HIGHWOODS PROPERTIES INC

FORM 10-Q
(Quarterly Report)

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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 March 31, 2002

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)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes [x] No [_]

The Company has only one class of common stock, par value $.01 per share, with 52,906,199 shares outstanding as of May 7, 2002.

HIGHWOODS PROPERTIES, INC.

QUARTERLY REPORT FOR THE PERIOD ENDED MARCH 31, 2002

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Item 1. Financial Statements

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

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

The aforementioned financial statements should be read in conjunction with the notes to consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included herein and in our 2001 Annual Report on Form 10-K.

HIGHWOODS PROPERTIES, INC.

Consolidated Balance Sheets

($ in thousands)

	March 31, 2002 (Unaudited)	December 31, 2001
Assets		
Real estate assets, at cost:		
Land and improvements	$ 448,160	$ 440,100
Buildings and tenant improvements	2,964,482	2,930,792
Development in process	82,787	108,118
Land held for development	162,009	151,337
Furniture, fixtures and equipment	19,666	19,398
	3,677,104	3,649,745
Less - accumulated depreciation	(411,429)	(384,104)
Net real estate assets	3,265,675	3,265,641
Property held for sale	72,985	96,545
Cash and cash equivalents	3,863	576
Restricted cash	4,412	5,685
Accounts receivable, net	20,513	23,659
Advances to related parties	788	788
Notes receivable	39,852	43,761
Accrued straight-line rents receivable	51,118	49,078
Investment in unconsolidated affiliates	83,257	83,393
Other assets:		
Deferred leasing costs	106,812	102,502
Deferred financing costs	26,055	26,121
Prepaid expenses and other	10,843	10,461
	143,710	139,084
Less - accumulated amortization	(64,073)	(59,924)
Other assets, net	79,637	79,160
Total Assets	$ 3,622,100	$ 3,648,286
Liabilities and Stockholders' Equity		
Mortgages and notes payable	$ 1,725,032	$ 1,719,230
Accounts payable, accrued expenses and other liabilities	102,078	120,235
Total Liabilities	1,827,110	1,839,465
Minority interest	200,918	203,181
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), 104,945 shares issued and outstanding at March 31, 2002 and December 31, 2001	104,945	104,945
8% Series B Cumulative Redeemable Preferred Shares (liquidation preference $25 per share), 6,900,000 shares issued and outstanding at March 31, 2002 and December 31, 2001	172,500	172,500
8% Series D Cumulative Redeemable Preferred Shares (liquidation preference $250 per share), 400,000 shares issued and outstanding at March 31, 2002 and December 31, 2001	100,000	100,000
Common stock, $.01 par value, 200,000,000 authorized shares; 52,906,199 and 52,891,822 shares issued and outstanding at March 31, 2002 and December 31, 2001, respectively	529	529
Additional paid-in capital	1,375,874	1,376,546
Distributions in excess of net earnings	(147,501)	(135,878)
Accumulated other comprehensive loss	(8,853)	(9,441)
Deferred compensation--restricted stock	(3,422)	(3,561)
Total Stockholders' Equity	1,594,072	1,605,640
Total Liabilities and Stockholders' Equity	$ 3,622,100	$ 3,648,286

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 March 31, 2002	2001
Revenue:		
Rental property	$ 124,971	$ 128,203
Equity in earnings of unconsolidated affiliates	2,564	833
Interest and other income	3,415	7,813
Total Revenue	130,950	136,849
Operating expenses:		
Rental property	38,506	36,805
Depreciation and amortization	31,286	29,125
Interest expense:		
Contractual	26,034	28,321
Amortization of deferred financing costs	339	665
	26,373	28,986
General and administrative	5,174	5,212
Income before gain on disposition of land and depreciable assets, minority interest, discontinued operations and extraordinary item	29,611	36,721
Gain on disposition of land and depreciable assets	944	7,071
Income before minority interest, discontinued operations and extraordinary item	30,555	43,792
Minority interest	(3,722)	(5,223)
Income from continuing operations	26,833	38,569
Discontinued Operations		
Income from discontinued operations, net of minority interest	202	205
Net income before extraordinary item	27,035	38,774
Extraordinary item--loss on early extinguishment of debt	-	(193)
Net income	27,035	38,581
Dividends on preferred stock	(7,713)	(8,145)
Net income available for common shareholders	$ 19,322	$ 30,436
Net income per common share--basic:		
Income from continuing operations	$ 0.36	$ 0.54
Income from discontinued operations	-	-
Extraordinary item--loss on early extinguishment of debt	-	-
Net income	$ 0.36	$ 0.54
Weighted average shares outstanding--basic	52,896	56,393
Net income per common share--diluted:		
Income from continuing operations	$ 0.36	$ 0.54
Income from discontinued operations	-	-
Extraordinary item--loss on early extinguishment of debt	-	-
Net income	$ 0.36	$ 0.54
Weighted average shares outstanding--diluted	53,393	56,659
Distributions declared per common share	$ 0.585	$ 0.57

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Stockholders' Equity

For the Three Months Ended March 31, 2002

(Unaudited, in thousands except for number of common shares)

	Number of Common Shares	Common Stock	Series A Preferred	Series B Preferred	Series D Preferred	Additional Paid-In Capital	Deferred Compen-sation	Accumulated Other Compre-hensive Loss	Distributions in Excess of Net Earnings	Total
Balance at December 31, 2001 ...	52,891,822	$ 529	$104,945	$172,500	$100,000	$1,376,546	$ (3,561)	$ (9,441)	$ (135,878)	$ 1,605,640
Issuance of Common Stock	9,317	-	-	-	-	203	-	-	-	203
Common Stock Dividends	-	-	-	-	-	-	-	-	(30,945)	(30,945)
Preferred Stock Dividends	-	-	-	-	-	-	-	-	(7,713)	(7,713)
Issuance of restricted stock	5,060	-	-	-	-	136	(136)	-	-	-
Amortization of deferred compensation	-	-	-	-	-	-	275	-	-	275
Retirement of stock options	-	-	-	-	-	(1,011)	-	-	-	(1,011)
Net Income	-	-	-	-	-	-	-	-	27,035	27,035
Other comprehensive income	-	-	-	-	-	-	-	588	-	588
Balance at March 31, 2002	52,906,199	$ 529	$104,945	$172,500	$100,000	$1,375,874	$ (3,422)	$ (8,853)	$ (147,501)	$ 1,594,072

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Cash Flows

(Unaudited and $ in thousands)

	Three Months Ended March 31, 2002	2001
Operating activities:		
Net income	$ 27,035	$ 38,581
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	31,705	29,871
Amortization of deferred compensation	275	201
Minority interest	3,750	5,251
Equity in earnings of unconsolidated affiliates	(2,564)	(833)
Loss on early extinguishment of debt	--	193
Gain on disposition of land and depreciable assets	(944)	(7,071)
Transition adjustment upon adoption of FASB 133	--	556
Loss on ineffective portion of derivative instruments	--	466
Changes in operating assets and liabilities	(16,635)	(446)
Net cash provided by operating activities	42,622	66,769
Investing activities:		
Additions to real estate assets	(13,602)	(59,310)
Proceeds from disposition of real estate assets	23,200	49,700
Payment from advances to subsidiaries	--	27,560
Distributions from unconsolidated affiliates	2,384	1,333
Investments in notes receivable	4,409	8,684
Other investing activities	(3,953)	(5,705)
Net cash provided by investing activities	12,438	22,262
Financing activities:		
Distributions paid on common stock and common units	(35,229)	(36,506)
Dividends paid on preferred stock	(7,713)	(8,145)
Payment of prepayment penalties	--	(193)
Borrowings on mortgages and notes payable	12,362	16,402
Repayments on mortgages and notes payable	(22,844)	(33,733)
Borrowings on revolving loans	137,000	69,000
Repayments on revolving loans	(132,500)	(47,000)
Net proceeds from the sale of common stock	203	68
Net change in deferred financing costs	654	(738)
Repurchase of common stock and units	(2,216)	(106,847)
Other financing activities	(1,490)	--
Net cash used in financing activities	(51,773)	(147,692)
Net increase/(decrease) in cash and cash equivalents	3,287	(58,661)
Cash and cash equivalents at beginning of the period	576	104,780
Cash and cash equivalents at end of the period	$ 3,863	$ 46,119
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 23,332	$ 23,489

