

# HIGHWOODS PROPERTIES INC

## FORM 10-Q (Quarterly Report)

Filed 11/15/1999 For Period Ending 9/30/1999

Address	3100 SMOKETREE CT STE 600 RALEIGH, North Carolina 27604
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CIK	0000921082
Industry	Real Estate Operations
Sector	Services
Fiscal Year	12/31

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**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 September 30, 1999

*Commission file number: 001-13100*

**HIGHWOODS PROPERTIES, INC.**

(Exact name of registrant as specified in its charter)

MARYLAND  
(State or other jurisdiction of  
incorporation or organization)

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

**3100 SMOKETREE COURT, SUITE 600, RALEIGH, N.C.**  
(Address of principal executive office)

27604  
(Zip Code)

Registrant's telephone number, including area code:  
(919) 872-4924

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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. Yes ☒ No

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The Company has only one class of common stock, par value \$.01 per share, with 62,052,718 shares outstanding as of November 8, 1999.

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# HIGHWOODS PROPERTIES, INC.

## QUARTERLY REPORT FOR THE PERIOD ENDED SEPTEMBER 30, 1999

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## **PART I -- FINANCIAL INFORMATION**

### **ITEM 1. FINANCIAL STATEMENTS**

We refer to (1) Highwoods Properties, Inc. as the "Company," (2) Highwoods Realty Limited Partnership as the "Operating Partnership," (3) the Company's common stock as "Common Stock" and (4) the Operating Partnership's common partnership interests as "Common Units."

The information furnished in the accompanying balance sheets, statements of income, statements of stockholders' equity and statements of cash flows reflect all adjustments (consisting of normal recurring accruals) that are, in our opinion, necessary for a fair presentation of the aforementioned financial statements for the interim period.

The aforementioned financial statements should be read in conjunction with the notes to consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included herein and our 1998 Annual Report on Form 10-K.

# HIGHWOODS PROPERTIES, INC.

## CONSOLIDATED BALANCE SHEETS

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	SEPTEMBER 30, 1999	DECEMBER 31, 1998
	----- (UNAUDITED)	-----
<b>ASSETS</b>		
Real estate assets, at cost:		
Land and improvements .....	\$ 485,985	\$ 559,100
Buildings and tenant improvements .....	3,009,423	3,186,584
Development in process .....	190,958	189,465
Land held for development .....	161,397	150,622
Furniture, fixtures and equipment .....	7,496	7,693
	-----	-----
	3,855,259	4,093,464
Less -- accumulated depreciation .....	(218,840)	(169,272)
	-----	-----
Net real estate assets .....	3,636,419	3,924,192
Property held for sale .....	167,563	131,262
Cash and cash equivalents .....	47,500	31,445
Restricted cash .....	2,594	24,263
Accounts receivable, net .....	26,874	27,948
Advances to related parties .....	14,425	10,420
Notes receivable .....	64,587	40,225
Accrued straight line rents receivable .....	33,314	27,194
Investment in unconsolidated affiliates .....	39,032	21,088
Other assets:		
Deferred leasing costs .....	61,614	45,785
Deferred financing costs .....	40,691	38,750
Prepaid expenses and other .....	18,637	15,237
	-----	-----
	120,942	99,772
Less -- accumulated amortization .....	(32,643)	(23,476)
	-----	-----
	88,299	76,296
	-----	-----
	\$4,120,607	\$4,314,333
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Mortgages and Notes payable .....	\$1,827,502	\$2,008,716
Accounts payable, accrued expenses and other liabilities .....	118,685	130,575
	-----	-----
Total liabilities .....	1,946,187	2,139,291
Minority interest .....	248,552	279,043
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$.01 par value, 50,000,000 authorized shares;		
8 5/8% Series A Cumulative Redeemable Preferred Shares		
(liquidation preference \$1,000 per share), 125,000 shares issued		
and outstanding at September 30, 1999 and December 31, 1998 .....	125,000	125,000
8% Series B Cumulative Redeemable Preferred Shares		
(liquidation preference \$25 per share), 6,900,000 shares issued and		
outstanding at September 30, 1999 and December 31, 1998 .....	172,500	172,500
8% Series D Cumulative Redeemable Preferred Shares		
(liquidation preference \$250 per share), 400,000 shares issued and		
outstanding at September 30, 1999 and December 31, 1998 .....	100,000	100,000
Common stock, \$.01 par value, authorized 200,000,000 shares; 62,052,718		
shares issued and outstanding at September 30, 1999 and 59,865,259		
shares issued and outstanding at December 31, 1998 .....	621	599
Additional paid-in capital .....	1,597,304	1,546,592
Distributions in excess of net earnings .....	(69,557)	(48,692)
	-----	-----
Total stockholders' equity .....	1,925,868	1,895,999
	-----	-----
	\$4,120,607	\$4,314,333
	=====	=====

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

# HIGHWOODS PROPERTIES, INC.

## CONSOLIDATED STATEMENTS OF INCOME

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
REVENUE:				
Rental property .....	\$136,304	\$138,793	\$ 425,104	\$ 352,203
Equity in earnings of unconsolidated affiliates .....	702	194	1,389	194
Interest and other income .....	3,621	3,953	14,181	8,672
	140,627	142,940	440,674	361,069
OPERATING EXPENSES:				
Rental property .....	41,002	43,117	130,108	108,672
Depreciation and amortization .....	26,116	24,464	81,977	61,965
Interest expense:				
Contractual .....	25,715	28,452	87,274	62,835
Amortization of deferred financing costs .....	696	683	2,208	1,915
	26,411	29,135	89,482	64,750
General and administrative .....	4,883	5,915	16,888	14,085
Income before gain on disposition of assets, net of income tax provision, minority interest and extraordinary item .....	42,215	40,309	122,219	111,597
Gain on disposition of assets, net of income tax provision .....	846	--	2,939	--
Income before minority interest and extraordinary item .....	43,061	40,309	125,158	111,597
MINORITY INTEREST .....	(5,065)	(6,031)	(15,770)	(17,905)
Income before extraordinary item .....	37,996	34,278	109,388	93,692
EXTRAORDINARY ITEM -- LOSS ON EARLY EXTINGUISHMENT OF DEBT .....	(4,997)	(324)	(5,774)	(370)
Net income .....	32,999	33,954	103,614	93,322
Dividends on preferred shares .....	(8,145)	(8,145)	(24,435)	(21,946)
Net income available for common shareholders .....	\$ 24,854	\$ 25,809	\$ 79,179	\$ 71,376
NET INCOME/(LOSS) PER COMMON SHARE -- BASIC:				
Income before extraordinary item .....	\$ 0.48	\$ 0.45	\$ 1.38	\$ 1.35
Extraordinary item -- loss on early extinguishment of debt .....	(.08)	(.01)	(.09)	(.01)
Net income .....	\$ 0.40	\$ 0.44	\$ 1.29	\$ 1.34
Weighted average shares outstanding -- basic .....	61,863	58,059	61,233	53,189
NET INCOME/(LOSS) PER COMMON SHARE -- DILUTED:				
Income before extraordinary item .....	\$ 0.48	\$ 0.45	\$ 1.38	\$ 1.34
Extraordinary item loss on early extinguishment of debt .....	(0.08)	(.01)	(0.09)	(.01)
Net income .....	\$ 0.40	\$ 0.44	\$ 1.29	\$ 1.33
Weighted average shares outstanding -- diluted .....	62,169	58,228	61,493	53,510
Distributions declared per common share .....	\$ 0.555	\$ 0.54	\$ 1.635	\$ 1.56

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

# HIGHWOODS PROPERTIES, INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1999 (UNAUDITED)

(DOLLARS IN THOUSANDS)

	NUMBER OF COMMON SHARES	COMMON STOCK	SERIES A PREFERRED	SERIES B PREFERRED	
Balance at December 31, 1998 .....	59,865,259	\$599	\$125,000	\$172,500	
Issuance of Common Stock .....	1,177,832	12			
Common Stock Dividends .....					
Preferred Stock Dividends .....					
Net Income .....					
Shares issued upon redemption of Common Units .....	1,256,051	12			
Forward Equity Transaction (see Note 8) .....					
Retirement of Common Stock (see Note 8) .....	(246,424)	(2)			
Balance at September 30, 1999.....	62,052,718	\$621	\$125,000	\$172,500	
	=====	=====	=====	=====	
			RETAINED EARNINGS (DISTRIBUTIONS IN EXCESS OF NET EARNINGS)		
	SERIES D PREFERRED	ADDITIONAL PAID-IN CAPITAL			TOTAL
Balance at December 31, 1998 .....	\$100,000	\$1,546,592	\$ (48,692)		\$1,895,999
Issuance of Common Stock .....		22,940			22,952
Common Stock Dividends .....			(99,894)		(99,894)
Preferred Stock Dividends .....			(24,435)		(24,435)
Net Income .....			103,614		103,614
Shares issued upon redemption of Common Units .....		40,555			40,567
Forward Equity Transaction (see Note 8) .....		(12,783)			(12,783)
Retirement of Common Stock (see Note 8) .....			(150)		(152)
Balance at September 30, 1999.....	\$100,000	\$1,597,304	\$ (69,557)		\$1,925,868
	=====	=====	=====		=====

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

# HIGHWOODS PROPERTIES, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998
	(UNAUDITED)	(UNAUDITED)
OPERATING ACTIVITIES:		
Net income .....	\$ 103,614	\$ 93,322
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization .....	81,977	61,965
Minority interest .....	15,770	17,905
Loss on early extinguishment of debt .....	5,774	370
Gain on disposition of assets, net of income tax provision .....	(2,939)	--
Changes in operating assets and liabilities .....	(29,733)	15,892
Net cash provided by operating activities .....	174,463	189,454
INVESTING ACTIVITIES:		
Additions to real estate assets .....	(414,168)	(756,794)
Cash paid in exchange for partnership net assets .....	(991)	(108,257)
Proceeds from disposition of assets .....	550,039	--
Advances to subsidiaries .....	(4,005)	--
Other .....	(37,512)	(21,000)
Net cash provided by/(used in) investing activities .....	93,363	(886,051)
FINANCING ACTIVITIES:		
Distributions paid on common stock and common units .....	(114,724)	(99,483)
Dividends paid on preferred stock .....	(24,435)	(21,946)
Payments of prepayment penalties .....	(5,774)	(370)
Borrowings on mortgages and notes payable .....	4,385	529,941
Repayment of mortgages and notes payable .....	(172,568)	(130,993)
Borrowings on revolving loans .....	408,000	792,500
Payments on revolving loans .....	(362,500)	(648,000)
Net proceeds from the sale of common stock .....	22,940	196,930
Net proceeds from the sale of 8% Series D Cumulative Redeemable Preferred Shares .....	--	96,809
Net change in deferred financing costs .....	(4,494)	(6,986)
Other .....	(2,601)	--
Net cash (used in)/provided by financing activities .....	(251,771)	708,402
Net increase in cash and cash equivalents .....	16,055	11,805
Cash and cash equivalents at beginning of the period .....	31,445	10,146
Cash and cash equivalents at end of the period .....	\$ 47,500	\$ 21,951
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest .....	\$ 103,603	\$ 60,325
	=====	=====

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.



