\$60/share). The tender offer by Ackman is a positive signal, and we view it as a sign of mispricing of the shares in the public market.

HHC is underfollowed for a Company of its scale owing to its structure. (It manages a hodgepodge of various real estate assets yet is not a REIT.) It is followed by just five analysts, compared with an average of more than a dozen for other mid- to large-cap real estate peers. Moreover, its lack of a dividend (favoring putting capital to work in reinvestment opportunities instead) has narrowed its investment appeal among conventional real estate investors. Nevertheless, significant capital appreciation potential certainly warrants investor attention, in our view. This year, the Company has more aggressively repurchased more than \$400 million of its stock (reducing the outstanding share count by ~8%), signaling a tangible change in capital allocation and the Company's perceived undervaluation of its shares. The Company proclaimed that buybacks made at ~\$89 were "well below intrinsic value." Management asserts that the best way to increase NAV is to convert land into income-producing assets. Using what we believe to be very conservative capitalization rate, discount rate, and fair value assumptions, we estimate a net asset value of ~\$104/share, or about 53% upside from the recent price.

Brief History and Management

For a more complete history of HHC, please see our [June 2017 report](#). We highlight the most salient points here. Howard Hughes (the famous film producer/businessman/aviator) procured a massive amount of raw land on the outskirts of Las Vegas, ostensibly as a way to dodge wealth taxes and to allow for a potential relocation of his business headquarters that never materialized. The land was left dormant for decades before the Summa Corporation (a holding company for Hughes's businesses) finally began development in the 1990s. Summa was eventually renamed The Howard Hughes Corporation until the privately held firm was acquired by The Rouse Company in 1996 for ~\$520 million. Jim Rouse was the developer of the Columbia, Maryland, MPC on what was once 14,000 acres of farmland located between Baltimore, Maryland, and Washington, D.C. He was also responsible for the redevelopment of the South Street Seaport in New York City in the 1980s. General Growth Properties would come to acquire Rouse Co. in 2004 at an enterprise value of \$12.6 billion. Elsewhere,

1. Freddie Mac, "Housing supply: A growing deficit," May 7, 2021, <https://www.freddiemac.com/research/insight/20210507-housing-supply>.

2. George Ratiu, "US housing supply continues to lag household formations," September 9, 2021, Realtor.com, <https://www.realtor.com/research/us-housing-supply-continues-to-lag-household-formations/>.

3. AZ Business Magazine, "Phoenix is the no. 2 most popular migration destination," January 10, 2022, <https://azbigmedia.com/business/phoenix-is-the-no-2-most-popular-migration-destination/>.

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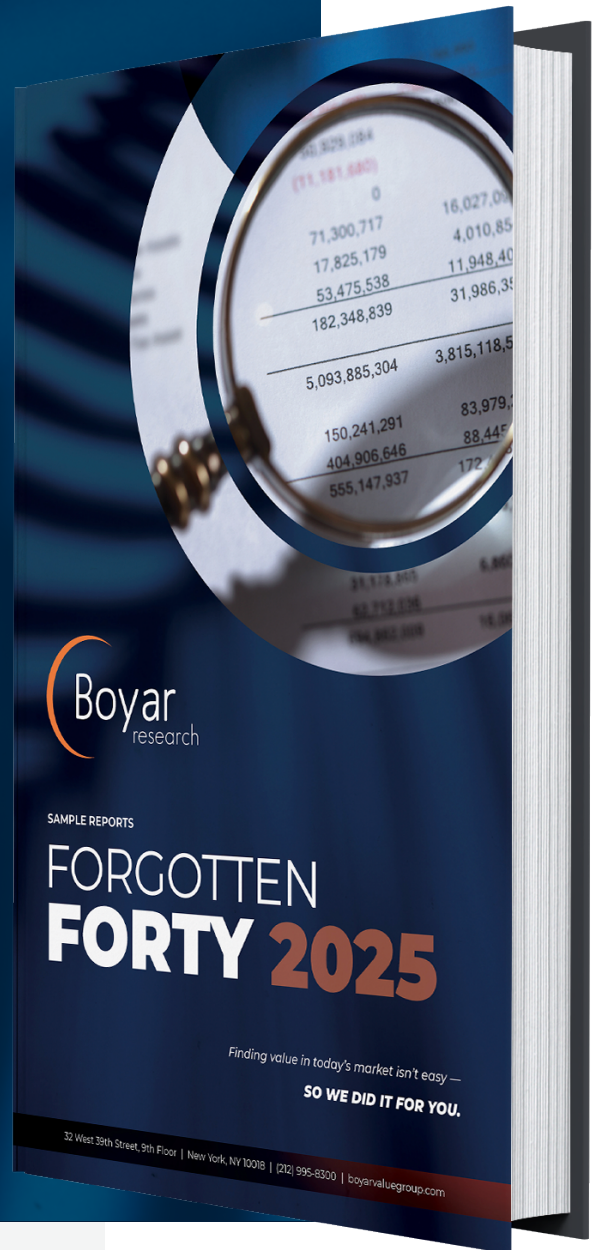
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MarketWatch | May 29, 2021

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The Howard Hughes Corporation

George Mitchell, inspired by a Rouse Company seminar on MPC development, spearheaded the Woodlands MPC near Houston, Texas. The Woodlands Corporation was acquired by Morgan Stanley and Crescent Real Estate Equities in 1997. The Rouse Company bought out the Crescent stake for \$387 million in 2003, and in 2004 General Growth Properties acquired Rouse.

The Howard Hughes Corporation as it stands today was spun out from General Growth Properties (GGP), a large U.S. mall REIT. In the midst of massive devaluation and potential bankruptcy during the financial crisis (GGP was leveraged to retail commercial real estate and commercial mortgage-backed securities), the firm was unable to restructure its debt, and GGP filed for bankruptcy in April 2009. Amid the tumultuous backdrop, Bill Ackman's Pershing Square hedge fund amassed a 25% stake in the company (including total return swaps) by early 2010, seeing it as a company facing liquidity issues yet having a strong asset portfolio. Brookfield Asset Management (BAM), the Canada-based asset management behemoth, and mall-REIT operator Simon Property Group (SPG) bid for control over GGP's reorganization. In the end, a consortium of BAM, Pershing Square, and Fairholme Capital Management offered to fully repay GGP's debt plus ~\$10/share for its equity holders. At the same time, assets that were not well suited for a REIT (low- or non-income-producing assets) and assets with high long-term gains potential were spun off into a new entity eventually known as The Howard Hughes Corporation. In the final reorganization, BAM purchased 2.4 million HHC shares (at \$47.62/share) and received 3.8 million warrants, and Pershing Square purchased 1.2 million shares and received 1.9 million warrants (\$50/share strike). Fairholme and Blackstone also purchased shares and received warrants in HHC in connection with its separation from GGP. Upon the spin-off, Mr. Ackman assumed the chairman position at the Company. In 2011, HHC bought out Morgan Stanley's ~48% economic interest in The Woodlands for ~\$118 million to consolidate ownership. In 2012 the Company acquired the majority of warrants in third-parties' hands.

In 2019, the Company considered strategic alternatives, including the sale of the business. However, after an evaluation process, it decided instead to divest noncore assets and move its headquarters from Dallas to The Woodlands as part of a cost-cutting initiative.

Bill Ackman and Pershing Square

Insider ownership (including officers and directors) was 26.9% as of March 30, 2022. The vast majority of that is controlled by billionaire hedge fund manager Bill Ackman, the CEO of Pershing Square Capital Management, as no other director or executive owned more than 1% of the Company. (Bill Ackman's 26.0% stake consists of ~13.6 million shares held in Pershing Square Capital.) Ackman was a large investor in GGP during the financial crisis and established a position in HHC amid the 2010 spin-off from its beleaguered parent company.