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Cash Flows (Continued)

(Unaudited and $ in thousands)

Supplemental disclosure of non-cash investing and financing activities:

The following table summarizes the net assets contributed by the holders of Common Units in the Operating Partnership and the net assets acquired subject to mortgage notes payable:

	Three Months Ended March 31,	
	2002	2001
Assets:		
Notes receivable	$ 500	$ 675
Cash and cash equivalents	41	551
Rental property and equipment, net	12,812	19,881
Liabilities:		
Mortgages and notes payable	11,784	22,520
Accounts payable, accrued expenses and other liabilities	136	1,392
Net assets	$ 1,433	$ (2,805)

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2002

(Unaudited)

1. DESCRIPTION OF THE COMPANY

Highwoods Properties, Inc. (the "Company") is a self-administered and self-managed real estate investment trust ("REIT") that operates in the southeastern and midwestern United States. The Company's wholly-owned assets include: 501 in-service office, industrial and retail properties; 213 apartment units; 1,277 acres of undeveloped land suitable for future development; and an additional 16 properties under development.

The Company conducts substantially all of its activities through, and substantially all of its interests in the properties are held directly or indirectly by, Highwoods Realty Limited Partnership (the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership. At March 31, 2002, the Company owned 87.8% of the common partnership interests ("Common Units") in the Operating Partnership. Limited partners (including certain officers and directors of the Company) own the remaining Common Units. Holders of Common Units may redeem them for the cash value of one share of the Company's common stock, $.01 par value (the "Common Stock"), or, at the Company's option, one share (subject to certain adjustments) of Common Stock.

Generally one year after issuance, the Operating Partnership is obligated to redeem each Common Unit at the request of the holder thereof for cash equal to the fair market value of one share of the Company's Common Stock at the time of such redemption, provided that the Company at its option may elect to acquire any such Common Unit presented for redemption for cash or one share of Common Stock. When a Common Unit holder redeems a Common Unit for a share of Common Stock or cash, the minority interest will be reduced and the Company's share in the Operating Partnership will be increased. The Common Units owned by the Company are not redeemable for cash.

2. BASIS OF PRESENTATION

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

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

The Company has elected and expects to continue to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. Therefore, no provision has been made for income taxes related to REIT taxable income to be distributed to stockholders.

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

Certain amounts in the March 31, 2001 and December 31, 2001 financial statements have been reclassified to conform to the March 31, 2002 presentation. These reclassifications had no material effect on net income or stockholders' equity as previously reported.

2. BASIS OF PRESENTATION - Continued

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 our financial position, results of operations and cash flows have been made. For further information, refer to the financial statements and notes thereto included in our 2001 Annual Report on Form 10-K.

3. SEGMENT INFORMATION

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

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

Further, all operations are within the United States and no tenant comprises more than 10% of consolidated revenues. The following table summarizes the rental income, net operating income and total assets for each reportable segment for the three months ended March 31, 2002 and 2001 ($ in thousands):

	Three Months Ended March 31,	
	2002	2001
Rental Income:		
Office segment	$ 103,964	$ 103,523
Industrial segment	10,664	11,715
Retail segment	9,964	9,695
Apartment segment	379	3,270
Total Rental Income	$ 124,971	$ 128,203
Net Operating Income:		
Office segment	$ 70,610	$ 73,047
Industrial segment	8,828	9,976
Retail segment	6,835	6,584
Apartment segment	192	1,791
Total Net Operating Income	86,465	91,398
Reconciliation to income before gain on disposition of land and depreciable assets, minority interest, discontinued operations and extraordinary item:		
Equity in earnings of unconsolidated affiliates	2,564	833
Interest and other income	3,415	7,813
Interest expense	(26,373)	(28,986)
General and administrative expense	(5,174)	(5,212)
Depreciation and amortization	(31,286)	(29,125)
Income before gain on disposition of land and depreciable assets, minority interest, discontinued operations and extraordinary item	$ 29,611	$ 36,721

	As of March 31,	
	2002	2001
Total Assets:		
Office segment	$2,857,422	$2,700,177
Industrial segment	325,941	337,605
Retail segment	258,876	243,538
Apartment segment	10,791	86,761
Corporate and other	169,070	236,111
Total Assets	$3,622,100	$3,604,192

4. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

During the past several years, we have formed various joint ventures with unrelated investors. We have retained minority equity interests ranging from 12.50% to 50.00% in these joint ventures. As required by generally accepted accounting principals, we have accounted for our joint venture activity using the equity method of accounting, as we do not control these joint ventures. As a result, the assets and liabilities of our joint ventures are not included on our balance sheet. As of March 31, 2002, our joint ventures have approximately $590.2 million of outstanding debt. All of the joint venture debt is non-recourse to us except (1) in the case of customary exceptions pertaining to such matters as misuse of funds, environmental conditions and material misrepresentations (2) with respect to $3.4 million of construction debt related to the MG-HIW Rocky Point, LLC, which has been guaranteed in part by us subject to a pro rata indemnity from our joint venture partner. Our guarantee of the MG-HIW Rocky Point, LLC debt represented 15.00% of the outstanding loan balance at March 31, 2002 and (3) with respect to $2.4 million of construction debt related to the MG-HIW Metrowest I, LLC, which has been guaranteed in part by us subject to a pro rata indemnity from our joint venture partner. Our guarantee of the MG-HIW Metrowest I, LLC debt represented 50.00% of the outstanding loan balance at March 31, 2002. Selected financial data for unconsolidated affiliates for the three months ended March 31, 2002 and 2001 is presented below ($ in thousands):

	2002 Percent Owned	2001 Percent Owned
Board of Trade Investment Company	49.00%	49.00%
Dallas County Partners I, LP	50.00	50.00
Dallas County Partners II, LP	50.00	50.00
Dallas County Partners III, LP	50.00	50.00
Fountain Three	50.00	50.00
Kessinger/Hunter, LLC	30.00	30.00
4600 Madison Associates, LP	12.50	12.50
Dreilander-Fonds 98/29	22.81	22.81
Dreilander-Fonds 97/26 and 99/32	42.93	44.70
RRHWoods, LLC	50.00	50.00
Highwoods-Markel Associates, LLC	50.00	50.00
MG-HIW, LLC	20.00	20.00
MG-HIW Peachtree Corners, LLC	50.00	50.00
MG-HIW Rocky Point, LLC	50.00	50.00
MG-HIW Metrowest I, LLC	50.00	50.00
MG-HIW Metrowest II, LLC	50.00	50.00
Concourse Center Associates, LLC	50.00	--

	2002	2001
Total assets	$921,270	$ 863,530
Total liabilities	615,597	571,862
Total net income	8,844	3,097

5. DERIVATIVE FINANCIAL INSTRUMENTS

On January 1, 2001, we adopted Financial Accounting Standards Board Statement (SFAS) No. 133/138, "Accounting for Derivative Instruments and Hedging Activities", as amended. This statement requires us to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings, or recognized in Accumulated Other Comprehensive Loss ("AOCL") until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is recognized in earnings. In connection with the adoption of SFAS 133/138 in January 2001, we recorded a net transition adjustment of $555,962 of unrealized loss in interest and other income and a net transition adjustment of $125,000 in AOCL. Adoption of the standard also resulted in us recognizing $127,000 of derivative instrument liabilities and a reclassification of approximately $10.6 million of deferred financing costs from past cashflow hedging relationships from other assets to AOCL.

