

# HIGHWOODS PROPERTIES INC

## FORM 424B5

(Prospectus filed pursuant to Rule 424(b)(5))

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Industry	Real Estate Operations
Sector	Services
Fiscal Year	12/31

**PROSPECTUS SUPPLEMENT**

(To Prospectus dated January 22, 1998)

**1,080,443 Shares**

# **HIGHWOODS PROPERTIES, INC. (icon)**

**Common Stock**

Highwoods Properties, Inc. (the "Company") is a self-administered and self-managed equity real estate investment trust ("REIT") that began operations through a predecessor in 1978. The Company is one of the largest owners and operators of office and industrial properties in the Southeast. As of March 31, 1998, the Company owned 530 properties (the "Properties") encompassing approximately 33.9 million rentable square feet located in 19 markets in North Carolina, Florida, Tennessee, Georgia, Virginia, South Carolina, Maryland and Alabama. The Properties consist of 382 office properties and 148 industrial (including 80 service center) properties and are leased to approximately 3,400 tenants. As of March 31, 1998, the Properties were 93% leased.

All of the shares of common stock, par value \$.01 per share, of the Company (the "Common Stock") offered hereby (the "Offering") are being sold by the Company. The Common Stock is listed on the New York Stock Exchange (the "NYSE") under the symbol "HIW." On April 23, 1998, the last reported sale price of the Common Stock on the NYSE was \$33 7/8.

See "Risk Factors" beginning on page 3 in the accompanying Prospectus for certain factors relevant to an investment in the Common Stock.

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THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS SUPPLEMENT OR THE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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The Underwriter has agreed to purchase the shares of Common Stock from the Company at a price of \$32.0966 per share, resulting in aggregate proceeds to the Company of \$34,678,547 before payment of expenses by the Company estimated to be \$50,000, subject to the terms and conditions set forth in the Underwriting Agreement. The Underwriter intends to deposit the shares, valued at the last reported sales price, with the trustee of the Equity Investor Fund Cohen & Steers Realty Majors Portfolio (A Unit Investment Trust) (the "Trust") in exchange for units in the Trust. The units of the Trust will be sold to investors at a price based upon the net asset value of the securities in the Trust. For purposes of this calculation, the value of the shares as of the evaluation time for units of the Trust on April 23, 1998 was \$33 7/8 per share.

The shares of Common Stock are offered by the Underwriter, subject to prior sale, when, as and if delivered to and accepted by the Underwriter, subject to approval of certain legal matters by counsel for the Underwriter. The Underwriter reserves the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that delivery of the shares of Common Stock will be made in New York, New York, on or about April 29, 1998.

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**Merrill Lynch & Co.**

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**The date of this Prospectus Supplement is April 23, 1998.**

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE COMMON STOCK. SUCH TRANSACTIONS MAY INCLUDE THE PURCHASE OF THE COMMON STOCK TO STABILIZE ITS MARKET PRICE. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

Unless the context otherwise requires, the terms (i) "Company" shall mean Highwoods Properties, Inc., predecessors of Highwoods Properties, Inc., and those entities owned or controlled by Highwoods Properties, Inc., including Highwoods/Forsyth Limited Partnership (the "Operating Partnership") and (ii) "Properties" shall mean the 382 office and 148 industrial (including 80 service center) properties owned by the Company as of March 31, 1998. All information regarding the Properties excludes the 11 properties acquired after March 31, 1998.

Certain matters discussed in this Prospectus Supplement, the attached Prospectus and the information incorporated by reference herein and therein, including, without limitation, strategic initiatives, may constitute forward-looking statements for purposes of the Securities Act of 1933, as amended (the "Securities Act"), and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and as such may involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company and the Operating Partnership to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Important factors that could cause the actual results, performance or achievements of the Company and the Operating Partnership to differ materially from the Company's and the Operating Partnership's expectations are disclosed or incorporated by reference in this Prospectus Supplement and the attached Prospectus ("Cautionary Statements"), including, without limitation, those statements made in conjunction with the forward-looking statements included herein. All forward-looking statements attributable to the Company and the Operating Partnership are expressly qualified in their entirety by the Cautionary Statements.