The fund manager has added to his position in HHC over the years through open market purchases and, most notably, in March 2020 amid the emergence of COVID-19. As the economy closed to combat the spread of the virus, the Company foresaw potential financial distress and issued \$500 million worth of new shares (net proceeds were estimated to be \$488 million) to Pershing in a private placement for \$50/share (10 million shares). The Company also offered ~2 million shares to the public at \$50/share. (The timing of the share issuance in late March 2020 was unfortunate, in hindsight, but at the time there was tremendous uncertainty, and HHC's tenant security and future liquidity would have been hard to predict.) Pershing Square has also actively traded shares at more favorable prices; there were sales in early 2018 when shares were in the ~\$125-\$130 vicinity.

Ackman has not been able to list Pershing Square Holdings on a major U.S. stock exchange due to regulatory restrictions on investment companies, but he is keen on the idea of being able to market the Company to U.S. investors, stating, "While [Pershing Square Holdings] is managed by a U.S. manager and principally owns North American headquartered companies, it trades only on European exchanges, the [London Stock Exchange] and Euronext Amsterdam. There are significant regulatory limitations in our ability to market [Pershing Square Holdings] in various jurisdictions, including the U.S., a more logical market for a North American-centric fund run by a U.S. manager." The way to do this would be to become the controlling owner of an operating business that constitutes a majority of its assets and income.

In August 2022, a Pershing Square Holdings shareholder letter posed the possibility that it could become a U.S.-listed operating company, though currently domiciled in Guernsey, via a controlling stake in a

The Howard Hughes Corporation

domestic business. Given Pershing's large position in HHC (~27% of the Company)—and its recent tender offer to acquire an even larger stake of up to ~40%—the Howard Hughes Corporation might well be viewed as a vehicle for enacting such a strategy. Investors may be worried that Bill Ackman will merge Pershing Square into HHC, thereby reducing HHC's attractiveness as a pure-play developer if the closed-end fund is part of the public company. However, Howard Hughes' market value is considerably smaller than that of Pershing Square Holdings, which could make the transition to an operating company a difficult sell to regulators. Pershing has a NAV of ~\$9.7 billion, which is significantly larger than HHC's.

Management Changes

David Weinreb was the first CEO of HHC after it was spun off from GGP in 2010. Though he held that role for ~9 years, there has been elevated turnover at the position of late. In July 2019, the Company announced it was considering strategic alternatives for unlocking shareholder value, including selling itself. However, no outright sale materialized, and instead, Mr. Weinreb stepped down to be supplanted by Paul Layne (previously an executive VP of master-planned communities) in October 2019. (Mr. Layne also replaced Mr. Weinreb on the board of directors.) Coincident with the managerial shakeup, HHC announced a restructuring to simplify its operations by removing ~\$50 million from overhead and divesting ~\$2 billion of noncore assets. The Company also relocated its headquarters from Dallas to The Woodlands, outside of Houston, Texas.

Not long after Mr. Layne took the reins, the pandemic arrived. This was no doubt a challenging time to assume control of one of the nation's largest real estate development companies. Less than a year into his tenure, he too stepped down (then retired, although he has since formed privately held real estate firm Layne Property Partners), apparently on good terms. David R. O'Reilly became the CEO in December 2020. Prior to assuming the CEO position, David O'Reilly was the president and CFO of the Company. He was named interim CEO at first, before being formally placed at the top role after about 3 months. Stepping into O'Reilly's prior role as president was well-regarded executive L. Jay Cross, who has a real estate background. Cross was the former president of the New York Jets (where he was instrumental in efforts to build MetLife Stadium) and led Related Companies' \$20 billion Hudson Yards development in west Manhattan.

In another example of instability in the executive suite, there has been high turnover in the CFO role as well. Carlos Olea took over as CFO in January 2022, succeeding Correne Loeffler, who was in the role for less than a year. (Before that, David O'Reilly was the CFO before ascending to the CEO position.) Mr. Olea was previously chief accounting officer at HHC for about 3 years and held the same title at Washington D.C.-based owner-operator and developer Carr Properties before that. While high turnover in the C-suite is less than ideal, we believe that strong underlying fundamentals ought to warrant investor attention. Furthermore, chairman of the board and largest shareholder Bill Ackman has been a steady leader here, who deeply believes in the long-term value of MPCs. Scott Sellers is another board member with a track record of creating shareholder value in public real estate markets, having served as the CEO of a previously publicly traded REIT (Archstone) and having been responsible for developing apartment buildings valued at >\$40 billion in numerous cities.

What Has Happened Since Our Last Report?

Asset Sales

The Company explored strategic alternatives in 2019 but decided not to sell itself in its entirety. Instead, it pursued noncore asset sales to streamline the portfolio. This summer, the Company announced the divestiture of The Outlet Collect at Riverwalk in New Orleans, to Rockstep Riverwalk for \$34 million—the last remaining noncore asset located out of the Company's core geographies (detailed hereafter). Since 4Q 2019, management has sold 15 noncore assets, with total net proceeds reaching \$578 million, stating, "This sale essentially completes the company's transformation plan to streamline its business and focus on the growth of its core assets—a portfolio of large-scale master planned communities that is the largest of its kind in the country." As with other sales, proceeds are mostly earmarked for funding other developments, with a smaller portion intended for share buybacks.

The Pandemic

When the Company foresaw potential financial distress at the emergence of COVID-19, it issued \$500 million worth of new shares (net proceeds were estimated to be \$488 million), sold to Pershing in a private placement for \$50/share (10 million shares). The Company also offered ~2 million shares to the public at \$50/share. The timing of the share issuance in late March 2020 was unfortunate, in hindsight, but at the time

there was tremendous uncertainty, and the Company's tenant security and future liquidity would have been hard to predict. The Company avoided any critical liquidity issues, while residential and commercial demand in its markets have since bounced back. Additionally, commercial tenants that "didn't make it through the pandemic" have been replaced with tenants that are paying more per square foot.

Purchasing Another MPC

Howard Hughes acquired the 33,810-acre Douglas Ranch located near Phoenix, Arizona, from JDM Partners, for \$541 million. This site will become the Teravalis MPC. For another \$59 million, HHC simultaneously acquired 50% interest in Trillium Development Holding Company, LLC, which owns ~3,000 acres of land in the area (total purchase worth \$600 million). The arrangement included options for JDM to re-acquire up to 50% interest in Douglas Ranch (now renamed Teravalis), excluding Trillium (henceforth known as Floreo), for ~\$237 million (plus nonrefundable option fees of \$34 million and \$10 million), and JDM (led by Jerry Colangelo) eventually exercised options that gave it interest of 12% in Teravalis for \$65 million. (No further options are outstanding.) JDM has spent decades procuring entitlements for the land in Douglas Ranch, which is now "shovel ready." The two companies also maintain a 50/50 joint venture in Floreo, the first ~3,000 acres of land to be developed in the MPC. The long-term plans for Teravalis include 100,000 residential homes and 55 million square feet of commercial development. Environmentalists have expressed concerns over the use and availability of water for the MPC due to its desert location, but HHC management has pointed to its experience in developing the Las Vegas desert and its efforts to exceed local regulations and operate sustainably. Teravalis sits atop the Hassayampa aquifer, which is intended to be its main source of water. The builder of any new subdivision must show that its water supply is sustainable for at least 100 years, and HHC has already obtained such a certification for the Floreo development. Phoenix is one of the fastest-growing metropolitan areas in the country and is positioning for substantial long-term growth, as the migration of residents and business is pegged to continue. This purchase leverages HHC's MPC capabilities over a larger asset base.