**HIGHWOODS PROPERTIES, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(IN THOUSANDS)

**SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES**

The following summarizes (i) the net assets contributed by the holders of Common Units in the Operating Partnership, (ii) the change in net assets contributed as a result of the reorganization of our Des Moines partnerships (see Note 6) and (iii) the net assets acquired subject to mortgage notes payable.

	NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998
	(UNAUDITED)	(UNAUDITED)
ASSETS:		
Rental property and equipment, net .....	\$ (18,513)	\$491,863
LIABILITIES:		
Mortgages and notes payable assumed .....	\$ (52,165)	\$327,214
	-----	-----
Net assets .....	\$ 33,652	\$164,649
	=====	=====

**SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.**

# HIGHWOODS PROPERTIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1999  
(UNAUDITED)

### 1. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Company and the Operating Partnership and its majority controlled affiliates. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

The extraordinary loss represents the write-off of loan origination fees and prepayment penalties paid on the early extinguishment of debt, net of the minority interest.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, which is required to be adopted in fiscal years beginning after June 15, 1999. In June 1999, FASB issued Statement No. 137, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES -- DEFERRAL OF THE FASB STATEMENT NO. 133, which stipulates the required adoption date to be all fiscal years beginning after June 15, 2000. Statement No. 133 requires us to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The fair market value of the Company's derivatives is discussed in Item 2.

The "Year 2000" issue is a general term used to describe the various problems that may result from the improper processing of dates and calculations involving years by many computers throughout the world as the Year 2000 is approached and reached. We have reviewed the impact of Year 2000 issues and do not expect Year 2000 issues to be material to our business, operations, or financial condition. The Year 2000 issue is discussed more fully in "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Minority interest in the Company represents Common Units owned by various individuals and entities and not the Company in the Operating Partnership, the entity that owns substantially all of the Company's properties and through which the Company, as the sole general partner, conducts substantially all of its operations. Per share information is calculated using the weighted average number of shares outstanding (including common share equivalents). In addition, minority interest includes equity of consolidated real estate partnerships which are owned by various individuals and entities and not the Company. The Company acquired greater than 50% of the interest in certain real estate partnerships as part of its acquisition of J.C. Nichols Company in July 1998.

### 2. INCOME TAXES

The Company has elected and expects to continue to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. Therefore, no provision has been made for income taxes related to REIT taxable income to be distributed to shareholders. However, a provision has been made related to a portion of REIT taxable income resultant from the gain on disposition of assets that will not be distributed to shareholders.

### 3. SEGMENT INFORMATION

Our sole business is the acquisition, development and operation of rental real estate properties. We operate office, industrial and retail properties and apartment units. There are no material inter-segment transactions.

Our chief operating decision maker ("CDM") assesses and measures operating results based upon property level net operating income. The operating results for the individual assets within each property type have been aggregated since the CDM evaluates operating results and allocates resources on a property-by-property basis within the various property types.

The accounting policies of the segments are the same as those described in Note 1. Further, all operations are within the United States and no tenant comprises more than 10% of consolidated revenues. The following table summarizes the rental income, net operating income and total assets for each reportable segment for the three and nine months ended September 30, 1999 and 1998.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
	(IN THOUSANDS)		(IN THOUSANDS)	
RENTAL INCOME:				
Office segment .....	\$ 109,581	\$ 116,267	\$ 348,337	\$ 309,817
Industrial segment .....	13,842	12,423	39,753	32,283
Retail segment .....	8,597	6,411	24,536	6,411
Apartment segment .....	4,284	3,692	12,478	3,692
	=====	=====	=====	=====
	\$ 136,304	\$ 138,793	\$ 425,104	\$ 352,203
NET OPERATING INCOME:				
Office segment .....	\$ 76,082	\$ 79,128	\$ 238,944	\$ 210,607
Industrial segment .....	11,423	10,363	32,897	26,739
Retail segment .....	5,454	4,096	16,156	4,096
Apartment segment .....	2,343	2,089	6,999	2,089
	=====	=====	=====	=====
	\$ 95,302	\$ 95,676	\$ 294,996	\$ 243,531
RECONCILIATION TO INCOME BEFORE MINORITY INTEREST AND EXTRAORDINARY ITEM:				
Equity in income of unconsolidated affiliates .....	\$ 702	\$ 194	\$ 1,389	\$ 194
Gain on disposition of assets, net of income tax provision .....	846	--	2,939	--
Interest and other income .....	3,621	3,953	14,181	8,672
Interest expense .....	(26,411)	(29,135)	(89,482)	(64,750)
General and administrative expenses .....	(4,883)	(5,915)	(16,888)	(14,085)
Depreciation and amortization .....	(26,116)	(24,464)	(81,977)	(61,965)
	=====	=====	=====	=====
Income before minority interest and extraordinary item .....	\$ 43,061	\$ 40,309	\$ 125,158	\$ 111,597
TOTAL ASSETS:				
Office segment .....	\$3,021,160	\$3,174,457	\$3,021,161	\$3,174,457
Industrial segment .....	496,428	463,801	496,428	463,801
Retail segment .....	256,197	232,450	256,197	232,450
Apartment segment .....	119,356	122,920	119,356	122,920
Corporate and other .....	227,466	151,310	227,466	151,310
	=====	=====	=====	=====
Total assets .....	\$4,120,607	\$4,144,938	\$4,120,607	\$4,144,938

#### 4. JOINT VENTURE ACTIVITY

On March 15, 1999, we closed a transaction with Schweiz-Deutschland-USA Dreilander Beteiligung Objekt-DLF 98/29-Walker Fink-KG ("DLF"), pursuant to which we sold or contributed certain office properties valued at approximately \$142 million to a newly created limited partnership (the "Joint Venture"). DLF contributed approximately \$55 million for a 77.19% interest in the Joint Venture, and the Joint Venture borrowed approximately \$71 million from third-party lenders. We retained the remaining 22.81% interest in the Joint Venture, received net cash proceeds of approximately \$124 million and are the sole and exclusive manager and leasing agent of the Joint Venture's properties, for which we receive customary management fees and leasing commissions. We used the cash proceeds received in the transaction to fund existing development activity either through direct payments or repayment of borrowings under our \$600 million unsecured revolving loan (the "Revolving Loan").

#### 5. LEGAL CONTINGENCIES

On October 2, 1998, John Flake, a former stockholder of J.C. Nichols, filed a putative class action lawsuit on behalf of himself and the other former stockholders of J.C. Nichols in the United States District Court for the District of Kansas against J.C. Nichols, certain of its former officers and directors and the Company. The complaint alleges, among other things, that in connection with the merger of J.C. Nichols and the Company, (1) J.C. Nichols and the named directors and officers of J.C. Nichols breached their fiduciary duties to J.C. Nichols' stockholders, (2) J.C. Nichols and the named directors and officers of J.C. Nichols breached their fiduciary duties to members of the J.C. Nichols Company Employee Stock Ownership Trust, (3) all defendants participated in the dissemination of a proxy statement containing materially false and misleading statements and omissions of

material facts in violation of Section 14(a) of the Exchange Act of 1934 and (4) the Company filed a registration statement with the SEC containing materially false and misleading statements and omissions of material facts in violation of Sections 11 and 12(2) of the Securities Act of 1933. The plaintiff seeks equitable relief and monetary damages. We believe that the defendants have meritorious defenses to the plaintiff's allegations. We intend to vigorously defend this litigation. By order dated June 18, 1999, the court granted in part and denied in part our motions to dismiss. The court has granted the plaintiff's motion seeking certification of the proposed class of plaintiffs with respect to the remaining claims. Discovery in this matter is proceeding. Due to the inherent uncertainties of the litigation process, we are not able to predict the outcome of this litigation. If this litigation is not resolved in our favor, it could have a material adverse effect on our business, financial condition and results of operations.

In addition, we are a party to a variety of legal proceedings arising in the ordinary course of our business. We believe that we are adequately covered by insurance and indemnification agreements. Accordingly, none of such proceedings are expected to have a material adverse effect on our business, financial condition and results of operations.

## 6. DES MOINES PARTNERSHIPS

In connection with our merger with J.C. Nichols in July 1998, we succeeded to the interests of J.C. Nichols in a strategic alliance with R&R Investors, Ltd. pursuant to which R&R Investors manages and leases certain co-venture properties located in the Des Moines area. As a result of the merger, we acquired an ownership interest of 50% or more in a series of nine co-ventures with R&R Investors. Certain of these properties were previously included in our consolidated financial statements. On June 2, 1999, we agreed with R&R Investors to reorganize our respective ownership interests in the Des Moines properties such that each would own a 50% interest in the properties in the Des Moines area. Accordingly, we have adopted the equity method of accounting for our investment in each of the Des Moines properties as a result of such reorganization. The impact of the reorganization was immaterial to our consolidated financial statements.

## 7. DISPOSITION ACTIVITY

On June 7, 1999, we sold approximately 3.3 million rentable square feet of non-core office and industrial properties and 49 acres of development land in the South Florida area for gross proceeds of approximately \$323.0 million. In addition, during the nine months ended September 30, 1999, we sold approximately 1.9 million rentable square feet of non-core office and industrial properties in the Baltimore area and certain other non-core office and industrial properties for gross proceeds of \$137.5 million. We recorded a gain, net of income tax provision, of \$2.9 million related to these dispositions. Non-core office and industrial properties generally include single buildings or business parks that do not fit our long-term strategy.

In addition, we currently have 2.3 million square feet of non-core office and industrial properties under contract for sale in various transactions totaling \$181.9 million (including \$165.3 related to the sale of various central Florida properties) and 1.7 million square feet of non-core office and industrial properties under various letters of intent for sale at \$128.4 million. These transactions are subject to customary closing conditions, including due diligence and documentation, and are expected to close during the fourth quarter of this year and the first quarter of 2000. However, we can provide no assurance that all or part of these transactions will be consummated.

## 8. EQUITY SETTLEMENT

On August 28, 1997, we entered into a purchase agreement with UBS AG, London Branch ("UB-LB") involving the sale of 1.8 million shares of Common Stock and a related forward contract providing for certain purchase price adjustments. The forward contract (as amended) generally provided that if the market price was less than a certain amount, which we refer to as the "Forward Price," we were required to pay UB-LB the difference times 1.8 million. (Similarly, if the Market Price of a share of Common Stock was above the Forward Price, UB-LB was required to pay us the difference in shares of Common Stock.)