## **THE COMPANY**

### **General**

The Company is a self-administered and self-managed equity REIT that began operations through a predecessor in 1978. The Company is one of the largest owners and operators of office and industrial properties in the Southeast. As of March 31, 1998, the Company owned a diversified portfolio of 530 in-service office and industrial properties encompassing approximately 33.9 million rentable square feet located in 19 markets in North Carolina, Florida, Tennessee, Georgia, Virginia, South Carolina, Maryland and Alabama. The Properties consist of 382 office properties and 148 industrial (including 80 service center) properties and are leased to approximately 3,400 tenants. At March 31, 1998, the Properties were 93% leased. An additional 32 properties (the "Development Projects"), which will encompass approximately 3.6 million rentable square feet, are under development in North Carolina, Florida, Virginia, Tennessee, Georgia, Maryland and South Carolina. The Company estimates the cost of completing the Development Projects to be approximately \$353.3 million, approximately \$111.3 million of which had been incurred as of March 31, 1998. The Company also owns 718 acres (and has agreed to purchase an additional 567 acres) of land for future development (the "Development Land"). The Development Land is zoned and available for office and/or industrial development, substantially all of which has utility infrastructure already in place.

The Company conducts substantially all of its activities through, and substantially all of its properties are held directly or indirectly by, the Operating Partnership. The Operating Partnership is controlled by the Company, as its sole general partner, which owns approximately 83% of the common partnership interests (the "Common Units") in the Operating Partnership. The remaining Common Units are owned by limited partners (including certain officers and directors of the Company). Other than Common Units held by the Company, each Common Unit may be redeemed by the holder thereof for the cash value of one share of common stock of the Company, \$.01 par value (the "Common Stock"), or, at the Company's option, one share (subject to certain adjustments) of Common Stock. With each such exchange, the number of Common Units owned by the Company and, therefore, the Company's percentage interest in the Operating Partnership, will increase.

In addition to owning the Properties, the Development Projects and the Development Land, the Company provides leasing, property management, real estate development, construction and miscellaneous tenant services for its properties as well as for third parties. The Company conducts its third-party fee-based services through Highwoods Tennessee Properties, Inc., a wholly owned subsidiary of the Company, and Highwoods Services, Inc., a subsidiary of the Operating Partnership.

The Company was formed in North Carolina in 1994. The Company's executive offices are located at 3100 Smoketree Court, Suite 600, Raleigh, North Carolina 27604, and its telephone number is (919) 872-4924. The

Company also maintains regional offices in Winston-Salem, Greensboro and Charlotte, North Carolina; Richmond, Virginia; Baltimore, Maryland; Nashville and Memphis, Tennessee; Atlanta, Georgia; and Tampa, Boca Raton, Tallahassee and Jacksonville, Florida; and South Florida.

## **RECENT DEVELOPMENTS**

### **Recent Acquisitions**

The Company has acquired ten office properties and one industrial property encompassing approximately 992,000 rentable square feet for an aggregate of \$69.2 million since March 31, 1998.

### **Series D Preferred Offering**

On April 23, 1998, the Company sold 4,000,000 Depositary Shares (the "Depositary Shares"), each representing 1/10 of a share of the Company's 8% Series D Cumulative Redeemable Preferred Shares, par value \$.01 per share (the "Series D Preferred Shares"), for net proceeds of approximately \$96.7 million (the "Series D Preferred Offering"). Dividends on the Series D Preferred Shares represented by the Depositary Shares will be cumulative from the date of original issuance and will be payable quarterly on or about the last day of January, April, July and October of each year, commencing July 31, 1998, at the rate of 8% of the liquidation preference per annum (equivalent to \$2.00 per annum per Depositary Share). The Series D Preferred Shares and the Depositary Shares representing such Series D Preferred Shares are not redeemable prior to April 23, 2003. The Series D Preferred Shares are thereafter subject to redemption by the Company, in whole or in part, at a redemption price of \$250 per share (equivalent to \$25 per Depositary Share), plus accrued and unpaid dividends, if any, thereon. The redemption price (other than the portion thereof consisting of accrued and unpaid dividends) is payable solely out of the sale proceeds of other capital stock of the Company, which may include other series of preferred stock, and from no other source.