Tender Offer

Bill Ackman is interested in buying another big stake in HHC. Pershing Square initiated a modified Dutch auction tender offer because it believes that HHC shares are "below the Company's long-term intrinsic value." We view the tender offer by Ackman as a strong signal of the Company's undervaluation given the insider's far greater access to, and insights into, HHC's financials than public investors. The firm intended to acquire up to ~6.3 million additional shares of HHC at a price/share of at least \$52.25 and up to \$60, for a maximum potential outlay of ~\$380 million. (The shares closed at ~\$55 the day before the tender announcement.) In a modified Dutch auction tender, existing shareholders are not required, but do have the option, to tender shares within that price range, and the buyer will purchase the maximum amount of stock at the lowest price. The tender offer was set to expire November 10 but was extended in both price and time. There was likely not high enough demand to tender shares after HHC stock surged $\geq 10\%$ above the tender range (owing to both the tender offer itself as well as a sharp recovery in equity markets on a lower-than-expected CPI print). The new tender is said to be Pershing's highest and final offer, whereby it will purchase the same ~6.3 million shares for a new range of \$61-\$70/share. It expires November 28. We think that there should be more demand for the new tender, as it offers a far superior premium to the unaffected share price. Plus, some investors may tender shares wary of a possible short-term decline in the price soon after the offer expires. In the event that the offer is fully subscribed, Mr. Ackman and Pershing Square will have amassed a ~40% stake in HHC, enough for de facto control of the Company.

Other Recent Developments

Through shedding noncore assets, the Company would enhance its focus on driving MPC growth and buyback shares. However, despite some repurchase activity in 2019 and 2021, share issuances have actually increased the total outstanding share count by ~7 million shares (+17%) from the end of 2019 to now, mostly because of a total \$593 million share issuance in 2020, chiefly to shore up liquidity amid COVID-19 uncertainties. This year, the Company has more aggressively repurchased more than \$400 million of its stock (~8% of the shares outstanding), signaling a tangible change in capital allocation and the Company's perceived undervaluation of its shares. The Company proclaimed that buybacks made at ~\$89 earlier this year were "well below intrinsic value."






Business Overview and Strategy

The Howard Hughes Corporation is a master-planned community (MPC) developer. Master-planned communities are large-scale, mixed-use communities that offer residents a host of nearby amenities, commercial enterprises, and essential services. The Company develops, owns, and operates Class A multifamily, office, retail, and hospitality real estate within these MPCs and also owns swaths of land, some of which are sold to homebuilders on a regular basis. It also maintains ownership of completed constructions within MPCs to generate operating income, develops luxury condominium towers, and redevelops commercial property. The HHC portfolio is positioned in several attractive (affluent) regional markets in the U.S. (including Houston, Las Vegas, NYC, Hawaii, Phoenix, and Columbia, Maryland). Property values in several of these regions benefit from in-migration, where movers from higher-cost states have strong purchasing power, contributing to strong demand and leading homebuilders to purchase additional lots from HHC. The Company reports in four segments: Master Planned Communities (MPCs), Operating Assets, Strategic Developments, and the Seaport:

MPCs

Jim Rouse, founder of the Columbia MPC and widely considered to be the pioneer of MPCs in general, called it “not an attempt at a perfect city or utopia, but rather an effort to simply develop a better city, an alternative to the mindlessness, the irrationality, the unnecessary of sprawl and clutter as a way of accommodating the growth of the American city.” The Howard Hughes MPC portfolio spans ~118,000 gross acres, commonly on the outskirts of major metropolitan areas. The segment primarily generates revenues via the sale of land to homebuilders, and it recorded revenues of ~\$410 million in 2021. Available-unit occupancy is ≥94% in every MPC, highlighting strong residential demand for prime locations. In turn, this residential demand underpins attractive commercial opportunities for offices, restaurants, and entertainment services.

List of MPCs

<p>HOUSTON The Woodlands, Bridgeland, The Woodlands Hills</p>		<ul style="list-style-type: none"> • Over 40,000 acres with population of 139,000+ • In the pathway of Houston’s significant growth
<p>LAS VEGAS Summerlin</p>		<ul style="list-style-type: none"> • Strategically located nine miles from Las Vegas Strip • 22,500 acres with total population of 120,000+
<p>PHOENIX Teravalis</p>		<ul style="list-style-type: none"> • Poised to capture the growth migrating to Phoenix’s West Valley • 37,000 acres entitled for 100k homes and 55M SF of commercial development
<p>MARYLAND Downtown Columbia</p>		<ul style="list-style-type: none"> • Located between D.C. and Baltimore • Howard County median household income of ~\$125,000 with 63% of adults holding college degrees
<p>HAWAII Ward Village</p>		<ul style="list-style-type: none"> • 60 acres of property along the coast of Oahu • Average condo price of ~\$1.0mm with 97% of units sold or under contract

Source: Company presentation.

Operating Assets

Now that the Company has refocused its portfolio on core holdings, operating assets are almost entirely located within the Company’s MPCs. This segment generated NOI of \$227 million in 2021, up 19% from \$191 million a year prior. Its tenant creditworthiness is exceptional, as evidenced by collections of ~99% of office billings and ~98% of multifamily portfolio billings. NOI has accelerated nicely over the last decade as more developments have become fully constructed and stabilized. (A stabilized property has reached its occupancy and rental run rates.)

Strategic Developments

Strategic developments are primarily high-end condominiums along a 60-acre coastline near Honolulu, Hawaii. While this may appear to be a speculative housing and development business at first glance, that is not the case. The Company accepts hard deposits (nonrefundable) of 20% from buyers, and units are commonly >90% presold well before construction is completed. In fact, the Company does not even begin construction

The Howard Hughes Corporation

unless a condo is 80% presold, dramatically decreasing its financial risk and increasing predictability. A buyer who walks away relinquishes the down payment, so contracts are a very dependable indicator of future cash inflows. The strength of the Company’s presales is especially important nowadays; presales of the condos in Ward Village are far less sensitive to the rise in interest rates because there is high demand for the area and buyers do not want to lose their deposits. Also, as is commonly the case for high-end residential real estate, a large portion (~50%) of the buyers will purchase with cash rather than take on a mortgage. The high probability of actually closing these individual condo units makes for a highly effective and relatively low-risk business model. Condos are built at a ~30% profit margin. The Company has six completed condo towers, with another four condominium developments under construction or in the presale stage. The presales of its most recent marketed condo show that there is no slowdown of demand here: in approximately a month, from September to October of this year, the Kalae tower was already >40% presold. Even though a few years may elapse after a buyer places a down payment before the move into the unit, the sales record shows how undersupplied the market is in the Ward Village area. (It is also land-constrained, with ocean on one side and mountains behind.) Buyers in this development community tend to be affluent individuals from the West Coast, Japan, and Hawaii.

Strategic Developments also includes operating assets that are temporarily closed for redevelopment, then placed back into the Operating Assets segment once reopened.

The Seaport

The Seaport segment comprises commercial real estate assets in Manhattan that span several city blocks around Pier 17. It is the only privately owned district in Manhattan. Although it is its own segment, the Company classifies it as part nonstabilized operating asset, part development project, and part operating business.

This division has been the laggard of the HHC portfolio. Pier 17 was “wiped out” in 2012 during Hurricane Sandy, and although there is certainly the risk of another hurricane battering the Seaport (a matter of when, not if), Howard Hughes has taken steps to mitigate the impact and ensure superior resiliency: the Pier is built up above the flood plain, utilities are stored in a watertight submarine hull, and the Tin Building has been moved east (toward the waterfront) to be raised above the flood plain without interfering with the nearby FDR Drive. COVID-19 caused major disruptions in the NYC real estate market, including reduced retail, office, and multifamily demand. Retail rent in NYC is actually lower now than it was half a decade ago. There have been long delays in opening, but portions of South Street Seaport should be stabilizing soon with the grand opening of the Tin Building (an assortment of restaurants and high-end markets) and with the Rooftop (open-air venue) at Pier 17 open.

The Company has invested ~\$1.0 billion into the district, likely more than its current fair market value. However, HHC should start to recoup those costs now that buildings are open and traffic is flowing through, so the outlook is getting brighter. The value of this segment has taken much more time to materialize than investors thought previously, but much of that was out of the Company’s control. Even in a bear case where this segment struggled, it does not represent a significant enough portion of our current valuation to suggest that the equity will underperform. The Seaport represents just a small portion of total NAV and commands a disproportionate amount of investor scrutiny.