5. Derivative Financial Instruments - Continued

Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cashflows and to lower overall borrowing costs. To achieve these objectives, we enter into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We do not hold these derivatives for trading or speculative purposes.

On the date that we enter into a derivative contract, we designate the derivative as (1) a hedge of the variability of cash flows that are to be received or paid in connection with a recognized liability (a "cash flow" hedge), or (2) an instrument that is held as a non-hedge derivative. Changes in the fair value of highly effective cash flow hedges, to the extent that the hedge is effective, are recorded in accumulated other comprehensive loss, until earnings are affected by the hedged transaction (i.e. until periodic settlements of a variable-rate liability are recorded in earnings). Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows of the transaction) is recorded in current-period earnings. Changes in the fair value of non-hedging instruments are reported in current-period earnings.

We formally document all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash flow hedges to (1) specific assets and liabilities on the balance sheet or (2) forecasted transactions. We also assess and document, both at the hedging instrument's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows associated with the hedged items. When we determine that a derivative is not (or has ceased to be) highly effective as a hedge, we discontinue hedge accounting prospectively.

All of our derivatives are designated as cashflow hedges at March 31, 2002. The effective portion of the cumulative loss on the derivative instruments was $8.9 million at March 31, 2002 and was reported as a component of AOCL in stockholders' equity and recognized into earnings in the same period or periods during which the hedged transaction affects earnings (as the underlying debt is paid down). We expect that the portion of the cumulative loss recorded in AOCL at March 31, 2002 associated with the derivative instruments which will be recognized within the next 12 months will be approximately $1.6 million.

Derivative liabilities totaling approximately $207,080 related to our interest rate swap agreement, with a notional amount of $19.0 million, are recorded in accounts payable, accrued expenses and other liabilities in the Consolidated Balance Sheets at March 31, 2002. The fair value of our interest rate swap agreement was $(207,080) at March 31, 2002. For the majority of financial instruments including most derivatives, long-term investments and long-term debt, standard market conventions and techniques such as discounted cash flow analysis, option pricing models, replacement cost and termination cost are used to determine fair value. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realized.

6. Other Comprehensive Income/(loss)

Other comprehensive income/(loss) represents net income plus the results of certain non-stockholders' equity changes not reflected in the Consolidated Statements of Income. The components of other comprehensive income/(loss) are as follows ($ in thousands):

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Net Income	$ 27,035	$ 38,581
Other comprehensive income/(loss):		
Unrealized derivative losses on cashflow hedges	204	(411)
Reclassification of past hedging relationships	--	(10,597)
Amortization of past hedging relationships	384	1,567
Total other comprehensive income/(loss)	588	(9,441)
Total comprehensive income	$ 27,623	$ 29,140

7. Discontinued Operations

As of January 1, 2002, we have adopted FASB 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," and the appropriate amounts are disclosed separately under income from discontinued operations on the consolidated income statement. Below represents the revenues, rental operating expenses, depreciation and amortization, net income and net carrying value of the properties held for sale at March 31, 2002 (which are expected to be sold during the second and third quarters of 2002), as a result of our capital recycling program and included in income from discontinued operations at March 31, 2001 and 2002 ($ in thousands):

	Type	Rentable Square Feet	Acreage	Rental Revenues	Rental Operating Expenses	Depreciation and Amortization	Net Income (net of minority interest)	Net Carrying Value
March 31, 2002								
	Office	155,000	--	$ 432	$ 68	$ 80	$ 250	$12,310
	Land	--	16	--	55	--	(48)	2,132
	Total	155,000	16	$ 432	$ 123	$ 80	$ 202	$14,442
March 31, 2001								
	Office	155,000	--	$ 418	$ 62	$ 81	$ 242	$12,582
	Land	--	16	--	42	--	(37)	2,132
	Total	155,000	16	$ 418	$ 104	$ 81	$ 205	$14,714

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 and is based primarily on the consolidated financial statements of the Company.

Disclosure Regarding Forward-looking Statements

Some of the information in this Quarterly Report on Form 10-Q may contain forward-looking statements. Such statements include, in particular, statements about our plans, strategies and prospects under this section and under the heading "Business". You can identify forward-looking statements by our use of forward-looking terminology such as "may," "will," "expect," "anticipate," "estimate," "continue" or other similar words. Although we believe that our plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, we cannot assure you that our plans, intentions or expectations will be achieved. When considering such forward-looking statements, you should keep in mind the following important factors that could cause our actual results to differ materially from those contained in any forward-looking statement:

. speculative development activity by our competitors in our existing markets could result in an excessive supply of office, industrial and retail properties relative to tenant demand;

. the financial condition of our tenants could deteriorate;

. the costs of our development projects could exceed our original estimates;

. we may not be able to complete development, acquisition, reinvestment, disposition or joint venture projects as quickly or on as favorable terms as anticipated;

. we may not be able to lease or release space quickly or on as favorable terms as old leases;

. we may have incorrectly assessed the environmental condition of our properties;

. an unexpected increase in interest rates would increase our debt service costs;

. we may not be able to continue to meet our long-term liquidity requirements on favorable terms;

. we could lose key executive officers; and

. our southeastern and midwestern markets may suffer additional declines in economic growth.

This list of risks and uncertainties, however, is not intended to be exhaustive. You should also review the other cautionary statements we make in "Business - Risk Factors" set forth elsewhere in our 2001 Annual Report.

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

Overview

We are a self-administered and self-managed equity REIT that began operations through a predecessor in 1978. Since the Company's initial public offering in 1994, we have evolved into one of the largest owners and operators of suburban office, industrial and retail properties in the southeastern and midwestern United States. At March 31, 2002, we:

. owned 501 in-service office, industrial and retail properties, encompassing approximately 37.5 million rentable square feet and 213 apartment units;

. owned an interest (50% or less) in 75 in-service office and industrial properties, encompassing approximately 7.5 million rentable square feet and 418 apartment units;

. owned 1,277 acres (and have agreed to purchase an additional eight acres over the next year) of undeveloped land suitable for future development; and

. were developing an additional 20 properties, which will encompass approximately 2.2 million rentable square feet (including two properties encompassing 142,000 rentable square feet that we are developing with our joint venture partners).

The following summarizes our capital recycling program since the beginning of 2000:

	Three Months Ended March 31, 2002	Year Ended 2001	Year Ended 2000
Office, Industrial and Retail Properties (rentable square feet in thousands)			
Dispositions (1)	(128)	(268)	(4,743)
Contributions to Joint Ventures (1)	--	(118)	(2,199)
Developments Placed In-Service	404	1,351	3,480
Acquisitions	--	72	669
Net Change in Wholly-owned In-Service Properties	276	1,037	(2,793)
Apartment Properties (in units)			
Dispositions	--	(1,672)	--

(1) Excludes wholly-owned development properties sold or contributed to joint ventures.