With respect to the payment of dividends and amounts upon liquidation, the Series D Preferred Shares will rank pari passu with the Company's 8 5/8% Series A Cumulative Redeemable Preferred Shares (the "Series A Preferred Shares") and 8% Series B Cumulative Redeemable Preferred Shares (the "Series B Preferred Shares") and any other equity securities of the Company the terms of which provide that such equity securities rank on a parity with the Series D Preferred Shares and rank senior to the Common Stock and any other equity securities of the Company that by their terms rank junior to the Series D Preferred Shares. Dividends on the Series D Preferred Shares will accrue whether or not the Company has earnings, whether or not there are funds legally available for the payment of such dividends and whether or not such dividends are declared. The Series D Preferred Shares have a liquidation preference of \$250 per share (equivalent to \$25 per Depositary Share), plus an amount equal to any accrued and unpaid dividends.

### **April 1998 Debt Offering**

On April 20, 1998, the Operating Partnership sold \$200 million of 7 1/2% notes due April 15, 2018 (the "Notes") in an underwritten public offering for net proceeds of approximately \$197.4 million (the "April 1998 Debt Offering"). Interest on the Notes is payable semi-annually on April 15 and October 15 of each year, commencing October 15, 1998.

### **April 21, 1998 Common Stock Offering**

On April 21, 1998, the Company sold 441,176 shares of Common Stock in an underwritten public offering (the "April 21, 1998 Common Stock Offering") for net proceeds of approximately \$14.2 million.

## First Quarter 1998 Results

On April 21, 1998, the Company announced results for the quarter ended March 31, 1998. Revenues for the quarter ended March 31, 1998 totaled \$102.5 million, a 76% increase over the \$58.3 million for the same period in 1997. Funds from operations totaled \$45.1 million, or \$0.76 per basic share (\$0.75 per diluted share), for the quarter ended March 31, 1998, compared with \$27.5 million, or \$0.66 per basic share (\$0.65 per diluted share), for the same period in 1997.

The following table sets forth certain summary selected financial information about the Company:

	Three Months Ended March 31, 1998	Three Months Ended March 31, 1997
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	(dollars in thousands except per share amounts)	
Operating Data:		
Total revenue .....	\$ 102,488	\$ 58,321
Rental property operating expenses (1) .....	29,728	15,342
General and administrative .....	3,784	2,080
Interest expense .....	17,778	12,035
Depreciation and amortization .....	17,161	9,310
	-----	-----
Income before minority interest .....	34,037	19,554
Minority interest .....	(5,608)	(3,129)
	-----	-----
Income before extraordinary item .....	28,429	16,425
Extraordinary item -- loss on early extinguishment of debt .....	(46)	(3,337)
	-----	-----
Net income .....	28,383	13,088
Dividends on preferred shares .....	(6,145)	(1,407)
	-----	-----
Net income available for common stockholders .....	\$ 22,238	\$ 11,681
	=====	=====
Net income per common share -- Basic (2) .....	\$ 0.45	\$ 0.33
	=====	=====
Net income per common share -- Diluted (2) .....	\$ 0.45	\$ 0.33
	=====	=====
Balance Sheet Data		
(at end of period):		
Real estate, net of accumulated depreciation .....	\$ 2,999,870	\$1,611,948
Total assets .....	3,134,321	1,680,206
Total mortgages and notes payable .....	1,231,099	589,053
Other Data:		
FFO (3) .....	45,053	27,457
Number of in-service properties .....	530	345
Total rentable square feet .....	33,930,000	21,002,000

(1) Rental property operating expenses include salaries, real estate taxes, insurance, repairs and maintenance, property management, security, utilities, leasing, development, and construction expenses.

(2) Net income per share has been calculated using the methodology prescribed by FASB Statement No. 128.

(3) Funds From Operations ("FFO") is defined as net income, computed in accordance with generally accepted accounting principles ("GAAP"), excluding gains (losses) from debt restructuring and sales of property, plus depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. Management generally considers FFO to be a useful financial performance measurement 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 GAAP. It should not be considered as an alternative to net income as an indicator of the Company's 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, funds from operations statistics as disclosed by other REITs may not be comparable to the Company's calculation of FFO.