Itemized Properties and Ownership

CRE Portfolio Breakdown as of 9/30/22

Office ⁽¹⁾	Multi-Family ⁽¹⁾	Retail ⁽¹⁾
<ul style="list-style-type: none"> ▪ Size: 6.6M SF ▪ Stabilized Leased %: 89% ▪ Annualized NOI: \$118M ▪ Stabilized NOI: \$173M ▪ Average Age: ~12 years 	<ul style="list-style-type: none"> ▪ Size: 5,587 units ▪ Stabilized Leased %: 96% ▪ Annualized NOI: \$57M ▪ Stabilized NOI: \$89M ▪ Average Age: ~4 years 	<ul style="list-style-type: none"> ▪ Size: 2.7M SF ▪ Stabilized Leased %: 95% ▪ Annualized NOI: \$59M ▪ Stabilized NOI: \$73M ▪ Average Age: ~8 years
<p>\$255M of In-Place NOI with \$360M Expected at Stabilization⁽¹⁾</p>		

Source: Company presentation.

The Howard Hughes Corporation

The Company owns master-planned communities in five regions, as well as other core assets:

- Houston, Texas
 - The Woodlands MPC
 - Located about half an hour by car north of Houston, this mixed-income residential development, with nearby jobs and amenities, is massive at ~28,500 acres (or ~42 square miles) and has a population of 120,000. The average household income of \$177,000 and the median home value of ~\$420,000 are both well above the averages of the surrounding metropolitan area.
 - The Woodland Hills MPC
 - Further north on I-45 sits The Woodland Hills, a neighboring MPC that opened in 2018. It is comparatively small, at ~2,000 acres.
 - Bridgeland MPC
 - Northwest of Houston, this ~11,500-acre MPC was inherited by HHC from GGP in conjunction with the former's bankruptcy reorganization and has a current population of ~17,500 versus an estimated ~70,000 at full buildout.
- Las Vegas
 - Summerlin MPC
 - About 9 miles from the Vegas strip, this 22,500-acre MPC houses 120,000 residents. It is land-constrained by nearby mountains, ensuring high barriers to entry. The land was originally acquired by Howard Hughes himself back in 1952 for just \$3/acre.⁴ Land values here are particularly high nowadays, with a price per acre of \$767,000 in 3Q 2022. The median home sales price YTD in 2022 was \$726,000, versus \$420,000 for Las Vegas. Retail is the primary driver of NOI (~\$60 million) in this development. The Company also owns air rights (80% interest) above the Fashion Show mall on the Vegas strip.
 - The Las Vegas Ballpark
 - The park is home to the Las Vegas Aviators, the triple-A affiliate of the Oakland As. Widely praised as one of the premier triple-A stadiums, its average per-game attendance is ~6,900, which helps drive foot traffic to surrounding Summerlin retail.
- Maryland
 - Columbia MPC
 - The city of Columbia is home to 112,000 residents and is located between Baltimore and Washington, D.C. It was founded in 1967 by Jim Rouse. Offices are the largest contributor to NOI here, and future opportunities are in commercial rather than residential development.
- Phoenix, Arizona
 - Teravalis MPC
 - Ground was recently broken on the first village (Floreo) of this MPC in Phoenix's West Valley (~50 miles from downtown Phoenix). Sales to homebuilders should begin in 2H 2023. The

4. Las Vegas Advisor, "What did Howard Hughes pay for the Summerlin land?" July 18, 2020, <https://www.lasvegasadvisor.com/question/summerlin-history/>.

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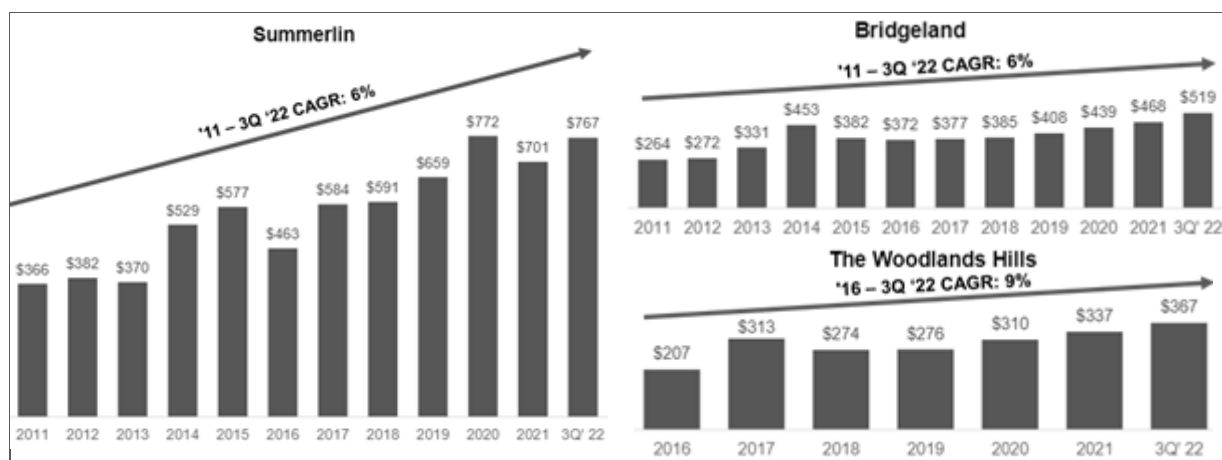
~37,000-acre shovel-ready site is slated for significant development spanning the next several decades. This MPC is anticipated to be cash flow generative within ~5 years.

- Hawaii
 - Ward Village MPC
 - The Company refers to this 60-acre community on the coast of Honolulu as a “vertical” MPC, where it develops high-end condo buildings complemented by 1 million square feet of nearby retail. It completed construction on six condo towers between 2017 and 2022, all of which have between 95% and 100% of units sold, with another four under construction in a presale stage.
- NYC
 - South Street Seaport
 - This strategic development (not an MPC) is located in the Financial District in Lower Manhattan and encompasses several city blocks. Howard Hughes conducts landlord operations, manages certain businesses, and hosts events at The Rooftop venue at Pier 17.

HHC Strategy

Howard Hughes focuses on Class A real estate—often among the newest and highest-quality buildings in their respective markets. Class A properties are commonly characterized as being less than 15 years old, in prime locations with high-end amenities, positioned among high-income tenants, and producing high occupancy rates. A “key differentiator” versus its peer group is that HHC can retain earnings (whereas REITs are required to pay out most of their earnings via dividends) and self-funds considerable development without necessitating the disposition of other developments. OI from its Operating Assets division—plus residential land sales (in MPCs) to builders and condo sales (Strategic Developments) to residents—provides the Company with significant free cash flow over time. The Company works with and sells to multiple building partners.

Land Sale Prices by Acre in Select MPCs (Thousands)



Source: Company presentation.

After the sale of a parcel of land to a homebuilder, up to 3 years may elapse before the closing of a completed home. During this time, many factors (like unemployment and interest rates) can affect the value of that property. HHC effectively hedges this through builder price participation, in which the Company will earn an additional premium if the home is sold to an end user above a predetermined threshold. Importantly, this works only one way (eloquently referred to as “schmuck insurance”): if the value of the home falls, HHC does not owe any return of capital. HHC’s land tends to be in high demand among homebuilders due to the prime locations, even though HHC exerts a great deal of control over homebuilders with things such as price participation.