In addition to the above property activity, we repurchased $2.2 million, $147.4 million and $100.2 million of Common Stock and Common Units during 2002, 2001 and 2000, respectively, and $18.5 million of Preferred Stock during 2001.

The Company conducts substantially all of its activities through, and substantially all of its interests in the properties are held directly or indirectly by, the Operating Partnership. The Company is the sole general partner of the Operating Partnership. At March 31, 2002, the Company owned 87.8 % of the Common Units in the Operating Partnership.

Results of Operations

The following table sets forth information regarding our results of operations for the three months ended March 31, 2002 and 2001 ($ in millions):

	Three Months Ended March 31, 2002	2001	$ Change
Revenue:			
Rental property	$ 125.0	$ 128.2	$ (3.2)
Equity in earnings of unconsolidated affiliates	2.6	0.8	1.8
Interest and other income	3.4	7.8	(4.4)
Total revenue	131.0	136.8	(5.8)
Operating expenses:			
Rental property	38.5	36.8	1.7
Depreciation and amortization	31.3	29.1	2.2
Interest expense:			
Contractual	26.0	28.3	(2.3)
Amortization of deferred financing costs	0.4	0.7	(0.3)
	26.4	29.0	(2.6)
General and administrative	5.2	5.2	--
Income before gain on disposition of land and depreciable assets, minority interest, discontinued operations and extraordinary item	29.6	36.7	(7.1)
Gain on disposition of land and depreciable assets	0.9	7.1	(6.2)
Income before minority interest, discontinued operations and extraordinary item	30.5	43.8	(13.3)
Minority interest	(3.7)	(5.2)	1.5
Income from continuing operations	26.8	38.6	(11.8)
Discontinued operations			
Income from discontinued operations, net of minority interest	0.2	0.2	--
Net income before extraordinary item	27.0	38.8	(11.8)
Extraordinary item -- loss on early extinguishment of debt	--	(0.2)	0.2
Net income	27.0	38.6	(11.6)
Dividends on preferred stock	(7.7)	(8.1)	0.4
Net income available for common shareholders	$ 19.3	$ 30.5	$ (11.2)

Revenues from rental operations decreased $3.2 million, or 2.5%, from $128.2 million for the quarter ended March 31, 2001 to $125.0 million for the quarter ended March 31, 2002. The decrease was primarily a result of a decrease in the average occupancy rates from 94.2% in the first quarter of 2001 to 89.0% in the first quarter of 2002 and a decrease in our property portfolio as a result of our capital recycling program. Additionally, due to lower expected economic growth and increasing market vacancy rates in our core markets, we expect a slight decline in occupancy during the remaining three quarters of 2002. Our in-service wholly-owned portfolio increased from 36.3 million square feet at March 31, 2001 to 37.5 million square feet at March 31, 2002.

Same property rental revenues, which are the revenues of the 483 in-service properties wholly-owned on January 1, 2001, decreased $2.6 million, or 2.2%, for the quarter ended March 31, 2002, compared to the quarter ended March 31, 2001. This decrease was primarily a result of lower same store average occupancy, which declined from 94.2% in the first quarter of 2001 to 88.9% in the first quarter of 2002. Partially offsetting the decrease in rental revenue was an increase in termination fees from $1.4 million in the first quarter of 2001 to $1.8 million in the first quarter of 2002. In addition, same store straight line rent was $3.1 million in the first quarter of 2001 and $2.4 million in the first quarter of 2002.

During the quarter ended March 31, 2002, 137 second generation leases representing 532,000 square feet of office, industrial and retail space were executed at an average rate per square foot which was 0.3% higher than the average rate per square foot on the previous leases.

Rental revenue is comprised of base rent, including termination fees, recoveries from tenants and parking and other income. Base rental revenue is recognized on a straight-line basis over the terms of the respective leases. Accrued straight-line rents receivable represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with lease agreements. Recoveries from tenants represent reimbursements for certain costs as provided in the lease agreements. These costs generally include real estate taxes, utilities, insurance, common area maintenance and other recoverable costs.

Equity in earnings of unconsolidated affiliates increased $1.8 million from $0.8 million for the quarter ended March 31, 2001 to $2.6 million for the quarter ended March 31, 2002. The increase was primarily a result of the an increase in occupancy rates in 2002 for certain joint ventures formed with unrelated investors and earnings from a joint venture formed with unrelated investors in late December 2001. We account for our investments in unconsolidated joint ventures using the equity method of accounting because we do not control these joint venture entities. These investments are initially recorded at cost, as investments in unconsolidated affiliates, and are subsequently adjusted for equity in earnings and cash contributions and distributions. Any difference between the carrying amount of these investments on our balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in earnings of unconsolidated affiliates over 40 years.

Interest and other income decreased $4.4 million, or 56.4%, from $7.8 million for the quarter ended March 31, 2001 to $3.4 million for the quarter ended March 31, 2002. The decrease primarily resulted from a decrease in leasing and development fee income in the first quarter of 2002 and a decrease in interest income in the first quarter of 2002 due to lower cash balances during the period. During 2001, we had higher cash balances as a result of proceeds from dispositions related to our capital recycling program that were used in our stock repurchase program.

Rental operating expenses (real estate taxes, utilities, insurance, repairs and maintenance and other property-related expenses) increased $1.7 million, or 4.6%, from $36.8 million for the quarter ended March 31, 2001 to $38.5 million for the quarter ended March 31, 2002. The increase was primarily a result of an increase in real estate taxes in 2002. Rental operating expenses as a percentage of related revenues increased from 28.7% for the quarter ended March 31, 2001 to 30.8% for the quarter ended March 31, 2002.

Same property rental property expenses, which are the expenses of the 483 in-service properties wholly-owned on January 1, 2001, decreased $587,000, or 1.7%, for the quarter ended March 31, 2002, compared to the quarter ended March 31, 2001. This decrease was primarily a result of lower occupancy relative to variable operating expenses offset by increases in real estate taxes, primarily due to higher property tax assessments, utilities and small increases in various other rental expense accounts.

Depreciation and amortization for the quarters ended March 31, 2002 and 2001 totaled $31.3 million and $29.1 million, respectively. The increase of $2.2 million, or 7.6%, was due to an increase in the amortization of leasing commissions and tenant improvements, partly offset by a decrease in the depreciation expense as a result of our capital recycling program during 2002 and 2001.

Interest expense decreased $2.6 million, or 9.0%, from $29.0 million for the quarter ended March 31, 2001 to $26.4 million for the quarter ended March 31, 2002. The decrease was primarily attributable to the decrease in the weighted average interest rates for the quarter ended March 31, 2002, partly offset by an increase in the average outstanding debt for the quarter ended March 31, 2002. Interest expense for the quarters ended March 31, 2002 and 2001 included $339,000 and $665,000, respectively, of amortization of deferred financing costs and the costs related to our interest rate hedge contracts.

General and administrative expenses as a percentage of total revenues was 4.0% in the first quarter of 2002 and 3.8% in the first quarter of 2001.

Costs directly related to the development of rental properties are capitalized. Capitalized development costs include interest, wages, property taxes, insurance and other project costs incurred during the period of development. Capitalized interest for the quarters ended March 31, 2002 and 2001 was $4.0 million and $3.0 million, respectively.