## CAPITALIZATION

The following table sets forth the capitalization of the Company as of December 31, 1997 and on a pro forma basis assuming that each of the following occurred as of December 31, 1997: (i) the issuance and sale of the 1,080,443 shares of Common Stock offered hereby and the application of the net proceeds therefrom as described under "Use of Proceeds," (ii) the April 21, 1998 Common Stock Offering, (iii) the Series D Preferred Offering, (iv) the April 1998 Debt Offering, (v) the sale of 428,572 shares of Common Stock on March 30, 1998 for net proceeds of approximately \$14.2 million (the "March 1998 Offering"), (vi) the sale of an aggregate of 1,553,604 shares of Common Stock on February 12, 1998 for net proceeds of approximately \$51.2 million (the "February 1998 Common Stock Offerings"), (vii) the sale by the Operating Partnership on February 2, 1998 of \$125 million of 6.835% Mandatory Par Put Remarketed Securities<sup>SM</sup> ("MOPPRSSM") due February 1, 2013 and \$100 million of 7 1/8% notes due February 1, 2008 (the "February 1998 Debt Offering"), (viii) the sale of 2,000,000 shares of Common Stock on January 27, 1998 for net proceeds of approximately \$68.2 million (the "January 1998 Offering") and (ix) the acquisition of the Garcia portfolio (the "Garcia Transaction"). The capitalization table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" incorporated by reference herein and the Company's financial statements and notes thereto incorporated by reference herein.

	December 31, 1997	
	Historical	Pro Forma
	(in thousands)	
Debt:		
Revolving Loans .....	\$ 314,500	\$ --
Mortgage notes .....	354,058	378,058
6 3/4% Notes due 2003 .....	100,000	100,000
7% Notes due 2006 .....	110,000	110,000
Exercisable Put Option Notes due 2011 (1) .....	100,000	100,000
7 1/8% Notes due 2008 .....	--	100,000
6.835% MOPPRSSM due 2013 .....	--	125,000
7 1/2% Notes due 2018 .....	--	200,000
Total debt .....	978,558	1,113,058
Minority interest in the Operating Partnership .....	287,186	287,186
Stockholders' equity:		
Preferred Stock, \$.01 par value; 10,000,000 shares authorized (2)		
8 5/8% Series A Cumulative Redeemable Preferred Shares (liquidation preference \$1,000 per share), 125,000 shares issued and outstanding...	125,000	125,000
8% Series B Cumulative Redeemable Preferred Shares (liquidation preference \$25 per share), 6,900,000 shares issued and outstanding....	172,500	172,500
8% Series D Cumulative Redeemable Preferred Shares (liquidation preference \$250 per share), 0 shares and 400,000 shares, respectively, issued and outstanding .....	--	100,000
Common Stock, \$.01 par value; 100,000,000 shares authorized, 46,838,600 shares and 52,342,395 shares, respectively, issued and outstanding (3)	468	523
Additional paid-in capital .....	1,132,100	1,311,209
Accumulated deficit .....	(28,627)	(28,627)
Total stockholders' equity .....	1,401,441	1,680,605
Total capitalization .....	\$2,667,185	\$3,080,849
	=====	=====

(1) On June 24, 1997, a trust formed by the Operating Partnership sold \$100 million of Exercisable Put Option Securities ("X-POSSM"), which represent fractional undivided beneficial interests in the trust. The assets of the trust consist of, among other things, \$100 million of Exercisable Put Option Notes (the "Put Option Notes"). The X-POSSM bear an interest rate of 7.19% and mature on June 15, 2004, representing an effective borrowing cost of 7.09%, net of a related put option and certain interest rate protection agreement costs. Under certain circumstances, the Put Option Notes could also become subject to early maturity on June 15, 2004.

(2) The Company's Amended and Restated Articles of Incorporation have classified and designated 1,000,000 shares of Series C Junior Participating Preferred Stock, none of which is currently issued or outstanding, in connection with the Company's Shareholders' Rights Plan. See "Description of Common Stock -- Certain Provisions Affecting Change in Control" in the accompanying Prospectus.

(3) Excludes (a) 10,449,197 (historical) and 10,449,197 (pro forma) shares of Common Stock that may be issued upon redemption of Common Units (which are redeemable by the holder for cash or, at the Company's option, shares of Common Stock on a one-for-one basis) issued in connection with the formation of the Company and subsequent property acquisitions, (b) 2,500,000 shares of Common Stock reserved for issuance upon exercise of options granted pursuant to the Amended and Restated 1994 Stock Option Plan, (c) 1,729,290 shares of Common Stock that may be issued upon the exercise of outstanding warrants granted to certain officers in connection with certain property acquisitions, (d) 354,000 shares of Common Stock that may be issued upon redemption of Common Units that may be issued in connection with certain property acquisitions and (e) 40,542 shares of Common Stock that may be issued pursuant to earn-out provisions in an acquisition agreement.