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The Company has bought out other owners in the MPCs (publicly listed asset managers and heirs) because it prefers sole ownership. Ackman and the Company believe that this is highly advantageous, as these MPCs have a single manager with a single vision. The sole owner style owes to the template set by the Irvine Ranch MPC in California between Los Angeles and San Diego, where Donald Bren built a multi-billion-dollar fortune. The following were the Irvine Ranch principles:

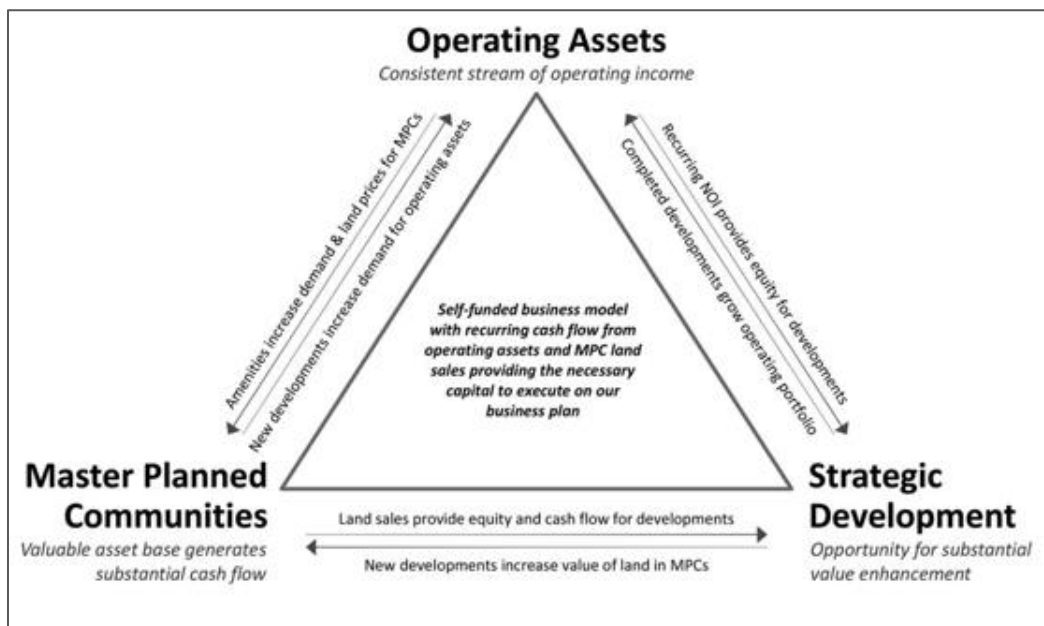
- Be the sole owner.
- Adopt a thoughtful master plan.
- Continually reinvest in the land.
- Minimize third-party equity (buy out partners).
- Take a long-term approach.
- Sell land judiciously, without “dumping” land on the market.
- Be an appropriate long-term steward.

The MPCs are located within commuting distance of major cities. The Company controls the zoning and the timing of supply and sells the residential zoned lots to builders yet maintains ownership of commercial properties. HHC benefits from a virtuous cycle whereby developing infrastructure, housing, commercial, and amenities increases the operating income from, demand for, and value of surrounding land and properties. The Company creates an attractive downtown area (usually anchored by a high-profile corporate tenant or attraction) to sell lots at higher prices, in response to which population density increases, improves retail sales, allowing HHC to increase rents, and so forth. Since HHC owns the surrounding properties, it is the beneficiary, unlike when other CRE developers improve a neighborhood and improve the value of others’ neighboring assets.

“You think about real estate—typically, you build a great building, if you do a great job, you help all your neighbors around you make their properties more valuable. Here we own all the property, and therefore we get the benefit for the Company.”

– Bill Ackman, 2017 Sohn Investment Conference

Self-Funding Commercial Real Estate Business



Source: Company presentation.

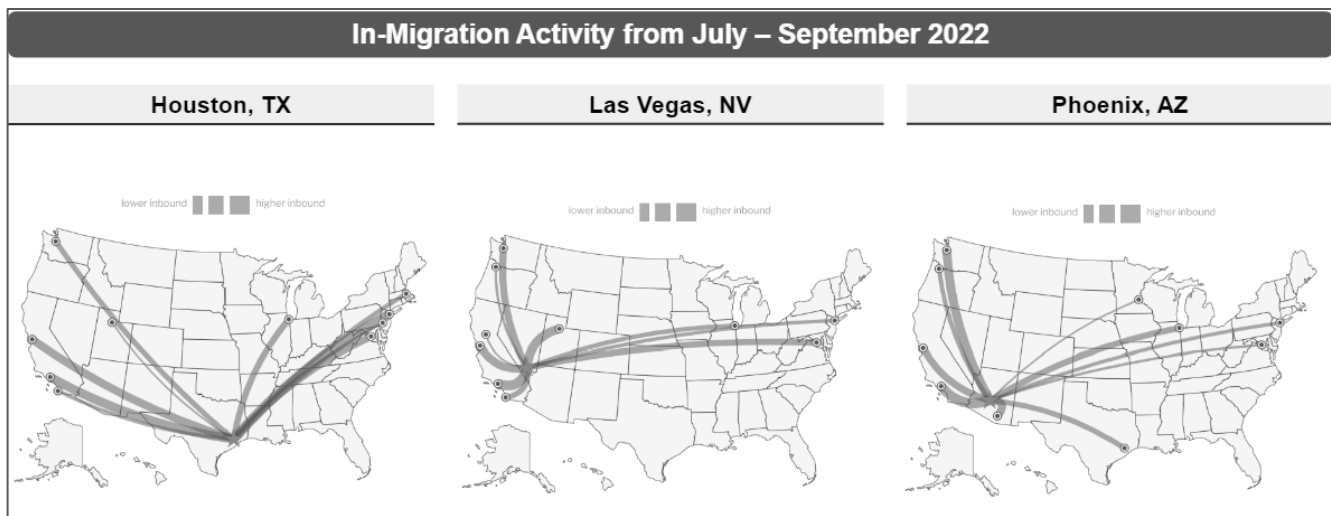
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Given that its operating assets are predominantly contained to its own MPCs, the Company has effective local monopolies over the supply in a given area: it has control within the ecosystem. With that, the Company has some capability to drive somewhat superior cap rates. If an area becomes oversupplied with retail or office real estate, for example, the Company has the ability to focus on multifamily over the intermediate term, to increase the population and foster more favorable dynamics. Other property developers lack this capacity and are instead more beholden to the growth rates of their respective markets.

Raw land may not be worth very much when an area is sparsely populated, but as population rises, the value of the remaining land rises, fostering a network effect on the scale of a city. Also, as population density and commercial development increases, the chance of a development’s being unsuccessful goes down (i.e., risk diminishes over time). In the latter stages, once the population gets beyond a certain threshold, vertical development can take place, which is where particularly large value creation occurs.

The Company achieves highly desirable ~14% unlevered and ~26% levered internal rates of return by converting its raw land into operating assets. These rates are higher or lower in some regions: The Woodland Hills, for example, produces lower returns, as it is more of a “starter home community” than other developments. Demographics are favorable throughout the Company’s roster of MPCs, with average household income, median home values, and the percentage of college graduates commonly higher than the surrounding metropolitan areas. In-migration patterns are also favorable, with individuals moving away from higher-cost/higher-tax areas like California and the Northeast into lower-cost parts of the country.

Attractive In-Migration Markets



Sources: Company presentation; Redfin.

Could HHC Convert to a REIT?

Unlike its REIT cousins, HHC is a standard C corp. It is not required to pay dividends, which gives it more capital flexibility. The fact that it is not a REIT also frees the Company to invest in whatever assets it chooses, whereas a REIT must conform to a set structure. HHC’s portfolio is unique, and many of its assets (particularly the non-income-generating land and developments) are not suitable for a REIT structure. Also unlike a common REIT, HHC already owns a tremendous amount of land to develop within its existing portfolio rather than having to purchase land or buildings. Dividends will not likely be a part of its capital allocation strategy for the foreseeable future, as it would prefer to reinvest capital in its MPCs with a view to driving up net-asset value. Perhaps this could change in the future, as development continues and a higher percentage of its stabilized assets fall under the Operating Assets umbrella, but any potential pivot seems quite far away at present.

Is HHC Well Suited to Be a Publicly Listed Entity?