Gain on disposition of land and depreciable assets decreased $6.2 million from $7.1 million for the quarter ended March 31, 2001 to $944,000 for the quarter ended March 31, 2002. In 2001, the majority of the gain was a result of the disposition of 277 apartment units. In 2002, the majority of the gain was a result of the sale of 128,000 rentable square feet of office property.

Income before gain on disposition of land and depreciable assets, minority interest, discontinued operations and extraordinary item equaled $29.6 million and $36.7 million for the quarters ended March 31, 2002 and 2001, respectively. The Company's net income allocated to minority interest totaled $3.7 million and $5.2 million for the quarters ended March 31, 2002 and 2001, respectively. The Company recorded $7.7 million and $8.1 million in preferred stock dividends for each of the quarters ended March 31, 2002 and 2001, respectively. The decrease was a result of the $18.5 million repurchase by the Company of its preferred stock during 2001.

Liquidity and Capital Resources

Statement of Cash Flows. The following table sets forth the changes in the Company's cash flows from the first quarter of 2001 to the first quarter of 2002 ($ in thousands):

	Quarter Ended March 31,		
	2002	2001	Change
Cash Provided By Operating Activities	$ 42,622	$ 66,769	$ (24,147)
Cash Provided By Investing Activities	12,438	22,262	(9,824)
Cash Used in Financing Activities	(51,773)	(147,692)	95,919

The decrease in cash provided by operating activities was primarily the result of our capital recycling program and a decrease in average occupancy rates for our wholly-owned portfolio. Real estate taxes were higher in the first quarter of 2002 primarily due to higher property assessments. The level of net cash provided by operating activities is also affected by the timing of receipt of revenues and payment of expenses.

The decrease in cash provided by investing activities was primarily a result of a decrease of $26.5 million in the proceeds from the disposition of real estate assets from the first quarter of 2001 to the first quarter of 2002, and a decrease in the collection of advances from subsidiaries of $27.6 million from the first quarter of 2001 to the first quarter of 2002, partly offset by the reduction in additions to real estate assets of $45.7 million from the first quarter of 2001 to the first quarter of 2002.

The decrease in cash used in financing activities was primarily a result of a decrease of $104.6 million in the repurchase of Common Stock and Common Units from the first quarter of 2001 and the first quarter of 2002, partly offset by an increase of $10.7 million in net repayment on the unsecured revolving loan, mortgages and notes payable from the first quarter of 2001 to the first quarter of 2002.

Capitalization. Based on our total market capitalization of $3.8 billion at March 31, 2002 (at the March 31, 2002 stock price of $28.09 and assuming the redemption for shares of Common Stock of the 7.3 million Common Units of minority interest in the Operating Partnership), our debt represented approximately 45.5% of our total market capitalization. Our total indebtedness at March 31, 2002 was $1.7 billion and was comprised of $541.5 million of secured indebtedness with a weighted average interest rate of 7.8% and $1.2 billion of unsecured indebtedness with a weighted average interest rate of 6.4%. We do not intend to reserve funds to retire existing secured or unsecured debt upon maturity. For a more complete discussion of our long-term liquidity needs, see "Current and Future Cash Needs."

The following table sets forth the maturity schedule of our long-term debt as of March 31, 2002 ($ in thousands):

	Total	Within 1 Year	Within 2-3 Years	Within 4-5 Years	Within 6 or more Years
Fixed Rate Debt:					
Unsecured:					
MOPPRS (1)	$ 125,000	$ --	$ --	$ --	$ 125,000
Put Option Notes (2)	100,000	--	--	--	100,000
Notes	706,500	--	246,500	110,000	350,000
Term Loan	18,996	18,996	--	--	--
Secured:					
Mortgages and loans payable	525,252	20,283	64,170	113,928	326,871
Total Fixed Rate Debt	1,475,748	39,279	310,670	223,928	901,871
Variable Rate Debt:					
Unsecured:					
Revolving Loan	233,000	--	233,000	--	--
Secured:					
Revolving Loan	11,784	--	11,784	--	--
Mortgage loan payable	4,500	246	526	576	3,152
Total Variable Rate Debt	249,284	246	245,310	576	3,152
Total Long Term Debt	$ 1,725,032	$ 39,525	$ 555,980	$ 224,504	$ 905,023

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(1) On February 2, 1998, the Operating Partnership sold $125.0 million of MandatOry Par Put Remarketed Securities ("MOPPRS") due February 1, 2013. The MOPPRS bear an interest rate of 6.835% from the date of issuance through January 31, 2003. After January 31, 2003, the interest rate to maturity on such MOPPRS will be 5.715% plus the applicable spread determined as of January 31, 2003. In connection with the initial issuance of the MOPPRS, a counter party was granted a remarketing option to purchase the MOPPRS from the holders thereof on January 31, 2003 at 100.0% of the principal amount. If the counter party elects not to exercise this option, the Operating Partnership would be required to repurchase the MOPPRS from the holders on January 31, 2003 at 100.0% of the principal amount plus accrued and unpaid interest.

(2) On June 24, 1997, a trust formed by the Operating Partnership sold $100.0 million of Exercisable Put Option Securities due June 15, 2004 ("X-POS"), which represent fractional undivided beneficial interest in the trust. The assets of the trust consist of, among other things, $100.0 million of Exercisable Put Option Notes due June 15, 2011 (the "Put Option Notes"), issued by the Operating Partnership. The Put Option Notes bear an interest rate of 7.19% from the date of issuance through June 15, 2004. After June 15, 2004, the interest rate to maturity on such Put Option Notes will be 6.39% plus the applicable spread determined as of June 15, 2004. In connection with the initial issuance of the Put Option Notes, a counter party was granted an option to purchase the Put Option Notes from the trust on June 15, 2004 at 100.0% of the principal amount. If the counter party elects not to exercise this option, the Operating Partnership would be required to repurchase the Put Option Notes from the Trust on June 15, 2004 at 100.0% of the principal amount plus accrued and unpaid interest.

The mortgage and loans payable and the secured revolving loan were secured by real estate assets with an aggregate carrying value of $943.0 million at March 31, 2002.

The Operating Partnership's unsecured notes of $931.5 million bear interest rates ranging from 6.75% to 8.125%, with interest payable semi-annually in arrears. The premium and discount related to the issuance of the unsecured notes is being amortized over the life of the respective notes as an adjustment to interest expense. All of the unsecured notes, except for the MOPPRS and Put Option Notes, are redeemable at any time at our option, subject to certain conditions including the payment of make-whole amounts.

We currently have a $300.0 million unsecured revolving loan (with $233.0 million outstanding at March 31, 2002) that matures in December 2003 and a $55.2 million secured revolving loan (with $11.8 million outstanding at March 31, 2002) that matures in March 2003. Our unsecured revolving loan also includes a $150.0 million competitive sub-facility. Depending upon the corporate credit ratings assigned to us from time to time by the various rating agencies, our unsecured revolving loan bears variable rate interest at a spread above LIBOR ranging from 0.70% to 1.55% and our secured revolving loan bears variable rate interest at a spread above LIBOR ranging from 0.55% to 1.50%. We currently have a credit rating of BBB- assigned by Standard & Poor's, a credit rating of BBB assigned by Fitch Inc. and a credit rating of Baa2 assigned by Moody's Investor Service. As a result, interest currently accrues on borrowings under our unsecured revolving loan at an average rate of LIBOR plus 85 basis points and under our secured revolving loan at an average rate of LIBOR plus 75 basis points. In addition, we are currently required to pay an annual facility fee equal to .20% of the total commitment under the unsecured revolving loan.

