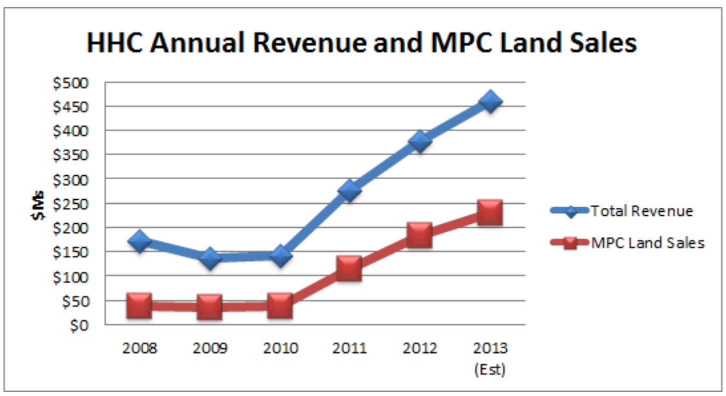
Howard Hughes (HHC) Enjoys Solid Growth Due to Strong Summerlin Superpad Sales

We are pleased that The Howard Hughes Corporation (HHC) is its own independent company instead of being part of General Growth Properties (GGP). Howard Hughes saw its revenues bottom out in 2009 at $136.3M, which included $34.6M in Master Planned Community land sales. Howard Hughes exceeded our 2012 revenue projections of $350M in total revenue (Howard Hughes achieved $377M) and $160M in MPC sales (Howard Hughes achieved $183M). We expect Howard Hughes to potentially reach $460M in total revenue in 2013 and MPC land sales to potentially reach $230M. At the same time, we were surprised that the performance of its operating assets was soft in 2013 as it previously served as Howard Hughes' stabilizing force while Howard Hughes' MPC land sale performance was soft (2010 and prior years).



Source: Howard Hughes [2010]-[2012] Annual Reports and Saibus Research estimates

Howard Hughes enjoyed continued solid performance in the first nine months of 2013. Howard Hughes's net reported loss narrowed by 28% year-over-year due to increased operating income, increased income from equity method affiliates and reduced losses from warrant liabilities and tax indemnity recoverable reductions. Other observations included the following:

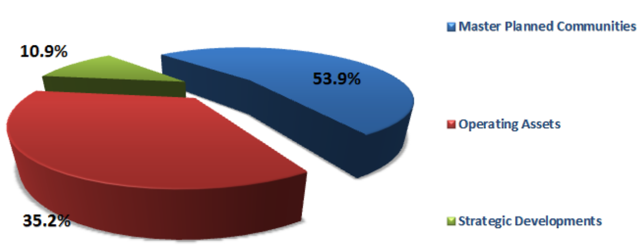
- Howard Hughes' warrant liability losses decreased by $14M even though its share price increased by 53.5% in the first half of 2013. Its warrant liability loss would have been wider but there was a lower amount of warrants outstanding, which resulted from the warrant transactions by Brookfield, Fairholme and Blackstone in Q4 2012.

- Howard Hughes generated $7.9M from its KR Holdings relating to activities involving the ONE Ala Moana Tower Condominium Project

- Howard Hughes incurred an $8.7M non-cash loss on the reduction of its tax indemnity receivables related to its Tax Matters (Spin-off) Agreement with GGP in YTD 2013 ($11.7M in YTD 2012). GGP indemnified Howard Hughes against 93.75% of all losses, claims, damages, liabilities and reasonable expenses to which it is subjected, in each case solely to the extent directly attributable to certain taxes related to sales of certain assets in its MPC segment prior to March 31, 2010, in an amount up to $303.8M, plus interest and penalties related to these amounts so long as GGP controls the action in the Tax Court related to the dispute with the IRS.

Howard Hughes saw solid year-over-year reported revenue growth in YTD 2013. Howard Hughes' reported revenue growth was due to increased superpad site sales at Summerlin of $55.3M resulting from significantly improved market conditions. This more than offset revenue headwinds from its operating asset segment due to Superstorm Sandy, tenant vacancies at its Riverwalk Marketplace mall and revenue declines from its other MPC properties (Columbia and Bridgeland).