HHC is quite unique as a publicly listed Company, and due to its incredibly long investment horizons, the Company could be said to make more sense as a privately held entity. GAAP accounting does not paint an

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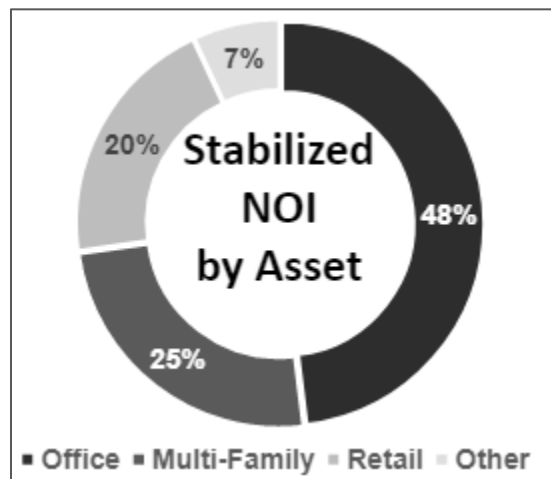
accurate picture of the Company’s fundamentals, as reporting requirements highlight high depreciation while much of its asset base is actually appreciating, so book value does not actually reflect long-term asset value. When surrounding construction appreciates other nearby property, that does not get captured by GAAP accounting, even though fair value has gone up. (Land is also recorded at historical cost.) Partly for this reason, the Company’s book value is a huge understatement of its true asset value. Further, the lumpy timing of land sales makes quarterly cash flow comparisons a fairly ineffective valuation metric. Because of these factors, HHC is often not well understood or appreciated by a large number of potential investors, and the stock currently trades at a valuation that is much lower than the Company’s assets would fetch in a private sale. Nevertheless, buying HHC at the right time (e.g., at a steep discount to its NAV) ensures a high margin of safety, while a reduction of the valuation gap or an increase in NAV over time should result in meaningful capital appreciation.

Recent Results and Outlook

Net Operating Income Shows Meaningful Progress

Recurring NOI is primarily generated from rent collection on office, multifamily, and retail locations. The largest portion of NOI (~\$255 annualized as of 3Q 2022) is generated from office leases, as its office footprint is 6.6 million square feet, dwarfing its 2.7 million square foot retail presence. Current NOI in multifamily and retail is \$64 million and \$51 million, respectively, while office NOI is roughly the size of the those combined, at \$122 million. About 50% of its stabilized NOI is generated from Houston, which is home to three MPCs, including The Woodlands proper, which is both larger and more mature than most of its communities.

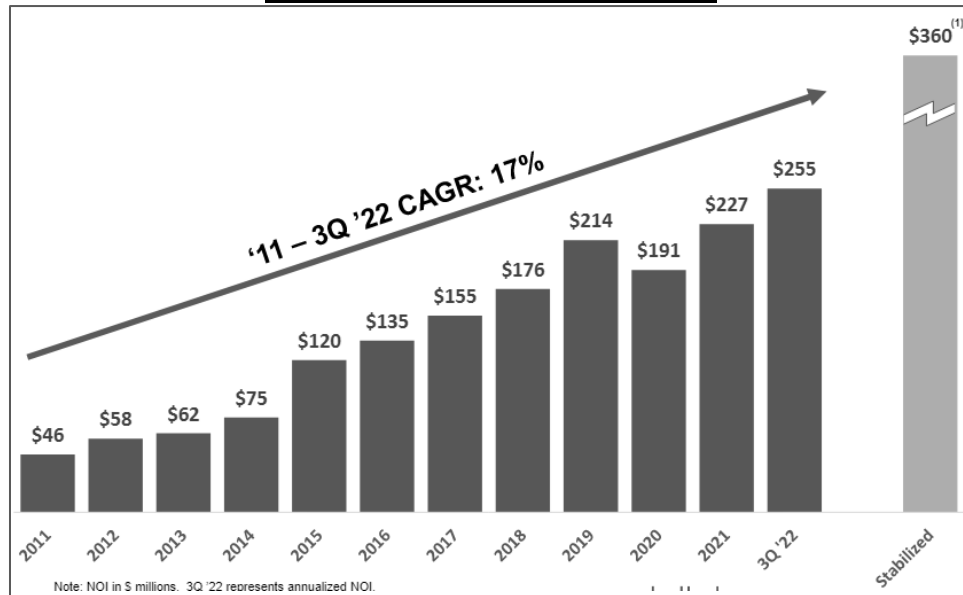
NOI Breakdown by Property Type



Source: Company presentation.

As construction has progressed, some regions (like Summerlin and Columbia) have significantly scaled NOI above low initial bases over the last decade or so. In 3Q 2022, annualized NOI reached \$255 million (nearly an 8% yield on its market cap), up ~65% from 5 years ago, including as-yet-unstabilized properties (all expected to stabilize between the end of this year and 2025) that are at various stages of lease-up (~16%-100% leased at 3Q) as well as recently opened office, retail, and multifamily properties in Houston and an office and retail location in Columbia and Honolulu, respectively. The Company estimates that stabilized NOI (which in this case is inclusive of properties currently under construction) will be ~\$360 million.

A History of Consistent NOI Growth



Source: Company presentation.

Portfolio Cap Rates

A capitalization rate (cap rate) is the unlevered return that a property is expected to make in 1 year as a percentage of its total value. This metric is also used to compare similar properties and as a measure of risk. According to data and research from CBRE and Green Street, 2021 estimated cap rates by property type were as follows:

- 3.8% multifamily
- 5.4% retail
- 6.9% office

These rates were fairly unchanged from 2020, with the exception of office, which jumped by a full point, year over year, as the office leasing market parsed the effects of the pandemic and hybrid work/work-from-home models. As inflation and interest rates rise, so do cap rates, although the latter tend to move in a less pronounced manner, partially because cap rates are also influenced by things like rent growth. This year, however, while property value growth looked to be taking a breather while interest rates continued to rise, cap rates pushed higher. For HHC, this means that construction costs are higher relative to the value of a completed project.

Can HHC build and sell at a lower cap rate than is typical for a given property type in a given region? The cap rate within HHC’s developments ought to be lower, since it controls the supply. (Lower cap rates are beneficial for a developer, as they translate to higher property values.) Take, for example, a metropolitan area that is undersupplied by a single apartment complex: Howard Hughes can accurately cater to that need by building exactly one apartment building, whereas in another market, multiple builders may be working at the same time to construct apartment complexes, creating a relative oversupply in the future, resulting in a higher cap rate.

3Q 2022 Performance

Results for 3Q 2022 continued to show meaningful progress on multiple fronts while also revealing that market headwinds have started to hit the portfolio, which is of course not completely insulated from macro pressures. **MPC** revenues surged 39% YoY, to ~\$75 million, propelled by higher Bridgeland land sales at a record price per residential acre. This more than offset a tough comp in Summerlin (where a 216-acre superpad was sold the previous year), leading to a 7% drop in overall land sales, to \$53 million. (Superpads are large

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parcels of unimproved land where major utilities and roads to the borders of the parcel are constructed.) However, the price/acre of raw land sold surged 36% YoY, from \$580,000 to \$790,000. Builder price participation revenues were also strong (+69%, to \$19 million), but we note that this is likely to recede in the coming quarters since residential home value growth is skidding, coinciding with higher borrowing costs. On a related note, there was a 48% drop last quarter in new home sales within the Company's MPCs as buyers pushed back against higher interest rates and inflation.

Operating Assets segment NOI of ~\$61 million was down 3% but would have been up 2% excluding noncore asset sales of hospitality properties and an outlet shopping center. (Noncore asset divestitures are said to be completed now.) The components of Operating Assets NOI were as follows:

- **Retail** down 15%, to \$13 million. Occupancy improved, and the retracement was attributed to one-time COVID recovery benefits in the prior year.
- **Multifamily** up 27%, to \$12 million. Rent growth remained widespread, and lease-up of new developments was strong. Meanwhile, Starling in Bridgeland is 16% leased and welcoming residents as of September.
- **Office** up 3%, to \$29 million. Improved leasing in class-A properties in The Woodlands and Downtown Columbia.
- **The Las Vegas Ballpark** down 30%, to \$4 million. In the period, there were fewer games played, and poor weather hurt attendance. This was against a particularly tough comp, as demand for Las Vegas Aviators games was high in 2021 following the lifting of COVID restrictions.