## USE OF PROCEEDS

The net cash proceeds to the Company from the sale of the shares of Common Stock offered in the Offering are expected to be approximately \$34.6 million. The Company intends to use the net proceeds of the Offering to pay down indebtedness currently outstanding on its \$430 million aggregate amount of revolving lines of credit (the "Revolving Loans"). Interest accrues on borrowings under a \$280 million Revolving Loan at an average interest rate of LIBOR plus 100 basis points and under a \$150 million Revolving Loan at an average interest rate of LIBOR plus 90 basis points. As of April 23, 1998, approximately \$112 million of indebtedness was outstanding on the Revolving Loans, which bore interest at a weighted average interest rate of 6.64%.

## SELECTED FINANCIAL DATA

The following table sets forth selected financial and operating data for the Company on a historical and a pro forma basis. The pro forma operating data for the year ended December 31, 1997 has been derived by the application of pro forma adjustments to the Company's audited consolidated financial statements incorporated herein by reference and assumes that the following transactions all occurred as of January 1, 1997: (i) the acquisition of Century Center Office Park and an affiliated property portfolio, (ii) the merger with Anderson Properties, Inc. and its affiliates, (iii) the issuance of 125,000 Series A Preferred Shares, (iv) the issuance of the X-POSSM, (v) the issuance of 1,800,000 shares of Common Stock in August 1997, (vi) the merger with Associated Capital Properties, Inc., (vii) the issuance of 8,500,000 shares of Common Stock in October 1997, (viii) the issuance of 6,900,000 Series B Preferred Shares, (ix) the Selected Fourth Quarter 1997 Transactions (as defined herein), (x) the Garcia Transaction, (xi) the January 1998 Offering, (xii) the February 1998 Debt Offering, (xiii) the February 1998 Common Stock Offerings, (xiv) the March 1998 Offering, (xv) the April 1998 Debt Offering, (xvi) the Series D Preferred Offering, (xvii) the April 21, 1998 Common Stock Offering and (xviii) this Offering. The pro forma balance sheet as of December 31, 1997 assumes that the Garcia Transaction, the January 1998 Offering, the February 1998 Debt Offering, the February 1998 Common Stock Offerings, the March 1998 Offering, the April 1998 Debt Offering, the Series D Preferred Offering, the April 21, 1998 Common Stock Offering and this Offering all occurred as of December 31, 1997. The pro forma financial information is unaudited and is not necessarily indicative of what the financial position and results of operations of the Company would have been as of and for the periods indicated, nor does it purport to represent the future financial position and results of operations for future periods.

"Selected Fourth Quarter 1997 Transactions" include the following property acquisitions: (i) Winners Circle in Nashville, TN; (ii) the Shelton portfolio in the Piedmont Triad; (iii) NationsBank Plaza in Greenville, SC; (iv) Exchange Plaza in Atlanta, GA; (v) Cypress West in Tampa, FL; (vi) Marnier Square in Tampa, FL; (vii) Zurn in Tampa, FL; and (viii) Avion in Ft. Lauderdale, FL; and (ix) the Riparius portfolio in the Baltimore, MD area.

The following information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" incorporated by reference herein and the Company's financial statements and notes thereto incorporated by reference herein.