The terms of each of our revolving loans and the indenture that governs our outstanding notes require us to comply with various operating and financial covenants and performance ratios. We are currently in compliance with all such requirements. In addition, based on our current expectation of future operating performance, we expect to remain in compliance for the foreseeable future.

Joint Ventures. During the past several years, we have formed various joint ventures with unrelated investors. We have retained minority equity interests ranging from 12.50% to 50.00% in these joint ventures. As required by generally accepted accounting principals, we have accounted for our joint venture activity using the equity method of accounting, as we do not control these joint ventures. As a result, the assets and liabilities of our joint ventures are not included on our balance sheet. As of March 31, 2002, our joint ventures have approximately $590.2 million of outstanding debt. All of the joint venture debt is non-recourse to us except (1) in the case of customary exceptions pertaining to such matters as misuse of funds, environmental conditions and material misrepresentations (2) with respect to $3.4 million of construction debt related to the MG-HIW Rocky Point, LLC, which has been guaranteed in part by us subject to a pro rata indemnity from our joint venture partner. Our guarantee of the MG-HIW Rocky Point, LLC debt represented 15.00% of the outstanding loan balance at March 31, 2002 and (3) with respect to $2.4 million of construction debt related to the MG-HIW Metrowest I, LLC, which has been guaranteed in part by us subject to a pro rata indemnity from our joint venture partner. Our guarantee of the MG-HIW Metrowest I, LLC debt represented 50.00% of the outstanding loan balance at March 31, 2002.

Interest Rate Hedging Activities. To meet in part our long-term liquidity requirements, we borrow funds at a combination of fixed and variable rates. Borrowings under our two revolving loans bear interest at variable rates. Our long-term debt, which consists of long-term financings and the unsecured issuance of debt securities, typically bears interest at fixed rates. In addition, we have assumed fixed rate and variable rate debt in connection with acquiring properties. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, from time to time we enter into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We do not hold or issue these derivative contracts for trading or speculative purposes.

The following table sets forth information regarding our interest rate hedge contract as of March 31, 2002 ($ in thousands):

Type of Hedge	Notional Amount	Maturity Date	Reference Rate	Fixed Rate	Fair Market Value
Swap	$ 18,996	6/10/02	1-Month LIBOR + 0.75%	6.95%	$ (207)

The interest rate on all of our variable rate debt is adjusted at one- and three-month intervals, subject to settlements under these contracts. We also enter into treasury lock agreements from time to time in order to limit our exposure to an increase in interest rates with respect to future debt offerings. Net payments to counterparties under interest rate hedge contracts were $207,276 during 2002 and were recorded as additional interest expense.

Current and Future Cash Needs. Historically, rental revenue has been the principal source of funds to meet our short-term liquidity requirements, which primarily consist of operating expenses, debt service, stockholder distributions and ordinary course capital expenditures. In addition, construction management, maintenance, leasing and management fees have provided sources of cash flow. We presently have no plans for major capital improvements to the existing properties, other than normal recurring building improvements, tenant improvements and lease commissions.

In addition to the requirements discussed above, our short-term (within the next 12 months) liquidity requirements also include the funding of approximately $42.0 million of our existing development activity. See "Business -- Development Activity." We expect to fund our short-term liquidity requirements through a combination of working capital, cash flows from operations and the following:

. borrowings under our unsecured revolving loan (up to $85.0 million of availability as of May 3, 2002);

. borrowings under our secured revolving loan (up to $40.9 million of availability as of May 3, 2002);

. the selective disposition of non-core assets;

. the sale or contribution of some of our wholly-owned properties, development projects and development land to strategic joint ventures to be formed with unrelated investors, which will have the net effect of generating additional capital through such sale or contributions; and

. the issuance of secured debt (at March 31, 2002, we had $2.8 billion of unencumbered real estate assets at cost).

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

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

Distributions to Stockholders. To maintain qualification as a REIT, the Company must distribute to stockholders at least 90% of REIT taxable income. The Company expects to use its cash flow from operating activities for distributions to stockholders and for payment of recurring, non-incremental revenue-generating expenditures. The following factors will affect cash flows from operating activities and, accordingly, influence the decisions of the Board of Directors regarding distributions: (1) debt service requirements after taking into account the repayment and restructuring of certain indebtedness; (2) scheduled increases in base rents of existing leases; (3) changes in rents attributable to the renewal of existing leases or replacement leases; (4) changes in occupancy rates at existing properties and procurement of leases for newly acquired or developed properties; and (5) operating expenses and capital replacement needs.

Share and Unit Repurchase Program. On April 25, 2001, we announced that the Company's Board of Directors authorized the repurchase of up to an additional 5.0 million shares of Common Stock and Common Units. As of May 1, 2002, under the new repurchase program, the Company had repurchased 1.4 million shares of Common Stock and Common Units at a weighted average purchase price of $24.55 per share and a total purchase price of $33.9 million under this new repurchase program. In determining whether or not to repurchase additional capital stock, we will consider, among other factors, the effect of repurchases on our liquidity and the price of our Common Stock.

Disposition Activity. As part of our ongoing capital recycling program, during the three months ended March 31, 2002, we have sold 128,000 square feet of office properties and 50.9 acres of development land for gross proceeds of $23.2 million. In addition, we had 551,152 square feet of office properties and 128.8 acres of land under contract for sale in various transactions totaling $103.4 million. These transactions are subject to customary closing conditions, including due diligence and documentation, and are expected to close during the second and third quarters of 2002. However, we can provide no assurance that all or parts of these transactions will be consummated.

When properties are identified as held for sale, we discontinue depreciation and estimate the net proceeds expected from the disposition of such properties. If, in our opinion, the net sales price of the properties that have been identified for sale is less than the net book value of the properties, a valuation allowance is established. Additionally, on a periodic basis, we assess whether there are any indicators that the value of our real estate properties may be impaired. A property's value is impaired only if our estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the property are less than the carrying value of the property. To the extent impairment has occurred, the loss is measured as the excess of the carrying amount of the property over the fair value of the property. We do not believe that the value of any of our rental properties is impaired.

Impact of Recently Issued Accounting Standards

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets," which addresses financial accounting and reporting for the impairment of disposal of long-lived assets. This standard harmonizes the accounting for impaired assets and resolves some of the implementation issues as originally described in SFAS No. 121. We adopted SFAS No. 144 in the first quarter of 2002. The net income from discontinued operations, net of minority interest, for properties meeting the criteria in accordance with SFAS No. 144 is reflected in the consolidated statements of income as Discontinued Operations for all periods presented.

Funds From Operations and Cash Available for Distributions

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

FFO equals income from continuing operations before minority interest (computed in accordance with GAAP) excluding gains (or losses) from debt restructuring and sales of depreciable property and dividends paid to preferred shareholders, plus depreciation and amortization. In addition, FFO includes both recurring and non-recurring operating results and income from discontinued operations. As a result, non-recurring items that are not defined as "extraordinary" under GAAP are reflected in the calculation of FFO.

Cash available for distribution is defined as funds from operations increased by the amortization of deferred financing activities and reduced by rental income from straight-line rents and non-revenue enhancing capital expenditures for building improvements and tenant improvements and lease commissions related to second generation space.

