

HIGHWOODS PROPERTIES INC

FORM 10-Q (Quarterly Report)

Filed 8/14/1998 For Period Ending 6/30/1998

Address	3100 SMOKETREE CT STE 600 RALEIGH, North Carolina 27604
Telephone	919-872-4924
CIK	0000921082
Industry	Real Estate Operations
Sector	Services
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 1998

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

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 ☐

The Company has only one class of common stock, par value \$.01 per share, with 58,705,087 shares outstanding as of August 10, 1998.

HIGHWOODS PROPERTIES, INC.

QUARTERLY REPORT FOR THE PERIOD ENDED JUNE 30, 1998

TABLE OF CONTENTS

	Page

PART I.	FINANCIAL INFORMATION
Item 1.	Financial Statements
	Consolidated balance sheets of Highwoods Properties, Inc. as of June 30, 1998 and December 31, 1997
	Consolidated statements of income of Highwoods Properties, Inc. for the three and six month periods ended June 30, 1998 and 1997
	Consolidated statements of cash flows of Highwoods Properties, Inc. for the six month periods ended June 30, 1998 and 1997
	Notes to the consolidated financial statements of Highwoods Properties, Inc.
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations
	Results of Operations
	Liquidity and Capital Resources
	Recent Developments
	Funds From Operations and Cash Available for Distributions
	Disclosure Regarding Forward-Looking Statements
	Property Information
	Inflation
PART II.	OTHER INFORMATION
Item 1.	Legal Proceedings
Item 2.	Changes in Securities and Use of Proceeds
Item 3.	Defaults Upon Senior Securities
Item 4.	Submission of Matters to a Vote of Security Holders
Item 5.	Other Information
Item 6.	Exhibits and Reports on Form 8-K

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements

The information furnished in the accompanying balance sheets, statements of operations and statements of cash flows reflect all adjustments that are, in the opinion of management, 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 and the 1997 Annual Report on Form 10-K of Highwoods Properties, Inc. (the "Company").

HIGHWOODS PROPERTIES, INC.

Consolidated Balance Sheets

(in thousands except per share amounts)

	June 30, 1998	December 31, 1997
	----- (Unaudited)	-----
Assets		
Real estate assets, at cost:		
Land and improvements	\$ 466,881	\$ 344,315
Buildings and tenant improvements	2,748,809	2,194,641
Development in process	138,818	95,387
Land held for development	104,893	64,454
Furniture, fixtures and equipment	4,457	3,362
	-----	-----
	3,463,858	2,702,159
Less -- accumulated depreciation	(122,414)	(87,505)
	-----	-----
Net real estate assets	3,341,444	2,614,654
Cash and cash equivalents	7,035	10,146
Restricted cash	11,723	9,341
Accounts receivable	21,009	17,701
Advances to related parties	11,413	9,072
Accrued straight line rents receivable	19,205	13,033
Other assets:		
Deferred leasing costs	31,060	21,688
Deferred financing costs	30,279	22,294
Prepaid expenses and other	13,589	17,607
	-----	-----
	74,928	61,589
Less -- accumulated amortization	(17,833)	(13,230)
	-----	-----
	57,095	48,359
	-----	-----
	\$3,468,924	\$2,722,306
	=====	=====
Liabilities and stockholders' equity		
Mortgages and notes payable	\$1,408,700	\$ 978,558
Accounts payable, accrued expenses and other liabilities	69,164	55,121
	-----	-----
Total liabilities	1,477,864	1,033,679
Minority interest	295,422	287,186
Stockholders' equity:		
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 June 30, 1998 and December 31, 1997	125,000	125,000
8% Series B Cumulative Redeemable Preferred Shares		
(liquidation preference \$25 per share), 6,900,000 shares issued and		
outstanding at June 30, 1998 and December 31, 1997	172,500	172,500
8% Series D Cumulative Redeemable Preferred Shares		
(liquidation preference \$250 per share), 400,000 shares and 0 shares		
issued and outstanding at June 30, 1998 and December 31, 1997,		
respectively	100,000	--
Common stock, \$.01 par value, authorized 200,000,000 shares; issued and		
outstanding 52,942,747 at June 30, 1998 and 46,838,600 at		
December 31, 1997	529	468
Additional paid-in capital	1,332,853	1,132,100
Distributions in excess of net income	(35,244)	(28,627)
	-----	-----
Total stockholders' equity	1,695,638	1,401,441
	-----	-----
	\$3,468,924	\$2,722,306
	=====	=====

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Income

(unaudited and in thousands except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997
Revenue:				
Rental property	\$113,079	\$ 59,423	\$ 213,410	\$115,478
Interest and other income	2,562	1,815	4,719	4,081
	115,641	61,238	218,129	119,559
Operating expenses:				
Rental property	35,827	16,246	65,555	31,588
Depreciation and amortization	20,340	10,590	37,501	19,900
Interest expense:				
Contractual	17,221	11,056	34,383	22,516
Amortization of deferred financing costs	616	547	1,232	1,122
	17,837	11,603	35,615	23,638
General and administrative	4,386	2,204	8,170	4,284
Income before minority interest and extraordinary item	37,251	20,595	71,288	40,149
Minority interest	(6,266)	(3,295)	(11,874)	(6,424)
Income before extraordinary item	30,985	17,300	59,414	33,725
Extraordinary item -- loss on early extinguishment of debt	--	--	(46)	(3,337)
Net income	30,985	17,300	59,368	30,388
Dividends on Preferred Stock	(7,656)	(2,695)	(13,801)	(4,102)
Net income available for common stockholders	\$ 23,329	\$ 14,605	\$ 45,567	\$ 26,286
	=====	=====	=====	=====
Net income per common share -- Basic:				
Income before extraordinary item	\$ 0.45	\$ 0.41	\$ 0.90	\$ 0.84
Extraordinary item -- loss on early extinguishment of debt	--	--	--	(0.10)
Net income	\$ 0.45	\$ 0.41	\$ 0.90	\$ 0.74
	=====	=====	=====	=====
Weighted average shares outstanding -- Basic	52,359	35,824	50,714	35,375
	=====	=====	=====	=====
Net income per common share -- Diluted:				
Income before extraordinary item	\$ 0.44	\$ 0.40	\$ 0.89	\$ 0.83
Extraordinary item loss on early extinguishment of debt	--	--	--	(0.09)
Net income	\$ 0.44	\$ 0.40	\$ 0.89	\$ 0.74
	=====	=====	=====	=====
Weighted average shares outstanding -- Diluted	52,751	36,090	51,221	35,755
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Cash Flows

(unaudited and in thousands)