On February 28, 1999, the Company and UB-LB amended the forward contract. Pursuant to the amendment, UB-LB applied \$12.8 million in Company collateral to "buy down" the Forward Price by approximately \$7.10 and we issued 161,924 shares of Common Stock to UB-LB as an interim settlement payment. On June 9, 1999, we settled the transaction. In connection with the settlement, 246,424 shares of Common Stock were returned and canceled.

## 9. FINANCING ACTIVITY

On July 1, 1999, we retired a \$133.0 million 7.88% mortgage note that was secured by 44 of our properties held by AP Southeast Portfolio Partners, L.P., one of our subsidiaries, by using \$138.0 million of availability under our Revolving Loan to repay the principal amount of the mortgage note plus the required yield maintenance premium for early maturity. On October 21, 1999, we borrowed \$188.4 million from Monumental Life

Insurance Company, an affiliate of AEGON USA Realty Advisors, Inc., pursuant to one \$94.2 million 7.77% mortgage note due 2009 and one \$94.2 million 7.87% mortgage note due 2009, which notes are secured by 28 of our properties. We used the net proceeds from these mortgage loans, together with \$2.1 million that we received from counterparties to settle two treasury lock agreements in September 1999, to repay amounts outstanding under our Revolving Loan.

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

The following should be read in conjunction with all of the financial statements appearing elsewhere in the report and is based primarily on the consolidated financial statements of the Company.

### **RESULTS OF OPERATIONS**

**THREE MONTHS ENDED SEPTEMBER 30, 1999.** Revenues from rental operations decreased \$2.5 million, or 1.8%, from \$138.8 million for the three months ended September 30, 1998 to \$136.3 million for the comparable period in 1999. The decrease is primarily a result of the disposition of 6.4 million square feet of majority owned office, industrial and retail properties and 418 apartment units (including the removal of certain properties from our consolidated financial statements as a result of the reorganization of the Des Moines partnerships), offset in part by the acquisition of 600,000 square feet of majority owned office, industrial and retail properties and the completion of 1.9 million square feet of development activity during the last three months of 1998 and the first nine months of 1999. Our in-service portfolio decreased from 44.7 million square feet at September 30, 1998 to 40.8 million square feet at September 30, 1999. Same property revenues, which are the revenues of the 582 in-service properties and 1,906 apartment units owned on July 1, 1998, increased 4.0% for the three months ended September 30, 1999, compared to the same three months of 1998.

During the three months ended September 30, 1999, 303 leases representing 1.8 million square feet of office, industrial and retail space commenced at an average rate per square foot which was 6.1% higher than the average rate per square foot on the expired leases.

Interest and other income decreased \$400,000, or 10%, from \$4.0 million for the three months ended September 30, 1998 to \$3.6 million for the comparable period in 1999. The decrease was a result of lower lease termination fees during the quarter, offset in part by additional income generated from management fees, development fees and leasing commissions. The Company generated \$241,000 in auxiliary income (vending and parking) as a result of acquiring multifamily communities in the merger with J.C. Nichols.

Rental operating expenses decreased \$2.1 million, or 4.9%, from \$43.1 million for the three months ended September 30, 1998 to \$41.0 million for the comparable period in 1999. The decrease is primarily a result of the disposition of 6.4 million square feet of majority owned office, industrial and retail properties and 418 apartment units (including the removal of certain properties from our consolidated financial statements as a result of the reorganization of the Des Moines partnerships), offset in part by the acquisition of 600,000 square feet of majority owned office, industrial and retail properties and the completion of 1.9 million square feet of development activity during the last three months of 1998 and the first nine months of 1999. Rental operating expenses as a percentage of related revenues decreased from 31.1% for the three months ended September 30, 1998 to 30.1% for the comparable period in 1999.

Depreciation and amortization for the three months ended September 30, 1999 and 1998 was \$26.1 million and \$24.5 million, respectively. The increase of \$1.6 million, or 6.5%, is due to an increase in depreciable assets over the prior year. Interest expense decreased \$2.7 million, or 9.3%, from \$29.1 million for the three months ended September 30, 1998 to \$26.4 million for the comparable period in 1999. The decrease is attributable to a decrease in the outstanding debt for the entire quarter. Interest expense for the three months ended September 30, 1999 and 1998 included \$696,000 and \$683,000, respectively, of amortization of deferred financing costs and the costs related to our interest rate hedge contracts. General and administrative expenses decreased from 4.3% of rental revenue for the three months ended September 30, 1998 to 3.6% for the comparable period in 1999.

Net income before minority interest and extraordinary item equaled \$43.1 million and \$40.3 million for the three months ended September 30, 1999 and 1998, respectively. The Company's net income allocated to minority interest totaled \$5.1 million and \$6.0 million for the three months ended September 30, 1999 and 1998,

respectively. The Company recorded \$8.1 million in preferred stock dividends for the three months ended September 30, 1999 and 1998.

**NINE MONTHS ENDED SEPTEMBER 30, 1999.** Revenues from rental operations increased \$72.9 million, or 20.7%, from \$352.2 million for the nine months ended September 30, 1998 to \$425.1 million for the comparable period in 1999. The increase is primarily a result of the acquisition of 4.1 million square feet of majority owned office, industrial and retail properties and 2,325 apartment units in the J.C. Nichols merger that occurred in the third quarter of 1998, as well as an addition of 2.5 million square feet of majority owned office, industrial and retail properties related to acquisitions and the completion of development activity during the last three months of 1998 and the first nine months of 1999. These were offset by the disposition of 6.4 million square feet of majority owned office, industrial and retail properties and 418 apartment units (including the removal of certain properties from our consolidated financial statements as a result of the reorganization of the Des Moines partnerships). Our in-service portfolio decreased from 44.7 million square feet at September 30, 1998 to 40.8 million square feet at September 30, 1999. Same property revenues, which are the revenues of the 437 in-service properties owned on January 1, 1998, increased 3% for the nine months ended September 30, 1999, compared to the same nine months of 1998.

During the nine months ended September 30, 1999, 1,058 leases representing 5.8 million square feet of office, industrial and retail space commenced at an average rate per square foot which was 5.9% higher than the average rate per square foot on the expired leases.

Interest and other income increased \$5.5 million, or 63.2%, from \$8.7 million for the nine months ended September 30, 1998 to \$14.2 million for the comparable period in 1999. The increase was a result of higher cash balances during the nine months ended September 30, 1999 and additional income generated from management fees, development fees and leasing commissions. The Company generated \$828,000 in auxiliary income (vending and parking) as a result of acquiring multifamily communities in the merger with J.C. Nichols.

Rental operating expenses increased \$21.4 million, or 19.7%, from \$108.7 million for the nine months ended September 30, 1998 to \$130.1 million for the comparable period in 1999. The increase is primarily a result of the acquisition of 4.1 million square feet of majority owned office, industrial and retail properties and 2,325 apartment units in the merger with J.C. Nichols, as well as an addition of 2.5 million square feet of majority owned office, industrial and retail properties related to acquisitions and the completion of development activity during the last three months of 1998 and the first nine months of 1999. These were offset by the disposition of 6.4 million square feet of majority owned office, industrial and retail properties and 418 apartment units (including the removal of certain properties from our consolidated financial statements as a result of the reorganization of the Des Moines partnerships). Rental operating expenses as a percentage of related revenues decreased from 30.9% for the nine months ended September 30, 1998 to 30.6% for the comparable period in 1999.

Depreciation and amortization for the nine months ended September 30, 1999 and 1998 was \$82.0 million and \$62.0 million, respectively. The increase of \$20.0 million, or 32.3%, is due to an increase in depreciable assets over the prior year. Interest expense increased \$24.7 million, or 38.1%, from \$64.8 million for the nine months ended September 30, 1998 to \$89.5 million for the comparable period in 1999. The increase is attributable to the increase in the outstanding debt for the entire nine months. Interest expense for the nine months ended June 30, 1999 and 1998 included \$2.2 million and \$1.9 million, respectively, of amortization of deferred financing costs and the costs related to our interest rate hedge contracts. General and administrative expenses as a percentage of rental revenues were 4.0% for the nine months ended September 30, 1999 and 1998.

Net income before minority interest and extraordinary item equaled \$125.2 million and \$111.6 million for the nine months ended September 30, 1999 and 1998, respectively. The Company's net income allocated to minority interest totaled \$15.8 million and \$17.9 million for the nine months ended September 30, 1999 and 1998, respectively. The Company recorded \$24.4 million and \$21.9 million in preferred stock dividends for the nine months ended September 30, 1999 and 1998, respectively.

## **LIQUIDITY AND CAPITAL RESOURCES**

**STATEMENT OF CASH FLOWS.** For the nine months ended September 30, 1999, cash provided by operating activities decreased by \$15.0 million, or 7.9%, to \$174.5 million, as compared to \$189.5 million for the same period in 1998. The decrease is due to a decrease in operating assets and liabilities, primarily as a result of the

payment of real estate taxes in the first quarter of 1999, offset in part by an increase in net income due to property acquisitions in 1998 and 1999. Cash provided by investing activities was \$93.4 million for the first nine months of 1999, as compared to \$886.1 million used in investing activities for the same period in 1998. The increase is primarily due to the disposition of certain properties and the decline in acquisition activity during the nine months ended September 30, 1999, as compared to the same period in 1998. Cash used in financing activities was \$251.8 million for the nine months ended September 30, 1999, as compared to \$708.4 million provided by financing activities for the same period in 1998. The decrease is primarily due to the decrease in borrowings, an increase in payments on mortgages, notes payable and revolving loans as well as a decrease in equity offerings in the nine months ended September 30, 1999, as compared to the same period in 1998. Payments of distributions increased by \$15.2 million to \$114.7 million for the first nine months of 1999, from \$99.5 million for the same period in 1998. The increase is due to the greater number of shares of Common Stock outstanding and a 4.8% increase in the distribution rate. Preferred stock dividend payments were \$24.4 million for the nine months ended September 30, 1999, as compared to \$21.9 million for the same period in 1998. The increase is due to the issuance of 8% Series D Cumulative Redeemable Preferred Shares in the first quarter of 1998.

**CAPITALIZATION.** The Company's total indebtedness at September 30, 1999 totaled \$1.8 billion and was comprised of \$421.0 million of secured indebtedness with a weighted average interest rate of 7.8% and \$1.4 billion of unsecured indebtedness with a weighted average interest rate of 6.8%. Except as stated below, all of the mortgage and notes payable outstanding at September 30, 1999 were either fixed rate obligations or variable rate obligations covered by interest rate hedge contracts. A portion of our Revolving Loan and approximately \$43.7 million of floating rate notes payable assumed upon consummation of the merger with J.C. Nichols were not covered by interest rate hedge contracts on September 30, 1999.