FFO and cash available for distribution for the three months ended March 31, 2002 and 2001 are summarized in the following table (in thousands):

	Three Months Ended March 31	
	2002	2001
FFO:		
Income before gain on disposition of land and depreciable assets, minority interest, discontinued operations and extraordinary item	$ 29,611	$ 36,721
Add/(Deduct):		
Dividends to preferred shareholders	(7,713)	(8,145)
Transition adjustment upon adoption of FAS 133	--	556
Income from discontinued operations	230	233
(Loss)/Gain on disposition of land	(232)	1,026
Depreciation and amortization	31,366	29,206
Depreciation on unconsolidated subsidiaries	2,484	1,992
FFO	55,746	61,589
Cash Available for Distribution:		
Add/(Deduct):		
Rental income from straight-line rents	(2,367)	(3,102)
Amortization of deferred financing costs	339	665
Non-incremental revenue generating capital expenditures (1):		
Building improvements paid	(751)	(1,073)
Second generation tenant improvements paid	(3,531)	(3,755)
Second generation lease commissions paid	(2,610)	(4,787)
Cash available for distribution	$ 46,826	$ 49,537
Weighted average shares/units outstanding (2) -- basic	60,249	64,094
Weighted average shares/units outstanding (2) -- diluted	60,747	64,359
Dividend payout ratios:		
FFO	63.7%	59.6%
Cash available for distribution	75.9%	74.1%

(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 Common Unit and per share basis; therefore, the per share information is unaffected by conversion.

Property Information

The following table sets forth certain information with respect to our wholly owned in-service and development properties (excluding apartment units) as of March 31, 2002 and 2001:

	March 31, 2002		March 31, 2001	
	Rentable Square Feet	Percent Leased/ Pre-Leased	Rentable Square Feet	Percent Leased/ Pre-Leased
In-Service				
Office	25,214,000	89.0%	24,509,000	93.8%
Industrial	10,607,000	84.3	10,358,000	95.3
Retail (1)	1,651,000	96.0	1,645,000	94.4
Total or Weighted Average	37,472,000	88.0%	36,512,000	94.2%
Development				
Completed -- Not Stabilized				
Office	1,472,000	51.3%	524,000	78.0%
Industrial	136,000	29.4	306,000	52.0
Retail	20,000	90.0	--	--
Total or Weighted Average	1,628,000	49.9%	830,000	69.0%
In-Process				
Office	415,000	85.5%	2,079,000	52.0%
Industrial	--	--	122,000	--
Retail	--	--	20,000	34.0
Total or Weighted Average	415,000	85.5%	2,221,000	49.0%
Total				
Office	27,101,000		27,112,000	
Industrial	10,743,000		10,786,000	
Retail (1)	1,671,000		1,665,000	
Total	39,515,000		39,563,000	

(1) Excludes Kansas City's basement space.

As of March 31, 2002, we were developing 16 suburban office properties, one industrial property and one retail property totaling 2.0 million rentable square feet of office and industrial space. The following table summarizes these development projects. In addition to the properties described in this table, we are developing with our joint venture partners two additional properties totaling 142,000 rentable square feet. At March 31, 2002, these two development projects had an aggregate anticipated total investment of $16.9 million and were 8.0% pre-leased.

In-Process

Name	Market	Rentable Square Feet	Anticipated Total Investment	Investment at 03/31/02	Pre-Leasing Percentage (1)	Estimated Completion	Estimated Stabilization (2)
			($ in thousands)				
Office:							
International Place 3	Memphis	214,000	$ 34,272	$ 29,170	100%	2Q02	2Q02
1825 Century Center (3)	Atlanta	101,000	16,254	11,746	100	3Q02	3Q02
801 Raleigh Corporate Center (3)	Research Triangle	100,000	12,016	3,635	40	4Q02	2Q04
In-Process Office Total or Weighted Average		415,000	$ 62,542	$ 44,551	86%		
Total or Weighted Average of all In-Process Development Projects		415,000	$ 62,542	$ 44,551	86%		

(1) Letters of intent comprise 4% of the total pre-leasing percentage.
(2) We generally consider a development project to be stabilized upon the earlier of the first date such project is at least 95% occupied or one year from the date of completion.
(3) We are developing these properties for a third party and own an option to purchase each property.

Completed--Not Stabilized

Name	Market	Rentable Square Feet	Anticipated Total Investment	Investment at 03/31/02	Pre-Leasing Percentage (1)	Estimated Completion	Estimated Stabilization (2)
			($ in thousands)				
Office:							
Highwoods Tower II	Research Triangle	167,000	$ 25,134	$ 21,949	94%	1Q01	2Q02
Met Life Building At Brookfield	Greenville	115,000	13,220	12,379	83	3Q01	3Q02
Cool Springs II	Nashville	205,000	22,718	21,111	70	2Q01	3Q02
Hickory Trace	Nashville	52,000	5,933	5,714	77	3Q01	3Q02
ParkWest One	Research Triangle	46,000	4,364	4,113	74	2Q01	3Q02
North Shore Commons A	Richmond	115,000	14,300	13,773	79	2Q01	3Q02
Stony Point III	Richmond	107,000	11,425	10,825	73	2Q01	3Q02
Shadow Creek II	Memphis	81,000	8,750	6,839	19	4Q01	4Q02
Highwoods Park at Jefferson Village	Piedmont Triad	98,000	11,290	9,789	4	4Q01	4Q02
Seven Springs I	Nashville	131,000	15,556	12,248	8	1Q02	1Q03
Centre Green Two	Research Triangle	97,000	11,596	9,798	31	2Q01	1Q03
Centre Green Four	Research Triangle	100,000	11,764	9,088	33	4Q01	2Q03
GlenLake I	Research Triangle	158,000	22,417	18,090	15	4Q01	2Q03
Office Total or Weighted Average		1,472,000	$ 178,467	$ 155,716	51%		
Industrial:							
Newpont IV	Atlanta	136,000	$ 5,288	$ 4,283	29%	4Q01	4Q02
Completed-Not Stabilized Industrial Total or Weighted Average		136,000	$ 5,288	$ 4,283	29%		
Retail:							
Granada Shops	Kansas City	20,000	$ 4,680	$ 4,131	90%	4Q01	4Q02
Completed-Not Stabilized Retail Total or Weighted Average		20,000	$ 4,680	$ 4,131	90%		
Total or Weighted Average of all Completed-Not Stabilized Development Projects		1,628,000	$ 188,435	$ 164,130	50%		
Total or Weighted Average of all Development Projects		2,043,000	$ 250,977	$ 208,681	57%		

(1) Letters of intent comprise 4% of the total pre-leasing percentage.
(2) We generally consider a development project to be stabilized upon the earlier of the first date such project is at least 95% occupied or one year from the date of completion.

Development Analysis

	Rentable Square Feet	Anticipated Total Investment	Pre-Leasing Percentage (1)
		($ in thousands)	
Summary by Estimated Stabilization Date:			
Second Quarter 2002	381,000	$ 59,406	97%
Third Quarter 2002	741,000	88,214	79%
Fourth Quarter 2002	335,000	30,008	23%
First Quarter 2003	228,000	27,152	18%
Second Quarter 2003	258,000	34,181	22%
Second Quarter 2004	100,000	12,016	40%
Total or Weighted Average	2,043,000	$ 250,977	57%
Summary by Market:			
Atlanta	237,000	$ 21,542	59%
Greenville	115,000	13,220	83%
Kansas City	20,000	4,680	90%
Memphis	295,000	43,022	78%
Nashville	388,000	44,207	50%
Piedmont Triad	98,000	11,290	4%
Research Triangle	668,000	87,291	47%
Richmond	222,000	25,725	76%
Total or Weighted Average	2,043,000	$ 250,977	57%
Build-to-Suit	315,000	$ 50,526	100%
Multi-Tenant	1,728,000	200,451	49%
Total or Weighted Average	2,043,000	$ 250,977	57%

	Average Rentable Square Feet	Average Anticipated Total Investment	Average Pre-Leasing (1)
		($ in thousands)	
Average Per Property By Type:			
Office	117,938	$ 15,063	59%
Industrial	136,000	5,288	29%
Retail	20,000	4,680	90%
Weighted Average	113,500	$ 13,943	57%

(1) Letters of intent comprise 4% of the total pre-leasing percentage.