	Six Months Ended June 30,	
	1998	1997
Operating activities:		
Net income	\$ 59,368	\$ 30,388
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	37,501	21,022
Minority interest in income	11,874	5,788
Loss on early extinguishment of debt	46	3,973
Changes in operating assets and liabilities	1,656	(6,364)
Net cash provided by operating activities	110,445	54,807
Investing activities:		
Additions to real estate assets	(647,142)	(85,097)
Cash paid in exchange for partnership net assets	(20,601)	(5,081)
Advances to subsidiaries and related parties	(2,341)	--
Other	(8,441)	(7,847)
Net cash used in investing activities	(678,525)	(98,025)
Financing activities:		
Distributions paid on Common Stock and Common Units	(62,158)	(39,389)
Dividends paid on Preferred Stock	(13,801)	(1,407)
Payments of prepayment penalties	(46)	(3,973)
Borrowings on mortgages and notes payable	521,941	124,000
Repayment of mortgages and notes payable	(118,120)	(161,637)
Borrowings on Revolving Loans	535,000	--
Payments on Revolving Loans	(582,500)	--
Net proceeds from the sale of Common Stock	193,761	1,815
Net proceeds from the sale of 8 5/8% Series A Cumulative Redeemable Preferred Shares	--	121,804
Net proceeds from the sale of 8% Series D Cumulative Redeemable Preferred Shares	96,842	--
Net change in deferred financing costs	(5,950)	(161)
Net cash provided by financing activities	564,969	41,052
Net decrease in cash and cash equivalents	(3,111)	(2,166)
Cash and cash equivalents at beginning of the period	10,146	11,070
Cash and cash equivalents at end of the period	\$ 7,035	\$ 8,904
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 36,277	\$ 23,189

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Cash Flows

(unaudited and in thousands)

Supplemental disclosure of non-cash investing and financing activities

The following summarizes the net assets contributed by the Common Unit holders of the Highwoods Realty Limited Partnership (the "Operating Partnership") or acquired subject to mortgage notes payable:

	Six Months Ended June 30,	
	1998	1997
Assets:		
Rental property and equipment, net	\$93,979	\$214,497
Liabilities:		
Mortgages and notes payable assumed	\$73,821	\$129,270
	-----	-----
Net assets	\$20,158	\$ 85,227
	=====	=====

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1998
(Unaudited)

1. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Highwoods Properties, Inc. (the "Company"), Highwoods Realty Limited Partnership (the "Operating Partnership") and the following subsidiaries:

Highwoods/Tennessee Holdings, L.P.
AP Southeast Portfolio Partners, L.P.
Highwoods/Florida Holdings, L.P.
Highwoods Services, Inc.

The Company's investment in Highwoods Services, Inc. (the "Service Company") is accounted for using the equity method of accounting. 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.

The Company has elected and expects to continue to qualify as a real estate investment trust ("REIT") under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended.

In 1997, the Financial Accounting Standards Board ("FASB") issued Statement No. 128, "Earnings Per Share," which is effective for financial statements for periods ending after December 15, 1997. FASB Statement No. 128 requires the restatement of prior period earnings per share and requires the disclosure of additional supplemental information detailing the calculation of earnings per share.

FASB Statement No. 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. It is computed using the weighted average number of shares of Common Stock and the dilutive effect of options, warrants and convertible securities outstanding, using the "treasury stock" method. Earnings per share data are required for all periods for which an income statement or summary of earnings is presented, including summaries outside the basic financial statements. All earnings per share amounts for all periods presented have, where appropriate, been restated to conform to the FASB Statement No. 128 requirements.

In 1997, the FASB issued Statements No. 130, "Reporting Comprehensive Income" ("SFAS 130") and No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("SFAS 131"), which are both effective for fiscal years beginning after December 15, 1997. As of January 1, 1998, the Company adopted SFAS 130 which established new rules for the reporting and display of comprehensive income and its components; however, the adoption of this statement had no impact on the Company's net income or shareholders' equity. SFAS 131, which addresses reporting segment information, is not required for interim reporting in the

first year of application. The Company does not believe the adoption of SFAS 130 and 131 will have a material impact on its financial statements.

Emerging Issues Task Forces ("EITF") Issue No. 97-11, Accounting for Internal Cost Relating to Real Estate Property Acquisitions, requires internal acquisition costs related to the purchase of an operating property to be expensed as incurred. The Company's financial statements for the six months ended March 31, 1998 reflect the change, effective March 19, 1998, as required by the EITF, in accounting for acquisition costs. The Company believes the effect of this change on future periods will be immaterial.

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. The Company has reviewed the impact of Year 2000 issues and does not expect year 2000 issues to be material to its business, operations or financial condition.

Minority interest in the Company represents the limited partnership interests ("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).

The accompanying financial information has not been audited, but in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the financial position, results of operations and cash flows of the Company have been made. For further information, refer to the financial statements and notes thereto included in the Company's 1997 Annual Report on Form 10-K.

2. DEBT AND EQUITY TRANSACTIONS

On January 27, 1998, the Company sold 2,000,000 shares of Common Stock in an underwritten public offering for net proceeds of approximately \$68.2 million.

On February 2, 1998, the Operating Partnership sold \$125 million of 6.835% MOPPRSSM due February 1, 2013 and \$100 million of 7 1/8% notes due February 1, 2008.

On February 18, 1998, the Company sold an aggregate of 1,553,604 shares of Common Stock in two underwritten public offerings for net proceeds of approximately \$51.2 million.

On March 30, 1998, the Company sold 428,572 shares of Common Stock in an underwritten public offering for net proceeds of approximately \$14.2 million.

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

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

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.

On April 29, 1998, the Company sold 1,080,443 shares of Common Stock in an underwritten public offering for net proceeds of approximately \$34.6 million.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with all of the financial statements appearing elsewhere in the report. The following discussion is based primarily on the consolidated financial statements of Highwoods Properties, Inc.

Results of Operations

Three Months Ended June 30, 1998

Revenues from rental operations increased \$53.7 million, or 90%, from \$59.4 million for the three months ended June 30, 1997 to \$113.1 million for the comparable period in 1998. The increase is primarily a result of the acquisition of 17.4 million square feet of office and industrial properties (net of 400,000 square feet of dispositions) and the completion of 1.7 million square feet of development activity during the last six months of 1997 and the first six months of 1998. The Company's portfolio increased from 21.6 million square feet at June 30, 1997 to 40.7 million square feet at June 30, 1998. Same property revenues, which are the revenues of the 345 in-service properties owned on April 1, 1997, increased 4% for the three months ended June 30, 1998, compared to the same three months of 1997.