Unabated strong demand for condos in Hawaii underpinned a strong **Strategic Developments** showing. Construction was completed on the 6th Ward Village condominium tower along the coastline between Honolulu and Waikiki. It closed 398 units for \$413 million in net revenue. Presales have started at Kalae, which will be the 10th tower in Ward Village. It was already 40% under contract by the end of October (commonly, >90% of units are sold well before construction is completed), suggesting that demand for housing in Ward Village remains incredibly strong. Meanwhile, The Park and Ulana towers (in presale stage) are now 91% and 96% sold (highlighting strong demand and the low-risk model with commitments in place early on), with construction commencing 4Q 2022.

In the **Seaport** district, NOI of a \$10 million deficit was worse than \$4 million last year, owing to startup costs with the Tin Building (had its grand opening in September). Its opening should be a significant boon to segment operating results going forward; the opening had been delayed by staff shortages but progress has been made more recently, and full capacity is expected by year end. Meanwhile, overall Seaport revenue increased 57%, to \$32 million, from rental revenue at the Tin Building, concerts at the Pier 17 Rooftop concert venue, and increased foot traffic and volume at its managed fine-dining and casual restaurants.

Effect of Interest Rates on the Business/Industry

On the surface, recent investor trepidation in the commercial and residential real estate markets makes plenty of sense. Housing prices have accelerated at an incredible rate since 2020, stretching affordability. (Americans are spending ~35% of income on housing on average, beyond the rule of thumb that suggests limiting housing costs to 30% or less.) Moreover, the Fed's hawkish monetary policies have pushed 30-year mortgage rates from a historically low ~3% to over 7% in a matter of months. While 7% may not be particularly high by historical standards (and is well below the high teens seen in the early 1980s) the stark change to a generational high is a shock to the system. With these factors, property values have started to fall in many markets across the country and dealmaking activity has stalled.

But has there been an overreaction in HHC shares? We think that there is a dislocation between the corporate fundamentals and the price of the equity. The last time shares were trading below \$70/share was during the 2020 COVID-19 selloff. That year, there was justifiable concern over the health of office and retail commercial real estate, and investors were bracing for a prolonged downturn. The recovery, however, was much faster and more robust than many envisioned. NOI dropped 11% in 2020, to \$191 million, but fully recovered to \$227 million in 2021, impressively 6% ahead of the 2019 tally. After completing developments

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presently under construction, Howard Hughes targets a stabilized NOI of \$360 million. Higher NOI not only contributes to the income statement but also supports the value of the underlying real estate by way of cap rate calculations.

Interest rates have put a damper on the housing market and, in turn, HHC shares. However, its position in affluent and growing markets and the long-term attractiveness of its land and mixed real estate assets remains intact. The Company wants to ensure that it continues to generate attractive returns above its construction costs. Its long-term track record is excellent, with a 9.8% yield on cost and 24% return on equity, as it builds property below replacement cost and market value for strong risk-adjusted returns. And although cost of capital is now higher with elevated interest rates, the Company is offsetting that through higher rental rates that have “more than justified” continued development in its communities. Housing is an out-of-favor industry right now. HHC’s strong asset portfolio should generate attractive operating income throughout the cycle, and it ought to be a beneficiary of the eventual recovery in activity.

Outlook

Management asserts that the best way to increase NAV is to convert land into income-producing assets. A recession could slow NAV growth due to reduced cash investment or slower home sales, but as of early November, the Company was seeing no signs of this kind of slowdown within its markets. Land acquisition opportunities “of scale, quality, and product type are few and far between” right now, but there is certainly ample opportunity to develop within existing MPCs. Land sales in Phoenix, Las Vegas, and Houston MPCs should continue to benefit from high demand and low homebuilder inventory levels. Though macro-related headwinds are mounting, EBT is projected to remain at 2017-2020 levels. (2021 included the sale of a superpad in Summerlin, making it a muddy comparison since sales of that magnitude don’t happen every year.)

The Operating Assets portfolio looks resilient with strength in multifamily, lease-ups occurring in office, and even solid retail results pegged for 4Q. The Company guided for full-year 2022 Operating Assets NOI growth of 3%-5%, much better than earlier expectations of flat to down 2%. We expect strong FCF in 4Q from Ward Village condo closings. In the recently completed fifth and sixth towers (‘A’ali’l and Ko’ula), the Company ought to bring in \$650-\$700 million at a ~27% gross margin. Finally, operating results at the Seaport are poised to inflect higher now that the Tin Building is open.

Balance Sheet, Free Cash Flow, and Capital Allocation

The balance sheet holds \$355 million of cash and total debt of ~\$4.6 billion, with debt constituting ~57% of total capitalization. (The weighted average cost of debt was ~4.5% entering 2022.) About 71% of its debt is fixed-rate (~86% including swaps), so its debt profile is resilient against the backdrop of surging interest rates. Also, near-term maturities are relatively modest, with 82% of its debt due no earlier than 2026. As a risk mitigation measure, the Company aims to limit recourse debt, so nonrecourse debt is about two-thirds of its obligations.

Debt Maturity Schedule (MM)

<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>Thereafter</u>
\$4	\$550	\$29	\$277	\$385	\$3,431

This year, the Company has repurchased slightly more than \$400 million of its stock (~8% reduction to the outstanding share count), signaling a tangible change in capital allocation and the Company’s perceived undervaluation of its shares. That said, share repurchases declined to ~\$39 million in 3Q, from an average of \$182 million/quarter in 1H 2022, despite the stock’s trading at a lower price in 3Q. (Purchases were at an average price of ~\$69/share vs. ~\$88 in 2Q.) The timing of cash flow (e.g., when condos close or land is sold) can have an impact on deployable capital, so this may not be a sign of a pivot on buybacks, and we expect repurchase activity to continue. The Company was also running out of room on its existing buyback authorization (\$15 million remaining on a \$250 million authorization). On the 2Q call, management did not commit to a new buyback plan, noting that any such plan would be at the discretion of the board, and no further details have been presented since. The Company thinks that buying back its stock at a deep discount to NAV is a smart use of capital. We agree and hope to see the authorization bumped up. (Of course, HHC also evaluates where its capital can generate the best return.)

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Unlike REITs, HHC does not pay a dividend to shareholders. Instead, the Company reinvests available capital into development opportunities to drive its net asset value higher over a long period. While this equity lacks the instant gratification that commercial real estate securities with an income component can generate, we believe there are strong odds of patient long-term investors' being handsomely rewarded in HHC as NAV dramatically increases over the years.

Some investors have expressed concern about capital allocation regarding the Douglas Ranch acquisition, suggesting that the Company should instead focus on the long-horizon developments in existing MPCs. Property values in Phoenix have soared in recent years due to in-migration and majorly undersupplied housing dynamics (by an estimated 600,000 housing units). Howard Hughes' newest MPC looks to add ~100,000 homes to the area, and we believe that the long-term opportunity is enormous. The development is projected to be cash flow neutral over the coming ~5 years, as development will be in the early stages, and should be cash flow positive beyond that with a highly diverse commercial property segmentation.

Valuation

HHC has periodically had trouble in the past getting what it considers to be a reasonable valuation for its high-quality portfolio in public markets, probably in part because of the long-duration payback of many of its investments, and probably also because there are no perfect comps for this specific mix of assets. The equity is also not widely covered on Wall Street, though it has gained some brand awareness in recent years by hosting of earnings conference calls and annual investor days (both commenced in 2017) and—more important—by successfully completing developments of multiple high-visibility real estate projects. The overlooked nature of the stock could present an opportunity for above-market price appreciation on relatively few analyst price target upgrades.

HHC Is Underfollowed by Wall Street

	<u>CBRE</u>	<u>JLL</u>	<u>Lennar</u>	<u>Toll Brothers</u>	<u>SL Green</u>	<u>Vornado</u>	<u>Equity Residential</u>	<u>Howard Hughes</u>
Market Cap (\$B)	\$25.0	\$7.9	\$25.6	\$5.3	\$2.8	\$4.9	\$23.6	\$3.4
Analyst Coverage	8	8	19	16	17	12	24	5

Source: FactSet.

HHC stock is trading at less than book value (0.9x P/B), a strong indication of undervaluation for this real estate company—not only is that cheap, but book value is also understated, in part due to the appreciation of the Company's land assets. The only other time the Company has traded at such a low lever to book value in the past 10 years was at the depths of the COVID-19 selloff, for a few months beginning March 2020. While the business is undeniably susceptible to a U.S. real estate swoon, this fear seems overly baked into share price at this point.