	Pro forma			
	Year Ended December 31, 1997	Year Ended December 31, 1997	Year Ended December 31, 1996	Year Ended December 31, 1995
	(dollars in thousands except per share amounts)			
Operating Data:				
Total revenue .....	\$ 363,078	\$ 274,470	\$ 137,926	\$ 73,522
Rental property operating expenses (1) .....	113,801	76,743	35,313	17,049
General and administrative .....	10,216	10,216	5,666	2,737
Interest expense .....	66,260	47,394	26,610	13,720
Depreciation and amortization .....	60,636	47,533	22,095	11,082
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Income before minority interest .....	112,165	92,584	48,242	28,934
Minority interest .....	(18,646)	(15,106)	(6,782)	(4,937)
	-----	-----	-----	-----
Income before extraordinary item .....	93,519	77,478	41,460	23,997
Extraordinary item -- loss on early extinguishment of debt .....	(5,799)	(5,799)	(2,140)	(875)
	-----	-----	-----	-----
Net income .....	87,720	71,679	39,320	23,122
Dividends on preferred shares .....	(32,581)	(13,117)	--	--
	-----	-----	-----	-----
Net income available for common stockholders .....	\$ 55,139	\$ 58,562	\$ 39,320	\$ 23,122
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Net income per common share -- Basic (2) .....	\$ 1.28	\$ 1.51	\$ 1.51	\$ 1.49
	=====	=====	=====	=====
Net income per common share -- Diluted (2) .....	\$ 1.27	\$ 1.50	\$ 1.50	\$ 1.48
	=====	=====	=====	=====
Balance Sheet Data (at end of period):				
Real estate, net of accumulated depreciation .....	\$ 2,725,654	\$ 2,614,654	\$ 1,377,874	\$ 593,066
Total assets .....	3,135,970	2,722,306	1,443,440	621,134
Total mortgages and notes payable .....	1,113,058	978,558	555,876	182,736
Other Data:				
FFO(3) .....	140,220	127,000	70,620	40,016
Number of in-service properties .....	530	481	292	191
Total rentable square feet .....	33,931,000	30,721,000	17,455,000	9,215,000

(1) Rental property operating expenses include salaries, real estate taxes, insurance, repairs and maintenance, property management, security, utilities, leasing, development and construction expenses.

(2) Net income per share has been calculated using the methodology prescribed by FASB Statement No. 128.

(3) Funds From Operations ("FFO") is defined as net income, computed in accordance with generally accepted accounting principles ("GAAP"), excluding gains (losses) from debt restructuring and sales of property, plus depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. Management generally considers FFO to be a useful financial performance measurement 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 GAAP. It should not be considered as an alternative to net income as an indicator of the Company's 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, funds from operations statistics as disclosed by other REITs may not be comparable to the Company's calculation of FFO.

## **CERTAIN FEDERAL INCOME TAX CONSIDERATIONS**

A summary of the federal income tax considerations relating to the Company's REIT status and to the Operating Partnership is set forth in the accompanying Prospectus. The following summary supplements the discussion of the federal income tax considerations set forth in the accompanying Prospectus. It is based on current law, is for general purposes only, and is not tax advice.

EACH INVESTOR OF THE COMMON STOCK IS ADVISED TO CONSULT HIS OR HER OWN TAX ADVISOR REGARDING THE TAX CONSEQUENCES TO HIM OR HER OF THE PURCHASE, OWNERSHIP AND SALE OF THE COMMON STOCK, INCLUDING THE FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES OF SUCH PURCHASE, OWNERSHIP AND SALE OF THE COMMON STOCK AND OF POTENTIAL CHANGES IN APPLICABLE TAX LAWS.

### **Termination Payments if J.C. Nichols Transaction Fails to Occur**

On December 22, 1997, the Company entered into a merger agreement (the "Merger Agreement") with J.C. Nichols Company ("J.C. Nichols") pursuant to which J.C. Nichols, under certain circumstances, may be required to pay the Company a termination fee and expenses of up to an aggregate of \$17.2 million if J.C. Nichols enters into an acquisition proposal other than the Merger Agreement. All or a portion of the termination fee and expense reimbursement received by the Company pursuant to the Merger Agreement may be non-qualifying income under the 95% and 75% gross income tests and could adversely effect the Company's ability to satisfy the REIT qualification tests in the event that the total amount of non-qualifying income received by the Company exceeds the permissible thresholds. See "Federal Income Tax Considerations -- Requirements for Qualification -- Income Tests" in the accompanying Prospectus. Management believes that based on the Company's estimated gross income for the year that will end December 31, 1998, the receipt of these amounts would not result in a violation of either the 95% or the 75% gross income test.

### **Proposed Legislation**

Under current law, the Company cannot own more than 10% of the outstanding voting securities (other than those securities includible in the 75% asset test) of any one issuer and qualify for taxation as a REIT. See "Federal Income Tax Considerations -- Requirements for Qualification -- Asset Tests." For example, the Operating Partnership owns 100% of the nonvoting stock and 1% of the voting stock of Highwoods Services, Inc., ("Highwoods Services") and, by virtue of its ownership of Common Units, the Company is considered to own its pro rata share of such stock. Neither the Company nor the Operating Partnership, however, own more than 1% of the voting securities of Highwoods Services and the 10% test is satisfied.

