

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017



HIGHWOODS PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction
of incorporation or organization)

001-13100
(Commission
File Number)

56-1871668
(I.R.S. Employer
Identification Number)

HIGHWOODS REALTY LIMITED PARTNERSHIP

(Exact name of registrant as specified in its charter)

North Carolina
(State or other jurisdiction
of incorporation or organization)

000-21731
(Commission
File Number)

56-1869557
(I.R.S. Employer
Identification Number)

3100 Smoketree Court, Suite 600
Raleigh, NC 27604
(Address of principal executive offices) (Zip Code)
919-872-4924
(Registrants' telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Highwoods Properties, Inc. Yes No **Highwoods Realty Limited Partnership** Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Highwoods Properties, Inc. Yes No **Highwoods Realty Limited Partnership** Yes No

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

Highwoods Properties, Inc.

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company)
Smaller reporting company Emerging growth company

Highwoods Realty Limited Partnership

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company)
Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Highwoods Properties, Inc. **Highwoods Realty Limited Partnership**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Highwoods Properties, Inc. Yes No **Highwoods Realty Limited Partnership** Yes No

The Company had 103,236,237 shares of Common Stock outstanding as of July 18, 2017.

EXPLANATORY NOTE

We refer to Highwoods Properties, Inc. as the “Company,” Highwoods Realty Limited Partnership as the “Operating Partnership,” the Company’s common stock as “Common Stock” or “Common Shares,” the Company’s preferred stock as “Preferred Stock” or “Preferred Shares,” the Operating Partnership’s common partnership interests as “Common Units” and the Operating Partnership’s preferred partnership interests as “Preferred Units.” References to “we” and “our” mean the Company and the Operating Partnership, collectively, unless the context indicates otherwise.

The Company conducts its activities through the Operating Partnership and is its sole general partner. The partnership agreement provides that the Operating Partnership will assume and pay when due, or reimburse the Company for payment of, all costs and expenses relating to the ownership and operations of, or for the benefit of, the Operating Partnership. The partnership agreement further provides that all expenses of the Company are deemed to be incurred for the benefit of the Operating Partnership.

Certain information contained herein is presented as of July 18, 2017, the latest practicable date for financial information prior to the filing of this Quarterly Report.

This report combines the Quarterly Reports on Form 10-Q for the period ended June 30, 2017 of the Company and the Operating Partnership. We believe combining the quarterly reports into this single report results in the following benefits:

- combined reports better reflect how management and investors view the business as a single operating unit;
- combined reports enhance investors' understanding of the Company and the Operating Partnership by enabling them to view the business as a whole and in the same manner as management;
- combined reports are more efficient for the Company and the Operating Partnership and result in savings in time, effort and expense; and
- combined reports are more efficient for investors by reducing duplicative disclosure and providing a single document for their review.

To help investors understand the significant differences between the Company and the Operating Partnership, this report presents the following separate sections for each of the Company and the Operating Partnership:

- Consolidated Financial Statements;
 - Note 12 to Consolidated Financial Statements - Earnings Per Share and Per Unit;
 - Item 4 - Controls and Procedures; and
 - Item 6 - Certifications of CEO and CFO Pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act.
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**HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP**

QUARTERLY REPORT FOR THE PERIOD ENDED JUNE 30, 2017

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HIGHWOODS PROPERTIES, INC.

Consolidated Balance Sheets

(Unaudited and in thousands, except share and per share data)

| | June 30, 2017 | December 31, 2016 |
|--|---------------------|----------------------|
| Assets: | | |
| Real estate assets, at cost: | | |
| Land | \$ 470,185 | \$ 474,375 |
| Buildings and tenant improvements | 4,374,143 | 4,313,373 |
| Development in-process | 245,593 | 279,602 |
| Land held for development | 82,326 | 77,355 |
| | <u>5,172,247</u> | <u>5,144,705</u> |
| Less-accumulated depreciation | (1,163,778) | (1,134,103) |
| Net real estate assets | 4,008,469 | 4,010,602 |
| Real estate and other assets, net, held for sale | 54,543 | — |
| Cash and cash equivalents | 13,346 | 49,490 |
| Restricted cash | 20,612 | 29,141 |
| Accounts receivable, net of allowance of \$376 and \$624, respectively | 15,701 | 17,372 |
| Mortgages and notes receivable, net of allowance of \$88 and \$105, respectively | 6,750 | 8,833 |
| Accrued straight-line rents receivable, net of allowance of \$205 and \$692, respectively | 185,632 | 172,829 |
| Investments in and advances to unconsolidated affiliates | 15,243 | 18,846 |
| Deferred leasing costs, net of accumulated amortization of \$147,744 and \$140,081, respectively | 205,256 | 213,500 |
| Prepaid expenses and other assets, net of accumulated amortization of \$21,517 and \$19,904, respectively | 34,947 | 40,437 |
| Total Assets | <u>\$ 4,560,499</u> | <u>\$ 4,561,050</u> |
| Liabilities, Noncontrolling Interests in the Operating Partnership and Equity: | | |
| Mortgages and notes payable, net | \$ 2,005,038 | \$ 1,948,047 |
| Accounts payable, accrued expenses and other liabilities | 200,981 | 313,885 |
| Liabilities held for sale | 1,122 | — |
| Total Liabilities | <u>2,207,141</u> | <u>2,261,932</u> |
| Commitments and contingencies | | |
| Noncontrolling interests in the Operating Partnership | 143,646 | 144,802 |
| Equity: | | |
| Preferred Stock, \$.01 par value, 50,000,000 authorized shares; | | |
| 8.625% Series A Cumulative Redeemable Preferred Shares (liquidation preference \$1,000 per share), 28,905 and 28,920 shares issued and outstanding, respectively | 28,905 | 28,920 |
| Common Stock, \$.01 par value, 200,000,000 authorized shares; | | |
| 103,236,237 and 101,665,554 shares issued and outstanding, respectively | 1,032 | 1,017 |
| Additional paid-in capital | 2,926,128 | 2,850,881 |
| Distributions in excess of net income available for common stockholders | (770,101) | (749,412) |
| Accumulated other comprehensive income | 6,046 | 4,949 |
| Total Stockholders' Equity | <u>2,192,010</u> | <u>2,136,355</u> |
| Noncontrolling interests in consolidated affiliates | 17,702 | 17,961 |
| Total Equity | <u>2,209,712</u> | <u>2,154,316</u> |
| Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity | <u>\$ 4,560,499</u> | <u>\$ 4,561,050</u> |

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.
Consolidated Statements of Income
(Unaudited and in thousands, except per share amounts)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------|------------------------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| Rental and other revenues | \$ 177,283 | \$ 166,860 | \$ 346,691 | \$ 331,719 |
| Operating expenses: | | | | |
| Rental property and other expenses | 58,854 | 57,515 | 116,250 | 115,095 |
| Depreciation and amortization | 55,816 | 55,317 | 111,961 | 108,811 |
| General and administrative | 9,050 | 8,327 | 20,540 | 19,464 |
| Total operating expenses | 123,720 | 121,159 | 248,751 | 243,370 |
| Interest expense: | | | | |
| Contractual | 15,345 | 18,674 | 32,368 | 38,389 |
| Amortization of debt issuance costs | 809 | 811 | 1,649 | 1,801 |
| | 16,154 | 19,485 | 34,017 | 40,190 |
| Other income: | | | | |
| Interest and other income | 564 | 534 | 1,248 | 1,051 |
| Gains on debt extinguishment | 826 | — | 826 | — |
| | 1,390 | 534 | 2,074 | 1,051 |
| Income from continuing operations before disposition of investment properties and activity in unconsolidated affiliates | 38,799 | 26,750 | 65,997 | 49,210 |
| Gains on disposition of property | — | 5,861 | 5,332 | 10,258 |
| Equity in earnings of unconsolidated affiliates | 755 | 917 | 1,710 | 2,202 |
| Income from continuing operations | 39,554 | 33,528 | 73,039 | 61,670 |
| Discontinued operations: | | | | |
| Income from discontinued operations | — | — | — | 4,097 |
| Net gains on disposition of discontinued operations | — | — | — | 414,496 |
| | — | — | — | 418,593 |
| Net income | 39,554 | 33,528 | 73,039 | 480,263 |
| Net (income) attributable to noncontrolling interests in the Operating Partnership | (1,043) | (939) | (1,931) | (13,950) |
| Net (income) attributable to noncontrolling interests in consolidated affiliates | (299) | (314) | (599) | (622) |
| Dividends on Preferred Stock | (623) | (627) | (1,246) | (1,253) |
| Net income available for common stockholders | \$ 37,589 | \$ 31,648 | \$ 69,263 | \$ 464,438 |
| Earnings per Common Share – basic: | | | | |
| Income from continuing operations available for common stockholders | \$ 0.37 | \$ 0.32 | \$ 0.68 | \$ 0.60 |
| Income from discontinued operations available for common stockholders | — | — | — | 4.19 |
| Net income available for common stockholders | \$ 0.37 | \$ 0.32 | \$ 0.68 | \$ 4.79 |
| Weighted average Common Shares outstanding – basic | 102,475 | 97,648 | 102,109 | 97,010 |
| Earnings per Common Share – diluted: | | | | |
| Income from continuing operations available for common stockholders | \$ 0.37 | \$ 0.32 | \$ 0.68 | \$ 0.60 |
| Income from discontinued operations available for common stockholders | — | — | — | 4.18 |
| Net income available for common stockholders | \$ 0.37 | \$ 0.32 | \$ 0.68 | \$ 4.78 |
| Weighted average Common Shares outstanding – diluted | 105,386 | 100,628 | 105,026 | 99,992 |
| Dividends declared per Common Share | \$ 0.440 | \$ 0.425 | \$ 0.880 | \$ 0.850 |
| Net income available for common stockholders: | | | | |
| Income from continuing operations available for common stockholders | \$ 37,589 | \$ 31,648 | \$ 69,263 | \$ 58,110 |
| Income from discontinued operations available for common stockholders | — | — | — | 406,328 |
| Net income available for common stockholders | \$ 37,589 | \$ 31,648 | \$ 69,263 | \$ 464,438 |

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.
Consolidated Statements of Comprehensive Income
(Unaudited and in thousands)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--|------------------|--------------------------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Comprehensive income: | | | | |
| Net income | \$ 39,554 | \$ 33,528 | \$ 73,039 | \$ 480,263 |
| Other comprehensive income/(loss): | | | | |
| Unrealized gains/(losses) on cash flow hedges | (136) | (5,760) | 316 | (9,395) |
| Amortization of cash flow hedges | 297 | 783 | 781 | 1,578 |
| Total other comprehensive income/(loss) | 161 | (4,977) | 1,097 | (7,817) |
| Total comprehensive income | 39,715 | 28,551 | 74,136 | 472,446 |
| Less-comprehensive (income) attributable to noncontrolling interests | (1,342) | (1,253) | (2,530) | (14,572) |
| Comprehensive income attributable to common stockholders | <u>\$ 38,373</u> | <u>\$ 27,298</u> | <u>\$ 71,606</u> | <u>\$ 457,874</u> |

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.
Consolidated Statements of Cash Flows
(Unaudited and in thousands)

| | Six Months Ended June 30, | |
|--|------------------------------|------------|
| | 2017 | 2016 |
| Operating activities: | | |
| Net income | \$ 73,039 | \$ 480,263 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 111,961 | 108,811 |
| Amortization of lease incentives and acquisition-related intangible assets and liabilities | (345) | (1,179) |
| Share-based compensation expense | 4,837 | 4,550 |
| Allowance for losses on accounts and accrued straight-line rents receivable | 110 | 1,218 |
| Accrued interest on mortgages and notes receivable | (274) | (212) |
| Amortization of debt issuance costs | 1,649 | 1,801 |
| Amortization of cash flow hedges | 781 | 1,578 |
| Amortization of mortgages and notes payable fair value adjustments | 139 | (116) |
| Gains on debt extinguishment | (826) | — |
| Net gains on disposition of property | (5,332) | (424,754) |
| Equity in earnings of unconsolidated affiliates | (1,710) | (2,202) |
| Distributions of earnings from unconsolidated affiliates | 2,907 | 1,095 |
| Settlement of cash flow hedges | 7,322 | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 4,358 | (181) |
| Prepaid expenses and other assets | (1,455) | (5,297) |
| Accrued straight-line rents receivable | (15,228) | (13,600) |
| Accounts payable, accrued expenses and other liabilities | (9,818) | (13,970) |
| Net cash provided by operating activities | 172,115 | 137,805 |
| Investing activities: | | |
| Investments in acquired real estate and related intangible assets, net of cash acquired | — | (9,058) |
| Investments in development in-process | (97,096) | (74,668) |
| Investments in tenant improvements and deferred leasing costs | (54,119) | (42,954) |
| Investments in building improvements | (31,070) | (31,677) |
| Net proceeds from disposition of real estate assets | 11,532 | 675,003 |
| Distributions of capital from unconsolidated affiliates | 7,445 | 2,118 |
| Investments in mortgages and notes receivable | — | (7,818) |
| Repayments of mortgages and notes receivable | 2,357 | 155 |
| Investments in and advances to unconsolidated affiliates | (172) | (105) |
| Changes in restricted cash and other investing activities | 4,496 | (257,181) |
| Net cash provided by/(used in) investing activities | (156,627) | 253,815 |
| Financing activities: | | |
| Dividends on Common Stock | (89,952) | (82,272) |
| Special dividend on Common Stock | (81,205) | — |
| Redemptions/repurchases of Preferred Stock | (15) | (115) |
| Dividends on Preferred Stock | (1,246) | (1,253) |
| Distributions to noncontrolling interests in the Operating Partnership | (2,495) | (2,463) |
| Special distribution to noncontrolling interests in the Operating Partnership | (2,271) | — |
| Distributions to noncontrolling interests in consolidated affiliates | (858) | (900) |
| Proceeds from the issuance of Common Stock | 74,987 | 110,158 |
| Costs paid for the issuance of Common Stock | (1,199) | (1,629) |
| Repurchase of shares related to tax withholdings | (3,955) | (4,057) |
| Borrowings on revolving credit facility | 425,300 | 153,800 |
| Repayments of revolving credit facility | (314,300) | (169,800) |
| Borrowings on mortgages and notes payable | 456,001 | — |

| | | |
|---|--------------------|-------------------|
| Repayments of mortgages and notes payable | (506,679) | (394,738) |
| Payments of debt extinguishment costs | (57) | — |
| Changes in debt issuance costs and other financing activities | (3,688) | (943) |
| Net cash used in financing activities | (51,632) | (394,212) |
| Net decrease in cash and cash equivalents | <u>\$ (36,144)</u> | <u>\$ (2,592)</u> |