HHC Revenue % Division

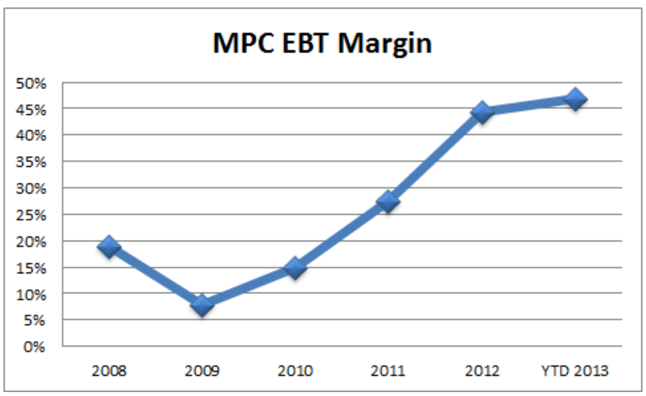


Source: Howard Hughes Q3 2013 10-Q

Master Planned Communities: Howard Hughes's MPC segment is the segment that makes or breaks Howard Hughes' overall corporate performance.

- MPC segment revenue grew by $46.8M (39%) year-over-year in YTD 2013 and reached $167M due to increased pad site sales at Summerlin of $55.3M

- A $16.8M in declines from its other MPC properties (Columbia and Bridgeland) partially offset its strong Summerlin superpad site sales growth.
- Woodland revenue declined in Q3 2013 by 1.9% but increased 19% YTD 2013 due to a 49.7% increase in average lot price because of the competitive bid process begun in August 2012 and the scarcity of remaining available residential land in The Woodlands.
- Bridgeland's continued revenue decline was due to pending permits from the U.S. Army Corps of Engineers in order to develop more lots at the property.
- MPC revenue per acre sold decreased by 3.6% at Summerlin and increased by 11.9% at Bridgeland and 54% at The Woodlands
- Variances in price per acre are largely attributable to selling certain product types in different locations.



Source: Howard Hughes 2010-2012 Annual Reports and Q3 2013 Report

Operating Assets: Howard Hughes's most stable segment is its Operating Assets Segment. However, we were surprised that its performance in YTD 2013 was softer than prior periods, even if we adjust for Superstorm Sandy's negative headwinds.

- On a reported basis, this division saw its YTD 2013 revenue decline by -3.7% versus YTD 2012 levels.
- Minimum rents declined by 3.4% as lower minimum rents at the South Street Seaport ($7.2M due to Superstorm Sandy) and Riverwalk Marketplace ($2.4M due to vacating tenants as a result of redevelopment) as were offset by $5.3M of rents related to its

acquisition of Millennium Waterway Apartments and increased occupancy and rental growth at Howard Hughes' other properties.

- Resort and conference revenues showed incremental 2% growth.
- Resort and conference revenue growth was offset by tenant recoveries and other rental property revenues declining by 9.2%
- Operating Asset Segment EBT swung to a -$0.8M loss versus +$20.4M profit due to higher operating expenses as well as depreciation and interest expenses
- Property operating expenses increased by $6.9M due to the termination of leases at South Street Seaport totaling approximately $1.2M, SEE/CHANGE-related expenses of approximately $1.8M, increased costs of $1.8M relating to the Club at Carlton Woods and HHC placed 3 Waterway Square into service in Q2 2013.
- The segment also recorded $0.5M in bad debt charges due to bad debt charges at South Street Seaport related to Superstorm Sandy, which resulted in several tenant terminations.
- Depreciation increased by $4.7M year-over-year due to depreciation on its acquisition of Millennium Waterway Apartments and Phase One of The Ward Village Shops as well as the increased depreciation expense recorded as a result of the change in useful lives of certain assets approved for redevelopment at Ward Centers. .
- Net interest expense increased $3.4M due to interest expense of $1M relating to the debt associated with refinancing the existing loan on the Millennium Waterway Apartments and $2.8M related to 70 CCC lender's participation right in the property. The participation obligation is fair valued each quarter and HHC records the change in fair value through interest expense. The new 63,985 square feet lease increased the estimated value of the lender's participation during the first quarter of 2013.