On July 1, 1999, we retired a \$133.0 million 7.88% mortgage note that was secured by 44 of our properties held by AP Southeast Portfolio Partners, L.P., one of our subsidiaries, by using \$138.0 million of availability under our Revolving Loan to repay the principal amount of the mortgage note plus the required yield maintenance premium for early maturity. On October 21, 1999, we borrowed \$188.4 million from Monumental Life Insurance Company, an affiliate of AEGON USA Realty Advisors, Inc., pursuant to one \$94.2 million 7.77% mortgage note due 2009 and one \$94.2 million 7.87% mortgage note due 2009, which notes are secured by 28 of our properties. We used the net proceeds from these mortgage loans, together with \$2.1 million that we received from counterparties to settle two treasury lock agreements in September 1999, to repay amounts outstanding under our Revolving Loan.

Based on the Company's total market capitalization of \$4.1 billion at September 30, 1999 (at the September 30, 1999 stock price of \$25.88 and assuming the redemption for shares of Common Stock of the 9.1 million Common Units of minority interest in the Operating Partnership), the Company's debt represented approximately 44% of its total market capitalization.

To meet in part our long-term liquidity requirements, we borrow funds at a combination of fixed and variable rates. Borrowings under our Revolving Loan bear interest at variable rates. Our long-term debt, which consists of long-term financings and the issuance of debt securities, typically bears interest at fixed rates. In addition, we have assumed fixed rate and variable rate debt in connection with acquiring properties. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to 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 do not hold or issue these derivative contracts for trading or speculative purposes.

The following table sets forth information regarding our interest rate hedge contracts as of September 30, 1999:

TYPE OF HEDGE	NOTIONAL AMOUNT	MATURITY DATE	REFERENCE RATE	FIXED RATE	FAIR MARKET VALUE
		(DOLLARS IN THOUSANDS)			
Swap	\$100,000	10/1/99	3-Month LIBOR	4.970%	\$ 97
Swap	20,828	6/10/02	1-Month LIBOR + 0.75%	7.700	(800)
Collar	80,000	10/15/01	1-Month LIBOR	5.60 - 6.25	141

We enter into swaps, collars and caps to limit our exposure to an increase in variable interest rates, particularly with respect to amounts outstanding under our Revolving Loan. The interest rate on all of our variable rate debt is adjusted at one and three-month intervals, subject to settlements under these contracts. We also enter into treasury lock agreements from time to time in order to limit our exposure to an increase in interest rates with respect to future debt offerings.

In addition, we are exposed to certain losses in the event of nonperformance by the counterparties under the interest rate hedge contracts. We expect the counterparties, which are major financial institutions, to perform fully under these contracts. However, if the counterparties were to default on their obligations under the interest rate hedge contracts, we could be required to pay the full rates on our debt, even if such rates were in excess of the rates in the contracts.

**CURRENT AND FUTURE CASH NEEDS.** Historically, rental revenue has been the principal source of funds to pay operating expenses, debt service, stockholder distributions and capital expenditures, excluding nonrecurring capital expenditures. In addition, construction management, maintenance, leasing and management fees have provided sources of cash flow. We presently have no plans for major capital improvements to the existing in-service properties, other than normal recurring building improvements, tenant improvements and lease commissions. We expect to meet our short-term liquidity requirements generally through working capital and net cash provided by operating activities along with the Revolving Loan.

Our short-term (within the next 12 months) liquidity needs also include, among other things, the funding of approximately \$180.0 million of our existing development activity. We expect to fund our short-term liquidity needs through a combination of:

- o additional borrowings under our Revolving Loan (approximately \$141.0 million was available as of September 30, 1999);

- o the issuance of secured debt;

- o the selective disposition of non-core assets; and

- o the sale or contribution of some of our wholly owned properties to strategic joint ventures to be formed with selected partners interested in investing with us, which will have the net effect of generating additional capital through such sale or contributions.

Our long-term liquidity needs generally include the funding of existing and future development activity, selective asset acquisitions and the retirement of mortgage debt, amounts outstanding under the Revolving Loan and long-term unsecured debt. We remain committed to maintaining a flexible and conservative capital structure. Accordingly, we expect to meet our long-term liquidity needs through a combination of (1) the issuance by the Operating Partnership of additional unsecured debt securities, (2) the issuance of additional equity securities by the Company and the Operating Partnership as well as (3) the sources described above with respect to our short-term liquidity. We expect to use such sources to meet our long-term liquidity requirements either through direct payments or repayment of borrowings under the Revolving Loan. We do not intend to reserve funds to retire existing secured or unsecured indebtedness upon maturity. Instead, we will seek to refinance such debt at maturity or retire such debt through the issuance of equity or debt securities.

We anticipate that our available cash and cash equivalents and cash flows from operating activities, together with cash available from borrowings and other sources, will be adequate to meet our capital and liquidity needs in both the short and long term. However, if these sources of funds are insufficient or unavailable, the Company's ability to make the expected distributions to stockholders discussed below and satisfy other cash requirements may be adversely affected.

**DISTRIBUTIONS TO STOCKHOLDERS.** In order to qualify as a REIT for Federal income tax purposes, the Company is required to make distributions to its stockholders of at least 95% of REIT taxable income. The Company expects to use its cash flow from operating activities for distributions to stockholders and for payment of recurring, non-incremental revenue-generating expenditures. The following factors will affect cash flows from operating activities and, accordingly, influence the decisions of the Board of Directors regarding distributions: (1) debt service requirements after taking into account the repayment and restructuring of certain indebtedness;



(2) scheduled increases in base rents of existing leases; (3) changes in rents attributable to the renewal of existing leases or replacement leases; (4) changes in occupancy rates at existing properties and procurement of leases for newly acquired or developed properties; and (5) operating expenses and capital replacement needs.

## **RECENT DEVELOPMENTS**

On June 7, 1999, we sold approximately 3.3 million rentable square feet of non-core office and industrial properties and 49 acres of development land in the South Florida area for gross proceeds of approximately \$323.0 million. In addition, during the nine months ended September 30, 1999, we sold approximately 1.9 million rentable square feet of non-core office and industrial properties in the Baltimore area and certain other non-core office and industrial properties for gross proceeds of approximately \$137.5 million. The Company recorded a gain, net of income tax provision, of \$2.9 million related to these dispositions. Non-core office and industrial properties generally include single buildings or business parks that do not fit our long-term strategy.

In addition, we currently have 2.3 million square feet of non-core office and industrial properties under contract for sale in various transactions totaling \$181.9 million (including \$165.3 related to the sale of various central Florida properties) and 1.7 million square feet of non-core office and industrial properties under various letters of intent for sale at \$128.4 million. These transactions are subject to customary closing conditions, including due diligence and documentation, and are expected to close during the fourth quarter of this year and the first quarter of 2000. However, we can provide no assurance that all or part of these transactions will be consummated.

We expect to use a portion of the net proceeds from our recent and pending disposition activity to reinvest in tax-deferred exchange transactions under

Section 1031 of the Internal Revenue Code. We expect to reinvest up to \$32.7 million of the net proceeds from recent disposition activity and up to \$53.0 million of the net proceeds from pending disposition activity to acquire in tax-deferred exchange transactions in-service properties, development land and development projects located in core markets and in sub-markets where we have a strong presence. For an exchange to qualify for tax-deferred treatment under

Section 1031, the net proceeds from the sale of a property must be held by an escrow agent until applied toward the purchase of real estate qualifying for gain deferral. Given the competition for properties meeting our investment criteria, there may be some delay in reinvesting such proceeds. Delays in reinvesting such proceeds will reduce our income from operations. In addition, the use of net proceeds from dispositions to fund development activity, either through direct payments or repayment of borrowings under our Revolving Loan, will reduce our income from operations until such development projects are placed in service.

## **YEAR 2000**

**BACKGROUND.** The Year 2000 compliance issue refers to the inability of computer systems and computer software to correctly process any date after 1999. The date change to the new millennium may be a problem because some computer hardware and software was designed to use only two digits to represent a year. As a result, some systems may interpret 1/1/00 to be the year 1900. In addition, some systems may not recognize that the Year 2000 is a leap year. Both problems could result in system failure or miscalculations, which may cause disruptions of operations.

The Year 2000 issue, if not corrected, could result in the failure of the information technology ("IT") systems that we use in our business operations, such as computer programs related to property management, leasing, financial reporting, employee benefits, asset management and energy management. In addition, computerized systems and microprocessors are embedded in a variety of products used in our operations and properties, such as HVAC controls, lights, power generators, elevators, life safety systems, phones and security systems.

**APPROACH AND STATUS.** Our Year 2000 compliance efforts are divided into two areas -- "operations level" and "property level." Operations level includes those information technology systems used in our corporate and division offices to perform real estate, accounting and human resources functions. Property level includes the non-information technology systems at our individual properties. Year 2000 remediation plan at both the operations and property levels has three phases:

- o assessment (inventory and testing of computer systems),
- o renovation (repairing or replacing non-compliant systems) and

- o validation (testing of repaired or replaced systems).

Our Information Technology Department is overseeing our operations level compliance program. With respect to our operations level IT software, we have completed all three phases of our Year 2000 remediation plan. As part of a standardization of our technology infrastructure in 1998, computer software that was not Year 2000 compliant was upgraded or replaced. These software upgrades were off-the-shelf Year 2000 compliant packages. Additionally, we successfully upgraded and tested a Year 2000 compliant version of our corporate accounting and property management software in December 1998. With respect to our operations level IT hardware, we have completed the assessment and validation phases of the remediation plan.

Our Chief Operating Officer is overseeing our property level compliance program. We have completed our inventory of all of our properties' non-information technology systems. As part of the inventory process, we requested appropriate vendors and manufacturers to certify that their products are Year 2000 compliant. We have completed the renovation and validation phases of our remediation plan at the property level.

With respect to Year 2000 issues relating to our customer base, we have not sought representations from our tenants with respect to their Year 2000 readiness because no one tenant represents more than 3% of our annualized rental revenue. With respect to suppliers and vendors, our material purchases are generally from those in competitive fields where others will be able to meet any of our needs unmet by suppliers or vendors with Year 2000 difficulties. Although we have no reason to expect a significant interruption of utility services for our properties, we have not received (nor sought) written assurances from utility providers that Year 2000 issues will not cause an interruption in service.

**COSTS.** To date, the costs directly associated with our Year 2000 efforts have not been material, and we estimate our future costs to be immaterial as well.

**RISKS ASSOCIATED WITH THE YEAR 2000 ISSUE.** We do not expect Year 2000 failures to have a material adverse effect on our results of operations or liquidity because:

- o we do not rely on a small number of tenants for a significant portion of our rental revenue;
- o we stand ready to switch vendors or suppliers whose Year 2000 failures adversely affect their products or services; and
- o our remediation plan is complete.

As a result, we do not expect to develop a contingency plan for Year 2000 failures.

Our assessment of the likely impact of Year 2000 issues on us, which is a forward-looking statement, depends on numerous factors, such as the continued provision of utility services, and we remain exposed to the risk of Year 2000 failures. See " -- Disclosure Regarding Forward-Looking Statements."