The Company conducts certain of its third-party fee-based services (i.e., leasing, property management, real estate development, construction and other miscellaneous services) through Highwoods Services. The President's Budget Proposal for Fiscal Year 1999 (the "Budget Proposal") includes a provision to restrict these types of activities conducted by REITs under current law by expanding the ownership limitation from no more than 10% of the voting securities of an issuer to no more than 10% of the vote or value of all classes of the issuer's stock. The Company, therefore, could not own stock (either directly or indirectly through the Operating Partnership) possessing more than 10% of the vote or value of all classes of any issuer's stock.

The Budget Proposal would be effective only with respect to stock directly or indirectly acquired by the Company on or after the date of first committee action. To the extent that the Company's stock ownership in Highwoods Services is grandfathered by virtue of this effective date, that grandfathered status will terminate if Highwoods Services engages in a trade or business that it is not engaged in on the date of first committee action or acquires substantial new assets on or after that date. Such restriction would adversely affect the ability to expand the business of Highwoods Services.

## **UNDERWRITING**

Subject to the terms and conditions contained in the terms agreement and the related underwriting agreement (together, the "Underwriting Agreement"), the Company has agreed to sell to Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Underwriter"), and the Underwriter has agreed to purchase from the Company, 1,080,443 shares of Common Stock. The Underwriting Agreement provides that the obligations of the Underwriter are subject to certain conditions precedent, and that the Underwriter will be obligated to purchase all of such shares if any are purchased.

The Underwriter intends to deposit the shares of Common Stock offered hereby with the Trust, a registered unit investment trust under the Investment Company Act of 1940, as amended, for which the Underwriter acts as sponsor and depositor, in exchange for units of the Trust. The Underwriter is an affiliate of the Trust.

In connection with the Offering, the rules of the Securities and Exchange Commission permit the Underwriter to engage in certain transactions that stabilize the price of the Common Stock. Such transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Common Stock. If the Underwriter creates a short position in the Common Stock in connection with the Offering (i.e., if it sells more shares of Common Stock than are set forth on the cover page of this Prospectus Supplement), the Underwriter may reduce that short position by purchasing Common Stock in the open market.

In general, purchases of a security for the purpose of stabilization or to reduce a syndicate short position could cause the price of the security to be higher than it might otherwise be in the absence of such purchases.

Neither the Company nor the Underwriter makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Common Stock. In addition, neither the Company nor the Underwriter makes any representation that the Underwriter will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

The Common Stock is listed on the NYSE under the symbol "HIW." The Company has applied for listing of the shares of Common Stock offered hereby on the NYSE.

Pursuant to the Underwriting Agreement, the Company and the Operating Partnership have agreed to indemnify the Underwriter against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Underwriter may be required to make in respect thereof.

The Underwriter from time to time provides investment banking and financial advisory services to the Company and the Operating Partnership. The Underwriter has also acted as representative of various underwriters in connection with offerings of the Company's equity securities and the Operating Partnership's debt securities from 1994 through 1998.

## **LEGAL MATTERS**

Certain legal matters will be passed upon for the Company by Alston & Bird LLP, Raleigh, North Carolina. Certain legal matters related to the Offering will be passed upon for the Underwriter by Andrews & Kurth L.L.P., Washington, D.C.

No dealer, salesperson or other individual has been authorized to give any information or make any representations not contained or incorporated by reference in this Prospectus Supplement and the accompanying Prospectus in connection with the offer made by this Prospectus Supplement and the accompanying Prospectus. If given or made, such information or representation must not be relied upon as having been authorized by the Company or the Underwriter. This Prospectus Supplement and the accompanying Prospectus do not constitute an offer to sell, or a solicitation of an offer to buy, the shares in any jurisdiction where, or to any person to whom, it is unlawful to make such offer or solicitation. Neither the delivery of this Prospectus Supplement and the accompanying Prospectus nor any sale made hereunder shall, under any circumstances, create an implication that there has not been any change in the facts set forth in this Prospectus Supplement and the accompanying Prospectus or in the affairs of the Company since the date hereof.

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**1,080,443 Shares**

**HIGHWOODS  
PROPERTIES, INC.**

(icon)

**Common Stock**

**PROSPECTU SSUPPLEMENT**

**Merrill Lynch & Co.**

April 23, 1998