During the three months ended June 30, 1998, 326 leases representing 1.3 million square feet of office and industrial space commenced at an average rate per square foot which was 6.9% higher than the average rate per square foot on the expired leases.

Interest and other income increased \$800,000, or 44%, from \$1.8 million for the three months ended June 30, 1997 to \$2.6 million for the comparable period in 1998.

Rental operating expenses increased \$19.6 million, or 121%, from \$16.2 million for the three months ended June 30, 1997 to \$35.8 million for the comparable period in 1998. The increase, net of dispositions, is a result of the addition of 19.1 million square feet through a combination of acquisitions and developments during the last six months of 1997 and the first six months of 1998. Rental operating expenses as a percentage of related revenues increased from 27.3% for the three months ended June 30, 1997 to 31.7% for the comparable period in 1998. This increase is a result of an increase in the percentage of office properties in the portfolio, which have fewer triple net lease pass throughs.

Depreciation and amortization for the three months ended June 30, 1998 and 1997 was \$20.3 million and \$10.6 million, respectively. The increase of \$9.7 million, or 92%, is due to a 90% increase in average depreciable asset balance over the prior year. Interest expense increased \$6.2 million, or 53%, from \$11.6 million for the three months ended June 30, 1997 to \$17.8 million for the comparable period in 1998. The increase is attributable to the increase in the outstanding debt for the entire quarter. Interest expense for the three months ended June 30, 1998 and 1997 included \$616,000 and \$547,000, respectively, of amortization of non-cash deferred

financing costs and the costs related to the Company's interest rate protection agreements. General and administrative expenses increased from 3.7% of rental revenue for the three months ended June 30, 1997 to 3.9% for the comparable period in 1998.

Net income before minority interest and extraordinary item equaled \$37.3 million and \$20.6 million for the three months ended June 30, 1998 and 1997, respectively. The Company's net income allocated to minority interest totaled \$6.3 million and \$3.3 million for the three months ended June 30, 1998 and 1997, respectively. The Company recorded \$7.7 million and \$2.7 million in preferred stock dividends for the three months ended June 30, 1998 and 1997, respectively (see " -- Liquidity and Capital Resources" below).

Six Months Ended June 30, 1998

Revenue from rental operations increased \$97.9 million or 85%, from \$115.5 million for the six months of 1997 to \$213.4 million for the six months of 1998. The increase is a result of the Company's acquisition and development activity in 1997 and 1998. In total, 120 office and industrial properties encompassing 9.1 million square feet were added in the last six months of 1997 (net of 400,000 square feet of dispositions) and 113 properties encompassing 10.0 million square feet were added in the first six months of 1998. Same property revenues, which are the revenues of the 291 in-service properties (encompassing 17.1 million square feet) owned on January 1, 1997, increased 6% for the six months ended June 30, 1998, compared to the same six months of 1997.

During the six months ended June 30, 1998, 634 leases representing 2.6 million square feet of office and industrial space commenced at an average rate per square foot which was 7.2% higher than the average rate per square foot on the expired leases.

Interest and other income increased \$600,000 from \$4.1 million in 1997 to \$4.7 million in 1998. The increase is primarily related to an increase in interest income as the Company maintained a higher cash position.

Rental operating expenses increased \$34.0 million, or 108%, from \$31.6 million in 1997 to \$65.6 million in 1998. Rental expenses as a percentage of related rental revenues increased from 27.4% in 1997 to 30.7% in 1998. The increase is a result of an increase in the percentage of office properties in the portfolio, which have fewer triple net lease pass throughs.

Depreciation and amortization for the six months ended June 30, 1998, and 1997 was \$37.5 million and \$19.9 million, respectively. The increase of \$17.6 million, or 88%, is due to a 93% average increase in depreciable assets. Interest expense increased \$12.0 million, or 51%, from \$23.6 million in 1997 to \$35.6 million in 1998. The increase is attributable to an average increase in outstanding debt related to the Company's acquisition activities. Interest expense for the six months ended June 30, 1998 and 1997 included \$1.2 million and \$1.1 million, respectively, of amortization of non-cash deferred financing costs and of the costs related to the Company's interest rate protection agreement. General and administrative expenses increased from 3.7% of total rental revenue in 1997 to 3.8% in 1998.

Net income before minority interest and extraordinary item equaled \$71.3 million and \$40.1 million for the six-month periods ended June 30, 1998, and 1997, respectively. The Company's net income allocated to the minority interest totaled \$11.9 million and \$6.4 million for 1998 and 1997, respectively. The Company incurred an extraordinary loss in the first quarter of 1997 of \$3.3 million related to the early extinguishing of debt assumed in the acquisition of the Anderson Properties and Century Center portfolios. The Company also recorded \$13.8 million and \$4.1 million in preferred stock dividends for the six months ended June 30, 1998 and 1997, respectively.

Liquidity and Capital Resources

Statement of Cash Flows

For the six months ended June 30, 1998, cash provided by operating activities increased by \$55.6 million, or 101%, to \$110.4 million, as compared to \$54.8 million for the same period in 1997. The increase is primarily due to the increase in net income resulting from the Company's property acquisitions in 1997 and 1998. Cash used for investing activities increased by \$580.5 million, to \$678.5 million for the first six months of 1998, as compared to \$98.0 million for the same period in 1997. The increase is attributable to the Company's acquisition activity in the first six months of 1998. Cash provided by financing activities increased by \$523.9 million to \$565.0 million for the first six months of 1998, as compared to \$41.1 million for the same period in 1997.

During the first six months of 1998, cash provided by financing activities consisted, primarily, of \$703.0 million in net proceeds from the sale of common and preferred stock, the sale by the Operating Partnership of \$125 million of MandatOry Par Put Remarketed Securities(SM) ("MOPPRS(SM)") and unsecured notes. The cash provided by financing activity was offset by net payments of \$118.1 million to reduce existing indebtedness. Additionally, payments of distributions increased by \$22.8 million to \$62.2 million for the first six months of 1998, as compared with \$39.4 million for the same period in 1997. The increase is due to the greater number of shares outstanding and a 6% increase in the distribution rate. Preferred stock dividend payments were \$13.8 million for the first six months of 1998, as compared to \$1.4 million for the same period in 1997.

Capitalization

The Company's total indebtedness at June 30, 1998 totaled \$1.4 billion and was comprised of \$385.3 million of secured indebtedness with a weighted average interest rate of 8.2% and \$1.0 billion of unsecured indebtedness with a weighted average interest rate of 7.0%. All of the mortgage and notes payable outstanding at June 30, 1998 were either fixed rate obligations or variable rate obligations covered by interest rate protection agreements with the exception of a portion of the Company's \$600 million unsecured revolving loan (see below).