Our disclosures and announcements concerning our Year 2000 programs are intended to constitute "Year 2000 Readiness Disclosures" as defined in the recently-enacted Year 2000 Information and Readiness Disclosure Act. The Act provides added protection from liability for certain public and private statements concerning an entity's Year 2000 readiness and the Year 2000 readiness of its products and services. The Act also potentially provides added protection from liability for certain types of Year 2000 disclosures made after January 1, 1996, and before the date of enactment of the Act.

## **POSSIBLE ENVIRONMENTAL LIABILITIES**

In connection with owning or operating our properties, we may be liable for certain costs due to possible environmental liabilities. Under various laws, ordinances and regulations, such as the Comprehensive Environmental Response Compensation and Liability Act, and common law, an owner or operator of real estate is liable for the costs to remove or remediate certain hazardous or toxic chemicals or substances on or in the property. Owners or operators are also liable for certain other costs, including governmental fines and injuries to persons and property. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of the hazardous or toxic chemicals or substances. The presence of such substances, or the failure to remediate such substances properly, may adversely affect the owner's or operator's ability to sell or rent such property or to borrow using such property as collateral. Persons who arrange for the disposal,

treatment or transportation of hazardous or toxic chemicals or substances may also be liable for the same types of costs at a disposal, treatment or storage facility, whether or not that person owns or operates that facility.

Certain environmental laws also impose liability for releasing asbestos-containing materials. Third parties may seek recovery from owners or operators of real property for personal injuries associated with asbestos-containing materials. A number of our properties have asbestos-containing materials or material that we presume to be asbestos-containing materials. In connection with owning and operating our properties, we may be liable for such costs.

In addition, it is not unusual for property owners to encounter on-site contamination caused by off-site sources. The presence of hazardous or toxic chemicals or substances at a site close to a property could require the property owner to participate in remediation activities or could adversely affect the value of the property. Contamination from adjacent properties has migrated onto at least three of our properties; however, based on current information, we do not believe that any significant remedial action is necessary at these affected sites.

As of the date hereof, we have obtained Phase I environmental assessments (and, in certain instances, Phase II environmental assessments) on substantially all of our in-service properties. These assessments have not revealed, nor are we aware of, any environmental liability at our properties that we believe would materially adversely affect our financial position, operations or liquidity taken as a whole. This projection, however, could be incorrect depending on certain factors. For example, material environmental liabilities may have arisen after the assessments were performed or our assessments may not have revealed all environmental liabilities or may have underestimated the scope and severity of environmental conditions observed. There may also be unknown environmental liabilities at properties for which we have not obtained a Phase I environmental assessment or have not yet obtained a Phase II environmental assessment. In addition, we base our assumptions regarding environmental conditions, including groundwater flow and the existence and source of contamination, on readily available sampling data. We cannot guarantee that such data is reliable in all cases. Moreover, we cannot provide any assurances (1) that future laws, ordinances or regulations will not impose a material environmental liability or (2) that tenants, the condition of land or operations in the vicinity of our properties or unrelated third parties will not affect the current environmental condition of our properties.

Some tenants use or generate hazardous substances in the ordinary course of their respective businesses. In their leases, we require these tenants to comply with all applicable laws and to be responsible to us for any damages resulting from their use of the property. We are not aware of any material environmental problems resulting from tenants' use or generation of hazardous or toxic chemicals or substances. We cannot provide any assurances, however, that all tenants will comply with the terms of their leases or remain solvent. If tenants do not comply or do not remain solvent, we may at some point be responsible for contamination caused by such tenants.

## **IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS**

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, which is required to be adopted in fiscal years beginning after June 15, 1999. In June 1999, FASB issued Statement No. 137, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES -- DEFERRAL OF THE FASB STATEMENT NO. 133, which stipulates the required adoption date to be all fiscal years beginning after June 15, 2000. Statement No. 133 requires us to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The fair market value of the Company's derivatives is discussed in Item 2.

## **COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT**

Under the Americans with Disabilities Act (the "ADA"), all public accommodations and commercial facilities are required to meet certain federal requirements related to access and use by disabled persons. These requirements became effective in 1992. Compliance with the ADA requirements could require removal of access barriers, and noncompliance could result in imposition of fines by the U.S. government or an award of damages

to private litigants. Although we believe that our properties are substantially in compliance with these requirements, we may incur additional costs to comply with the ADA. Although we believe that such costs will not have a material adverse effect on us, if required changes involve a greater expenditure than we currently anticipate, our results of operations, liquidity and capital resources could be materially adversely affected.

## **FUNDS FROM OPERATIONS AND CASH AVAILABLE FOR DISTRIBUTIONS**

We consider funds from operations ("FFO") to be a useful financial performance measure of the operating performance of an equity REIT because, together with net income and cash flows, FFO provides investors with an additional basis to evaluate the ability of a REIT to incur and service debt and to fund acquisitions and other capital expenditures. FFO does not represent net income or cash flows from operating, investing or financing activities as defined by Generally Accepted Accounting Principles ("GAAP"). It should not be considered as an alternative to net income as an indicator of our operating performance or to cash flows as a measure of liquidity. FFO does not measure whether cash flow is sufficient to fund all cash needs, including principal amortization, capital improvements and distributions to stockholders. Further, FFO as disclosed by other REITs may not be comparable to our calculation of FFO, as described below. FFO and cash available for distributions should not be considered as alternatives to net income as an indication of our performance or to cash flows as a measure of liquidity.

FFO means net income (computed in accordance with generally accepted accounting principles) excluding gains (or losses) from debt restructuring and sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. In March 1995, the National Association of Real Estate Investment Trusts ("NAREIT") issued a clarification of the definition of FFO. The clarification provides that amortization of deferred financing costs and depreciation of non-real estate assets are no longer to be added back to net income in arriving at FFO. Cash available for distribution is defined as funds from operations reduced by non-revenue enhancing capital expenditures for building improvements and tenant improvements and lease commissions related to second generation space.

FFO and cash available for distribution for the three and nine month periods ended September 30, 1999 and 1998 are summarized in the following table (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
FUNDS FROM OPERATIONS:				
Income before minority interest and extraordinary item .....	\$ 43,061	\$ 40,309	\$ 125,158	\$ 111,597
Add (deduct):				
Dividends to preferred shareholders .....	(8,145)	(8,145)	(24,435)	(21,946)
Cost of unsuccessful transactions .....	--	146	--	146
Severance costs and other division closing expenses .....	--	--	1,233	--
Gain on disposition of assets, net of income tax provision .....	(846)	--	(2,939)	--
Depreciation and amortization .....	26,116	24,464	81,977	61,695
Depreciation on unconsolidated subsidiaries .....	892	311	2,114	311
FUNDS FROM OPERATIONS BEFORE MINORITY INTEREST .....	61,078	57,085	183,108	152,073
CASH AVAILABLE FOR DISTRIBUTION:				
Add (deduct):				
Rental income from straight-line rents .....	(3,436)	(3,200)	(10,945)	(9,292)
Amortization of deferred financing costs .....	696	683	2,208	1,915
Non-incremental revenue generating capital expenditures (1):				
Building improvements paid .....	(2,114)	(1,986)	(6,589)	(4,683)
Second generation tenant improvements paid .....	(7,194)	(3,988)	(17,315)	(11,292)
Second generation lease commissions paid .....	(3,000)	(5,530)	(10,613)	(9,041)
CASH AVAILABLE FOR DISTRIBUTION .....	\$ 46,030	\$ 43,064	\$ 139,854	\$ 119,680
Weighted average common shares/common units outstanding -- basic (2) .....	70,959	68,711	70,521	63,845
Weighted average common shares/common units outstanding -- diluted (2) .....	71,294	68,880	70,535	64,166
DIVIDEND PAYOUT RATIO -- DILUTED:				
Funds from operations .....	64.8%	65.2%	63.0%	65.8%
Cash available for distribution .....	86.0%	86.4%	82.5%	83.6%

(1) Amounts represent cash expenditures.

(2) Assumes redemption of Common Units for shares of Common Stock. Minority interest Common Unit holders and the stockholders of the Company share equally on a per share and per Common Unit basis; therefore, the resultant per share information is unaffected by the conversion.

On October 20, 1999, the Company's Board of Directors declared a dividend of \$.555 per share (\$2.22 on an annualized basis) payable on November 19, 1999 to stockholders of record on November 10, 1998.

## DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

Some of the information in this Quarterly Report on Form 10-Q may contain forward-looking statements. Such statements include, in particular, statements about our plans, strategies and prospects under "Management's Discussion and Analysis of Financial Condition and Results of Operations." 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:

- o our markets could suffer unexpected increases in development of office, industrial and retail properties;
- o the financial condition of our tenants could deteriorate;
- o the costs of our development projects could exceed our original estimates;
- o we may not be able to complete development, acquisition, reinvestment, disposition or joint venture projects as quickly or on as favorable terms as anticipated;
- o we may not be able to lease or release space quickly or on as favorable terms as old leases;
- o we may have incorrectly assessed the environmental condition of our properties;
- o an unexpected increase in interest rates would increase our debt service costs;
- o we may not be able to continue to meet our long-term liquidity requirements on favorable terms;
- o we could lose key executive officers; and
- o our southeastern markets may suffer an unexpected decline in economic growth or increase in unemployment rates.

Given these uncertainties, we caution you not to place undue reliance on forward-looking statements. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances or to reflect the occurrence of unanticipated events.