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.
Consolidated Statements of Cash Flows – Continued
(Unaudited and in thousands)

| | Six Months Ended June 30, | |
|--|--------------------------------------|-----------------|
| | 2017 | 2016 |
| Net decrease in cash and cash equivalents | \$ (36,144) | \$ (2,592) |
| Cash and cash equivalents at beginning of the period | 49,490 | 5,036 |
| Cash and cash equivalents at end of the period | <u>\$ 13,346</u> | <u>\$ 2,444</u> |

Supplemental disclosure of cash flow information:

| | Six Months Ended June 30, | |
|--|--------------------------------------|------------------|
| | 2017 | 2016 |
| Cash paid for interest, net of amounts capitalized | <u>\$ 34,930</u> | <u>\$ 38,222</u> |

Supplemental disclosure of non-cash investing and financing activities:

| | Six Months Ended June 30, | |
|---|--------------------------------------|-------------|
| | 2017 | 2016 |
| Unrealized gains/(losses) on cash flow hedges | \$ 316 | \$ (9,395) |
| Conversions of Common Units to Common Stock | 305 | 1,558 |
| Changes in accrued capital expenditures | (21,961) | 9,227 |
| Write-off of fully depreciated real estate assets | 28,449 | 21,948 |
| Write-off of fully amortized leasing costs | 15,023 | 11,690 |
| Write-off of fully amortized debt issuance costs | 4,324 | — |
| Adjustment of noncontrolling interests in the Operating Partnership to fair value | (287) | 15,042 |

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP
Consolidated Balance Sheets

(Unaudited and in thousands, except unit and per unit data)

| | June 30, 2017 | December 31, 2016 |
|--|---------------------|----------------------|
| Assets: | | |
| Real estate assets, at cost: | | |
| Land | \$ 470,185 | \$ 474,375 |
| Buildings and tenant improvements | 4,374,143 | 4,313,373 |
| Development in-process | 245,593 | 279,602 |
| Land held for development | 82,326 | 77,355 |
| | <u>5,172,247</u> | <u>5,144,705</u> |
| Less-accumulated depreciation | (1,163,778) | (1,134,103) |
| Net real estate assets | 4,008,469 | 4,010,602 |
| Real estate and other assets, net, held for sale | 54,543 | — |
| Cash and cash equivalents | 13,346 | 49,490 |
| Restricted cash | 20,612 | 29,141 |
| Accounts receivable, net of allowance of \$376 and \$624, respectively | 15,701 | 17,372 |
| Mortgages and notes receivable, net of allowance of \$88 and \$105, respectively | 6,750 | 8,833 |
| Accrued straight-line rents receivable, net of allowance of \$205 and \$692, respectively | 185,632 | 172,829 |
| Investments in and advances to unconsolidated affiliates | 15,243 | 18,846 |
| Deferred leasing costs, net of accumulated amortization of \$147,744 and \$140,081, respectively | 205,256 | 213,500 |
| Prepaid expenses and other assets, net of accumulated amortization of \$21,517 and \$19,904, respectively | 34,947 | 40,437 |
| Total Assets | <u>\$ 4,560,499</u> | <u>\$ 4,561,050</u> |
| Liabilities, Redeemable Operating Partnership Units and Capital: | | |
| Mortgages and notes payable, net | \$ 2,005,038 | \$ 1,948,047 |
| Accounts payable, accrued expenses and other liabilities | 200,981 | 313,885 |
| Liabilities held for sale | 1,122 | — |
| Total Liabilities | <u>2,207,141</u> | <u>2,261,932</u> |
| Commitments and contingencies | | |
| Redeemable Operating Partnership Units: | | |
| Common Units, 2,832,704 and 2,838,704 outstanding, respectively | 143,646 | 144,802 |
| Series A Preferred Units (liquidation preference \$1,000 per unit), 28,905 and 28,920 units issued and outstanding, respectively | 28,905 | 28,920 |
| Total Redeemable Operating Partnership Units | <u>172,551</u> | <u>173,722</u> |
| Capital: | | |
| Common Units: | | |
| General partner Common Units, 1,056,601 and 1,040,954 outstanding, respectively | 21,568 | 21,023 |
| Limited partner Common Units, 101,770,827 and 100,215,791 outstanding, respectively | 2,135,491 | 2,081,463 |
| Accumulated other comprehensive income | 6,046 | 4,949 |
| Noncontrolling interests in consolidated affiliates | 17,702 | 17,961 |
| Total Capital | <u>2,180,807</u> | <u>2,125,396</u> |
| Total Liabilities, Redeemable Operating Partnership Units and Capital | <u>\$ 4,560,499</u> | <u>\$ 4,561,050</u> |

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP
Consolidated Statements of Income
(Unaudited and in thousands, except per unit amounts)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------|------------------------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| Rental and other revenues | \$ 177,283 | \$ 166,860 | \$ 346,691 | \$ 331,719 |
| Operating expenses: | | | | |
| Rental property and other expenses | 58,854 | 57,515 | 116,250 | 115,095 |
| Depreciation and amortization | 55,816 | 55,317 | 111,961 | 108,811 |
| General and administrative | 9,050 | 8,327 | 20,540 | 19,464 |
| Total operating expenses | 123,720 | 121,159 | 248,751 | 243,370 |
| Interest expense: | | | | |
| Contractual | 15,345 | 18,674 | 32,368 | 38,389 |
| Amortization of debt issuance costs | 809 | 811 | 1,649 | 1,801 |
| | 16,154 | 19,485 | 34,017 | 40,190 |
| Other income: | | | | |
| Interest and other income | 564 | 534 | 1,248 | 1,051 |
| Gains on debt extinguishment | 826 | — | 826 | — |
| | 1,390 | 534 | 2,074 | 1,051 |
| Income from continuing operations before disposition of investment properties and activity in unconsolidated affiliates | 38,799 | 26,750 | 65,997 | 49,210 |
| Gains on disposition of property | — | 5,861 | 5,332 | 10,258 |
| Equity in earnings of unconsolidated affiliates | 755 | 917 | 1,710 | 2,202 |
| Income from continuing operations | 39,554 | 33,528 | 73,039 | 61,670 |
| Discontinued operations: | | | | |
| Income from discontinued operations | — | — | — | 4,097 |
| Net gains on disposition of discontinued operations | — | — | — | 414,496 |
| | — | — | — | 418,593 |
| Net income | 39,554 | 33,528 | 73,039 | 480,263 |
| Net (income) attributable to noncontrolling interests in consolidated affiliates | (299) | (314) | (599) | (622) |
| Distributions on Preferred Units | (623) | (627) | (1,246) | (1,253) |
| Net income available for common unitholders | \$ 38,632 | \$ 32,587 | \$ 71,194 | \$ 478,388 |
| Earnings per Common Unit – basic: | | | | |
| Income from continuing operations available for common unitholders | \$ 0.37 | \$ 0.33 | \$ 0.68 | \$ 0.60 |
| Income from discontinued operations available for common unitholders | — | — | — | 4.21 |
| Net income available for common unitholders | \$ 0.37 | \$ 0.33 | \$ 0.68 | \$ 4.81 |
| Weighted average Common Units outstanding – basic | 104,900 | 100,129 | 104,536 | 99,496 |
| Earnings per Common Unit – diluted: | | | | |
| Income from continuing operations available for common unitholders | \$ 0.37 | \$ 0.33 | \$ 0.68 | \$ 0.60 |
| Income from discontinued operations available for common unitholders | — | — | — | 4.20 |
| Net income available for common unitholders | \$ 0.37 | \$ 0.33 | \$ 0.68 | \$ 4.80 |
| Weighted average Common Units outstanding – diluted | 104,977 | 100,219 | 104,617 | 99,583 |
| Distributions declared per Common Unit | \$ 0.440 | \$ 0.425 | \$ 0.880 | \$ 0.850 |
| Net income available for common unitholders: | | | | |
| Income from continuing operations available for common unitholders | \$ 38,632 | \$ 32,587 | \$ 71,194 | \$ 59,795 |
| Income from discontinued operations available for common unitholders | — | — | — | 418,593 |
| Net income available for common unitholders | \$ 38,632 | \$ 32,587 | \$ 71,194 | \$ 478,388 |

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP
Consolidated Statements of Comprehensive Income
(Unaudited and in thousands)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------------|------------------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Comprehensive income: | | | | |
| Net income | \$ 39,554 | \$ 33,528 | \$ 73,039 | \$ 480,263 |
| Other comprehensive income/(loss): | | | | |
| Unrealized gains/(losses) on cash flow hedges | (136) | (5,760) | 316 | (9,395) |
| Amortization of cash flow hedges | 297 | 783 | 781 | 1,578 |
| Total other comprehensive income/(loss) | 161 | (4,977) | 1,097 | (7,817) |
| Total comprehensive income | 39,715 | 28,551 | 74,136 | 472,446 |
| Less-comprehensive (income) attributable to noncontrolling interests | (299) | (314) | (599) | (622) |
| Comprehensive income attributable to common unitholders | <u>\$ 39,416</u> | <u>\$ 28,237</u> | <u>\$ 73,537</u> | <u>\$ 471,824</u> |

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP
Consolidated Statements of Capital
(Unaudited and in thousands)

| | Common Units | | Accumulated Other Comprehensive Income | Noncontrolling Interests in Consolidated Affiliates | Total |
|---|---------------------------------|---------------------------------|--|--|---------------------|
| | General Partners' Capital | Limited Partners' Capital | | | |
| Balance at December 31, 2016 | \$ 21,023 | \$ 2,081,463 | \$ 4,949 | \$ 17,961 | \$ 2,125,396 |
| Issuances of Common Units, net of issuance costs and tax withholdings | 698 | 69,135 | — | — | 69,833 |
| Distributions on Common Units | (920) | (91,167) | — | — | (92,087) |
| Distributions on Preferred Units | (12) | (1,234) | — | — | (1,246) |
| Share-based compensation expense, net of forfeitures | 48 | 4,789 | — | — | 4,837 |
| Distributions to noncontrolling interests in consolidated affiliates | — | — | — | (858) | (858) |
| Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner | 7 | 789 | — | — | 796 |
| Net (income) attributable to noncontrolling interests in consolidated affiliates | (6) | (593) | — | 599 | — |
| Comprehensive income: | | | | | |
| Net income | 730 | 72,309 | — | — | 73,039 |
| Other comprehensive income | — | — | 1,097 | — | 1,097 |
| Total comprehensive income | | | | | 74,136 |
| Balance at June 30, 2017 | <u>\$ 21,568</u> | <u>\$ 2,135,491</u> | <u>\$ 6,046</u> | <u>\$ 17,702</u> | <u>\$ 2,180,807</u> |

| | Common Units | | Accumulated Other Comprehensive Loss | Noncontrolling Interests in Consolidated Affiliates | Total |
|---|---------------------------------|---------------------------------|--|--|---------------------|
| | General Partners' Capital | Limited Partners' Capital | | | |
| Balance at December 31, 2015 | \$ 15,759 | \$ 1,560,309 | \$ (3,811) | \$ 17,975 | \$ 1,590,232 |
| Issuances of Common Units, net of issuance costs and tax withholdings | 1,045 | 103,427 | — | — | 104,472 |
| Distributions on Common Units | (844) | (83,543) | — | — | (84,387) |
| Distributions on Preferred Units | (13) | (1,240) | — | — | (1,253) |
| Share-based compensation expense, net of forfeitures | 46 | 4,504 | — | — | 4,550 |
| Distributions to noncontrolling interests in consolidated affiliates | — | — | — | (900) | (900) |
| Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner | (253) | (25,066) | — | — | (25,319) |
| Net (income) attributable to noncontrolling interests in consolidated affiliates | (6) | (616) | — | 622 | — |
| Comprehensive income: | | | | | |
| Net income | 4,803 | 475,460 | — | — | 480,263 |
| Other comprehensive loss | — | — | (7,817) | — | (7,817) |
| Total comprehensive income | | | | | 472,446 |
| Balance at June 30, 2016 | <u>\$ 20,537</u> | <u>\$ 2,033,235</u> | <u>\$ (11,628)</u> | <u>\$ 17,697</u> | <u>\$ 2,059,841</u> |

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP
Consolidated Statements of Cash Flows
(Unaudited and in thousands)

| | Six Months Ended June 30, | |
|--|------------------------------|------------|
| | 2017 | 2016 |
| Operating activities: | | |
| Net income | \$ 73,039 | \$ 480,263 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 111,961 | 108,811 |
| Amortization of lease incentives and acquisition-related intangible assets and liabilities | (345) | (1,179) |
| Share-based compensation expense | 4,837 | 4,550 |
| Allowance for losses on accounts and accrued straight-line rents receivable | 110 | 1,218 |
| Accrued interest on mortgages and notes receivable | (274) | (212) |
| Amortization of debt issuance costs | 1,649 | 1,801 |
| Amortization of cash flow hedges | 781 | 1,578 |
| Amortization of mortgages and notes payable fair value adjustments | 139 | (116) |
| Gains on debt extinguishment | (826) | — |
| Net gains on disposition of property | (5,332) | (424,754) |
| Equity in earnings of unconsolidated affiliates | (1,710) | (2,202) |
| Distributions of earnings from unconsolidated affiliates | 2,907 | 1,095 |
| Settlement of cash flow hedges | 7,322 | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 4,358 | (181) |
| Prepaid expenses and other assets | (1,455) | (5,297) |
| Accrued straight-line rents receivable | (15,228) | (13,600) |
| Accounts payable, accrued expenses and other liabilities | (9,818) | (13,970) |
| Net cash provided by operating activities | 172,115 | 137,805 |
| Investing activities: | | |
| Investments in acquired real estate and related intangible assets, net of cash acquired | — | (9,058) |
| Investments in development in-process | (97,096) | (74,668) |
| Investments in tenant improvements and deferred leasing costs | (54,119) | (42,954) |
| Investments in building improvements | (31,070) | (31,677) |
| Net proceeds from disposition of real estate assets | 11,532 | 675,003 |
| Distributions of capital from unconsolidated affiliates | 7,445 | 2,118 |
| Investments in mortgages and notes receivable | — | (7,818) |
| Repayments of mortgages and notes receivable | 2,357 | 155 |
| Investments in and advances to unconsolidated affiliates | (172) | (105) |
| Changes in restricted cash and other investing activities | 4,496 | (257,181) |
| Net cash provided by/(used in) investing activities | (156,627) | 253,815 |
| Financing activities: | | |
| Distributions on Common Units | (92,087) | (84,387) |
| Special distribution on Common Units | (83,149) | — |
| Redemptions/repurchases of Preferred Units | (15) | (115) |
| Distributions on Preferred Units | (1,246) | (1,253) |
| Distributions to noncontrolling interests in consolidated affiliates | (858) | (900) |
| Proceeds from the issuance of Common Units | 74,987 | 110,158 |
| Costs paid for the issuance of Common Units | (1,199) | (1,629) |
| Repurchase of units related to tax withholdings | (3,955) | (4,057) |
| Borrowings on revolving credit facility | 425,300 | 153,800 |
| Repayments of revolving credit facility | (314,300) | (169,800) |
| Borrowings on mortgages and notes payable | 456,001 | — |
| Repayments of mortgages and notes payable | (506,679) | (394,738) |
| Payments of debt extinguishment costs | (57) | — |

| | | |
|---|--------------------|-------------------|
| Changes in debt issuance costs and other financing activities | <u>(4,375)</u> | <u>(1,291)</u> |
| Net cash used in financing activities | <u>(51,632)</u> | <u>(394,212)</u> |
| Net decrease in cash and cash equivalents | <u>\$ (36,144)</u> | <u>\$ (2,592)</u> |