Based on the Company's total market capitalization of \$4.1 billion at June 30, 1998, (at the June 30, 1998 stock price of \$35.31 and assuming the redemption for shares of Common Stock of the 10,710,000 Common Units of minority interest in the Operating Partnership), the Company's debt represented approximately 36% of its total market capitalization.

The Company and the Operating Partnership completed the following financing activities during the quarter ended June 30, 1998:

- o April 29, 1998 Common Stock Offering. On April 29, 1998, the Company sold 1,080,443 shares of Common Stock in an underwritten public offering for net proceeds of approximately \$34.6 million.

- o Series D Preferred Offering. On April 23, 1998, the Company sold 4,000,000 Depositary Shares, each representing 1/10 of a share of the Company's Series D Preferred Shares, for net proceeds of approximately \$96.7 million. 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 Series A Preferred Shares and 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.

- o April 1998 Debt Offering. On April 20, 1998, the Operating Partnership sold \$200 million 2018 Notes in an underwritten public offering for net proceeds of approximately \$197.4 million. Interest on the 2018 Notes is payable semi-annually on April 15 and October 15 of each year, commencing October 15, 1998.

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

To protect the Company from increases in interest expense due to changes in the variable rate, the Company: (i) purchased an interest rate collar limiting its exposure to an increase in interest rates to 7.25% with

respect to \$80 million of its \$600 million unsecured revolving loan (the "Revolving Loan") excluding the effect of changes in the Company's credit risk, under which the Company had \$267 million outstanding at June 30, 1998, and (ii) entered into interest rate swaps that limit its exposure to an increase in interest rates to 6.95% in connection with \$21 million of variable rate mortgages. For a discussion of the Company's Revolving Loan, see " -- Recent Developments." The interest rate on all such variable rate debt is adjusted at monthly intervals, subject to the Company's interest rate protection program. No payments were received from the counterparties under the interest rate protection agreement for the six months ended June 30, 1998 and 1997. The Company is exposed to certain losses in the event of non-performance by the counterparties under the cap and swap arrangements. The counterparties are major financial institutions and are expected to perform fully under the agreements. However, if they were to default on their obligations under the arrangements, the Company could be required to pay the full rates under the Revolving Loans and the variable rate mortgages, even if such rates were in excess of the rate in the cap and swap agreements. In addition, the Company may incur other variable rate indebtedness in the future. Increases in interest rates on its indebtedness could increase the Company's interest expense and could adversely affect the Company's cash flow and its ability to pay expected distributions to stockholders.

In anticipation of future debt offerings, the Company has entered into four forward treasury lock agreements as described below:

Notional Amounts (in millions)	Fixed Rate (1)	Termination Date
\$ 50	5.6%	9/98
\$ 100	5.5%	10/98
\$ 50	5.7%	1/99
\$ 100	5.7%	6/99

(1) Rate is a combination of the treasury rate plus forward premium.

Current and Future Cash Needs

Historically, rental revenue has been the principal source of funds to pay operating expenses, debt service and capital expenditures, excluding non-recurring capital expenditures. In addition, construction management, maintenance, leasing and management fees have provided sources of cash flow. Except for an \$8 million renovation of the common areas of a 639,000-square foot property acquired from Associated Capital Properties, Inc., the Company presently has no plans for major capital improvements to the existing properties, other than normal recurring non-revenue enhancing expenditures. The Company expects to meet its short-term liquidity requirements generally through its working capital and net cash provided by operating activities along with the Revolving Loan. The Company expects to meet certain of its financing requirements through long-term secured and unsecured borrowings and the issuance of debt securities or additional equity securities of the Company and Operating Partnership. In addition, the Company anticipates utilizing the Revolving Loan primarily to fund construction and development activities. The Company does not intend to reserve funds to retire existing mortgage indebtedness or indebtedness under the Revolving Loan upon maturity. Instead, the Company will seek to refinance such debt at maturity or retire such debt through the issuance of equity or debt securities. The Company anticipates that its 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 the capital and liquidity needs of the Company 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 discussed below 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 Company intends to invest amounts accumulated for distribution in short-term investments. The following factors will affect cash flows from operating activities and, accordingly, influence the decisions of the Board of Directors regarding distributions: (i) debt service requirements after taking into account the repayment and restructuring of certain indebtedness; (ii) scheduled increases in base rents of existing leases; (iii) changes in rents attributable to the renewal of existing leases or replacement leases;

(iv) changes in occupancy rates at existing properties and procurement of leases for newly acquired or developed properties; and (v) operating expenses and capital replacement needs.

Recent Developments

J.C. Nichols Transaction. On July 13, 1998, the Company completed its previously reported merger (the "J.C. Nichols Transaction") with J.C. Nichols Company, a Missouri real estate operating company ("J.C. Nichols"), pursuant to a merger agreement dated as of December 22, 1997 (as amended on April 29, 1998, the "Merger Agreement"). Prior to consummation of the J.C. Nichols Transaction, J.C. Nichols had been subject to the information requirements of the Securities Exchange Act of 1934, as amended, and, in accordance therewith, filed reports and other information with the Securities and Exchange Commission.

As a result of the J.C. Nichols Transaction, the Company acquired ownership of or an ownership interest in 79 office, industrial and retail properties and 18 multifamily communities in the Kansas City and Des Moines, Iowa metropolitan areas. The following tables set forth certain information about the properties acquired in the Kansas City and Des Moines metropolitan areas as of June 30, 1998:

KANSAS CITY PROPERTIES

Type of Property	Wholly Owned Properties	Partially Owned Properties	Total Properties	Weighted Average Ownership Interest	Rentable Sq. Ft. or # of Units	Percent Leased
Office	24	2	26	79%	1,459,000	95%
Industrial	13	--	13	100%	337,000	75%
Retail	18	--	18	100%	2,443,000	96%
Multifamily	17	--	17	100%	1,906 Units	96%

DES MOINES PROPERTIES

Type of Property	Wholly Owned Properties	Partially Owned Properties	Total Properties	Weighted Average Ownership Interest	Rentable Sq. Ft. or # of Units	Percent Leased
Office	--	21	21	56%	1,345,000	96%
Industrial	--	1	1	49.5%	200,000	100%
Multifamily	--	1	1	65%	418 Units	98%

Additionally, the Company acquired over 500 acres of land for future development in Kansas City and Des Moines.

The J.C. Nichols Transaction was valued at approximately \$544 million and consisted of the issuance of approximately 5.63 million shares of the Company's Common Stock, the assumption of approximately \$229 million of debt, the incurrence of approximately \$15 million in transaction costs and a cash payment of approximately \$120 million, net of cash acquired of approximately \$59 million.