## PROPERTY INFORMATION

The following table sets forth certain information with respect to our majority owned in-service and development properties (excluding apartment units) as of September 30, 1999 and 1998:

SEPTEMBER 30, 1999	RENTABLE SQUARE FEET	NUMBER OF PROPERTIES	PERCENT LEASED/ PRE-LEASED
-----	-----	-----	-----
IN-SERVICE:			
Office .....	27,293,000	403	94%
Industrial .....	11,805,000	195	91%
Retail(1) .....	1,676,000	19	91%
	-----	---	--
Total .....	40,774,000	617	93%
	=====	===	==
DEVELOPMENT:			
COMPLETED -- NOT STABILIZED			
Office .....	2,174,000	22	74%
Industrial .....	383,000	3	55%
Retail(1) .....	119,000	1	97%
	-----	---	--
Total .....	2,676,000	26	72%
	=====	===	==
IN PROCESS			
Office .....	2,350,000	13	78%
Industrial .....	282,000	3	10%
Retail(1) .....	81,000	1	82%
	-----	---	--
Total .....	2,713,000	17	71%
	=====	===	==
TOTAL:			
Office .....	31,817,000	438	
Industrial .....	12,470,000	201	
Retail(1) .....	1,876,000	21	
	-----	---	--
Total .....	46,163,000	660	
	=====	===	
SEPTEMBER 30, 1998			
-----			
IN-SERVICE:			
Office .....	30,857,000	453	94%
Industrial .....	12,228,000	194	92%
Retail(1) .....	1,662,000	18	96%
	-----	---	--
Total .....	44,747,000	665	93%
	=====	===	==
DEVELOPMENT:			
COMPLETED -- NOT STABILIZED			
Office .....	426,000	5	63%
Industrial .....	241,000	3	28%
Retail(1) .....	--	N/A	0%
	-----	---	--
Total .....	667,000	8	50%
	=====	===	==
IN PROCESS			
Office .....	4,637,000	37	64%
Industrial .....	629,000	5	55%
Retail(1) .....	200,000	2	36%
	-----	---	--
Total .....	5,466,000	44	62%
	=====	===	==
TOTAL:			
Office .....	35,920,000	495	
Industrial .....	13,098,000	202	
Retail(1) .....	1,862,000	20	
	-----	---	--
Total .....	50,880,000	717	
	=====	===	

(1) Excludes basement space

The following table sets forth certain information with respect to our properties under development as of September 30, 1999 (dollars in thousands):

NAME	LOCATION	RENTABLE SQUARE FEET	ESTIMATED COST	COST AT 9/30/99	PRE-LEASING PERCENTAGE (1)	ESTIMATED COMPLETION	ESTIMATED STABILIZATION (2)
IN-PROCESS							
OFFICE:							
Capital One Bldg 3	Richmond	126,000	\$ 15,046	\$ 14,927	100%	4Q99	4Q99
Intermedia Building 1	Tampa	200,000	27,040	15,063	100%	1Q00	1Q00
Intermedia Building 2	Tampa	30,000	4,056	722	100%	1Q00	1Q00
Intermedia Building 3	Tampa	170,000	22,984	14,619	100%	1Q00	1Q00
Caterpillar Financial Center	Nashville	313,000	54,000	32,671	97%	1Q00	2Q00
IXL	Richmond	57,000	6,875	--	100%	3Q00	3Q00
Intermedia Building 4	Tampa	200,000	29,219	3,337	100%	3Q00	3Q00
Mallard Creek V	Charlotte	118,000	12,262	9,199	39%	4Q99	4Q00
Valencia Place	Kansas City	241,000	34,020	28,847	47%	1Q00	4Q00
Lakepoint II	Tampa	225,000	34,106	20,546	81%	4Q99	4Q00
Intermedia Building 5	Tampa	200,000	29,219	2,399	100%	3Q01	3Q01
Capital Plaza	Orlando	303,000	53,000	33,144	30%	1Q00	4Q01
Highwoods Tower II	Research Triangle	167,000	25,134	--	72%	1Q01	2Q02
In-Process Office Total or Weighted Average		2,350,000	\$346,961	\$175,474	78%		
INDUSTRIAL:							
ALO	Piedmont Triad	27,000	\$ 1,055	\$ --	100%	2Q00	2Q00
Air Park South Warehouse III	Piedmont Triad	120,000	3,626	1,693	0%	4Q99	3Q00
Bluegrass Valley I	Atlanta	135,000	5,664	1,320	0%	3Q00	4Q00
In-Process Industrial Total or Weighted Average		282,000	\$ 10,345	\$ 3,013	10%		
RETAIL:							
Valencia Place	Kansas City	81,000	\$ 14,712	\$ 9,616	82%	1Q00	4Q00
In-Process Retail Total or Weighted Average		81,000	\$ 14,712	\$ 9,616	82%		
Total or Weighted Average of all In-Process Development Projects		2,713,000	\$372,018	\$188,103	71%		

(1) Includes the effect of letters of intent.

(2) We generally consider a development project to be stabilized upon the earlier of the first date such project is at least 95% occupied or one year from the date of completion.



NAME	LOCATION	RENTABLE SQUARE FEET	ESTIMATED COST	COST AT 9/30/99	PRE-LEASING PERCENTAGE (1)	ESTIMATED COMPLETION	ESTIMATED STABILIZATION (2)
COMPLETED -- NOT STABILIZED							
OFFICE:							
10 Glenlakes	Atlanta	259,000	\$ 35,100	\$ 35,009	92%	1Q99	4Q99
Highwoods Center II @							
Tradepor	Atlanta	54,000	4,825	4,199	56%	3Q99	4Q99
Parkway Plaza 11	Charlotte	32,000	2,600	2,414	66%	1Q99	4Q99
Highwoods Centre**	Hampton Roads	103,000	9,925	9,118	65%	4Q98	4Q99
Southwind Building D	Memphis	64,000	6,800	5,947	85%	2Q99	4Q99
Lakeview Ridge III	Nashville	131,000	13,100	10,453	97%	2Q99	4Q99
Overlook	Research Triangle	97,000	11,203	10,644	100%	4Q98	4Q99
Red Oak	Research Triangle	65,000	6,295	6,331	90%	4Q98	4Q99
Stony Point II	Richmond	136,000	13,881	12,384	53%	2Q99	4Q99
Interstate Corporate							
Center**	Tampa	342,000	19,100	17,676	99%	1Q99	4Q99
Deerfield I	Atlanta	50,000	4,382	3,286	62%	3Q99	1Q00
Parkway Plaza 12	Charlotte	22,000	1,800	1,521	90%	1Q99	1Q00
Parkway Plaza 14	Charlotte	90,000	7,690	6,454	58%	2Q99	1Q00
Lakefront Plaza I	Hampton Roads	77,000	7,477	7,394	30%	2Q99	1Q00
Westwood South	Nashville	125,000	13,530	12,387	94%	3Q99	1Q00
Concourse Center One	Piedmont Triad	86,000	8,400	7,355	100%	2Q99	1Q00
3737 Glenwood Ave.	Research Triangle	107,000	16,700	14,327	80%	3Q99	1Q00
Deerfield II	Atlanta	67,000	6,994	4,232	0%	3Q99	2Q00
Belfort Park C1	Jacksonville	54,000	4,830	2,326	39%	3Q99	2Q00
Belfort Park C2	Jacksonville	31,000	2,730	2,554	0%	3Q99	2Q00
4101 Research Commons	Research Triangle	73,000	9,311	7,346	35%	3Q99	2Q00
Peachtree Corner	Atlanta	109,000	9,238	4,809	33%	3Q99	3Q00
Completed -- Not							
Stabilized Office Total							
or Weighted Average							
		2,174,000	\$215,911	\$188,166	74%		
INDUSTRIAL:							
Air Park South							
Warehouse IV	Piedmont Triad	86,000	\$ 2,750	\$ 2,379	65%	4Q99	3Q00
HIW Distribution Center	Richmond	166,000	6,487	5,886	67%	1Q99	4Q99
Newpoint II	Atlanta	131,000	5,167	4,425	33%	3Q99	2Q00
Completed -- Not							
Stabilized Industrial							
Total or Weighted							
Average							
		383,000	\$ 14,404	\$ 12,690	55%		
RETAIL:							
Seville Square	Kansas City	119,000	\$ 32,100	\$ 31,946	97%	2Q99	1Q00
Completed -- Not							
Stabilized Retail Total							
or Weighted Average							
		119,000	\$ 32,100	\$ 31,946	97%		
Total or Weighted							
Average of all							
Completed -- Not							
Stabilized							
Development Projects							
		2,676,000	\$262,415	\$232,802	72%		
Total or Weighted							
Average of all							
Development Projects							
		5,389,000	\$634,433	\$420,904	72%		
		=====	=====	=====	===		

(1) Includes the effect of letters of intent.

(2) We generally consider a development project to be stabilized upon the earlier of the first date such project is at least 95% occupied or one year from the date of completion.

DEVELOPMENT ANALYSIS	RENTABLE SQUARE FEET	ESTIMATED COSTS	PRE-LEASING PERCENTAGE (1)
	-----	-----	-----
(DOLLARS IN THOUSANDS)			
SUMMARY BY ESTIMATED STABILIZATION DATE:			
Fourth Quarter 1999 .....	1,130,000	\$ 115,337	83%
First Quarter 2000 .....	1,076,000	146,159	86%
Second Quarter 2000 .....	696,000	84,087	60%
Third Quarter 2000 .....	572,000	51,708	61%
Fourth Quarter 2000 .....	800,000	100,764	51%
Third Quarter 2001 .....	200,000	29,219	100%
Fourth Quarter 2001 .....	303,000	53,000	30%
Second Quarter 2002 .....	167,000	25,134	72%
Held for Sale .....	445,000	29,025	91%
	-----	-----	----
Total or Weighted Average .....	5,389,000	\$ 634,433	72%
	=====	=====	=====
SUMMARY BY MARKET:			
Atlanta .....	805,000	71,370	47%
Charlotte .....	262,000	24,352	53%
Hampton Roads .....	77,000	7,477	30%
Jacksonville .....	85,000	7,560	25%
Kansas City .....	441,000	80,832	67%
Memphis .....	64,000	6,800	85%
Nashville .....	569,000	80,630	96%
Orlando .....	303,000	53,000	30%
Piedmont Triad .....	319,000	15,831	53%
Research Triangle .....	509,000	68,643	76%
Richmond .....	485,000	42,289	76%
Tampa .....	1,025,000	146,624	96%
Held for Sale .....	445,000	29,025	91%
	-----	-----	----
Total or Weighted Average .....	5,389,000	\$ 634,433	72%
	=====	=====	=====
Build-to-Suit .....	1,010,000	\$ 135,494	100%
Multi-Tenant .....	3,934,000	469,914	62%
Held for Sale .....	445,000	29,025	91%
	-----	-----	----
Total or Weighted Average .....	5,389,000	\$ 634,433	72%
	=====	=====	=====
	RENTABLE SQUARE FEET	ESTIMATED COSTS	PRE-LEASING PERCENTAGE (1)
	-----	-----	-----
(DOLLARS IN THOUSANDS)			
PER PROPERTY TYPE:			
Office Total or Weighted Average .....	123,606	\$ 16,177	74%
Industrial Total or Weighted Average .....	110,833	4,125	36%
Retail Total or Weighted Average .....	100,000	23,406	91%
Held for Sale Total or Weighted Average .....	222,500	14,513	91%
	-----	-----	----
Total or Weighted Average .....	125,326	\$ 14,754	72%
	=====	=====	=====

(1) Includes the effect of letters of intent.

The following tables set forth certain information about our leasing activities at our majority-owned in service properties (excluding apartment units) for the three months ended September 30, June 30 and March 31, 1999 and December 31, 1998.

