

STRATUS PROPERTIES INC
Form DEF 14A
March 29, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under Rule 14a-12

Stratus Properties Inc.

(Name of registrant as specified in its charter)

Not Applicable

(Name(s) of person(s) filing proxy statement, if other than the registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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(1) Title of each class of securities to which the transaction applies:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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Notice of Annual Meeting of Stockholders

May 2, 2019

Date: Thursday, May 2, 2019

Time: 9:30 a.m., Central Time

Place: W Austin Hotel
200 Lavaca Street
Austin, Texas 78701

Purpose: To elect three Class III director nominees named in the accompanying proxy statement;

To approve, on an advisory basis, the compensation of our named executive officers;

To approve, on an advisory basis, the frequency of future advisory votes on the compensation of our named executive officers;

To ratify the appointment of our independent registered public accounting firm; and

To transact such other business as may properly come before the annual meeting.

Record Date: Only stockholders of record as of the close of business on March 19, 2019 are entitled to notice of and to attend or vote at the 2019 annual meeting of stockholders.

Proxy Voting:

This proxy statement contains important information for you to consider when deciding how to vote on the matters brought before the 2019 annual meeting of stockholders. Please read it carefully. It is important that your shares be represented at the annual meeting whether or not you are personally able to attend. Accordingly, after reading the accompanying proxy statement, please promptly submit your proxy and voting instructions by internet, phone or mail as described on the proxy card.

By Order of the Board of Directors.

KENNETH N. JONES
General Counsel & Secretary

March 29, 2019

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE
ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY 2, 2019**

This proxy statement and the company's 2018 annual report to stockholders are available at

www.edocumentview.com/STRS

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212 Lavaca Street, Suite 300

Austin, TX 78701

Proxy Summary

This summary highlights selected information contained elsewhere in this proxy statement. This summary does not contain all of the information that you should consider, and you should read the entire proxy statement carefully before voting. For more information regarding our 2018 performance, please review our 2018 annual report to stockholders (2018 annual report). The 2018 annual report, including financial statements, is first being sent to stockholders together with this proxy statement and form of proxy on or about March 29, 2019.

2019 Annual Meeting of Stockholders**Date:** Thursday, May 2, 2019**Time:** 9:30 a.m., Central Time**Place:** W Austin Hotel

200 Lavaca Street

Austin, Texas 78701

Record Date: March 19, 2019

Voting: Stockholders as of the record date are entitled to vote. Each share of common stock is entitled to one vote for each director position and one vote for each of the other proposals to be voted on at the annual meeting.

Agenda and Voting Recommendations

Item	Description	Board Vote Recommendation	Page
1	Election of three Class III director nominees	FOR each nominee	14
2	Advisory vote to approve the compensation of our named executive officers	FOR	42
3	Advisory vote to approve the frequency of future advisory votes on the compensation of our named executive officers	FOR a frequency of EVERY YEAR	43
4	Ratification of the appointment of BKM Sowan Horan, LLP as our independent registered public accounting firm for 2019	FOR	46

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Name	Age	Director Since	Principal Occupation	Independent	Board Committees
William H. Armstrong III	54	1998	Chairman of the Board, President and Chief Executive Officer of Stratus Properties Inc.	No	None
Ella G. Benson	33	2017	Director and Analyst at Oasis Capital Advisors LLC	Yes	Compensation
James E. Joseph	58	2015	Dean of the Madden School of Business at Le Moyne College	Yes	Audit Compensation Nominating and Corporate Governance
James C. Leslie	63	1996	Managing Principal of Wolverine Interests LLC	Yes	Audit Compensation*
Michael D. Madden	70	1992	Managing Partner of BlackEagle Partners, LLC; Chairman of the Board of Hanover Advisors L.L.C.	Yes	Audit* Compensation Nominating and Corporate Governance*
Charles W. Porter	67	2012	Chief Operating Officer of MG Holdings Services, LLC; Advisor and Consultant to Moffett Holdings, L.L.C.	Yes	Audit Nominating and Corporate Governance

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John C. Schweitzer	74	2016	President of Westgate Corporation	Yes	Audit
					Compensation

* Chair

2018 Performance Highlights (page 22)

Net loss attributable to common stockholders totaled \$4.0 million, \$0.49 per share, for 2018, compared with net income attributable to common stockholders of \$3.9 million, \$0.47 per share, for 2017. Adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA)* totaled \$10.8 million in 2018, compared with \$9.7 million for 2017.