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP
Consolidated Statements of Cash Flows - Continued
(Unaudited and in thousands)

| | Six Months Ended June 30, | |
|--|--------------------------------------|-----------------|
| | 2017 | 2016 |
| Net decrease in cash and cash equivalents | \$ (36,144) | \$ (2,592) |
| Cash and cash equivalents at beginning of the period | 49,490 | 5,036 |
| Cash and cash equivalents at end of the period | <u>\$ 13,346</u> | <u>\$ 2,444</u> |

Supplemental disclosure of cash flow information:

| | Six Months Ended June 30, | |
|--|--------------------------------------|------------------|
| | 2017 | 2016 |
| Cash paid for interest, net of amounts capitalized | <u>\$ 34,930</u> | <u>\$ 38,222</u> |

Supplemental disclosure of non-cash investing and financing activities:

| | Six Months Ended June 30, | |
|---|--------------------------------------|-------------|
| | 2017 | 2016 |
| Unrealized gains/(losses) on cash flow hedges | \$ 316 | \$ (9,395) |
| Changes in accrued capital expenditures | (21,961) | 9,227 |
| Write-off of fully depreciated real estate assets | 28,449 | 21,948 |
| Write-off of fully amortized leasing costs | 15,023 | 11,690 |
| Write-off of fully amortized debt issuance costs | 4,324 | — |
| Adjustment of Redeemable Common Units to fair value | (1,156) | 24,971 |

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(tabular dollar amounts in thousands, except per share and per unit data)
(Unaudited)

1. Description of Business and Significant Accounting Policies

Description of Business

Highwoods Properties, Inc. (the “Company”) is a fully integrated real estate investment trust (“REIT”) that provides leasing, management, development, construction and other customer-related services for its properties and for third parties. The Company conducts its activities through Highwoods Realty Limited Partnership (the “Operating Partnership”). At June 30, 2017, we owned or had an interest in 32.0 million rentable square feet of in-service properties, 1.2 million rentable square feet of properties under development and approximately 400 acres of development land.

The Company is the sole general partner of the Operating Partnership. At June 30, 2017, the Company owned all of the Preferred Units and 102.8 million, or 97.3%, of the Common Units in the Operating Partnership. Limited partners owned the remaining 2.8 million Common Units. During the six months ended June 30, 2017, the Company redeemed 6,000 Common Units for a like number of shares of Common Stock.

Common Stock Offerings

During the first quarter of 2017, we entered into separate equity distribution agreements in which the Company may offer and sell up to \$300.0 million in aggregate gross sales price of shares of Common Stock. During the three and six months ended June 30, 2017, the Company issued 1,177,734 and 1,363,919 shares, respectively, of Common Stock under its equity distribution agreements at an average gross sales price of \$51.03 and \$50.85 per share, respectively, and received net proceeds, after sales commissions, of \$59.2 million and \$68.3 million, respectively.

Basis of Presentation

Our Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

The Company's Consolidated Financial Statements include the Operating Partnership, wholly owned subsidiaries and those entities in which the Company has the controlling interest. The Operating Partnership's Consolidated Financial Statements include wholly owned subsidiaries and those entities in which the Operating Partnership has the controlling interest. All intercompany transactions and accounts have been eliminated.

The unaudited interim consolidated financial statements and accompanying unaudited consolidated financial information, in the opinion of management, contain all adjustments (including normal recurring accruals) necessary for a fair presentation of our financial position, results of operations and cash flows. We have condensed or omitted certain notes and other information from the interim Consolidated Financial Statements presented in this Quarterly Report as permitted by SEC rules and regulations. These Consolidated Financial Statements should be read in conjunction with our 2016 Annual Report on Form 10-K.

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported in our Consolidated Financial Statements and accompanying notes. Actual results could differ from those estimates.

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per share and per unit data)

1. Description of Business and Significant Accounting Policies – Continued

Recently Issued Accounting Standards

The Financial Accounting Standards Board ("FASB") issued an accounting standards update ("ASU") that requires the use of a new five-step model to recognize revenue from customer contracts. The five-step model requires that we identify the contract with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when we satisfy the performance obligations. We will also be required to disclose information regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Upon adoption of the ASU in 2018, we expect to utilize the modified retrospective approach. Our initial analysis of our non-lease related revenue contracts indicates that the adoption of this ASU will impact the financial statement disclosure of these contracts with no material impact on the timing of revenue recognition; however, we are still in the process of evaluating this ASU. We expect additional impact of this ASU upon adoption of the ASU related to accounting for leases discussed below for certain lease revenue streams that will be required to be evaluated as non-lease components using the five-step revenue recognition model.

The FASB issued an ASU that adds to and clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. The ASU is required to be adopted in 2018 with retrospective application required. We do not expect such adoption to have a material effect on our Consolidated Statements of Cash Flows.

The FASB issued an ASU that clarifies and narrows the definition of a business used in determining whether to account for a transaction as an asset acquisition or business combination. The guidance requires evaluation of the fair value of the assets acquired to determine if it is concentrated in a single identifiable asset or a group of similar identifiable assets. If so, the transferred assets would not be a business. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs. The ASU is required to be adopted in 2018 and applied prospectively. Upon adoption of this ASU, we expect that the majority of our future acquisitions would not meet the definition of a business; therefore, the related acquisition costs would be capitalized as part of the purchase price.

The FASB issued an ASU that clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The guidance requires modification accounting if the value, vesting conditions or classification of the award changes. The ASU is required to be adopted in 2018 and applied prospectively. We do not expect such adoption to have a material effect on our Consolidated Financial Statements.

The FASB issued an ASU which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The ASU requires lessors to account for leases using an approach that is substantially equivalent to the existing guidance and is effective for reporting periods beginning in 2019 with early adoption permitted. Our initial analysis of our leases indicates that upon adoption of the ASU, certain lease revenue streams that are currently accounted for using the lease accounting standard will be accounted for as non-lease components using the five-step revenue recognition model discussed above. We are in the process of evaluating this ASU.

The FASB issued an ASU that requires, among other things, the use of a new current expected credit loss ("CECL") model in determining our allowances for doubtful accounts with respect to accounts receivable, accrued straight-line rents receivable and mortgages and notes receivable. The CECL model requires that we estimate our lifetime expected credit loss with respect to these receivables and record allowances that, when deducted from the balance of the receivables, represent the net amounts expected to be collected. We will also be required to disclose information about how we developed the allowances, including changes in the factors (e.g., portfolio mix, credit trends, unemployment, gross domestic product, etc.) that influenced our estimate of expected credit losses and the reasons for those changes. We will apply the ASU's provisions as a cumulative-effect adjustment to retained earnings upon adoption in 2020. We are in the process of evaluating this ASU.

2. Real Estate Assets

During the first quarter of 2017, we sold a building for a sale price of \$13.0 million (before closing credits to buyer of \$1.2 million) and recorded a gain on disposition of property of \$5.3 million .

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per share and per unit data)

3. Mortgages and Notes Receivable

Mortgages and notes receivable were \$6.8 million and \$8.8 million at June 30, 2017 and December 31, 2016, respectively. We evaluate the ability to collect our mortgages and notes receivable by monitoring the leasing statistics and/or market fundamentals of these assets. As of June 30, 2017, our mortgages and notes receivable were not in default and there were no other indicators of impairment.

4. Intangible Assets and Below Market Lease Liabilities

The following table sets forth total intangible assets and acquisition-related below market lease liabilities, net of accumulated amortization:

| | <u>June 30, 2017</u> | <u>December 31, 2016</u> |
|---|--------------------------|------------------------------|
| Assets: | | |
| Deferred leasing costs (including lease incentives and above market lease and in-place lease acquisition-related intangible assets) | \$ 353,000 | \$ 353,581 |
| Less accumulated amortization | (147,744) | (140,081) |
| | <u>\$ 205,256</u> | <u>\$ 213,500</u> |
| Liabilities (in accounts payable, accrued expenses and other liabilities): | | |
| Acquisition-related below market lease liabilities | \$ 60,809 | \$ 61,221 |
| Less accumulated amortization | (25,834) | (23,074) |
| | <u>\$ 34,975</u> | <u>\$ 38,147</u> |

The following table sets forth amortization of intangible assets and below market lease liabilities:

| | <u>Three Months Ended June 30,</u> | | <u>Six Months Ended June 30,</u> | |
|---|--|-------------|--------------------------------------|-------------|
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| Amortization of deferred leasing costs and acquisition-related intangible assets (in depreciation and amortization) | \$ 10,133 | \$ 11,731 | \$ 20,752 | \$ 23,066 |
| Amortization of lease incentives (in rental and other revenues) | \$ 443 | \$ 390 | \$ 840 | \$ 1,101 |
| Amortization of acquisition-related intangible assets (in rental and other revenues) | \$ 675 | \$ 972 | \$ 1,711 | \$ 2,003 |
| Amortization of acquisition-related intangible assets (in rental property and other expenses) | \$ 139 | \$ 139 | \$ 276 | \$ 277 |
| Amortization of acquisition-related below market lease liabilities (in rental and other revenues) | \$ (1,592) | \$ (2,788) | \$ (3,172) | \$ (4,560) |

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per share and per unit data)

4. Intangible Assets and Below Market Lease Liabilities - Continued

The following table sets forth scheduled future amortization of intangible assets and below market lease liabilities:

| | Amortization of Deferred Leasing Costs and Acquisition- Related Intangible Assets (in Depreciation and Amortization) | Amortization of Lease Incentives (in Rental and Other Revenues) | Amortization of Acquisition-Related Intangible Assets (in Rental and Other Revenues) | Amortization of Acquisition-Related Intangible Assets (in Rental Property and Other Expenses) | Amortization of Acquisition- Related Below Market Lease Liabilities (in Rental and Other Revenues) |
|--|---|--|--|--|--|
| July 1 through December 31, 2017 | \$ 21,126 | \$ 810 | \$ 1,140 | \$ 274 | \$ (3,073) |
| 2018 | 36,533 | 1,510 | 1,680 | 553 | (5,962) |
| 2019 | 30,942 | 1,286 | 1,286 | 553 | (5,492) |
| 2020 | 26,160 | 1,011 | 967 | 525 | (5,180) |
| 2021 | 21,887 | 797 | 647 | — | (4,409) |
| Thereafter | 50,280 | 3,404 | 1,885 | — | (10,859) |
| | <u>\$ 186,928</u> | <u>\$ 8,818</u> | <u>\$ 7,605</u> | <u>\$ 1,905</u> | <u>\$ (34,975)</u> |
| Weighted average remaining amortization periods as of June 30, 2017 (in years) | <u>6.7</u> | <u>8.7</u> | <u>6.4</u> | <u>3.5</u> | <u>7.0</u> |

5. Mortgages and Notes Payable

The following table sets forth our mortgages and notes payable:

| | June 30, 2017 | December 31, 2016 |
|---|---------------------|----------------------|
| Secured indebtedness | \$ 99,856 | \$ 128,204 |
| Unsecured indebtedness | 1,913,966 | 1,826,145 |
| Less-unamortized debt issuance costs | (8,784) | (6,302) |
| Total mortgages and notes payable, net | <u>\$ 2,005,038</u> | <u>\$ 1,948,047</u> |

At June 30, 2017, our secured mortgage loans were collateralized by real estate assets with an aggregate undepreciated book value of \$ 147.8 million.

Our \$ 475.0 million unsecured revolving credit facility is scheduled to mature in January 2018 and includes an accordion feature that allows for an additional \$ 75.0 million of borrowing capacity subject to additional lender commitments. Assuming no defaults have occurred, we have an option to extend the maturity for two additional six-month periods. The interest rate at our current credit ratings is LIBOR plus 110 basis points and the annual facility fee is 20 basis points. There was \$ 111.0 million and \$ 97.0 million outstanding under our revolving credit facility at June 30, 2017 and July 18, 2017, respectively. At both June 30, 2017 and July 18, 2017, we had \$ 0.6 million of outstanding letters of credit, which reduces the availability on our revolving credit facility. As a result, the unused capacity of our revolving credit facility at June 30, 2017 and July 18, 2017 was \$ 363.4 million and \$ 377.4 million, respectively.

During the second quarter of 2017, we prepaid without penalty a secured mortgage loan with a fair market value of \$108.2 million with an effective interest rate of 4.22% that was originally scheduled to mature in November 2017. We recorded \$0.4 million of gain on debt extinguishment related to this prepayment.

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per share and per unit data)

5. Mortgages and Notes Payable - Continued

During 2015, we acquired our joint venture partner's 77.2% interest in a building in Orlando. Simultaneously with this acquisition, the joint venture's previously existing mortgage note was restructured into a new \$18.0 million first mortgage note and a \$10.2 million subordinated note, both of which were scheduled to mature in July 2017. The first mortgage and subordinated notes had effective interest rates of 5.36% and 8.6% , respectively. The subordinated note and accrued interest thereon can be satisfied, in certain circumstances, upon payment of a "waterfall payment" equal to a cash payment of 50.0% of the amount by which the net sale proceeds or appraised value at the time of refinancing exceeded (1) the outstanding principal of the first mortgage note, (2) funds deposited by us into escrow to fund tenant improvements, leasing commissions and building improvements and (3) a 10.0% return on such funds deposited by us into escrow. As of the date of such restructuring, the subordinated note was recorded at a projected waterfall payment of \$1.0 million . During the second quarter of 2017, both notes were retired upon payment of the \$18.0 million principal balance on the first mortgage note and a \$0.5 million waterfall payment relating to the subordinated note, which resulted in \$0.4 million of gain on debt extinguishment.

During the second quarter of 2017, we obtained a \$100.0 million secured mortgage loan from a third party lender with an effective interest rate of 4.0% . This loan is scheduled to mature in May 2029 . We incurred \$0.8 million of debt issuance costs in connection with this loan, which will be amortized over the term of the loan.

During the first quarter of 2017, the Operating Partnership issued \$300.0 million aggregate principal amount of 3.875% notes due 2027 , less original issue discount of \$4.0 million . These notes were priced to yield 4.038% . Underwriting fees and other expenses were incurred that aggregated \$2.5 million ; these costs were deferred and will be amortized over the term of the notes.

During the first quarter of 2017, we paid off at maturity \$379.7 million principal amount of 5.85% unsecured notes.