The properties acquired in the J.C. Nichols Transaction include the Country Club Plaza in Kansas City, of which the Company owns approximately 1.0 million square feet of retail space (encompassing 15 square blocks), approximately 940,000 square feet of office space and 510 apartment units. As of June 30, 1998, the Country Club Plaza was approximately 96% leased. The Country Club Plaza is presently undergoing an expansion and restoration expected to add approximately 800,000 square feet of retail, office and hotel space and 350 apartment units with an estimated cost of approximately \$240 million. The Company intends to complete the development in the Country Club Plaza previously planned by J.C. Nichols.

In connection with the J.C. Nichols Transaction, the Company succeeded to the interests of J.C. Nichols in a strategic alliance with Kessinger/Hunter & Company, Inc. ("Kessinger/Hunter") pursuant to which Kessinger/Hunter manages and leases the office, industrial and retail properties in the greater Kansas City metropolitan area. The Company currently has a 30% ownership interest in the strategic alliance with Kessinger/Hunter and has two additional options to acquire up to a 65% ownership interest in the strategic alliance. The Company has also succeeded to the interests of J.C. Nichols in a strategic alliance with R&R Investors, Ltd. ("R&R") pursuant to which R&R manages and leases the properties in which the Company has an ownership interest in the

Des Moines area. The Company has an ownership interest of 50% or more (R&R has the remaining ownership interest in all but one of these properties) in each of the properties in the Des Moines area.

As a result of the J.C. Nichols Transaction, the J.C. Nichols operations have become a division of the Company; Barrett Brady, former president and chief executive officer of J.C. Nichols, has become a senior vice president of the Company responsible for its midwest operations; and approximately 100 employees of J.C. Nichols have joined the Company. In addition, Kay Nichols Callison has joined the Company's board of directors.

Easton-Babcock Transaction. The Company has terminated its previously reported agreement to acquire The Easton-Babcock Companies, a real estate operating company in Miami, Florida.

Revolving Loan

On July 3, 1998, the Company obtained a new \$600 million revolving line of credit (the "Revolving Loan") from a group of 14 lender banks. The Revolving Loan was arranged and syndicated by NationsBank Montgomery Securities LLC. NationsBank is the administrative agent, First Union National Bank is the syndication agent and Wells Fargo Bank is the documentation agent. Other lenders include: Managing Agents -- Bank of America, CommerzBank AG, Wachovia Bank, Centura Bank, and PNC Bank; Co-Agents -- Fleet National Bank, AmSouth Bank, and Dresdner Bank AG; and Participants -- DG Bank, Mellon Bank and Firsttrust Savings.

The Revolving Loan matures in July 2001 and replaces the Company's two existing revolving loans aggregating \$430 million. The Revolving Loan carries an interest rate based upon the Operating Partnership's senior unsecured credit rating. At the Operating Partnership's current BBB/Baa2 senior unsecured rating, interest accrues on borrowings at an average interest rate of LIBOR plus 80 basis points and will adjust based on the Company's senior unsecured credit rating within a range of LIBOR plus 65 basis points to LIBOR plus 150 basis points. The Revolving Loan requires monthly payments of interest only with the balance of all principal and accrued but unpaid interest due July 3, 2001. The Revolving Loan also includes a \$300 million competitive bid sub-facility.

The obligations of the Operating Partnership under the Revolving Loan are guaranteed by the Company, its sole general partner, and certain subsidiaries of the Company and the Operating Partnership.

Funds From Operations and Cash Available for Distributions

The Company considers Funds from Operations ("FFO") to be a useful financial performance measure of its operating performance because, together with net income and cash flows, FFO provides investors with an additional basis to evaluate its ability to incur and service debt and to fund acquisitions and other capital expenditures. FFO does not represent net income or cash flows from operations as defined by GAAP, and FFO should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flows as a measure of liquidity. FFO does not measure whether cash flow is sufficient to fund all of the Company's cash needs including principal amortization, capital improvements and distributions to stockholders. FFO does not represent cash flows from operating, investing or financing activities as defined by GAAP. Further, FFO as disclosed by other REITs may not be comparable to the Company's calculation of FFO, as described below.

FFO is defined as net income (computed in accordance with generally accepted accounting principles) excluding gains (or losses) from debt restructuring and sales of property, plus depreciation of real estate assets, 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.

Funds from operations and cash available for distribution for the three and six month periods ended June 30, 1998 and 1997 are summarized in the following table (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997
Funds from Operations:				
Income before minority interest and extraordinary item	\$ 37,251	\$ 20,595	\$ 71,288	\$ 40,149
Add (deduct):				
Dividends to preferred shareholders	(7,656)	(2,695)	(13,801)	(4,102)
Depreciation and amortization	20,340	10,590	37,501	19,900
Funds from operations before minority interest	49,935	28,490	94,988	55,947
Cash Available for Distribution:				
Add (deduct):				
Rental income from straight-line rents	(2,976)	(1,245)	(6,092)	(2,475)
Amortization of deferred financing costs	616	547	1,232	1,122
Non-incremental revenue generating capital expenditures (1):				
Building improvements paid	(1,678)	(938)	(2,697)	(2,008)
Second generation tenant improvements paid	(4,868)	(2,076)	(7,304)	(3,447)
Second generation lease commissions paid	(1,785)	(1,243)	(3,511)	(2,334)
Cash available for distribution	\$ 39,244	\$ 23,535	\$ 76,616	\$ 46,805
Weighted average common shares/Common Units outstanding -- Basic (2)	63,126	42,750	61,370	42,254
Weighted average common shares/Common Units outstanding -- Diluted (2)	63,518	43,016	61,877	42,634
Dividend payout ratio -- Diluted:				
Funds from operations	64.9%	72.5%	66.4%	73.2%
Cash available for distribution	82.5%	87.7%	82.4%	87.4%

(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 July 27, 1998, the Company's Board of Directors declared a dividend of \$.54 per share (\$2.16 on an annualized basis) payable on August 19, 1998 to stockholders of record on August 6, 1998.

Disclosure Regarding Forward-Looking Statements

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are identified by words such as "expect," "anticipate," "should" and words of similar import. Forward-looking statements are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Future events and actual results, financial and otherwise, may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 1997.