Using a sum-of-the-parts analysis, we have valued stabilized Operating Assets at ~\$3.7 billion using a conservative blend of 5%-8% cap rates for its multifamily, retail, office, and other properties, which generated \$251 million of annualized NOI in 3Q. We then added in unstabilized and under-construction operating assets at multiples of development costs of 1.25x and 1.0x, respectively. For residential land in the MPCs, we used a low-single-digit annual appreciation estimate and a discount rate of 10%. With commercial land (most of which is likely to be held by HHC for development rather than sold like the residential land), we took the Company's estimated value of the land and discounted it by 15%. We recorded the Teravalis MPC as 70% of cost. For Strategic Developments, we used discount rates of expected future cash flow of 10% for under-construction condos and 12% for planned developments. For simplicity, we are valuing Seaport at a 40% reduction to its cost. Other assets and liabilities are recorded at book value. Finally, we are using a 7% cap rate to G&A expenses. These assumptions are highly conservative across the board yet still suggest an NAV of ~\$104 per share, or 53% upside from the recent quotation.

This year, land values have continued to increase, though appreciation is liable to slow from here as homebuilder demand wanes in the face of higher interest rates. (We are mindful that homebuilder inventory is low and that long-term trends are favorable due to an undersupplied domestic housing market.) Even if land sales are discounted (which hasn't borne out in the Company's results yet), investors are essentially getting this

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valuable land for free at the current price. An impairment to historical cost at the Seaport is appropriate, since that has been a challenging project for HHC, but if things work out on certain fronts in the future (NYC offices, successfully generate foot traffic around restaurants and attendance to the Rooftop venue, etc.), the value could rise exponentially. In another way of looking at it, investors can currently purchase HHC shares at just ~35% of the Company's "conservative" estimate of intrinsic value (\$170 NAV). We are bearing in mind that the Company's \$170 NAV estimate was formulated early in 2022, before interest rates took off. Also, from what we can tell, the Company did not include capitalized corporate G&A expenses (leading to a higher NAV estimate), which we have reflected to be more conservative.

HHC NAV Calculation (\$MM)

Operating Assets (Stabilized)	Amount (\$MM)	Per Share
Office @ 8% Cap Rate	\$1,428	
Retail @ 7% Cap Rate	\$830	
Multifamily @ 5% Cap Rate	\$1,141	
Other @ 7% Cap Rate	<u>\$306</u>	
	\$3,705	\$74.89
More Operating Assets		
Unstabilized @ 1.25x Development Cost	\$363	
Under Construction @ 1x Development Cost	<u>\$226</u>	
	\$588	\$11.90
Operating Assets	\$4,294	\$86.79
MPC (Residential)		
Residential Land Value Within Current MPCs (Assumes 2% annual price appreciation and 10% discount rate)	\$1,796	\$36.30
MPC (Commercial)		
Land Value of Future Commercial Development At 85% of Company's Estimated Value/Acre	\$2,149	\$43.44
Teravalis @ 70% of Cost	<u>\$375</u>	<u>\$7.57</u>
MPCs	\$4,320	\$87.32
Strategic Developments		
Under Construction @ 10% Discount Rate	\$183	
Planned Developments	<u>\$712</u>	
	\$895	\$18.09
Seaport		
At 60% of Cost	\$620	\$12.54
Other Assets	\$2,122	
Liabilities	(\$5,958)	
TTM G&A @ 7% Cap Rate	(\$1,168)	
Total NAV	\$5,125	
Diluted Shares (mm - 9/30/22)	49.471	
NAV (Per Share)	\$103.59	
<i>Implied Upside to NAV</i>		<i>53%</i>

Will the Gap to NAV Close?

On its earnings call and investor day conferences, management has touted a NAV for the Company. While using its own “conservative” assumptions, the NAV is invariably much higher than the prevailing stock price. In April, a NAV of \$170 has been suggested (up from \$150 a year ago). The stock, meanwhile, traded up to \$150 in 2014 and was regularly in a ~\$90-\$140/share range prior to the pandemic; though the stock is priced lower today, the value of its assets has certainly improved over the years. While the gap between NAV and the public market value might never fully close, it can substantially narrow. However, perhaps investors (some of which have likely been burned by erratic price action in the past) are skeptical of the Company’s NAV assertions, simply because these projections have failed to sustainably materialize in the stock. The equity price to NAV discrepancy will fluctuate and is driven in part by investor sentiment, which at the moment is not looking kindly on real estate assets that do not yet produce income. Regardless, over long periods, the NAV should appreciate significantly as values rise and more developments are placed into service.

Risks

The Company’s primary risks include, but are not limited to, the following:

- An economic downturn could impact any of the Company’s key markets.
- Certain markets are exposed to natural disasters like hurricanes and earthquakes. Others are sensitive to regional economics (like the oil and gas market in Houston).
- Rising interest rates reduce affordability and demand for homebuyers. This can lead to downward pressure on future land sales.
- Cap rates could rise, reducing the valuation of the Company’s operating assets and future development.

Analyst Certification

Asset Analysis Focus certifies that the views expressed in this report accurately reflect the personal views of our analysts about the subject securities and issuers mentioned. We also certify that no part of our analysts’ compensation was, is, or will be, directly or indirectly, related to the specific views expressed in this report.

THE HOWARD HUGHES CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(thousands except par values and share amounts; unaudited)

ASSETS	September 30, 2022	December 31, 2021
Investment in real estate:		
Master Planned Communities assets	\$2,396,689	\$2,282,768
Buildings and equipment	4,177,563	3,962,441
Less: accumulated depreciation	(841,363)	(743,311)
Land	307,037	322,439
Developments	<u>1,085,302</u>	<u>1,208,907</u>
<i>Net property and equipment</i>	7,125,228	7,033,244
Investment in real estate and other affiliates	<u>261,615</u>	<u>369,949</u>
<i>Net investment in real estate</i>	7,386,843	7,403,193
Net investment in lease receivable	2,897	2,913
Cash and cash equivalents	354,605	843,212
Restricted cash	571,703	373,425
Accounts receivable, net	95,364	86,388
Municipal Utility District receivables, net	506,666	387,199
Notes receivable, net	4,700	7,561
Deferred expenses, net	123,815	119,825
Operating lease right-of-use assets, net	47,629	57,022
Prepaid expenses and other assets, net	414,459	300,956
TOTAL ASSETS	\$9,508,681	\$9,581,694
LIABILITIES		
Mortgages, notes and loans payable, net	\$4,627,411	\$4,591,157
Operating lease obligations	51,716	69,363
Deferred tax liabilities	228,396	204,837
Accounts payable and accrued expenses	<u>1,050,267</u>	<u>983,167</u>
<i>Total liabilities</i>	5,957,790	5,848,524
<i>Commitments and Contingencies (see Note 9)</i>		
Redeemable noncontrolling interest	–	22,500
EQUITY		
Preferred stock: \$0.01 par value; 50,000,000 shares authorized, none issued	–	–
Common stock: \$0.01 par value; 150,000,000 shares authorized, 56,307,386 issued and 49,901,001 outstanding as of September 30, 2022, 56,173,276 shares issued and 54,065,661 outstanding as of December 31, 2021	564	563
Additional paid-in capital	3,969,840	3,960,418
Retained earnings (accumulated deficit)	115,326	(16,456)
Accumulated other comprehensive income (loss)	9,884	(14,457)
Treasury stock, at cost, 6,406,385 shares as of September 30, 2022, and 2,107,615 shares as of December 31, 2021	<u>(609,724)</u>	<u>(220,073)</u>
<i>Total stockholders' equity</i>	3,485,890	3,709,995
Noncontrolling interests	<u>65,001</u>	<u>675</u>
<i>Total equity</i>	3,550,891	3,710,670
TOTAL LIABILITIES AND EQUITY	\$9,508,681	\$9,581,694