During the first quarter of 2017, we amended our \$150.0 million unsecured bank term loan that is scheduled to mature in January 2022 by increasing the borrowed amount to \$200.0 million . The interest rate on this term loan at our current credit ratings is LIBOR plus 110 basis points . The underlying LIBOR rate with respect to \$50.0 million of the unsecured bank term loan has been effectively fixed for the term through floating-to-fixed interest rate swaps as discussed in Note 6. We incurred \$0.3 million of debt issuance costs in connection with this amendment, which will be amortized along with existing unamortized debt issuance costs over the remaining term.

We are currently in compliance with financial covenants and other requirements with respect to our consolidated debt.

We have considered our short-term liquidity needs within one year from July 25, 2017 (the date of issuance of the quarterly financial statements) and the adequacy of our estimated cash flows from operating activities and other expected financing sources to meet these needs. In particular, we have considered our scheduled debt maturities during such one -year period, including the \$200.0 million principal amount of unsecured notes due April 15, 2018 . We have concluded it is probable we will meet these short-term liquidity requirements through a combination of the following:

- available cash and cash equivalents;
- cash flows from operating activities;
- issuance of debt securities by the Operating Partnership (some of which debt securities may be hedged to a fixed interest rate pursuant to the forward-starting swaps referred to in Note 6);
- issuance of secured debt;
- bank term loans;
- borrowings under our revolving credit facility;
- issuance of equity securities by the Company or the Operating Partnership; and
- the disposition of non-core assets.

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per share and per unit data)

6. Derivative Financial Instruments

During the second quarter of 2017, we entered into \$150.0 million notional amount of forward-starting swaps that effectively lock the underlying 10 -year treasury rate at 2.44% with respect to a planned issuance of debt securities by the Operating Partnership expected to occur prior to May 15, 2018.

During the second quarter of 2017, we entered into floating-to-fixed interest rate swaps through January 2022 with respect to an aggregate of \$50.0 million LIBOR-based borrowings. These swaps effectively fix the underlying one -month LIBOR rate at a weighted average rate of 1.693% .

During 2016, we entered into \$150.0 million notional amount of forward-starting swaps that effectively locked the underlying 10 -year treasury rate at 1.90% with respect to a planned issuance of debt securities by the Operating Partnership. Upon issuance of the \$300.0 million aggregate principal amount of 3.875% notes due 2027 during the first quarter of 2017, we terminated the forward-starting swaps resulting in an unrealized gain of \$7.3 million in accumulated other comprehensive income.

The counterparties under these swaps are major financial institutions. The swap agreements contain a provision whereby if we default on certain of our indebtedness and which default results in repayment of such indebtedness being, or becoming capable of being, accelerated by the lender, then we could also be declared in default on our swaps.

Our interest rate swaps have been designated as and are being accounted for as cash flow hedges with changes in fair value recorded in other comprehensive income/(loss) each reporting period. No gain or loss was recognized related to hedge ineffectiveness or to amounts excluded from effectiveness testing on our cash flow hedges during the six months ended June 30, 2017 and 2016 . We have no collateral requirements related to our interest rate swaps.

Amounts reported in accumulated other comprehensive income/(loss) related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt. During the period from July 1, 2017 through June 30, 2018 , we estimate that \$0.4 million will be reclassified as a net increase to interest expense.

The following table sets forth the gross fair value of our derivatives:

| | <u>June 30, 2017</u> | <u>December 31, 2016</u> |
|--|--------------------------|------------------------------|
| Derivatives: | | |
| Derivatives designated as cash flow hedges in prepaid expenses and other assets: | | |
| Interest rate swaps | \$ 275 | \$ 7,619 |
| Derivatives designated as cash flow hedges in accounts payable, accrued expenses and other liabilities: | | |
| Interest rate swaps | \$ 1,003 | \$ 1,870 |

The following table sets forth the effect of our cash flow hedges on accumulated other comprehensive income/(loss) and interest expense:

| | <u>Three Months Ended June 30,</u> | | <u>Six Months Ended June 30,</u> | |
|--|--|-------------|--------------------------------------|-------------|
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| Derivatives Designated as Cash Flow Hedges: | | | | |
| Amount of unrealized gains/(losses) recognized in accumulated other comprehensive income/(loss) on derivatives (effective portion): | | | | |
| Interest rate swaps | \$ (136) | \$ (5,760) | \$ 316 | \$ (9,395) |
| Amount of net losses reclassified out of accumulated other comprehensive income/(loss) into contractual interest expense (effective portion): | | | | |
| Interest rate swaps | \$ 297 | \$ 783 | \$ 781 | \$ 1,578 |

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per share and per unit data)

7. Noncontrolling Interests

Noncontrolling Interests in Consolidated Affiliates

At June 30, 2017, our noncontrolling interests in consolidated affiliates relate to our joint venture partner's 50.0% interest in office properties in Richmond. Our joint venture partner is an unrelated third party.

Noncontrolling Interests in the Operating Partnership

The following table sets forth the Company's noncontrolling interests in the Operating Partnership:

| | Six Months Ended June 30, | |
|---|--------------------------------------|-------------------|
| | 2017 | 2016 |
| Beginning noncontrolling interests in the Operating Partnership | \$ 144,802 | \$ 126,429 |
| Adjustment of noncontrolling interests in the Operating Partnership to fair value | (287) | 15,042 |
| Conversions of Common Units to Common Stock | (305) | (1,558) |
| Net income attributable to noncontrolling interests in the Operating Partnership | 1,931 | 13,950 |
| Distributions to noncontrolling interests in the Operating Partnership | (2,495) | (2,463) |
| Total noncontrolling interests in the Operating Partnership | <u>\$ 143,646</u> | <u>\$ 151,400</u> |

The following table sets forth net income available for common stockholders and transfers from the Company's noncontrolling interests in the Operating Partnership:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--|------------------|--------------------------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Net income available for common stockholders | \$ 37,589 | \$ 31,648 | \$ 69,263 | \$ 464,438 |
| Increase in additional paid in capital from conversions of Common Units to Common Stock | 203 | 1,558 | 305 | 1,558 |
| Change from net income available for common stockholders and transfers from noncontrolling interests | <u>\$ 37,792</u> | <u>\$ 33,206</u> | <u>\$ 69,568</u> | <u>\$ 465,996</u> |

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per share and per unit data)

8. Disclosure About Fair Value of Financial Instruments

The following summarizes the three levels of inputs that we use to measure fair value.

Level 1. Quoted prices in active markets for identical assets or liabilities.

Our Level 1 asset is our investment in marketable securities that we use to pay benefits under our non-qualified deferred compensation plan. Our Level 1 liability is our non-qualified deferred compensation obligation. The Company's Level 1 noncontrolling interests in the Operating Partnership relate to the ownership of Common Units by various individuals and entities other than the Company.

Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities.

Our Level 2 assets include the fair value of our mortgages and notes receivable and certain interest rate swaps. Our Level 2 liabilities include the fair value of our mortgages and notes payable and remaining interest rate swaps.

The fair value of mortgages and notes receivable and mortgages and notes payable is estimated by the income approach utilizing contractual cash flows and market-based interest rates to approximate the price that would be paid in an orderly transaction between market participants. The fair value of interest rate swaps is determined using the market standard methodology of netting the discounted future fixed cash receipts and the discounted expected variable cash payments. The variable cash payments of interest rate swaps are based on the expectation of future interest rates (forward curves) derived from observed market interest rate curves. In addition, credit valuation adjustments are considered in the fair values to account for potential nonperformance risk, but were concluded to not be significant inputs to the calculation for the periods presented.

Level 3. Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Our Level 3 asset consisted of our tax increment financing bond, which was not routinely traded but whose fair value was determined by the income approach utilizing contractual cash flows and market-based interest rates to estimate the projected redemption value based on quoted bid/ask prices for similar unrated municipal bonds. Our tax increment financing bond was assigned in conjunction with a sale during the first quarter of 2016. The estimated fair value at the date of sale of \$ 11.2 million was equal to the outstanding principal amount due on the bond.

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per share and per unit data)

8. Disclosure About Fair Value of Financial Instruments - Continued

The following table sets forth our assets and liabilities and the Company's noncontrolling interests in the Operating Partnership that are measured or disclosed at fair value within the fair value hierarchy.

| | Total | Level 1 Quoted Prices in Active Markets for Identical Assets or Liabilities | Level 2 Significant Observable Inputs |
|--|---------------------|--|---|
| Fair Value at June 30, 2017: | | | |
| Assets: | | | |
| Mortgages and notes receivable, at fair value (1) | \$ 6,750 | \$ — | \$ 6,750 |
| Interest rate swaps (in prepaid expenses and other assets) | 275 | — | 275 |
| Marketable securities of non-qualified deferred compensation plan (in prepaid expenses and other assets) | 2,478 | 2,478 | — |
| Total Assets | \$ 9,503 | \$ 2,478 | \$ 7,025 |
| Noncontrolling Interests in the Operating Partnership | \$ 143,646 | \$ 143,646 | \$ — |
| Liabilities: | | | |
| Mortgages and notes payable, net, at fair value (1) | \$ 2,016,420 | \$ — | \$ 2,016,420 |
| Interest rate swaps (in accounts payable, accrued expenses and other liabilities) | 1,003 | — | 1,003 |
| Non-qualified deferred compensation obligation (in accounts payable, accrued expenses and other liabilities) | 2,478 | 2,478 | — |
| Total Liabilities | \$ 2,019,901 | \$ 2,478 | \$ 2,017,423 |
| Fair Value at December 31, 2016: | | | |
| Assets: | | | |
| Mortgages and notes receivable, at fair value (1) | \$ 8,833 | \$ — | \$ 8,833 |
| Interest rate swaps (in prepaid expenses and other assets) | 7,619 | — | 7,619 |
| Marketable securities of non-qualified deferred compensation plan (in prepaid expenses and other assets) | 2,451 | 2,451 | — |
| Total Assets | \$ 18,903 | \$ 2,451 | \$ 16,452 |
| Noncontrolling Interests in the Operating Partnership | \$ 144,802 | \$ 144,802 | \$ — |
| Liabilities: | | | |
| Mortgages and notes payable, net, at fair value (1) | \$ 1,965,611 | \$ — | \$ 1,965,611 |
| Interest rate swaps (in accounts payable, accrued expenses and other liabilities) | 1,870 | — | 1,870 |
| Non-qualified deferred compensation obligation (in accounts payable, accrued expenses and other liabilities) | 2,451 | 2,451 | — |
| Total Liabilities | \$ 1,969,932 | \$ 2,451 | \$ 1,967,481 |

(1) Amounts recorded at historical cost on our Consolidated Balance Sheets at June 30, 2017 and December 31, 2016 .

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per share and per unit data)

9. Share-Based Payments

During the six months ended June 30, 2017, the Company granted 168,748 stock options with an exercise price equal to the last reported stock price of our Common Stock on the New York Stock Exchange on the last trading day prior to the date of grant. The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model, which resulted in a weighted average grant date fair value per share of \$ 6.72. During the six months ended June 30, 2017, the Company also granted 61,404 shares of time-based restricted stock and 49,344 shares of total return-based restricted stock with weighted average grant date fair values per share of \$ 52.49 and \$ 49.59, respectively. We recorded share-based compensation expense of \$1.1 million and \$1.0 million during the three months ended June 30, 2017 and 2016, respectively, and \$ 4.8 million and \$ 4.6 million during the six months ended June 30, 2017 and 2016, respectively. At June 30, 2017, there was \$7.0 million of total unrecognized share-based compensation costs, which will be recognized over a weighted average remaining contractual term of 2.5 years.

10. Accumulated Other Comprehensive Income/(Loss)

The following table sets forth the components of accumulated other comprehensive income/(loss):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|--------------------|------------------------------|--------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Cash flow hedges: | | | | |
| Beginning balance | \$ 5,885 | \$ (6,651) | \$ 4,949 | \$ (3,811) |
| Unrealized gains/(losses) on cash flow hedges | (136) | (5,760) | 316 | (9,395) |
| Amortization of cash flow hedges (1) | 297 | 783 | 781 | 1,578 |
| Total accumulated other comprehensive income/(loss) | \$ 6,046 | \$ (11,628) | \$ 6,046 | \$ (11,628) |

(1) Amounts reclassified out of accumulated other comprehensive income/(loss) into contractual interest expense.

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per share and per unit data)

11. Real Estate, Other Assets and Liabilities Held For Sale and Discontinued Operations

The following table sets forth the assets and liabilities held for sale at June 30, 2017 and December 31, 2016, which are considered non-core:

| | June 30, 2017 | December 31, 2016 |
|--|-------------------|----------------------|
| Assets: | | |
| Land | \$ 11,610 | \$ — |
| Buildings and tenant improvements | 69,259 | — |
| Less-accumulated depreciation | (30,399) | — |
| Net real estate assets | 50,470 | — |
| Accrued straight-line rents receivable, net | 2,284 | — |
| Deferred leasing costs, net | 1,740 | — |
| Prepaid expenses and other assets | 49 | — |
| Real estate and other assets, net, held for sale | \$ 54,543 | \$ — |
| Liabilities: | | |
| Accounts payable, accrued expenses and other liabilities | \$ (1,122) | \$ — |
| Liabilities held for sale | \$ (1,122) | \$ — |

The following tables set forth the results of operations for the three and six months ended June 30, 2017 and 2016 and cash flows for the six months ended June 30, 2017 and 2016 related to discontinued operations:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-------------|--------------------------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Rental and other revenues | \$ — | \$ — | \$ — | \$ 8,484 |
| Operating expenses: | | | | |
| Rental property and other expenses | — | — | — | 3,334 |
| General and administrative | — | — | — | 1,388 |
| Total operating expenses | — | — | — | 4,722 |
| Interest expense | — | — | — | 85 |
| Other income | — | — | — | 420 |
| Income from discontinued operations | — | — | — | 4,097 |
| Net gains on disposition of discontinued operations | — | — | — | 414,496 |
| Total income from discontinued operations | \$ — | \$ — | \$ — | \$ 418,593 |
| | | | Six Months Ended June 30, | |
| | | | 2017 | 2016 |
| Cash flows from operating activities | | | \$ — | \$ 2,040 |
| Cash flows from investing activities | | | \$ — | \$ 417,097 |

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per share and per unit data)