OFFICE LEASING STATISTICS THREE MONTHS ENDED					
	9/30/99	6/30/99	3/31/99	12/31/98	AVERAGE
NET EFFECTIVE RENTS RELATED TO RE-LEASED SPACE:					
Number of lease transactions (signed leases)	234	290	276	308	277
Rentable square footage leased	1,015,789	1,326,838	1,406,170	1,291,297	1,260,024
Average per rentable square foot over the lease term:					
Base rent	\$ 14.61	\$ 15.60	\$ 14.84	\$ 16.54	\$ 15.40
Tenant improvements	( 0.70)	( 0.84)	( 0.84)	( 0.85)	( 0.81)
Leasing commissions	( 0.38)	( 0.38)	( 0.42)	( 0.38)	( 0.39)
Rent concessions	( 0.03)	( 0.03)	( 0.02)	( 0.03)	( 0.03)
Effective rent	13.50	14.35	13.56	15.28	14.17
Expense stop (1)	( 3.92)	( 4.21)	( 3.55)	( 3.96)	( 3.91)
Equivalent effective net rent	\$ 9.58	\$ 10.14	\$ 10.01	\$ 11.32	\$ 10.26
Average term in years	4	4	5	4	4
CAPITAL EXPENDITURES RELATED TO RE-LEASED SPACE:					
Tenant Improvements:					
Total dollars committed under signed leases	\$3,602,102	\$5,073,153	\$6,848,279	\$4,886,517	\$5,102,513
Rentable square feet	1,015,789	1,326,838	1,406,170	1,291,297	1,260,024
Per rentable square foot	\$ 3.55	\$ 3.82	\$ 4.87	\$ 3.78	\$ 4.05
Leasing Commissions:					
Total dollars committed under signed leases	\$1,560,041	\$2,230,915	\$3,047,978	\$2,005,094	\$2,211,007
Rentable square feet	1,015,789	1,326,838	1,406,170	1,291,297	1,260,024
Per rentable square foot	\$ 1.54	\$ 1.68	\$ 2.17	\$ 1.55	\$ 1.75
Total:					
Total dollars committed under signed leases	\$5,162,143	\$7,304,068	\$9,896,257	\$6,891,611	\$7,313,520
Rentable square feet	1,015,789	1,326,838	1,406,170	1,291,297	1,260,024
Per rentable square foot	\$ 5.08	\$ 5.50	\$ 7.04	\$ 5.34	\$ 5.80
RENTAL RATE TRENDS:					
Average final rate with expense pass throughs	\$ 14.09	\$ 15.20	\$ 14.28	\$ 13.57	\$ 14.29
Average first year cash rental rate	\$ 14.93	\$ 15.61	\$ 15.01	\$ 14.47	\$ 15.01
Percentage increase	5.96%	2.70%	5.11%	6.63%	5.04%

(1) "Expense stop" represents operating expenses (generally including taxes, utilities, routine building expense and common area maintainance) which we will not be reimbursed by our tenants.

INDUSTRIAL LEASING STATISTICS  
THREE MONTHS ENDED

	9/30/99	6/30/99	3/31/99	12/31/98	AVERAGE
NET EFFECTIVE RENTS RELATED TO RE-LEASED SPACE:					
Number of lease transactions (signed leases)	50	63	72	44	57
Rentable square footage leased	815,044	589,835	837,616	582,758	706,313
Average per rentable square foot over the lease term:					
Base rent	\$ 4.86	\$ 5.55	\$ 5.12	\$ 4.71	\$ 5.06
Tenant improvements	(0.14)	(0.37)	(0.22)	(0.20)	(0.23)
Leasing commissions	(0.10)	(0.22)	(0.10)	(0.09)	(0.13)
Rent concessions	0.00	(0.01)	0.00	0.00	(0.00)
	-----	-----	-----	-----	-----
Effective rent	4.62	4.95	4.80	4.42	4.70
Expense stop (1)	(0.18)	(0.28)	(0.28)	(0.25)	(0.25)
	-----	-----	-----	-----	-----
Equivalent effective net rent	\$ 4.44	\$ 4.67	\$ 4.52	\$ 4.17	\$ 4.45
	=====	=====	=====	=====	=====
Average term in years	3	4	4	3	4
	=====	=====	=====	=====	=====
CAPITAL EXPENDITURES RELATED TO RE-LEASED SPACE:					
TENANT IMPROVEMENTS:					
Total dollars committed under signed leases	\$692,497	\$1,064,618	\$ 821,654	\$712,108	\$ 822,719
Rentable square feet	815,044	589,835	837,616	582,758	706,313
	-----	-----	-----	-----	-----
Per rentable square foot	\$ 0.85	\$ 1.80	\$ 0.98	\$ 1.22	\$ 1.16
	=====	=====	=====	=====	=====
LEASING COMMISSIONS:					
Total dollars committed under signed leases	\$271,184	\$ 527,815	\$ 315,101	\$173,017	\$ 321,779
Rentable square feet	815,044	589,835	837,616	582,758	706,313
	-----	-----	-----	-----	-----
Per rentable square foot	\$ 0.33	\$ 0.89	\$ 0.38	\$ 0.30	\$ 0.46
	=====	=====	=====	=====	=====
TOTAL:					
Total dollars committed under signed leases	\$963,681	\$1,592,433	\$1,136,755	\$885,125	\$1,144,498
Rentable square feet	815,044	589,835	837,616	582,758	706,313
	-----	-----	-----	-----	-----
Per rentable square foot	\$ 1.18	\$ 2.70	\$ 1.36	\$ 1.52	\$ 1.62
	=====	=====	=====	=====	=====
RENTAL RATE TRENDS:					
Average final rate with expense pass throughs	\$ 4.63	\$ 5.17	\$ 4.91	\$ 4.62	\$ 4.83
Average first year cash rental rate	\$ 4.78	\$ 5.62	\$ 4.91	\$ 4.72	\$ 5.01
	-----	-----	-----	-----	-----
Percentage increase	3.24%	8.70%	0.00%	2.16%	3.73%
	=====	=====	=====	=====	=====

(1) "Expense stop" represents operating expenses (generally including taxes, utilities, routine building expense and common area maintainance) which we will not be reimbursed by our tenants.

RETAIL LEASING STATISTICS THREE MONTHS ENDED					
	9/30/99	6/30/99	3/31/99	12/31/98	AVERAGE
NET EFFECTIVE RENTS RELATED TO RE-LEASED SPACE:					
Number of lease transactions (signed leases)	19	29	25	15	22
Rentable square footage leased	70,706	159,484	62,638	29,706	80,634
Average per rentable square foot over the lease term:					
Base rent	\$ 24.58	\$ 14.48	\$ 15.37	\$ 16.34	\$ 17.69
Tenant improvements	( 0.66)	( 1.46)	( 0.45)	( 1.66)	( 1.06)
Leasing commissions	( 0.37)	( 0.39)	( 0.39)	( 0.76)	( 0.48)
Rent concessions	0.00	( 0.02)	( 0.02)	( 0.56)	( 0.15)
Effective rent	23.55	12.61	14.51	13.36	16.00
Expense stop (1)	0.00	0.00	( 0.27)	( 1.79)	( 0.52)
Equivalent effective net rent	\$ 23.55	\$ 12.61	\$ 14.24	\$ 11.57	\$ 15.48
Average term in years	5	6	6	5	6
CAPITAL EXPENDITURES RELATED TO RE-LEASED SPACE:					
TENANT IMPROVEMENTS:					
Total dollars committed under signed leases	\$437,735	\$2,784,277	\$248,531	\$319,620	\$ 947,541
Rentable square feet	70,706	159,484	62,638	29,706	80,634
Per rentable square foot	\$ 6.19	\$ 17.46	\$ 3.97	\$ 10.76	\$ 11.75
LEASING COMMISSIONS:					
Total dollars committed under signed leases	\$124,241	\$ 393,991	\$153,872	\$123,047	\$ 198,788
Rentable square feet	70,706	159,484	62,638	29,706	80,634
Per rentable square foot	\$ 1.76	\$ 2.47	\$ 2.46	\$ 4.14	\$ 2.47
TOTAL:					
Total dollars committed under signed leases	\$561,976	\$3,178,268	\$402,403	\$442,667	\$1,146,328
Rentable square feet	70,706	159,484	62,638	29,706	80,634
Per rentable square foot	\$ 7.95	\$ 19.93	\$ 6.42	\$ 14.90	\$ 14.22
RENTAL RATE TRENDS:					
Average final rate with expense pass throughs	\$ 19.12	\$ 9.91	\$ 10.92	\$ 15.91	\$ 13.97
Average first year cash rental rate	\$ 22.30	\$ 14.20	\$ 16.22	\$ 18.16	\$ 17.72
Percentage increase	16.63%	43.29%	48.53%	14.14%	26.89%

(1) "Expense stop" represents operating expenses (generally including taxes, utilities, routine building expense and common area maintainance) which we will not be reimbursed by our tenants.

The following tables set forth scheduled lease expirations for executed leases at our majority-owned in-service properties (excluding apartment units) as of September 30, 1999 assuming no tenant exercises renewal options.

**OFFICE PROPERTIES:**

YEAR OF LEASE EXPIRATION	NUMBER OF LEASES	TOTAL RENTABLE SQUARE FEET EXPIRING	PERCENTAGE OF LEASED SQUARE FOOTAGE REPRESENTED BY EXPIRING LEASES	ANNUAL RENTS UNDER EXPIRING LEASES (1) (IN THOUSANDS)	AVERAGE ANNUAL RENTAL RATE PER SQUARE FOOT FOR EXPIRATIONS (1)	PERCENTAGE OF LEASED RENTS REPRESENTED BY EXPIRING LEASES
Remainder of 1999	421	1,289,750	4.9%	\$ 19,490	\$ 15.11	4.7%
2000	764	3,136,893	11.8%	50,305	16.04	12.1%
2001	696	4,021,362	15.1%	65,274	16.23	15.7%
2002	673	4,033,692	15.2%	64,251	15.93	15.5%
2003	506	4,032,148	15.2%	62,928	15.61	15.2%
2004	358	2,960,736	11.1%	46,378	15.66	11.2%
2005	111	1,534,115	5.8%	23,393	15.25	5.6%
2006	60	1,479,873	5.6%	23,226	15.69	5.6%
2007	29	765,428	2.9%	12,490	16.32	3.0%
2008	54	1,732,631	6.5%	24,903	14.37	6.0%
2009 and thereafter	107	1,569,677	5.9%	22,387	14.26	5.4%
	---	-----	-----	-----	-----	-----
	3,779	26,556,305	100.0%	\$415,025	\$ 15.63	100.0%
	=====	=====	=====	=====	=====	=====

**INDUSTRIAL PROPERTIES:**

YEAR OF LEASE EXPIRATION	NUMBER OF LEASES	TOTAL RENTABLE SQUARE FEET EXPIRING	PERCENTAGE OF LEASED SQUARE FOOTAGE REPRESENTED BY EXPIRING LEASES	ANNUAL RENTS UNDER EXPIRING LEASES (1) (IN THOUSANDS)	AVERAGE ANNUAL RENTAL RATE PER SQUARE FOOT FOR EXPIRATIONS (1)	PERCENTAGE OF LEASED RENTS REPRESENTED BY EXPIRING LEASES
Remainder of 1999	113	887,124	8.0%	\$ 4,804	\$ 5.42	8.1%
2000	193	2,231,642	20.3%	11,238	5.04	19.1%
2001	158	1,684,079	15.2%	8,521	5.06	14.4%
2002	134	1,805,174	16.3%	8,237	4.56	13.9%
2003	62	788,147	7.1%	4,446	5.64	7.5%
2004	62	2,128,104	19.3%	10,663	5.01	18.0%
2005	15	244,501	2.2%	1,741	7.12	2.9%
2006	10	398,105	3.6%	2,902	7.29	4.9%
2007	3	128,125	1.2%	943	7.36	1.6%
2008	6	247,737	2.2%	1,988	8.02	3.4%
2009 and thereafter	18	503,526	4.6%	3,662	7.27	6.2%
	---	-----	-----	-----	-----	-----
	774	11,046,264	100.0%	\$59,145	\$ 5.35	100.0%
	===	=====	=====	=====	=====	=====

(1) Includes operating expense pass throughs and excludes the effect of future contractual rent increases.