Strategic Developments:

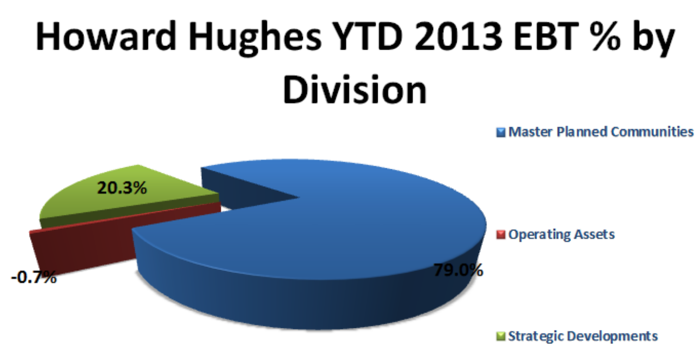
- Howard Hughes' smallest operating segment is its strategic developments segment.
- It is good that it is the smallest segment because these assets generally require

substantial future development to achieve their highest and best use.

- Segment revenues increased by $31.5M year-over-year in YTD 2013 primarily due to the sale of its condominium rights related to the ONE Ala Moana project and the sale of one of the remaining parcels at Alameda Plaza.

- Expenses relating to these assets primarily relate to carrying costs, such as property taxes and insurance, and other ongoing costs related to maintaining the assets in their current condition.

- Segment EBT increased by nearly $23M due to the aforementioned sale of its condominium rights and its share of the profit from the ONE Ala Moana condominium venture.



Source: Howard Hughes Q3 2013 10-Q

Institutional Holders

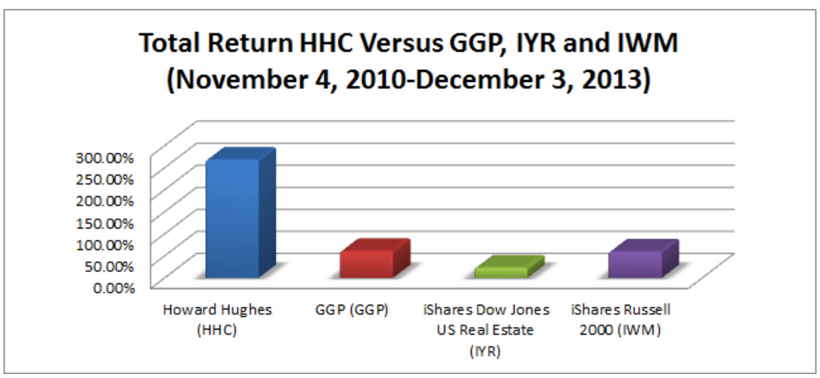
We like the fact that leading institutional investors own the majority of Howard Hughes's stock, which includes Bill Ackman (Pershing Square) and Horizon Kinetics LLC (Peter Doyle, Tom Ewing and Murray Stahl).

- We like that Howard Hughes is now an independent company, no longer subject to the bureaucracy and capital needs of the highly leveraged GGP and we like Howard Hughes's portfolio of high-end properties.

- While GGP is a highly leveraged company that must pay out 90% of its pro-forma taxable income as ordinary dividends to shareholders in order to qualify as a tax-exempt Real Estate investment trust, Howard Hughes utilizes shareholders' equity in order to finance 60% of its assets.

- Mortgages and stock warrant liabilities only account for 28% of asset financing and the company finances the rest through operating working capital liabilities, which are more than offset by cash and operating working capital assets.

In conclusion, we are satisfied with The Howard Hughes Corporation. We believe that investors who want to invest in the real estate industry should consider The Howard Hughes Corporation. We like that Howard Hughes has been free cash flow positive in the last couple of years. We like that Howard Hughes has had strong growth from its Master Planned Communities and Operating Assets profits and these divisions have powerful operating leverage that results in the conversion of sales growth to a high level of incremental operating income growth. We find that very few companies can even hope to replicate Howard Hughes's portfolio of high-end master planned communities, retail properties, office buildings and strategic land developments. Since Howard Hughes has gone public, it has outperformed its former parent as well as the iShares Dow Jones US Real Estate ETF (IYR) and the iShares Russell 2000 (Small Cap) Index ETF (IWM). At the same time, we are aware that its premium to book value is now 100%, up from 25% in Q3 2012.



Source: Morningstar Direct

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Disclosure: Analyst(s) covering this company does are long shares of HHC.