12. Earnings Per Share and Per Unit

The following table sets forth the computation of basic and diluted earnings per share of the Company:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|------------------|------------------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Earnings per Common Share - basic: | | | | |
| Numerator: | | | | |
| Income from continuing operations | \$ 39,554 | \$ 33,528 | \$ 73,039 | \$ 61,670 |
| Net (income) attributable to noncontrolling interests in the Operating Partnership from continuing operations | (1,043) | (939) | (1,931) | (1,685) |
| Net (income) attributable to noncontrolling interests in consolidated affiliates from continuing operations | (299) | (314) | (599) | (622) |
| Dividends on Preferred Stock | (623) | (627) | (1,246) | (1,253) |
| Income from continuing operations available for common stockholders | 37,589 | 31,648 | 69,263 | 58,110 |
| Income from discontinued operations | — | — | — | 418,593 |
| Net (income) attributable to noncontrolling interests in the Operating Partnership from discontinued operations | — | — | — | (12,265) |
| Income from discontinued operations available for common stockholders | — | — | — | 406,328 |
| Net income available for common stockholders | <u>\$ 37,589</u> | <u>\$ 31,648</u> | <u>\$ 69,263</u> | <u>\$ 464,438</u> |
| Denominator: | | | | |
| Denominator for basic earnings per Common Share – weighted average shares | 102,475 | 97,648 | 102,109 | 97,010 |
| Earnings per Common Share - basic: | | | | |
| Income from continuing operations available for common stockholders | \$ 0.37 | \$ 0.32 | \$ 0.68 | \$ 0.60 |
| Income from discontinued operations available for common stockholders | — | — | — | 4.19 |
| Net income available for common stockholders | <u>\$ 0.37</u> | <u>\$ 0.32</u> | <u>\$ 0.68</u> | <u>\$ 4.79</u> |
| Earnings per Common Share - diluted: | | | | |
| Numerator: | | | | |
| Income from continuing operations | \$ 39,554 | \$ 33,528 | \$ 73,039 | \$ 61,670 |
| Net (income) attributable to noncontrolling interests in consolidated affiliates from continuing operations | (299) | (314) | (599) | (622) |
| Dividends on Preferred Stock | (623) | (627) | (1,246) | (1,253) |
| Income from continuing operations available for common stockholders before net (income) attributable to noncontrolling interests in the Operating Partnership | 38,632 | 32,587 | 71,194 | 59,795 |
| Income from discontinued operations available for common stockholders | — | — | — | 418,593 |
| Net income available for common stockholders before net (income) attributable to noncontrolling interests in the Operating Partnership | <u>\$ 38,632</u> | <u>\$ 32,587</u> | <u>\$ 71,194</u> | <u>\$ 478,388</u> |
| Denominator: | | | | |
| Denominator for basic earnings per Common Share – weighted average shares | 102,475 | 97,648 | 102,109 | 97,010 |
| Add: | | | | |
| Stock options using the treasury method | 77 | 90 | 81 | 87 |
| Noncontrolling interests Common Units | 2,834 | 2,890 | 2,836 | 2,895 |
| Denominator for diluted earnings per Common Share – adjusted weighted average shares and assumed conversions (1) | <u>105,386</u> | <u>100,628</u> | <u>105,026</u> | <u>99,992</u> |
| Earnings per Common Share - diluted: | | | | |
| Income from continuing operations available for common stockholders | \$ 0.37 | \$ 0.32 | \$ 0.68 | \$ 0.60 |
| Income from discontinued operations available for common stockholders | — | — | — | 4.18 |
| Net income available for common stockholders | <u>\$ 0.37</u> | <u>\$ 0.32</u> | <u>\$ 0.68</u> | <u>\$ 4.78</u> |

(1) Includes all unvested restricted stock where dividends on such restricted stock are non-forfeitable.

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per share and per unit data)

12. Earnings Per Share and Per Unit - Continued

The following table sets forth the computation of basic and diluted earnings per unit of the Operating Partnership:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------------|------------------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Earnings per Common Unit - basic: | | | | |
| Numerator: | | | | |
| Income from continuing operations | \$ 39,554 | \$ 33,528 | \$ 73,039 | \$ 61,670 |
| Net (income) attributable to noncontrolling interests in consolidated affiliates from continuing operations | (299) | (314) | (599) | (622) |
| Distributions on Preferred Units | (623) | (627) | (1,246) | (1,253) |
| Income from continuing operations available for common unitholders | 38,632 | 32,587 | 71,194 | 59,795 |
| Income from discontinued operations available for common unitholders | — | — | — | 418,593 |
| Net income available for common unitholders | <u>\$ 38,632</u> | <u>\$ 32,587</u> | <u>\$ 71,194</u> | <u>\$ 478,388</u> |
| Denominator: | | | | |
| Denominator for basic earnings per Common Unit – weighted average units | 104,900 | 100,129 | 104,536 | 99,496 |
| Earnings per Common Unit - basic: | | | | |
| Income from continuing operations available for common unitholders | \$ 0.37 | \$ 0.33 | \$ 0.68 | \$ 0.60 |
| Income from discontinued operations available for common unitholders | — | — | — | 4.21 |
| Net income available for common unitholders | <u>\$ 0.37</u> | <u>\$ 0.33</u> | <u>\$ 0.68</u> | <u>\$ 4.81</u> |
| Earnings per Common Unit - diluted: | | | | |
| Numerator: | | | | |
| Income from continuing operations | \$ 39,554 | \$ 33,528 | \$ 73,039 | \$ 61,670 |
| Net (income) attributable to noncontrolling interests in consolidated affiliates from continuing operations | (299) | (314) | (599) | (622) |
| Distributions on Preferred Units | (623) | (627) | (1,246) | (1,253) |
| Income from continuing operations available for common unitholders | 38,632 | 32,587 | 71,194 | 59,795 |
| Income from discontinued operations available for common unitholders | — | — | — | 418,593 |
| Net income available for common unitholders | <u>\$ 38,632</u> | <u>\$ 32,587</u> | <u>\$ 71,194</u> | <u>\$ 478,388</u> |
| Denominator: | | | | |
| Denominator for basic earnings per Common Unit – weighted average units | 104,900 | 100,129 | 104,536 | 99,496 |
| Add: | | | | |
| Stock options using the treasury method | 77 | 90 | 81 | 87 |
| Denominator for diluted earnings per Common Unit – adjusted weighted average units and assumed conversions (1) | <u>104,977</u> | <u>100,219</u> | <u>104,617</u> | <u>99,583</u> |
| Earnings per Common Unit - diluted: | | | | |
| Income from continuing operations available for common unitholders | \$ 0.37 | \$ 0.33 | \$ 0.68 | \$ 0.60 |
| Income from discontinued operations available for common unitholders | — | — | — | 4.20 |
| Net income available for common unitholders | <u>\$ 0.37</u> | <u>\$ 0.33</u> | <u>\$ 0.68</u> | <u>\$ 4.80</u> |

(1) Includes all unvested restricted stock where distributions on such restricted stock are non-forfeitable.

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per share and per unit data)

13. Segment Information

The following tables summarize the rental and other revenues and net operating income, the primary industry property-level performance metric used by our chief operating decision maker and which is defined as rental and other revenues less rental property and other expenses, for each of our reportable segments.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-----------------------------------|--|-------------------|--------------------------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Rental and Other Revenues: | | | | |
| Office: | | | | |
| Atlanta | \$ 35,347 | \$ 34,652 | \$ 69,556 | \$ 67,848 |
| Greensboro | 5,284 | 5,037 | 10,586 | 10,184 |
| Memphis | 11,823 | 11,931 | 23,618 | 23,945 |
| Nashville | 28,836 | 24,415 | 52,526 | 47,781 |
| Orlando | 12,436 | 11,197 | 24,874 | 22,682 |
| Pittsburgh | 14,852 | 14,195 | 29,701 | 29,335 |
| Raleigh | 30,097 | 28,024 | 59,643 | 56,246 |
| Richmond | 11,106 | 10,937 | 22,048 | 22,006 |
| Tampa | 24,250 | 22,814 | 47,506 | 44,252 |
| Total Office Segment | <u>174,031</u> | <u>163,202</u> | <u>340,058</u> | <u>324,279</u> |
| Other | 3,252 | 3,658 | 6,633 | 7,440 |
| Total Rental and Other Revenues | <u>\$ 177,283</u> | <u>\$ 166,860</u> | <u>\$ 346,691</u> | <u>\$ 331,719</u> |

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per share and per unit data)

13. Segment Information - Continued

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--|------------------|--------------------------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Net Operating Income: | | | | |
| Office: | | | | |
| Atlanta | \$ 22,544 | \$ 21,911 | \$ 44,550 | \$ 42,963 |
| Greensboro | 3,391 | 3,209 | 6,749 | 6,357 |
| Memphis | 7,272 | 7,398 | 14,544 | 14,813 |
| Nashville | 21,626 | 17,613 | 38,250 | 34,428 |
| Orlando | 7,430 | 6,320 | 15,008 | 13,005 |
| Pittsburgh | 8,949 | 8,108 | 17,574 | 16,711 |
| Raleigh | 21,920 | 20,156 | 43,385 | 40,410 |
| Richmond | 7,845 | 7,687 | 15,466 | 15,116 |
| Tampa | 15,203 | 14,361 | 30,325 | 27,688 |
| Total Office Segment | <u>116,180</u> | <u>106,763</u> | <u>225,851</u> | <u>211,491</u> |
| Other | <u>2,249</u> | <u>2,582</u> | <u>4,590</u> | <u>5,133</u> |
| Total Net Operating Income | 118,429 | 109,345 | 230,441 | 216,624 |
| Reconciliation to income from continuing operations before disposition of investment properties and activity in unconsolidated affiliates: | | | | |
| Depreciation and amortization | (55,816) | (55,317) | (111,961) | (108,811) |
| General and administrative expenses | (9,050) | (8,327) | (20,540) | (19,464) |
| Interest expense | (16,154) | (19,485) | (34,017) | (40,190) |
| Other income | 1,390 | 534 | 2,074 | 1,051 |
| Income from continuing operations before disposition of investment properties and activity in unconsolidated affiliates | <u>\$ 38,799</u> | <u>\$ 26,750</u> | <u>\$ 65,997</u> | <u>\$ 49,210</u> |

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company is a fully integrated office real estate investment trust ("REIT") that owns, develops, acquires, leases and manages properties primarily in the best business districts (BBDs) of Atlanta, Greensboro, Memphis, Nashville, Orlando, Pittsburgh, Raleigh, Richmond and Tampa. The Company conducts its activities through the Operating Partnership. The Operating Partnership is managed by the Company, its sole general partner. Additional information about us can be found on our website at www.highwoods.com. Information on our website is not part of this Quarterly Report.

You should read the following discussion and analysis in conjunction with the accompanying Consolidated Financial Statements and related notes contained elsewhere in this Quarterly Report.

Disclosure Regarding Forward-Looking Statements

Some of the information in this Quarterly Report may contain forward-looking statements. Such statements include, in particular, statements about our plans, strategies and prospects under this section. You can identify forward-looking statements by our use of forward-looking terminology such as "may," "will," "expect," "anticipate," "estimate," "continue" or other similar words. Although we believe that our plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, we cannot assure you that our plans, intentions or expectations will be achieved. When considering such forward-looking statements, you should keep in mind the following important factors that could cause our actual results to differ materially from those contained in any forward-looking statement:

- the financial condition of our customers could deteriorate;
- we may not be able to lease or re-lease second generation space, defined as previously occupied space that becomes available for lease, quickly or on as favorable terms as old leases;
- we may not be able to lease our newly constructed buildings as quickly or on as favorable terms as originally anticipated;
- we may not be able to complete development, acquisition, reinvestment, disposition or joint venture projects as quickly or on as favorable terms as anticipated;
- development activity by our competitors in our existing markets could result in an excessive supply relative to customer demand;
- our markets may suffer declines in economic growth;
- unanticipated increases in interest rates could increase our debt service costs;
- unanticipated increases in operating expenses could negatively impact our operating results;
- we may not be able to meet our liquidity requirements or obtain capital on favorable terms to fund our working capital needs and growth initiatives or repay or refinance outstanding debt upon maturity; and
- the Company could lose key executive officers.

This list of risks and uncertainties, however, is not intended to be exhaustive. You should also review the other cautionary statements we make in "Business – Risk Factors" set forth in our 2016 Annual Report on Form 10-K. Given these uncertainties, you should not place undue reliance on forward-looking statements. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements to reflect any future events or circumstances or to reflect the occurrence of unanticipated events.

Executive Summary

Our Strategic Plan focuses on:

- owning high-quality, differentiated office buildings in the BBDs of our core markets;
- improving the operating results of our properties through concentrated leasing, asset management, cost control and customer service efforts;
- developing and acquiring office buildings in BBDs that improve the overall quality of our portfolio and generate attractive returns over the long term for our stockholders;
- disposing of properties no longer considered to be core assets primarily due to location, age, quality and/or overall strategic fit; and
- maintaining a balance sheet with ample liquidity to meet our funding needs and growth prospects.

Revenues

Our operating results depend heavily on successfully leasing and operating the office space in our portfolio. Economic growth and employment levels in our core markets are and will continue to be important factors in predicting our future operating results.

The key components affecting our rental and other revenues are average occupancy, rental rates, cost recovery income, new developments placed in service, acquisitions and dispositions. Average occupancy generally increases during times of improving economic growth, as our ability to lease space outpaces vacancies that occur upon the expirations of existing leases. Average occupancy generally declines during times of slower economic growth, when new vacancies tend to outpace our ability to lease space. Asset acquisitions, dispositions and new developments placed in service directly impact our rental revenues and could impact our average occupancy, depending upon the occupancy rate of the properties that are acquired, sold or placed in service. A further indicator of the predictability of future revenues is the expected lease expirations of our portfolio. As a result, in addition to seeking to increase our average occupancy by leasing current vacant space, we also concentrate our leasing efforts on renewing existing leases prior to expiration. For more information regarding our lease expirations, see "Properties - Lease Expirations" in our 2016 Annual Report on Form 10-K. Occupancy in our office portfolio was 92.9% at both December 31, 2016 and June 30, 2017 due to a development property being placed in service offset by a scheduled expiration of a large customer, both in our Nashville portfolio. We expect average occupancy for our office portfolio to be approximately 92% for the remainder of 2017.

Whether or not our rental revenue tracks average occupancy proportionally depends upon whether GAAP rents under signed new and renewal leases are higher or lower than the GAAP rents under expiring leases. Annualized rental revenues from second generation leases expiring during any particular year are typically less than 15% of our total annual rental revenues. The following table sets forth information regarding second generation office leases signed during the second quarter of 2017 (we define second generation office leases as leases with new customers and renewals of existing customers in office space that has been previously occupied under our ownership and leases with respect to vacant space in acquired buildings):

| | New | Renewal | All Office |
|---|----------|----------|------------|
| Leased space (in rentable square feet) | 184,807 | 390,661 | 575,468 |
| Average term (in years - rentable square foot weighted) | 8.1 | 4.8 | 5.8 |
| Base rents (per rentable square foot) (1) | \$ 29.13 | \$ 25.77 | \$ 26.85 |
| Rent concessions (per rentable square foot) (1) | (0.76) | (0.32) | (0.46) |
| GAAP rents (per rentable square foot) (1) | \$ 28.37 | \$ 25.45 | \$ 26.39 |
| Tenant improvements (per rentable square foot) (1) | \$ 3.36 | \$ 2.43 | \$ 2.73 |
| Leasing commissions (per rentable square foot) (1) | \$ 0.92 | \$ 0.62 | \$ 0.72 |

(1) Weighted average per rentable square foot on an annual basis over the lease term.