Property Information

The following table sets forth certain information with respect to the Company's properties as of June 30, 1998 and 1997:

June 30, 1998	Rentable Square Feet	Number of Properties	Percent Leased/ Pre-Leased
-----	-----	-----	-----
In-Service:			
Office	28,850,000	414	94%
Industrial	11,863,000	180	94
	-----	---	--
Total	40,713,000	594	94%
	=====	===	==
Under Development:			
Office	3,261,000	30	44%
Industrial	705,000	7	43
	-----	---	--
Total	3,966,000	37	44%
	=====	===	==
Total:			
Office	32,111,000	444	
Industrial	12,568,000	187	
	-----	---	--
Total	44,679,000	631	
	=====	===	
June 30, 1997			

In-Service:			
Office	14,439,000	223	94%
Industrial	7,144,000	138	90
	-----	---	--
Total	21,583,000	361	93%
	=====	===	==
Under Development:			
Office	1,780,000	21	38%
Industrial	484,000	5	40
	-----	---	--
Total	2,264,000	26	38%
	=====	===	==
Total:			
Office	16,219,000	244	
Industrial	7,628,000	143	
	-----	---	--
Total	23,847,000	387	
	=====	===	

The following table sets forth certain information with respect to the Company's properties under development as of June 30, 1998 (dollars in thousands):

Name	Location	Square Footage	Budgeted Cost	Cost at 6/30/98	Pre-Leasing Percentage(1)	Estimated Completion
Office:						
Ridgefield III	Asheville	57,000	\$ 5,500	\$ 3,716	29%	3Q98
10 Glenlakes	Atlanta	254,000	35,100	7,990	0	4Q98
2400 Century Center	Atlanta	135,000	16,200	11,866	100	3Q98
Automatic Data Processing	Baltimore	110,000	12,400	8,017	100	3Q98
Highwoods I	Baltimore	125,000	13,800	2,530	0	2Q99
Parkway 11	Charlotte	22,000	1,800	191	0	1Q99
Parkway 12	Charlotte	32,000	2,600	278	41	1Q99
BB & T(2)	Greenville	71,000	5,900	3,697	100	3Q98
Patewood VI	Greenville	107,000	11,400	8,638	78	3Q98
Southwind Building C	Memphis	74,000	7,700	2,534	100	4Q98
Southwind Building D	Memphis	64,000	6,800	808	0	3Q99
Caterpillar Financial Center	Nashville	313,000	54,000	6,830	64	1Q00
Cool Springs I	Nashville	153,000	16,800	7,952	17	3Q98
Lakeview Ridge III	Nashville	131,000	13,100	1,516	0	1Q99
C N A	Orlando	180,000	24,400	4,888	95	1Q99
Hard Rock	Orlando	63,000	7,000	4,491	100	4Q98
Maitland Preserve	Orlando	50,000	4,800	1,477	0	4Q98
Concourse Center One	Piedmont Triad	86,000	8,400	739	0	1Q99
Network Construction	Piedmont Triad	13,000	800	394	100	3Q98
3737 Glenwood Ave.	Research Triangle	107,000	16,700	442	56	3Q99
Highwoods Centre	Research Triangle	76,000	8,300	4,491	82	3Q98
Overlook	Research Triangle	97,000	10,500	4,336	0	4Q98
Red Oak	Research Triangle	65,000	6,000	2,558	0	4Q98
Situs II	Research Triangle	59,000	6,300	3,776	20	4Q98
Eastshore II	Richmond	76,000	7,800	1,600	0	4Q98
Highwoods Square	South Florida	93,000	12,500	2,811	0	4Q98
Intermedia (Sabal) Phase I	Tampa	120,500	12,500	6,828	100	4Q98
Intermedia (Sabal) Phase II	Tampa	120,500	13,000	662	100	1Q00
Interstate Corporate Center(2)	Tampa	309,000	15,600	8,498	26	4Q98
Highwoods Centre	Virginia Beach	98,000	9,700	1,518	0	4Q98
Total or Weighted Average		3,261,000	\$367,400	\$116,072	44%	
		=====	=====	=====	===	
Industrial:						
Chastain II & III	Atlanta	122,000	\$ 4,700	\$ 1,848	45%	3Q98
Newpoint III	Atlanta	84,000	3,000	931	74	4Q98
Tradeport 1	Atlanta	87,000	3,100	405	0	3Q98
Tradeport 2	Atlanta	87,000	3,100	405	0	3Q98
Air Park South Warehouse II	Piedmont Triad	136,000	4,200	808	0	4Q98
Air Park South Warehouse VI	Piedmont Triad	189,000	8,000	859	100	1Q99
Total or Weighted Average		705,000	\$ 26,100	\$ 5,256	43	
		-----	-----	-----	---	
Total or Weighted Average		3,966,000	\$393,500	\$121,328	44%	
		=====	=====	=====	===	
Summary By Estimated Completion Date:						
Third Quarter 1998		1,018,000	\$ 88,200	\$ 51,429	56%	
Fourth Quarter 1998		1,578,500	142,700	50,156	26	
First Quarter 1999		640,000	58,300	8,471	58	
Second Quarter 1999		125,000	13,800	2,530	0	
Third Quarter 1999		171,000	23,500	1,250	35	
First Quarter 2000		433,500	67,000	7,492	74	
Total or Weighted Average		3,966,000	\$393,500	\$121,328	44%	
		=====	=====	=====	===	

(1) Includes letters of intent

(2) Redevelopment Project

The following tables set forth certain information about the Company's leasing activities for the three months ended June 30, and March 31, 1998 and December 31, and September 30, 1997.

	Office Leasing Statistics Three Months Ended				
	6/30/98	3/31/98	12/31/97	9/30/97	Weighted Average
Net Effective Rents Related to Re-Leased Space:					
Number of lease transactions (signed leases)	285	242	158	111	199
Rentable square footage leased	1,099,805	966,990	772,149	374,084	803,257
Average per rentable square foot over the lease term:					
Base rent	\$ 15.53	\$ 15.54	\$ 15.91	\$ 16.20	\$ 15.80
Tenant improvements	(1.00)	(0.70)	(1.16)	(1.21)	(1.02)
Leasing commissions	(0.27)	(0.30)	(0.32)	(0.35)	(0.31)
Rent concessions	(0.03)	(0.03)	(0.02)	(0.01)	(0.02)
Effective rent	\$ 14.23	\$ 14.51	\$ 14.41	\$ 14.63	\$ 14.45
Expense stop(1)	(4.22)	(4.35)	(3.73)	(3.87)	(4.04)
Equivalent effective net rent	\$ 10.01	\$ 10.16	\$ 10.68	\$ 10.76	\$ 10.41
Average term in years	5	5	4	4	5
Capital Expenditures Related to Re-leased Space:					
Tenant Improvements:					
Total dollars committed under signed leases	\$5,849,409	\$3,717,938	\$3,784,078	\$1,779,700	\$3,782,781
Rentable square feet	1,099,805	966,990	772,149	374,084	803,257
Per rentable square foot	\$ 5.32	\$ 3.84	\$ 4.90	\$ 4.76	\$ 4.71
Leasing Commissions:					
Total dollars committed under signed leases	\$1,356,002	\$1,349,444	\$1,041,790	\$ 514,998	\$1,065,559
Rentable square feet	1,099,805	966,990	772,149	374,084	803,257
Per rentable square foot	\$ 1.23	\$ 1.40	\$ 1.35	\$ 1.38	\$ 1.33
Total:					
Total dollars committed under signed leases	\$7,205,411	\$5,067,382	\$4,825,868	\$2,294,698	\$4,848,340
Rentable square feet	1,099,805	966,990	772,149	374,084	803,257
Per rentable square foot	\$ 6.55	\$ 5.24	\$ 6.25	\$ 6.13	\$ 6.04
Rental Rate Trends:					
Average final rate with expense pass throughs	\$ 13.91	\$ 13.56	\$ 13.23	\$ 14.59	\$ 13.82
Average first year cash rental rate	\$ 14.87	\$ 14.65	\$ 14.04	\$ 15.60	\$ 14.79
Percentage increase	6.90%	8.04%	6.12%	6.92%	7.02%