## RETAIL PROPERTIES:

YEAR OF LEASE EXPIRATION	NUMBER OF LEASES	TOTAL RENTABLE SQUARE FEET EXPIRING	PERCENTAGE OF LEASED SQUARE FOOTAGE REPRESENTED BY EXPIRING LEASES	ANNUAL RENTS UNDER EXPIRING LEASES (1) (IN THOUSANDS)	AVERAGE ANNUAL RENTAL RATE PER SQUARE FOOT FOR EXPIRATIONS (1)	PERCENTAGE OF LEASED RENTS REPRESENTED BY EXPIRING LEASES
Remainder of 1999	44	145,060	9.0%	\$ 1,678	\$ 11.57	5.9%
2000	72	198,827	12.3%	3,051	15.34	10.6%
2001	60	147,044	9.2%	3,430	23.33	12.0%
2002	52	167,333	10.3%	2,730	16.31	9.5%
2003	49	151,124	9.3%	3,353	22.19	11.7%
2004	28	157,033	9.7%	1,766	11.25	6.2%
2005	14	45,724	2.8%	1,342	29.35	4.7%
2006	17	64,946	4.0%	1,486	22.88	5.2%
2007	10	54,637	3.4%	1,060	19.40	3.7%
2008	14	81,075	5.0%	2,465	30.40	8.6%
2009 and thereafter	28	404,783	25.0%	6,316	15.60	21.9%
	--	----	----	-----	-----	-----
	388	1,617,586	100.0%	\$28,677	\$ 17.73	100.0%
	===	=====	=====	=====	=====	=====

TOTAL:

YEAR OF LEASE EXPIRATION	NUMBER OF LEASES	TOTAL RENTABLE SQUARE FEET EXPIRING	PERCENTAGE OF LEASED SQUARE FOOTAGE REPRESENTED BY EXPIRING LEASES	ANNUAL RENTS UNDER EXPIRING LEASES (1) (IN THOUSANDS)	AVERAGE ANNUAL RENTAL RATE PER SQUARE FOOT FOR EXPIRATIONS (1)	PERCENTAGE OF LEASED RENTS REPRESENTED BY EXPIRING LEASES
Remainder of 1999	578	2,321,934	5.9%	\$ 25,972	\$ 11.19	5.2%
2000	1,029	5,567,362	14.2%	64,594	11.60	12.8%
2001	914	5,852,485	14.9%	77,225	13.20	15.3%
2002	859	6,006,199	15.2%	75,218	12.52	15.0%
2003	617	4,971,419	12.7%	70,727	14.23	14.1%
2004	448	5,245,873	13.4%	58,807	11.21	11.7%
2005	140	1,824,340	4.7%	26,476	14.51	5.3%
2006	87	1,942,924	5.0%	27,614	14.21	5.5%
2007	42	948,190	2.4%	14,493	15.28	2.9%
2008	74	2,061,443	5.3%	29,356	14.24	5.8%
2009 and thereafter	153	2,477,986	6.3%	32,365	13.06	6.4%
	----	-----	----	-----	-----	-----
	4,941	39,220,155	100.0%	\$502,847	\$ 12.82	100.0%
	=====	=====	=====	=====	=====	=====

(1) Includes operating expenses pass throughs and excludes the effect of future contractual rent increases.

## INFLATION

Historically inflation has not had a significant impact on our operations because of the relatively low inflation rate in our geographic areas of operation. Most of the leases require the tenants to pay their pro rata share of increased incremental operating expenses, including common area maintenance, real estate taxes and insurance, thereby reducing our exposure to increases in operating expenses resulting from inflation. In addition, many of the leases are for terms of less than seven years, which may enable us to replace existing leases with new leases at a higher base rent if rents on the existing leases are below the market rate.

### 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. THESE DISCLOSURES ARE NOT PRECISE INDICATORS OF EXPECTED FUTURE LOSSES, BUT ONLY INDICATORS OF REASONABLY POSSIBLE LOSSES. AS A RESULT, ACTUAL FUTURE RESULTS MAY DIFFER MATERIALLY FROM THOSE PRESENTED. SEE "MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS -- LIQUIDITY AND CAPITAL RESOURCES" FOR A DESCRIPTION OF OUR ACCOUNTING POLICIES AND OTHER INFORMATION RELATED TO THESE FINANCIAL INSTRUMENTS.

To meet in part our long-term liquidity requirements, we borrow funds at a combination of fixed and variable rates. Borrowings under the Revolving Loan bear interest at variable rates. Our long-term debt, which consists of long-term financings and the issuance of debt securities, typically bears interest at fixed rates. In addition, we have assumed fixed rate and variable rate debt in connection with acquiring properties. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to 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 do not hold or issue these derivative contracts for trading or speculative purposes.

**CERTAIN VARIABLE RATE DEBT.** As of September 30, 1999, the Company had approximately \$314.7 million of variable rate debt outstanding that was not protected by interest rate hedge contracts. If the weighted average interest rate on this variable rate debt is 100 basis points higher or lower during the 12 months ended September 30, 2000, our interest expense would be increased or decreased approximately \$3.1 million. In addition, as of September 30, 1999, we had \$80 million of additional variable rate debt outstanding that was protected by an interest rate collar that effectively keeps the interest rate within a range of 65 basis points. We do not believe that a 100 basis point increase or decrease in interest rates would materially affect our interest expense with respect to this \$80 million of debt.

**INTEREST RATE HEDGE CONTRACTS.** For a discussion of our interest rate hedge contracts in effect at September 30, 1999, see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources -- CAPITALIZATION." If interest rates increase by 100 basis points, the aggregate fair market value of these interest rate hedge contracts as of September 30, 1999 would increase by approximately \$2.0 million. If interest rates decrease by 100 basis points, the aggregate fair market value of these interest rate hedge contracts as of September 30, 1999 would decrease by approximately \$2.0 million.

In addition, we are exposed to certain losses in the event of nonperformance by the counterparties under the hedge contracts. We expect the counterparties, which are major financial institutions, to perform fully under these contracts. However, if the counterparties were to default on their obligations under the interest rate hedge contracts, we could be required to pay the full rates on our debt, even if such rates were in excess of the rates in the contracts.



## **PART II -- OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

On October 2, 1998, John Flake, a former stockholder of J.C. Nichols, filed a putative class action lawsuit on behalf of himself and the other former stockholders of J.C. Nichols in the United States District Court for the District of Kansas against J.C. Nichols, certain of its former officers and directors and the Company. The complaint alleges, among other things, that in connection with the merger of J.C. Nichols and the Company, (1) J.C. Nichols and the named directors and officers of J.C. Nichols breached their fiduciary duties to J.C. Nichols' stockholders, (2) J.C. Nichols and the named directors and officers of J.C. Nichols breached their fiduciary duties to members of the J.C. Nichols Company Employee Stock Ownership Trust, (3) all defendants participated in the dissemination of a proxy statement containing materially false and misleading statements and omissions of material facts in violation of Section 14(a) of the Exchange Act of 1934 and (4) the Company filed a registration statement with the SEC containing materially false and misleading statements and omissions of material facts in violation of Sections 11 and 12(2) of the Securities Act of 1933. The plaintiff seeks equitable relief and monetary damages. We believe that the defendants have meritorious defenses to the plaintiff's allegations. We intend to vigorously defend this litigation. By order dated June 18, 1999, the court granted in part and denied in part our motions to dismiss. The court has granted the plaintiff's motion seeking certification of the proposed class of plaintiffs with respect to the remaining claims. Discovery in this matter is proceeding. Due to the inherent uncertainties of the litigation process, we are not able to predict the outcome of this litigation. If this litigation is not resolved in our favor, it could have a material adverse effect on our business, financial condition and results of operations.

### **ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS -- NA**

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES -- NA**

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS -- NA**

### **ITEM 5. OTHER INFORMATION -- NA**

### **ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

#### **(a) Exhibits**

EXHIBIT NO. -----	DESCRIPTION -----
27	Financial Data Schedule

#### **(b) Reports on Form 8-K -- None**

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

### HIGHWOODS PROPERTIES, INC.

/S/ RONALD P. GIBSON

-----  
RONALD P. GIBSON  
PRESIDENT AND CHIEF EXECUTIVE OFFICER

/S/ CARMAN J. LIUZZO

-----  
CARMAN J. LIUZZO

**CHIEF FINANCIAL OFFICER**  
(PRINCIPAL ACCOUNTING OFFICER)

Date: November 15, 1999

**ARTICLE 5**

MULTIPLIER: 1000

PERIOD TYPE	3 MOS	9 MOS
FISCAL YEAR END	DEC 31 1999	DEC 31 1999
PERIOD START	JUL 01 1999	JAN 01 1999
PERIOD END	SEP 30 1999	SEP 30 1999
CASH	50,094	50,094
SECURITIES	0	0
RECEIVABLES	106,584	106,584
ALLOWANCES	698	698
INVENTORY	0	0
CURRENT ASSETS	110,030	110,030
PP&E	3,855,259	3,855,259
DEPRECIATION	218,840	218,840
TOTAL ASSETS	4,120,607	4,120,607
CURRENT LIABILITIES	118,685	118,685
BONDS	1,827,502	1,827,502
PREFERRED MANDATORY	0	0
PREFERRED	397,500	397,500
COMMON	0	0
OTHER SE	1,776,299	1,776,299
TOTAL LIABILITY AND EQUITY	4,120,607	4,120,607
SALES	136,304	425,104
TOTAL REVENUES	140,627	440,674
CGS	41,002	130,108
TOTAL COSTS	67,118	212,085
OTHER EXPENSES	4,883	16,888
LOSS PROVISION	0	0
INTEREST EXPENSE	26,411	89,482
INCOME PRETAX	37,996	109,388
INCOME TAX	0	0
INCOME CONTINUING	37,996	109,388
DISCONTINUED	0	0
EXTRAORDINARY	(4,997)	(5,774)
CHANGES	0	0
NET INCOME	24,854	79,179
EPS BASIC	0.40	1.29
EPS DILUTED	0.40	1.29

**End of Filing**

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