Annual combined GAAP rents for new and renewal leases signed in the second quarter were \$26.39 per rentable square foot, or 15.1% , higher compared to previous leases in the same office spaces.

We strive to maintain a diverse, stable and creditworthy customer base. We have an internal guideline whereby customers that account for more than 3% of our revenues are periodically reviewed with the Company's Board of Directors. As of June 30, 2017, no customer accounted for more than 3% of our cash revenues other than the Federal Government, which accounted for less than 6% of our cash revenues on an annualized basis.

Operating Expenses

Our expenses primarily consist of rental property expenses, depreciation and amortization, general and administrative expenses and interest expense. From time to time, expenses also include impairments of real estate assets. Rental property expenses are expenses associated with our ownership and operation of rental properties and include expenses that vary somewhat proportionately to occupancy levels, such as janitorial services and utilities, and expenses that do not vary based on occupancy, such as property taxes and insurance. Depreciation and amortization is a non-cash expense associated with the ownership of real property and generally remains relatively consistent each year, unless we buy, place in service or sell assets, since we depreciate our properties and related building and tenant improvement assets on a straight-line basis over fixed lives. General and administrative expenses consist primarily of management and employee salaries and other personnel costs, corporate overhead and short and long-term incentive compensation.

Net Operating Income

Whether or not we record increasing same property net operating income ("NOI") depends upon our ability to garner higher rental revenues, whether from higher average occupancy, higher GAAP rents per rentable square foot or higher cost recovery income, that exceed any corresponding growth in operating expenses. Same property NOI from continuing operations was \$2.6 million, or 2.5%, higher in the second quarter of 2017 as compared to 2016 due to an increase in same property revenues of \$2.7 million. We expect same property NOI to be higher in the remainder of 2017 than 2016 as higher rental revenues, mostly from higher average GAAP rents per rentable square foot, higher cost recovery income and higher termination fees, are expected to more than offset an anticipated increase in same property operating expenses.

In addition to the effect of same property NOI, whether or not NOI from continuing operations increases depends upon whether the NOI from our acquired properties and development properties placed in service exceeds the NOI from sold properties. NOI from continuing operations was \$9.1 million, or 8.3%, higher in the second quarter of 2017 as compared to 2016 due to the impact of development properties placed in service and acquisitions, offset by NOI lost from sold properties not classified as discontinued operations. We expect NOI from continuing operations to be higher in the remainder of 2017 than 2016 due to the impact of our net investment activity in such periods.

Cash Flows

In calculating net cash related to operating activities, depreciation and amortization, which are non-cash expenses, are added back to net income. As a result, we have historically generated a positive amount of cash from operating activities. From period to period, cash flow from operations depends primarily upon changes in our net income, as discussed more fully below under "Results of Operations," changes in receivables and payables and net additions or decreases in our overall portfolio.

Net cash related to investing activities generally relates to capitalized costs incurred for leasing and major building improvements and our acquisition, development, disposition and joint venture activity. During periods of significant net acquisition and/or development activity, our cash used in such investing activities will generally exceed cash provided by investing activities, which typically consists of cash received upon the sale of properties and distributions from our joint ventures.

Net cash related to financing activities generally relates to distributions, incurrence and repayment of debt, and issuances, repurchases or redemptions of Common Stock, Common Units and Preferred Stock. We use a significant amount of our cash to fund distributions. Whether or not we have increases in the outstanding balances of debt during a period depends generally upon the net effect of our acquisition, disposition, development and joint venture activity. We generally use our revolving credit facility for daily working capital purposes, which means that during any given period, in order to minimize interest expense, we may record significant repayments and borrowings under our revolving credit facility.

Liquidity and Capital Resources

We intend to maintain a conservative and flexible balance sheet with access to multiple sources of debt and equity capital and sufficient availability under our revolving credit facility that allows us to capitalize on favorable development and acquisition opportunities as they arise.

Rental and other revenues are our principal source of funds to meet our short-term liquidity requirements. Other sources of funds for short-term liquidity needs include available working capital and borrowings under our revolving credit facility, which had \$377.4 million of availability at July 18, 2017. Our short-term liquidity requirements primarily consist of operating expenses, interest and principal amortization on our debt, distributions and capital expenditures, including building improvement costs, tenant improvement costs and lease commissions. Building improvements are capital costs to maintain or enhance existing buildings not typically related to a specific customer. Tenant improvements are the costs required to customize space for the specific needs of customers. We anticipate that our available cash and cash equivalents and cash provided by operating activities and planned financing activities, including borrowings under our revolving credit facility, will be adequate to meet our short-term liquidity requirements. We use our revolving credit facility for working capital purposes and for the short-term funding of our development and acquisition activity and, in certain instances, the repayment of other debt. The continued ability to borrow under the revolving credit facility allows us to quickly capitalize on strategic opportunities at short-term interest rates.

Our long-term liquidity uses generally consist of the retirement or refinancing of debt upon maturity, funding of building improvements, new building developments and land infrastructure projects and funding acquisitions of buildings and development land. Our expected future capital expenditures for started and/or committed new development projects were approximately \$241 million at June 30, 2017. Additionally, we may, from time to time, retire some or all of our remaining outstanding Preferred Stock and/or unsecured debt securities through redemptions, open market repurchases, privately negotiated acquisitions or otherwise.

We expect to meet our long-term liquidity needs through a combination of:

- cash flow from operating activities;
- bank term loans and borrowings under our revolving credit facility;
- the issuance of unsecured debt;
- the issuance of secured debt;
- the issuance of equity securities by the Company or the Operating Partnership; and
- the disposition of non-core assets.

We generally expect to grow our company on a leverage-neutral basis. At June 30, 2017, our leverage ratio, as measured by the ratio of our mortgages and notes payable and outstanding preferred stock to the undepreciated book value of our assets, was 35.3% and there were 106.1 million diluted shares of Common Stock outstanding.

Investment Activity

As noted above, a key tenet of our strategic plan is to continuously upgrade the quality of our office portfolio through acquisitions, dispositions and development. We generally seek to acquire and develop office buildings that improve the average quality of our overall portfolio and deliver consistent and sustainable value for our stockholders over the long-term. Whether or not an asset acquisition or new development results in higher per share net income or funds from operations ("FFO") in any given period depends upon a number of factors, including whether the NOI for any such period exceeds the actual cost of capital used to finance the acquisition or development. Additionally, given the length of construction cycles, development projects are not placed in service until, in some cases, several years after commencement. Sales of non-core assets could result in lower per share net income or FFO in any given period in the event the resulting use of proceeds does not exceed the capitalization rate on the sold properties.

Results of Operations

Three Months Ended June 30, 2017 and 2016

Rental and Other Revenues

Rental and other revenues were \$10.4 million, or 6.2%, higher in the second quarter of 2017 as compared to 2016 primarily due to development properties placed in service, higher same property revenues and acquisitions, which increased rental and other revenues by \$7.0 million, \$2.7 million and \$1.5 million, respectively. Same property rental and other revenues were higher primarily due to higher average GAAP rents per rentable square foot. These increases were partly offset by lost revenue of \$0.6 million

from property dispositions. We expect rental and other revenues for the remainder of 2017 to increase over 2016 due to development properties placed in service, higher same property revenues and acquisitions, partly offset by lost revenue from property dispositions.

Operating Expenses

Rental property and other expenses were \$1.3 million, or 2.3%, higher in the second quarter of 2017 as compared to 2016 primarily due to development properties placed in service and acquisitions, which increased operating expenses by \$1.2 million and \$0.4 million, respectively. These increases were partly offset by a \$0.2 million decrease in operating expenses from property dispositions. Same property operating expenses were relatively unchanged in the second quarter of 2017 as compared to 2016. We expect rental property and other expenses for the remainder of 2017 to increase over 2016 due to development properties placed in service, higher same property operating expenses and acquisitions.

Depreciation and amortization was \$0.5 million, or 0.9%, higher in the second quarter of 2017 as compared to 2016 primarily due to development properties placed in service and acquisitions, partly offset by property dispositions. We expect depreciation and amortization for the remainder of 2017 to increase over 2016 for similar reasons.

General and administrative expenses were \$0.7 million, or 8.7%, higher in the second quarter of 2017 as compared to 2016 primarily due to higher company-wide base salaries, benefits and dead deal costs. We expect general and administrative expenses for the remainder of 2017 to decrease over 2016 primarily due to lower incentive compensation and acquisition costs, partly offset by higher company-wide base salaries and benefits.

Interest Expense

Interest expense was \$3.3 million, or 17.1%, lower in the second quarter of 2017 as compared to 2016 primarily due to lower average debt balances, lower average interest rates and higher capitalized interest. We expect interest expense for the remainder of 2017 to remain relatively consistent with 2016.

Other Income

Other income was \$0.9 million higher in the second quarter of 2017 as compared to 2016 primarily due to gains on debt extinguishment in 2017.

Gains on Disposition of Property

Gains on disposition of property were \$5.9 million lower in the second quarter of 2017 as compared to 2016 due to the net effect of gains on sold properties not classified as discontinued operations in 2016.

Equity in Earnings of Unconsolidated Affiliates

Equity in earnings of unconsolidated affiliates was \$0.2 million, or 17.7%, lower in the second quarter of 2017 as compared to 2016 primarily due to lower occupancy in 2017. We expect equity in earnings of unconsolidated affiliates for the remainder of 2017 to decrease over 2016 primarily due to our share of the net effect of the disposition activity by certain unconsolidated affiliates in 2016 and lower occupancy in 2017.

Earnings Per Common Share - Diluted

Diluted earnings per common share was \$0.05 higher in the second quarter of 2017 as compared to 2016 due to an increase in net income for the reasons discussed above, partly offset by an increase in the weighted average Common Shares outstanding.

Six Months Ended June 30, 2017 and 2016

Rental and Other Revenues

Rental and other revenues were \$15.0 million, or 4.5%, higher in the first six months of 2017 as compared to 2016 primarily due to development properties placed in service, higher same property revenues and acquisitions, which increased rental and other revenues by \$9.7 million, \$4.3 million and \$2.9 million, respectively. Same property rental and other revenues were higher primarily due to higher average GAAP rents per rentable square foot, partly offset by lower termination fees. These increases were partly offset by lost revenue of \$1.5 million from property dispositions.

Operating Expenses

Rental property and other expenses were \$1.2 million , or 1.0% , higher in the first six months of 2017 as compared to 2016 primarily due to development properties placed in service and acquisitions, which increased operating expenses by \$1.8 million and \$0.8 million, respectively. These increases were partly offset by a \$0.8 million decrease in same property operating expenses and a \$0.5 million decrease in operating expenses from property dispositions. Same property operating expenses were lower primarily due to lower utilities and property insurance, partly offset by higher property taxes.

Depreciation and amortization was \$3.2 million , or 2.9% , higher in the first six months of 2017 as compared to 2016 primarily due to development properties placed in service, acquisitions and accelerated depreciation related to properties that are expected to be demolished, partly offset by property dispositions.

General and administrative expenses were \$1.1 million , or 5.5% , higher in the first six months of 2017 as compared to 2016 primarily due to higher company-wide base salaries, benefits and dead deal costs.

Interest Expense

Interest expense was \$6.2 million , or 15.4% , lower in the first six months of 2017 as compared to 2016 primarily due to lower average debt balances and higher capitalized interest.

Other Income

Other income was \$1.0 million higher in the first six months of 2017 as compared to 2016 primarily due to gains on debt extinguishment in 2017.

Gains on Disposition of Property and Net Gains on Disposition of Discontinued Operations

Total gains were \$419.4 million lower in the first six months of 2017 as compared to 2016 due to the sales of substantially all of our wholly-owned Country Club Plaza assets in Kansas City (which we refer to as the “Plaza assets”) in 2016.

Equity in Earnings of Unconsolidated Affiliates

Equity in earnings of unconsolidated affiliates was \$0.5 million , or 22.3% , lower in the first six months of 2017 as compared to 2016 primarily due to our share of the net effect of the disposition activity by certain unconsolidated affiliates in 2016 and lower occupancy in 2017.

Income From Discontinued Operations

Income from discontinued operations was \$4.1 million lower in the first six months of 2017 as compared to 2016 due to the sales of the Plaza assets in 2016.

Earnings Per Common Share - Diluted

Diluted earnings per common share was \$4.10 lower in the first six months of 2017 as compared to 2016 due to gains from the sales of the Plaza assets in 2016 and an increase in the weighted average Common Shares outstanding, partly offset by increases in income from continuing operations for the reasons discussed above.

Liquidity and Capital Resources

Statements of Cash Flows

We report and analyze our cash flows based on operating activities, investing activities and financing activities. The following table sets forth the changes in the Company's cash flows (\$ in thousands):

| | Six Months Ended June 30, | | Change |
|---|------------------------------|-------------------|--------------------|
| | 2017 | 2016 | |
| Net Cash Provided By Operating Activities | \$ 172,115 | \$ 137,805 | \$ 34,310 |
| Net Cash Provided By/(Used In) Investing Activities | (156,627) | 253,815 | (410,442) |
| Net Cash Used In Financing Activities | (51,632) | (394,212) | 342,580 |
| Total Cash Flows | \$ (36,144) | \$ (2,592) | \$ (33,552) |

The increase in net cash provided by operating activities in the first six months of 2017 as compared to 2016 was primarily due to higher net cash from the operations of development properties placed in service, same properties and acquisitions, the timing of cash paid for operating expenses and the settlement of cash flow hedges. We expect net cash related to operating activities for the remainder of 2017 to be higher as compared to 2016 primarily due to the impact of development properties placed in service, same properties and acquisitions, partly offset by non-core dispositions.

The change in net cash provided by/(used in) investing activities in the first six months of 2017 as compared to 2016 was primarily due to the net proceeds from the sales of the Plaza assets in 2016 and higher investments in development in-process in 2017. We expect uses of cash for investing activities for the remainder of 2017 to be primarily driven by whether or not we acquire and commence development of additional office buildings in the BBDs of our markets. Additionally, as of June 30, 2017, we have approximately \$241 million left to fund of our previously-announced development activity. We expect these uses of cash for investing activities will be partly offset by proceeds from non-core dispositions for the remainder of 2017.

The decrease in net cash used in financing activities in the first six months of 2017 as compared to 2016 was primarily due to higher net debt borrowings in 2017, partly offset by the payment of a special dividend declared in the fourth quarter of 2016 and lower proceeds from the issuance of Common Stock in 2017. Assuming the net effect of our acquisition, disposition and development activity in 2017 results in an increase of our assets, we would expect outstanding debt balances to increase. However, because we generally expect to grow our company on a leverage-neutral basis, we would also expect higher outstanding balances of Common Stock in such event.