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

Industrial Leasing Statistics

	Three Months Ended				
	6/30/98	3/31/98	12/31/97	9/30/97	Weighted Average
Net Effective Rents Related to Re-Leased Space:					
Number of lease transactions (signed leases)	41	66	56	64	57
Rentable square footage leased	194,014	308,787	464,733	363,408	332,736
Average per rentable square foot over the lease term:					
Base rent	\$ 6.99	\$ 6.35	\$ 4.35	\$ 7.13	\$ 6.21
Tenant improvements	(0.29)	(0.38)	(0.12)	(0.35)	(0.29)
Leasing commissions	(0.19)	(0.15)	(0.08)	(0.17)	(0.15)
Rent concessions	\$ --	\$ --	\$ --	\$ (0.02)	\$ (0.01)
Effective rent	\$ 6.51	\$ 5.82	\$ 4.15	\$ 6.59	\$ 5.76
Expense stop(1)	(0.52)	(0.43)	(0.30)	(0.25)	(0.38)
Equivalent effective net rent	\$ 5.99	\$ 5.39	\$ 3.85	\$ 6.34	\$ 5.38
Average term in years	3	3	3	4	3
Capital Expenditures Related to Re-leased Space:					
Tenant Improvements:					
Total dollars committed under signed leases	\$239,348	\$533,334	\$157,152	\$454,630	\$346,116
Rentable square feet	194,014	308,787	464,733	363,408	332,736
Per rentable square foot	\$ 1.23	\$ 1.73	\$ 0.34	\$ 1.25	\$ 1.04
Leasing Commissions:					
Total dollars committed under signed leases	\$130,243	\$153,967	\$108,899	\$218,614	\$152,931
Rentable square feet	194,014	308,787	464,733	363,408	332,736
Per rentable square foot	\$ 0.67	\$ 0.50	\$ 0.23	\$ 0.60	\$.46
Total:					
Total dollars committed under signed leases	\$369,591	\$687,301	\$266,051	\$673,244	\$499,047
Rentable square feet	194,014	308,787	464,733	363,408	332,736
Per rentable square foot	\$ 1.90	\$ 2.23	\$ 0.57	\$ 1.85	\$ 1.50
Rental Rate Trends:					
Average final rate with expense pass throughs	\$ 6.09	\$ 5.77	\$ 4.31	\$ 6.40	\$ 5.64
Average first year cash rental rate	\$ 6.50	\$ 6.09	\$ 4.32	\$ 7.12	\$ 6.01
Percentage increase	6.73%	5.55%	0.23%	11.25%	6.56%

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

The following tables set forth scheduled lease expirations for executed leases as of June 30, 1998 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 1998	596	2,561,000	9.6%	\$ 38,735	\$ 15.12	9.4%
1999	761	3,965,000	14.8	57,695	14.55	14.1
2000	774	3,908,000	14.6	61,566	15.75	15.0
2001	596	3,754,000	14.0	59,629	15.88	14.6
2002	513	3,684,000	13.7	57,527	15.62	14.0
2003	286	2,369,000	8.8	36,433	15.38	8.9
2004	80	1,367,000	5.1	21,380	15.64	5.2
2005	58	1,048,000	3.9	14,988	14.30	3.7
2006	42	1,025,000	3.8	15,521	15.14	3.8
2007	27	846,000	3.2	13,632	16.11	3.3
Thereafter	58	2,276,000	8.5	32,816	14.42	8.0
	---	---	---	---	---	---
Total or average	3,791	26,803,000	100.0%	\$409,922	\$ 15.29	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 1998	160	1,513,000	13.6%	\$ 7,068	\$ 4.67	13.6%
1999	178	2,219,000	19.9	11,814	5.32	22.8
2000	168	2,382,000	21.4	11,039	4.63	21.4
2001	108	1,498,000	13.5	6,853	4.57	13.2
2002	61	1,197,000	10.8	5,371	4.49	10.3
2003	33	410,000	3.7	2,517	6.14	4.8
2004	9	1,041,000	9.4	3,859	3.71	7.4
2005	4	34,000	0.3	295	8.68	0.6
2006	3	227,000	2.0	1,050	4.63	2.0
2007	4	486,000	4.4	1,524	3.14	2.9
Thereafter	2	115,000	1.0	537	4.67	1.0
	---	---	---	---	---	---
Total or average	730	11,122,000	100.0%	\$51,927	\$ 4.67	100.0%
	===	=====	=====	=====	=====	=====

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

Inflation

Historically inflation has not had a significant impact on the Company's operations because of the relatively low inflation rate in the Company's 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 the Company's 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 the Company to replace existing leases with new leases at a higher base rent if rents on the existing leases are below the market rate.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings -- NA

Item 2. Changes in Securities and Use of Proceeds

(c) On April 17, 1998, the Company issued 1,650 shares of common stock to an individual limited partner in the Operating Partnership upon redemption of such partner's 1,650 Common Units. The issuance was exempt from registration pursuant to Section 4(2) of the Securities Act because it was to a single, accredited investor and did not involve a general solicitation by the Company.