Increased real estate operations revenues by 51% to \$16.8 million and operating income by 150% to \$1.3 million. During 2018, we sold 17 developed properties for a total of \$16.5 million, including 3 Amarra Drive Phase II lots, 9 Amarra Drive Phase III lots, 4 Amarra Villas townhomes and 1 condominium at the W Austin Hotel & Residences.

Increased rental revenue from leasing operations properties by 28% to \$11.3 million as leasing progressed on our properties completed and near completion.

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Sold the last commercial pad and the excess multi-family entitlements owned by Crestview Station, resulting in \$1.2 million of pre-tax income.

W Austin Hotel revenue per available room (RevPAR) was \$245th (8th in the State of Texas) and W Austin Hotel occupancy averaged 77.3% for 2018.

Renewed ACL Live agreement with Austin City Limits and KLRU, a local public television station, for an additional 10 years.

Increased aggregate borrowing capacity of revolving credit facility with Comerica Bank from \$52.5 million to \$60.0 million and extended maturity date from November 30, 2018 to June 29, 2020.

Increased capital expenditures and purchases and development of real estate to \$105.6 million, compared with \$48.5 million in 2017, primarily reflecting investment in development projects.

Generated a cumulative total stockholder return of 45% over the five years ended December 31, 2018, which is comparable to the returns of the S&P 500 index (50%) and the Dow Jones U.S. Real Estate Index (47%), and which exceeds comparable returns from our peer real estate-related companies (-24%).

Completed construction of the first phases of two large retail projects, Lantana Place, a mixed-use project in southwest Austin anchored by a 12-screen Moviehouse theater, and Jones Crossing, an H-E-B, L.P. grocery (HEB)-anchored, mixed-use project in College Station, Texas.

Substantially completed construction of Santal Phase II, a 212-unit multi-family project located directly adjacent to the previously completed Santal Phase I, a 236-unit multi-family project, in Barton Creek. As of December 31, 2018, 33% of Phase II s total units were leased and 95% of Phase I was leased.

Raised third-party capital through private placement and secured project financing and commenced construction of The Saint Mary, a 240-unit luxury, garden-style apartment project in the Circle C community.

Finalized a long-term HEB ground lease, raised third-party capital through private placement, purchased a 54-acre tract of land, obtained project financing, and commenced construction of Kingwood Place, an HEB-anchored, mixed-use project in Kingwood, Texas.

Purchased a 38-acre tract of land in New Caney, Texas, in partnership with HEB, for the future development of an HEB-anchored, mixed-use project.

Successfully negotiated and executed commercial leases. As of December 31, 2018, we had executed leases for: (1) 68% of West Killeen Market, an HEB-anchored retail development project; (2) 71% of the retail space at Lantana Place, as well as a ground lease for an AC Hotel by Marriott; and (3) 87% of the retail space at Jones Crossing.

*

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Adjusted EBITDA is a non-GAAP measure. Please refer to [Annex A](#) to this proxy statement for reconciliation of this measure and other information regarding our calculation of Adjusted EBITDA.

Executive Compensation Highlights (page 24)

The following best practices are part of our executive compensation program:

Annual incentive bonus awards based on **performance**.

Long-term incentive awards are now **tied to success** of our development projects.

Application of a **clawback policy** to performance-based awards.

Anti-pledging policy applicable to our executive officers.

Double trigger cash payments and equity acceleration after a change of control.

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Retention of an **independent compensation consultant** from time to time in the compensation committee's sole discretion.

Stock ownership guidelines applicable to executive officers.

No excise tax gross-ups.