Capitalization

The following table sets forth the Company's capitalization (in thousands, except per share amounts):

| | June 30, 2017 | December 31, 2016 |
|--|------------------|----------------------|
| Mortgages and notes payable, net, at recorded book value | \$ 2,005,038 | \$ 1,948,047 |
| Preferred Stock, at liquidation value | 28,905 | 28,920 |
| Common Stock outstanding | 103,236 | 101,666 |
| Common Units outstanding (not owned by the Company) | 2,833 | 2,839 |
| Per share stock price at period end | \$ 50.71 | \$ 51.01 |
| Market value of Common Stock and Common Units | \$ 5,378,759 | \$ 5,330,800 |
| Total capitalization | \$ 7,412,702 | \$ 7,307,767 |

At June 30, 2017, our mortgages and notes payable and outstanding preferred stock represented 27.4% of our total capitalization and 35.3% of the undepreciated book value of our assets. See also "Executive Summary - Liquidity and Capital Resources."

Our mortgages and notes payable as of June 30, 2017 consisted of \$99.9 million of secured indebtedness with a weighted average interest rate of 4.0% and \$1,914.0 million of unsecured indebtedness with a weighted average interest rate of 3.47%. The secured indebtedness was collateralized by real estate assets with an aggregate undepreciated book value of \$147.8 million. As of June 30, 2017, \$596.0 million of our debt does not bear interest at fixed rates or is not protected by interest rate hedge contracts.

Investment Activity

In the normal course of business, we regularly evaluate potential acquisitions. As a result, from time to time, we may have one or more potential acquisitions under consideration that are in varying stages of evaluation, negotiation or due diligence, including potential acquisitions that are subject to non-binding letters of intent or enforceable contracts. Consummation of any transaction is subject to a number of contingencies, including the satisfaction of customary closing conditions. No assurances can be provided that we will acquire any properties in the future. See "Item 1A. Risk Factors - Recent and future acquisitions and development properties may fail to perform in accordance with our expectations and may require renovation and development costs exceeding our estimates" in our 2016 Annual Report on Form 10-K.

As of June 30, 2017, we were developing 0.9 million rentable square feet of properties. The following table summarizes these announced and in-process developments:

| Property | Market | Type | Rentable Square Feet | Anticipated Total Investment (1) | Investment As Of June 30, 2017 (1) | Pre-Leased | Estimated Completion | Estimated Stabilization |
|------------------------|------------|------------|----------------------|----------------------------------|------------------------------------|--------------|----------------------|-------------------------|
| (\$ in thousands) | | | | | | | | |
| 5000 CentreGreen | Raleigh | Office | 166,500 | \$ 40,850 | \$ 27,594 | 26.0% | 3Q17 | 3Q19 |
| Virginia Urology | Richmond | Office | 87,000 | 29,140 | 4,095 | 100.0 | 3Q18 | 3Q18 |
| 751 Corporate Center | Raleigh | Office | 89,700 | 21,850 | 2,661 | 35.3 | 4Q18 | 4Q20 |
| Mars Petcare - Ovation | Nashville | Office | 223,700 | 96,200 | 9,086 | 100.0 | 3Q19 | 3Q19 |
| Enterprise IV | Greensboro | Industrial | 128,000 | 8,040 | 3,763 | 62.5 | 1Q18 | 4Q18 |
| MetLife III (2) | Raleigh | Office | 219,000 | 64,500 | 5,718 | 100.0 | 2Q19 | 2Q21 |
| | | | 913,900 | \$ 260,580 | \$ 52,917 | 74.9% | | |

(1) Includes deferred lease commissions which are classified in deferred leasing costs on our Consolidated Balance Sheets.

(2) Recorded on our Consolidated Balance Sheets in land held for development, not development in-process.

Financing Activity

During the first quarter of 2017, we entered into separate equity distribution agreements with each of Wells Fargo Securities, LLC, Robert W. Baird & Co. Incorporated, BB&T Capital Markets, a division of BB&T Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, BTIG, LLC, Capital One Securities, Inc., Comerica Securities, Inc., Fifth Third Securities, Inc., Jefferies LLC, Morgan Stanley & Co. LLC, MUFG Securities Americas Inc. and RBC Capital Markets, LLC. Under the terms of the equity distribution agreements, the Company may offer and sell up to \$300.0 million in aggregate gross sales price of shares of Common Stock from time to time through such firms, acting as agents of the Company or as principals. Sales of the shares, if any, may be made by means of ordinary brokers' transactions on the New York Stock Exchange or otherwise at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices or as otherwise agreed with any of such firms. During the second quarter of 2017, the Company issued 1,177,734 shares of Common Stock at an average gross sales price of \$51.03 per share and received net proceeds, after sales commissions, of \$59.2 million. We paid an aggregate of \$0.9 million in sales commissions to MUFG Securities Americas Inc., Wells Fargo Securities, LLC and Jefferies LLC during the second quarter of 2017.

During the second quarter of 2017, we prepaid without penalty a secured mortgage loan with a fair market value of \$108.2 million with an effective interest rate of 4.22% that was originally scheduled to mature in November 2017. We recorded \$0.4 million of gain on debt extinguishment related to this prepayment.

During 2015, we acquired our joint venture partner's 77.2% interest in a building in Orlando. Simultaneously with this acquisition, the joint venture's previously existing mortgage note was restructured into a new \$18.0 million first mortgage note and a \$10.2 million subordinated note, both of which were scheduled to mature in July 2017. The first mortgage and subordinated notes had effective interest rates of 5.36% and 8.6%, respectively. The subordinated note and accrued interest thereon can be satisfied, in certain circumstances, upon payment of a "waterfall payment" equal to a cash payment of 50.0% of the amount by which the net sale proceeds or appraised value at the time of refinancing exceeded (1) the outstanding principal of the first mortgage note, (2) funds deposited by us into escrow to fund tenant improvements, leasing commissions and building improvements and (3) a 10.0% return on such funds deposited by us into escrow. As of the date of such restructuring, the subordinated note was recorded at a projected waterfall payment of \$1.0 million. During the second quarter of 2017, both notes were retired upon payment.

of the \$18.0 million principal balance on the first mortgage note and a \$0.5 million waterfall payment relating to the subordinated note, which resulted in \$0.4 million of gain on debt extinguishment.

During the second quarter of 2017, we obtained a \$100.0 million secured mortgage loan from a third party lender with an effective interest rate of 4.0% . This loan, which is secured by The Pinnacle at Symphony Place in Nashville, is scheduled to mature in May 2029 . We incurred \$0.8 million of debt issuance costs in connection with this loan, which will be amortized over the term of the loan.

During the second quarter of 2017, we entered into \$150.0 million notional amount of forward-starting swaps that effectively lock the underlying 10 -year treasury rate at 2.44% with respect to a planned issuance of debt securities by the Operating Partnership expected to occur prior to May 15, 2018. During the second quarter of 2017, we also entered into floating-to-fixed interest rate swaps through January 2022 with respect to an aggregate of \$50.0 million LIBOR-based borrowings, which effectively fixes the underlying one -month LIBOR rate at a weighted average rate of 1.693% . The counterparties under our swaps are major financial institutions.

Our \$ 475.0 million unsecured revolving credit facility is scheduled to mature in January 2018 and includes an accordion feature that allows for an additional \$ 75.0 million of borrowing capacity subject to additional lender commitments. Assuming no defaults have occurred, we have an option to extend the maturity for two additional six-month periods. The interest rate at our current credit ratings is LIBOR plus 110 basis points and the annual facility fee is 20 basis points. The interest rate and facility fee are based on the higher of the publicly announced ratings from Moody's Investors Service or Standard & Poor's Ratings Services. There was \$ 111.0 million and \$ 97.0 million outstanding under our revolving credit facility at June 30, 2017 and July 18, 2017 , respectively. At both June 30, 2017 and July 18, 2017 , we had \$ 0.6 million of outstanding letters of credit, which reduces the availability on our revolving credit facility. As a result, the unused capacity of our revolving credit facility at June 30, 2017 and July 18, 2017 was \$ 363.4 million and \$ 377.4 million , respectively.

We are currently in compliance with financial covenants and other requirements with respect to our consolidated debt. Although we expect to remain in compliance with these covenants and ratios for at least the next year, depending upon our future operating performance, property and financing transactions and general economic conditions, we cannot assure you that we will continue to be in compliance.

Our revolving credit facility and bank term loans require us to comply with customary operating covenants and various financial requirements. Upon an event of default on the revolving credit facility, the lenders having at least 51.0% of the total commitments under the revolving credit facility can accelerate all borrowings then outstanding, and we could be prohibited from borrowing any further amounts under our revolving credit facility, which would adversely affect our ability to fund our operations. In addition, certain of our unsecured debt agreements contain cross-default provisions giving the unsecured lenders the right to declare a default if we are in default under more than \$25.0 million with respect to other loans in some circumstances.

The indenture that governs the Operating Partnership's outstanding unsecured notes requires us to comply with customary operating covenants and various financial ratios. The trustee or the holders of at least 25.0% in principal amount of any series of notes can accelerate the principal amount of such series upon written notice of a default that remains uncured after 60 days.

We may not be able to repay, refinance or extend any or all of our debt at maturity or upon any acceleration. If any refinancing is done at higher interest rates, the increased interest expense could adversely affect our cash flow and ability to pay distributions. Any such refinancing could also impose tighter financial ratios and other covenants that restrict our ability to take actions that could otherwise be in our best interest, such as funding new development activity, making opportunistic acquisitions, repurchasing our securities or paying distributions.

Dividends and Distributions

To maintain its qualification as a REIT, the Company must pay dividends to stockholders that are at least 90.0% of its annual REIT taxable income, excluding net capital gains. The partnership agreement requires the Operating Partnership to distribute at least enough cash for the Company to be able to pay such dividends. The Company's REIT taxable income, as determined by the federal tax laws, does not equal its net income under accounting principles generally accepted in the United States of America ("GAAP"). In addition, although capital gains are not required to be distributed to maintain REIT status, capital gains, if any, are subject to federal and state income tax unless such gains are distributed to stockholders.

Cash dividends and distributions reduce the amount of cash that would otherwise be available for other business purposes, including funding debt maturities, reducing debt or future growth initiatives. The amount of future distributions that will be made is at the discretion of the Company's Board of Directors. For a discussion of the factors that will affect such cash flows and,

accordingly, influence the decisions of the Company's Board of Directors regarding dividends and distributions, see "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" in our 2016 Annual Report on Form 10-K.

During the second quarter of 2017, the Company declared and paid a cash dividend of \$0.44 per share of Common Stock.

Current and Future Cash Needs

We anticipate that our available cash and cash equivalents, cash flows from operating activities and other expected financing sources, including the issuance of debt securities by the Operating Partnership, the issuance of secured debt, bank term loans, borrowings under our revolving credit facility, the issuance of equity securities by the Company or the Operating Partnership and the disposition of non-core assets, will be adequate to meet our short-term liquidity requirements, including the \$200.0 million principal amount of unsecured notes due April 15, 2018.

We had \$13.3 million of cash and cash equivalents as of June 30, 2017. The unused capacity of our revolving credit facility at June 30, 2017 and July 18, 2017 was \$363.4 million and \$377.4 million, respectively, excluding an accordion feature that allows for an additional \$75.0 million of borrowing capacity subject to additional lender commitments. Also, we have recently demonstrated historical experience with our lending partners to obtain additional indebtedness, such as the \$350.0 million, six-month unsecured bridge facility we obtained in 2015 for the short-term funding of our acquisition activity, \$150.0 million unsecured term loan we obtained in 2016 (which was subsequently expanded by an additional \$50.0 million in the first quarter of 2017) to repay amounts outstanding under our revolving credit facility and \$100.0 million secured mortgage loan we obtained in the second quarter of 2017.

We have a currently effective automatic shelf registration statement on Form S-3 with the SEC pursuant to which, at any time and from time to time, in one or more offerings on an as-needed basis, the Company may sell an indefinite amount of common stock, preferred stock and depositary shares and the Operating Partnership may sell an indefinite amount of debt securities, subject to our ability to effect offerings on satisfactory terms based on prevailing market conditions.

The Company from time to time enters into equity distribution agreements with a variety of firms pursuant to which the Company may offer and sell shares of common stock from time to time through such firms, acting as agents of the Company or as principals. Sales of the shares, if any, may be made by means of ordinary brokers' transactions on the NYSE or otherwise at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices or as otherwise agreed with any of such firms (which may include block trades).

During 2017, we also expect to sell \$105 million to \$150 million of properties no longer considered to be core assets due to location, age, quality and/or overall strategic fit. We can make no assurance, however, that we will sell any non-core assets or, if we do, what the timing or terms of any such sale will be.

We generally intend to fund the growth of our company, including the \$187.8 million of contractual commitments through June 30, 2018 related to our development activity, on a leverage-neutral basis. At June 30, 2017, our leverage ratio was 35.3% and there were 106.1 million diluted shares of Common Stock outstanding.

Critical Accounting Estimates

There were no changes made by management to the critical accounting policies in the six months ended June 30, 2017. For a description of our critical accounting estimates, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates" in our 2016 Annual Report on Form 10-K.

Non-GAAP Information

The Company believes that FFO, FFO available for common stockholders and FFO available for common stockholders per share are beneficial to management and investors and are important indicators of the performance of any equity REIT. Because these FFO calculations exclude such factors as depreciation, amortization and impairments of real estate assets and gains or losses from sales of operating real estate assets, which can vary among owners of identical assets in similar conditions based on historical cost accounting and useful life estimates, they facilitate comparisons of operating performance between periods and between other REITs. Management believes that historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, management believes the use of FFO, FFO available for common stockholders and FFO available for common stockholders per share, together with the required GAAP presentations, provides a more complete understanding of the Company's performance relative to its competitors and a more informed and appropriate basis on which to make decisions involving operating, financing and investing activities.

FFO, FFO available for common stockholders and FFO available for common stockholders per share are non-GAAP financial measures and therefore do not represent net income or net income per share as defined by GAAP. Net income and net income per share as defined by GAAP are the most relevant measures in determining the Company's operating performance because these FFO measures include adjustments that investors may deem subjective, such as adding back expenses such as depreciation, amortization and impairments. Furthermore, FFO available for common stockholders per share does not depict the amount that accrues directly to the stockholders' benefit. Accordingly, FFO, FFO available for common stockholders and FFO available for common stockholders per share should never be considered as alternatives to net income, net income available for common stockholders, or net income available for common stockholders per share as indicators of the Company's operating performance.

The Company's presentation of FFO is consistent with FFO as defined by the National Association of Real Estate Investment Trusts, which is calculated as follows:

- Net income/(loss) computed in accordance with GAAP;
- Less net income attributable to noncontrolling interests in consolidated affiliates;
- Plus depreciation and amortization of depreciable operating properties;
- Less gains, or plus losses, from sales of depreciable operating properties, plus impairments on depreciable operating properties and excluding items that are classified as extraordinary items under GAAP;
- Plus or minus our share of adjustments, including depreciation and amortization of depreciable operating properties, for unconsolidated joint venture investments (to reflect funds from operations on the same basis); and
- Plus or minus adjustments for depreciation and amortization and gains/(losses) on sales of depreciable operating properties, plus impairments on depreciable operating properties, and noncontrolling interests in consolidated affiliates related to discontinued operations.