Item 3. Defaults Upon Senior Securities -- NA

Item 4. Submission of Matters to a Vote of Security Holders

On May 14, 1998, the Company held its Annual Meeting of Stockholders. The final vote of the matters presented for a vote at such meeting was as follows:

Matter	For	Against	Broker Non-Vote	Abstain
(A) Election of Directors				
John W. Eakin	37,567,622	--	--	3,226,412
L. Glenn Orr, Jr.	37,593,509	--	--	3,200,525
Stephen Timko	37,593,729	--	--	3,200,305
James R. Heistand	37,549,019	--	--	3,245,015
(B) Proposal to amend the Amended and Restated 1994 Stock Option Plan	25,876,058	9,548,523	5,258,266	111,187
(C) Proposal to amend the Amended and Restated Articles of Incorporation	27,673,151	9,690,667	3,241,217	188,999
(D) Ratify appointment of Ernst & Young LLP as independent auditors	40,711,219	60,911	--	21,904

Item 5. Other Information

Pursuant to the Company's bylaws, for any stockholder proposal to be presented in connection with an annual meeting of stockholders, including any proposal relating to the nomination of a director to be elected to the Board of Directors, the stockholder must have given timely written notice thereof in writing to the Secretary of the Company. In order for such notice to be timely, the previous year's annual meeting. With respect to the 1999 annual meeting, such notice must be received between February 13 and March 15, 1999.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	Description
2.1(1)	Agreement and Plan of Merger by and among the Company, Jackson Acquisition Corp. and J.C. Nichols Company dated December 22, 1997
2.2(2)	Amendment No. 1 to Agreement and Plan of Merger by and among the Company, Jackson Acquisition Corp. and J.C. Nichols Company dated April 23, 1998
3(3)	Amended and Restated Articles of Incorporation
4.1(4)	Form of certificate representing 8% Series D Cumulative Redeemable Preferred Shares
4.2(4)	Deposit Agreement, dated April 23, 1998, between the Company and First Union National Bank, as preferred share depository
4.3(4)	Form of Depositary Receipt evidencing the Depositary Shares that each represent 1/10 of an 8% Series D Cumulative Redeemable Preferred Share
10.1(4)	Amendment to Amended and Restated Agreement of Limited Partnership of the Operating Partnership
10.2(5)	Credit Agreement among the Operating Partnership, the Company, the Subsidiaries named therein and the Lenders named therein, dated as of July 3, 1998
27	Financial Data Schedule

(1) Filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference.

(2) Filed as part of Registration Statement No. 333-51671 with the Securities and Exchange Commission and incorporated herein by reference.

(3) Filed as part of the Company's Current Report on Form 8-K dated September 25, 1997 and amended by articles supplementary filed as part of the Company's Current Report on Form 8-K dated October 4, 1997 and articles supplementary filed as part of the Company's Current Report on Form 8-K dated April 20, 1998, each of which is incorporated herein by reference.

(4) Filed as part of the Company's Current Report on Form 8-K dated April 20, 1998 and incorporated herein by reference.

(5) Filed as part of the Company's Current Report on Form 8-K dated July 3, 1998 and incorporated herein by reference.

(b) Reports on Form 8-K

On April 24, 1998, the Company filed a current report on Form 8-K, dated April 20, 1998, setting forth under items 5 and 7 of the Form certain exhibits in connection with (i) the sale by the Operating Partnership of \$200 million of unsecured debt and (ii) the sale by the Company of 4,000,000 Depositary Shares, each representing 1/10 of an 8% Series D Cumulative Redeemable Preferred Share.

On April 28, 1998, the Company filed an amendment to its current report on Form 8-K, dated January 9, 1997, reporting under item 2 of the Form the Company's acquisition of the Century Center portfolio and Anderson Properties, Inc. The report included financial statements with respect to Century Center Group dated January 9, 1997 and financial statements with respect to Anderson Properties, Inc. dated January 23, 1997.

On May 4, 1998, the Company filed a current report on Form 8-K, dated April 29, 1997, setting forth under items 5 and 7 of the Form an amendment to its merger agreement with J.C. Nichols.

On June 5, 1998, the Company filed a current report on Form 8-K, dated February 4, 1998, setting forth under items 5 and 7 of the Form audited financial statements of Garcia Properties for the year ended December 31, 1997.

On June 19, 1998, the Company filed a current report on Form 8-K, dated June 10, 1998, reporting under item 5 of the Form that the Operating Partnership had changed its name to "Highwoods Realty Limited Partnership."

On June 23, 1998, the Company filed a current report on Form 8-K, dated June 17, 1998, reporting under item 5 of the Form certain background information related to the Company's proposed merger with J.C. Nichols.

On July 2, 1998, the Company filed a current report on Form 8-K, dated July 1, 1998, reporting under item 5 of the Form that shareholders of J.C. Nichols had approved the merger with the Company.

On July 23, 1998, the Company filed a current report on Form 8-K, dated July 3, 1998, reporting under item 2 of the Form that the Company had completed its merger with J.C. Nichols and under item 5 of the Form that the Company had obtained a \$600 million revolving credit facility from a group of lenders.

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: August 14, 1998

ARTICLE 5

PERIOD TYPE	3 MOS	6 MOS
FISCAL YEAR END	DEC 31 1998	DEC 31 1998
PERIOD START	APR 1 1998	JAN 1 1998
PERIOD END	JUN 30 1998	JUN 30 1998
CASH	18,758,000	18,758,000
SECURITIES	0	0
RECEIVABLES	32,422,000	32,422,000
ALLOWANCES	0	0
INVENTORY	0	0
CURRENT ASSETS	64,769,000	64,769,000
PP&E	3,463,858,000	3,463,858,000
DEPRECIATION	122,414,000	122,414,000
TOTAL ASSETS	3,468,924,000	3,468,924,000
CURRENT LIABILITIES	69,164,000	69,164,000
BONDS	1,408,700,000	1,408,700,000
PREFERRED MANDATORY	0	0
PREFERRED	397,500,000	397,500,000
COMMON	529,000	529,000
OTHER SE	1,593,031,000	1,593,031,000
TOTAL LIABILITY AND EQUITY	3,468,924,000	3,468,924,000
SALES	113,079,000	213,410,000
TOTAL REVENUES	115,641,000	218,129,000
CGS	35,827,000	65,555,000
TOTAL COSTS	56,167,000	103,056,000
OTHER EXPENSES	4,386,000	8,170,000
LOSS PROVISION	0	0
INTEREST EXPENSE	17,837,000	35,615,000
INCOME PRETAX	30,985,000	59,414,000
INCOME TAX	0	0
INCOME CONTINUING	30,985,000	59,414,000
DISCONTINUED	0	0
EXTRAORDINARY	0	46,000
CHANGES	0	0
NET INCOME	23,329,000	45,567,000
EPS PRIMARY	.45	.90
EPS DILUTED	.44	.89

End of Filing

Powered By **EDGAR**
Online

© 2005 | EDGAR Online, Inc.