Corporate Governance Highlights (page 5)

We are committed to strong and effective governance practices that are responsive to our stockholders. Our commitment to good corporate governance is illustrated by the following practices:

Board independence (6 out of 7 directors are independent).

100% independent audit, compensation, and nominating and corporate governance committees.

A **lead independent director** with strong and clear responsibilities.

Robust **corporate governance guidelines** and **ethics and business conduct policy**.

Stock ownership guidelines for non-employee directors.

Annual performance evaluations of the board overseen by the nominating and corporate governance committee.

100% attendance at board and committee meetings by all directors.

Independent directors regularly meet in **executive sessions without management present**.

Allowed our **stockholder rights plan to expire** in accordance with its terms on March 9, 2017.

Gender diversity among our directors and executive officers (1 out of 7 directors is female and our CFO is female).

The **average age of our independent directors is 60.8 years**, more than two years younger than the average age of 63 for independent directors at S&P 500 companies.

Diversity of experience among directors, with three directors with tenure of three years or less, one director with tenure of less than 10 years, and three directors with tenure of 20 years or more.

Eliminated board meeting attendance fees for directors effective January 1, 2018.

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Corporate Governance

Corporate Governance Guidelines; Ethics and Business Conduct Policy

We are committed to strong and effective governance practices that are responsive to our stockholders. Our corporate governance guidelines, along with the charters of the standing committees of our board, provide the framework for the governance of the company and reflect the board's commitment to monitor the effectiveness of policy and decision making at both the board and management levels. Our corporate governance guidelines and our ethics and business conduct policy are available at www.stratusproperties.com under Investors' Corporate Governance and Ethics and Business Conduct, respectively. Both are available in print to any stockholder who requests a copy. Amendments to or waivers of our ethics and business conduct policy granted to any of our directors or executive officers will be published promptly on our website.

Board Composition and Leadership Structure

Our board has primary responsibility for directing the management of our business and affairs. As of the date of this proxy statement, our board of directors consists of seven members, six of whom have been determined by our board to be independent, as discussed below. Mr. Armstrong, the chairman of our board of directors, is not considered an independent director because he is a member of our management team and receives compensation for his services to the company. Each of the directors other than Mr. Armstrong is independent, and our board believes that the independent directors provide effective oversight of management.

Our board of directors believes that Mr. Armstrong's service as both chairman of our board and chief executive officer is in the best interest of the company and our stockholders. With over 25 years of leadership experience with the company, Mr. Armstrong possesses detailed and in-depth knowledge of the issues, opportunities and challenges facing the company and its businesses. His experience and relationships in the Austin area and other select Texas markets have been central to the company's ability to secure and maintain entitlements and successfully develop and sell its properties. He is thus best positioned to develop agendas that ensure that our board's time and attention are focused on the most critical challenges and opportunities facing the company. His combined role enables decisive leadership, ensures clear accountability, facilitates an efficient board process, and enhances our ability to communicate the company's message and strategy clearly and consistently to our stockholders, employees and customers.

Our board of directors recognizes the importance of having a strong independent board leadership structure to ensure accountability and to facilitate the effective performance of the board in its role of providing effective oversight of management. In 2013, our board established the position of lead independent director. Mr. Madden has served as lead independent director since 2013. He was recently appointed to serve a third three-year term as lead independent director, which expires April 1, 2022. The lead independent director serves as a liaison between Mr. Armstrong and the independent directors, works with Mr. Armstrong in setting the agendas for board meetings and, in Mr. Armstrong's absence, chairs regular sessions of the board. The lead independent director also sets the agenda and presides at all executive sessions of the independent directors. The lead independent director may be removed or replaced at any time with or without cause by a majority vote of our independent directors. In addition, our three standing committees are composed entirely of independent directors, and have the power and authority to engage legal, financial and other advisors as they may deem necessary, without consulting or obtaining the approval of the full board or management.

Board and Committee Meeting Attendance

Our board of directors held a total of four meetings during 2018 (four regular meetings). During 2018, each of our directors part