In calculating FFO, the Company includes net income attributable to noncontrolling interests in the Operating Partnership, which the Company believes is consistent with standard industry practice for REITs that operate through an UPREIT structure. The Company believes that it is important to present FFO on an as-converted basis since all of the Common Units not owned by the Company are redeemable on a one-for-one basis for shares of its Common Stock.

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The following table sets forth the Company's FFO, FFO available for common stockholders and FFO available for common stockholders per share (\$ in thousands, except per share amounts):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------------|------------------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Funds from operations: | | | | |
| Net income | \$ 39,554 | \$ 33,528 | \$ 73,039 | \$ 480,263 |
| Net (income) attributable to noncontrolling interests in consolidated affiliates | (299) | (314) | (599) | (622) |
| Depreciation and amortization of real estate assets | 55,116 | 54,680 | 110,591 | 107,477 |
| (Gains) on disposition of depreciable properties | — | (5,861) | (5,332) | (8,915) |
| Unconsolidated affiliates: | | | | |
| Depreciation and amortization of real estate assets | 732 | 749 | 1,394 | 1,491 |
| (Gains) on disposition of depreciable properties | — | — | — | (331) |
| Discontinued operations: | | | | |
| (Gains) on disposition of depreciable properties | — | — | — | (414,496) |
| Funds from operations | 95,103 | 82,782 | 179,093 | 164,867 |
| Dividends on Preferred Stock | (623) | (627) | (1,246) | (1,253) |
| Funds from operations available for common stockholders | \$ 94,480 | \$ 82,155 | \$ 177,847 | \$ 163,614 |
| Funds from operations available for common stockholders per share | \$ 0.90 | \$ 0.82 | \$ 1.69 | \$ 1.64 |
| Weighted average shares outstanding (1) | 105,386 | 100,628 | 105,026 | 99,992 |

(1) Includes assumed conversion of all potentially dilutive Common Stock equivalents.

In addition, the Company believes NOI from continuing operations and same property NOI are useful supplemental measures of the Company's property operating performance because such metrics provide a performance measure of the revenues and expenses directly involved in owning real estate assets and a perspective not immediately apparent from net income or FFO. The Company defines NOI as rental and other revenues from continuing operations, less rental property and other expenses from continuing operations. The Company defines cash NOI as NOI less lease termination fees, straight-line rent, amortization of lease incentives and amortization of acquired above and below market leases. Other REITs may use different methodologies to calculate NOI, same property NOI and cash NOI.

As of June 30, 2017, our same property portfolio consisted of 224 in-service properties encompassing 29.0 million rentable square feet that were wholly owned during the entirety of the periods presented (from January 1, 2016 to June 30, 2017). As of December 31, 2016, our same property portfolio consisted of 217 in-service properties encompassing 26.7 million rentable square feet that were wholly owned during the entirety of the periods presented (from January 1, 2015 to December 31, 2016). The change in our same property portfolio was due to the addition of four properties encompassing 1.6 million rentable square feet acquired during 2015 and four newly developed properties encompassing 0.8 million rentable square feet placed in service during 2015. These additions were offset by the removal of one property encompassing 0.1 million rentable square feet that was sold during 2017.

Rental and other revenues related to properties not in our same property portfolio were \$12.6 million and \$4.8 million for the three months ended June 30, 2017 and 2016, respectively, and \$19.5 million and \$8.8 million for the six months ended June 30, 2017 and 2016, respectively. Rental property and other expenses related to properties not in our same property portfolio were \$2.4 million and \$1.1 million for the three months ended June 30, 2017 and 2016, respectively, and \$4.1 million and \$2.2 million for the six months ended June 30, 2017 and 2016, respectively.

The following table sets forth the Company's NOI and same property NOI:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------|------------------------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| Income from continuing operations before disposition of investment properties and activity in unconsolidated affiliates | \$ 38,799 | \$ 26,750 | \$ 65,997 | \$ 49,210 |
| Other income | (1,390) | (534) | (2,074) | (1,051) |
| Interest expense | 16,154 | 19,485 | 34,017 | 40,190 |
| General and administrative expenses | 9,050 | 8,327 | 20,540 | 19,464 |
| Depreciation and amortization | 55,816 | 55,317 | 111,961 | 108,811 |
| Net operating income from continuing operations | 118,429 | 109,345 | 230,441 | 216,624 |
| Less – non same property and other net operating income | (10,236) | (3,758) | (15,378) | (6,643) |
| Same property net operating income from continuing operations | \$ 108,193 | \$ 105,587 | \$ 215,063 | \$ 209,981 |
| Same property net operating income from continuing operations | \$ 108,193 | \$ 105,587 | \$ 215,063 | \$ 209,981 |
| Less – lease termination fees, straight-line rent and other non-cash adjustments | (3,191) | (5,868) | (7,790) | (13,297) |
| Same property cash net operating income from continuing operations | \$ 105,002 | \$ 99,719 | \$ 207,273 | \$ 196,684 |

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The effects of potential changes in interest rates are discussed below. Our market risk discussion includes “forward-looking statements” and represents an estimate of possible changes in fair value or future earnings that would occur assuming hypothetical future movements in interest rates. Actual future results may differ materially from those presented. See “Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources” and the Notes to Consolidated Financial Statements for a description of our accounting policies and other information related to these financial instruments.

We borrow funds at a combination of fixed and variable rates. Borrowings under our revolving credit facility and bank term loans bear interest at variable rates. Our long-term debt, which consists of secured and unsecured long-term financings, typically bears interest at fixed rates. Our interest rate risk management objectives are to limit generally the impact of interest rate changes on earnings and cash flows and lower our overall borrowing costs. To achieve these objectives, from time to time we enter into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We generally do not hold or issue these derivative contracts for trading or speculative purposes.

At June 30, 2017, we had \$1,142.8 million principal amount of fixed rate debt outstanding, a \$111.5 million decrease as compared to December 31, 2016, excluding debt with a variable rate that is effectively fixed by related interest rate hedge contracts. The estimated aggregate fair market value of this debt was \$1,156.9 million. If interest rates had been 100 basis points higher, the aggregate fair market value of our fixed rate debt would have been \$57.3 million lower. If interest rates had been 100 basis points lower, the aggregate fair market value of our fixed rate debt would have been \$61.9 million higher.

At June 30, 2017, we had \$596.0 million of variable rate debt outstanding, a \$121.0 million increase as compared to December 31, 2016, not protected by interest rate hedge contracts. If the weighted average interest rate on this variable rate debt had been 100 basis points higher, the annual interest expense would increase \$6.0 million. If the weighted average interest rate on this variable rate debt had been 100 basis points lower, the annual interest expense would decrease \$6.0 million.

At June 30, 2017, we had \$275.0 million of variable rate debt outstanding with \$275.0 million of related floating-to-fixed interest rate swaps (including \$50.0 million of swaps we entered into during the second quarter of 2017). These swaps effectively fix the underlying one-month LIBOR rate at a weighted average rate of 1.681%. The weighted average rate of such swaps we held at December 31, 2016 was 1.678%. If the underlying LIBOR interest rates increase or decrease by 100 basis points, the aggregate fair market value of the swaps at June 30, 2017 would increase by \$5.4 million or decrease by \$5.6 million, respectively.

During the second quarter of 2017, we entered into \$150.0 million notional amount of forward-starting swaps that effectively lock the underlying 10-year treasury rate at 2.44% with respect to a planned issuance of debt securities by the Operating Partnership expected to occur prior to May 15, 2018. If the underlying treasury rate was to increase or decrease by 100 basis points, the aggregate fair market value of the swaps at June 30, 2017 would increase by \$12.7 million or decrease by \$14.3 million, respectively.

We are exposed to certain losses in the event of nonperformance by the counterparties, which are major financial institutions, under the swaps. We regularly evaluate the financial condition of our counterparties using publicly available information. Based on this review, we currently expect the counterparties to perform fully under the swaps. However, if a counterparty defaults on its obligations under a swap, we could be required to pay the full rates on the applicable debt, even if such rates were in excess of the rate in the contract.

ITEM 4. CONTROLS AND PROCEDURES

SEC rules require us to maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our annual and periodic reports filed with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management to allow for timely decisions regarding required disclosure. The Company's CEO and CFO have concluded that the disclosure controls and procedures of the Company and the Operating Partnership were each effective at the end of the period covered by this Quarterly Report.

SEC rules also require us to establish and maintain internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. There were no changes in internal control over financial reporting during the three months ended June 30, 2017 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. There were also no changes in internal control over financial reporting during the three months ended June 30, 2017 that materially affected, or are reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

PART II - OTHER INFORMATION**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

During the second quarter of 2017, the Company issued an aggregate of 4,000 shares of Common Stock to holders of Common Units in the Operating Partnership upon the redemption of a like number of Common Units in private offerings exempt from the registration requirements pursuant to Section 4(2) of the Securities Act. Each of the holders of Common Units was an accredited investor under Rule 501 of the Securities Act. The resale of such shares was registered by the Company under the Securities Act.

The following table sets forth information related to shares of Common Stock surrendered by employees to satisfy tax withholding obligations in connection with the vesting of restricted stock during the second quarter of 2017:

| | Total Number of Shares Purchased | Weighted Average Price Paid per Share |
|---------------------|---|--|
| April 1 to April 30 | 428 | \$ 49.13 |
| May 1 to May 31 | 141 | 50.97 |
| June 1 to June 30 | — | — |
| Total | <u>569</u> | <u>\$ 49.59</u> |

ITEM 5. OTHER INFORMATION

As previously reported, at the Company's annual meeting of stockholders held on May 10, 2017, a substantial majority of the holders of our common stock cast advisory votes supporting the recommendation of the Company's Board of Directors that stockholders be provided the opportunity to cast advisory votes on our executive compensation programs every year. An advisory vote on executive compensation is referred to as a "say-on-pay vote." In light of the Board's recommendation and the preference of our stockholders as expressed at the annual meeting, the Company has decided to hold say-on-pay votes at its annual meeting every year.

ITEM 6. EXHIBITS

| Exhibit Number | Description |
|---------------------------|--|
| 12.1 | Statement re: Computation of Ratios of the Company |
| 12.2 | Statement re: Computation of Ratios of the Operating Partnership |
| 31.1 | Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Company |
| 31.2 | Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Company |
| 31.3 | Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Operating Partnership |
| 31.4 | Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Operating Partnership |
| 32.1 | Certification of CEO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Company |
| 32.2 | Certification of CFO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Company |
| 32.3 | Certification of CEO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Operating Partnership |
| 32.4 | Certification of CFO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Operating Partnership |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Extension Labels Linkbase |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

HIGHWOODS PROPERTIES, INC.
RATIO OF EARNINGS TO FIXED CHARGES AND
RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

| | <u>Six Months Ended</u> <u>June 30, 2017</u> |
|--|---|
| Earnings: | |
| Income from continuing operations before equity in earnings of unconsolidated affiliates | \$ 71,329 |
| Fixed charges | 41,332 |
| Capitalized interest | (6,043) |
| Distributions of earnings from unconsolidated affiliates | 2,907 |
| Total earnings | <u>\$ 109,525</u> |
| Fixed charges and Preferred Stock dividends: | |
| Contractual interest expense | \$ 32,368 |
| Amortization of debt issuance costs | 1,649 |
| Capitalized interest | 6,043 |
| Interest component of rental expense | 1,272 |
| Total fixed charges | <u>41,332</u> |
| Preferred Stock dividends | 1,246 |
| Total fixed charges and Preferred Stock dividends | <u>\$ 42,578</u> |
| Ratio of earnings to fixed charges | <u>2.65</u> |
| Ratio of earnings to combined fixed charges and Preferred Stock dividends | <u>2.57</u> |

**HIGHWOODS REALTY LIMITED PARTNERSHIP
RATIO OF EARNINGS TO FIXED CHARGES AND
RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED UNIT DISTRIBUTIONS**

| | <u>Six Months Ended June 30, 2017</u> |
|--|---|
| Earnings: | |
| Income from continuing operations before equity in earnings of unconsolidated affiliates | \$ 71,329 |
| Fixed charges | 41,332 |
| Capitalized interest | (6,043) |
| Distributions of earnings from unconsolidated affiliates | 2,907 |
| Total earnings | <u>\$ 109,525</u> |
| Fixed charges and Preferred Unit distributions: | |
| Contractual interest expense | \$ 32,368 |
| Amortization of debt issuance costs | 1,649 |
| Capitalized interest | 6,043 |
| Interest component of rental expense | 1,272 |
| Total fixed charges | <u>41,332</u> |
| Preferred Unit distributions | 1,246 |
| Total fixed charges and Preferred Unit distributions | <u>\$ 42,578</u> |
| Ratio of earnings to fixed charges | <u>2.65</u> |
| Ratio of earnings to combined fixed charges and Preferred Unit distributions | <u>2.57</u> |

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT**

I, Edward J. Fritsch, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Highwoods Properties, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: July 25, 2017

/s/ Edward J. Fritsch

Edward J. Fritsch
President and Chief Executive Officer

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT**

I, Mark F. Mulhern, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Highwoods Properties, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: July 25, 2017

/s/ Mark F. Mulhern

Mark F. Mulhern
Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT**

I, Edward J. Fritsch, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Highwoods Realty Limited Partnership;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: July 25, 2017

/s/ Edward J. Fritsch

Edward J. Fritsch
President and Chief Executive Officer of the General Partner

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT**

I, Mark F. Mulhern, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Highwoods Realty Limited Partnership;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: July 25, 2017

/s/ Mark F. Mulhern

Mark F. Mulhern
Executive Vice President and Chief Financial Officer of the General Partner

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT**

In connection with the Quarterly Report of Highwoods Properties, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Edward J. Fritsch, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Edward J. Fritsch

Edward J. Fritsch
President and Chief Executive Officer

July 25, 2017

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT**

In connection with the Quarterly Report of Highwoods Properties, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark F. Mulhern, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mark F. Mulhern

Mark F. Mulhern
Executive Vice President and Chief Financial Officer
July 25, 2017

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT**

In connection with the Quarterly Report of Highwoods Realty Limited Partnership (the "Operating Partnership") on Form 10-Q for the period ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Edward J. Fritsch, President and Chief Executive Officer of Highwoods Properties, Inc., general partner of the Operating Partnership, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Operating Partnership.

/s/ Edward J. Fritsch

Edward J. Fritsch
President and Chief Executive Officer of the General Partner

July 25, 2017

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT**

In connection with the Quarterly Report of Highwoods Realty Limited Partnership (the "Operating Partnership") on Form 10-Q for the period ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark F. Mulhern, Executive Vice President and Chief Financial Officer of Highwoods Properties, Inc., general partner of the Operating Partnership, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Operating Partnership.

/s/ Mark F. Mulhern

Mark F. Mulhern
Executive Vice President and Chief Financial Officer of the General Partner
July 25, 2017