The following tables set forth certain information about leasing activities at our wholly owned in-service properties (excluding apartment units) for the three months ended March 31, 2002 and December 31, September 30 and June 30, 2001.

	Office Leasing Statistics Three Months Ended				
	3/31/02	12/31/01	9/30/01	6/30/01	Average
Net Effective Rents Related to Re-Leased Space:					
Number of lease transactions (signed leases)	110	116	135	155	129
Rentable square footage leased	417,102	437,454	630,043	773,415	564,504
Average per rentable square foot over the lease term:					
Base rent	$ 16.83	$ 17.85	$ 17.03	$ 16.36	$ 17.02
Tenant improvements	(0.98)	(1.19)	(0.90)	(1.17)	(1.06)
Leasing commissions	(0.78)	(0.97)	(0.59)	(0.67)	(0.75)
Rent concessions	(0.15)	(0.11)	(0.11)	(0.03)	(0.10)
Effective rent	$ 14.92	$ 15.58	$ 15.43	$ 14.49	$ 15.11
Expense stop(1)	(5.17)	(4.50)	(4.54)	(3.37)	(4.40)
Equivalent effective net rent	$ 9.75	$ 11.08	$ 10.89	$ 11.12	$ 10.71
Average term in years	4.1	4.6	4.5	4.9	4.5
Capital Expenditures Related to Released Space:					
Tenant Improvements:					
Total dollars committed under signed leases	$ 2,031,231	$ 2,647,115	$ 2,431,063	$ 5,052,983	$ 3,040,598
Rentable square feet	417,102	437,454	630,043	773,415	564,504
Per rentable square foot	$ 4.87	$ 6.05	$ 3.86	$ 6.53	$ 5.39
Leasing Commissions:					
Total dollars committed under signed leases	$ 984,220	$ 1,277,523	$ 1,018,216	$ 1,991,418	$ 1,317,844
Rentable square feet	417,102	437,454	630,043	773,415	564,504
Per rentable square foot	$ 2.36	$ 2.92	$ 1.62	$ 2.57	$ 2.33
Total:					
Total dollars committed under signed leases	$ 3,015,450	$ 3,924,637	$ 3,449,279	$ 7,044,401	$ 4,358,442
Rentable square feet	417,102	437,454	630,043	773,415	564,504
Per rentable square foot	$ 7.23	$ 8.97	$ 5.47	$ 9.11	$ 7.72
Rental Rate Trends:					
Average final rate with expense pass throughs	$ 16.45	$ 16.47	$ 16.27	$ 14.84	$ 16.01
Average first year cash rental rate	$ 15.84	$ 17.25	$ 16.51	$ 15.54	$ 16.28
Percentage (decrease)/increase	(3.8)%	4.7%	1.5%	4.7%	1.7%

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

	Industrial Leasing Statistics Three Months Ended				
	3/31/02	12/31/01	9/30/01	6/30/01	Average
Net Effective Rents Related to Re-Leased Space:					
Number of lease transactions (signed leases)	15	31	26	23	24
Rentable square footage leased	78,844	894,865	285,241	153,507	353,114
Average per rentable square foot over the lease term:					
Base rent	$ 6.95	$ 3.52	$ 4.71	$ 5.84	$ 5.26
Tenant improvements	(1.10)	(0.24)	(0.38)	(0.27)	(0.50)
Leasing commissions	(0.21)	(0.10)	(0.11)	(0.15)	(0.14)
Rent concessions	--	--	--	--	--
Effective rent	$ 5.64	$ 3.18	$ 4.22	$ 5.42	$ 4.62
Expense stop (1)	(0.72)	(0.18)	(0.30)	(0.49)	(0.42)
Equivalent effective net rent	$ 4.92	$ 3.00	$ 3.92	$ 4.93	$ 4.19
Average term in years	4.1	2.2	3.3	2.5	3.0
Capital Expenditures Related to Re-leased Space:					
Tenant Improvements:					
Total dollars committed under signed leases	$ 386,263	$ 661,591	$ 606,380	$ 175,777	$ 457,503
Rentable square feet	78,844	894,865	285,241	153,507	353,114
Per rentable square foot	$ 4.90	$ 0.74	$ 2.13	$ 1.15	$ 1.30
Leasing Commissions:					
Total dollars committed under signed leases	$ 44,100	$ 257,010	$ 87,034	$ 63,679	$ 112,956
Rentable square feet	78,844	894,865	285,241	153,507	353,114
Per rentable square foot	$ 0.56	$ 0.29	$ 0.31	$ 0.41	$ 0.32
Total:					
Total dollars committed under signed leases	$ 430,363	$ 918,601	$ 693,414	$ 239,456	$ 570,458
Rentable square feet	78,844	894,865	285,241	153,507	353,114
Per rentable square foot	$ 5.46	$ 1.03	$ 2.43	$ 1.56	$ 1.62
Rental Rate Trends:					
Average final rate with expense pass throughs	$ 6.99	$ 3.58	$ 4.85	$ 5.73	$ 5.29
Average first year cash rental rate	$ 6.69	$ 3.49	$ 4.60	$ 5.75	$ 5.13
Percentage (decrease)/increase	(4.2)%	(2.3)%	(5.1)%	0.4%	(2.9)%

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

	Retail Leasing Statistics Three Months Ended				
	3/31/02	12/31/01	9/30/01	6/30/01	Average
Net Effective Rents Related to Re-Leased Space:					
Number of lease transactions (signed leases)	12	12	9	14	12
Rentable square footage leased	59,649	26,019	40,283	21,072	36,756
Average per rentable square foot over the lease term:					
Base rent	$ 25.66	$ 15.75	$ 16.33	$ 22.84	$ 20.15
Tenant improvements	(1.87)	(0.63)	(1.49)	(0.66)	(1.16)
Leasing commissions	(0.35)	(0.82)	(0.75)	(0.57)	(0.62)
Rent concessions	(0.02)	--	--	--	(0.01)
Effective rent	$ 23.42	$ 14.30	$ 14.09	$ 21.61	$ 18.35
Expense stop (1)	--	--	--	--	--
Equivalent effective net rent	$ 23.42	$ 14.30	$ 14.09	$ 21.61	$ 18.35
Average term in years	6.5	6.7	8.8	5.3	6.8
Capital Expenditures Related to Re-leased Space:					
Tenant Improvements:					
Total dollars committed under signed leases	$ 738,605	$ 148,860	$ 526,500	$ 121,713	$ 383,919
Rentable square feet	59,649	26,019	40,283	21,072	36,756
Per rentable square foot	$ 12.38	$ 5.72	$ 13.07	$ 5.78	$ 10.45
Leasing Commissions:					
Total dollars committed under signed leases	$ 61,981	$ 73,314	$ 196,296	$ 61,537	$ 98,282
Rentable square feet	59,649	26,019	40,283	21,072	36,756
Per rentable square foot	$ 1.04	$ 2.82	$ 4.87	$ 2.92	$ 2.67
Total:					
Total dollars committed under signed leases	$ 800,586	$ 222,174	$ 722,796	$ 183,250	$ 482,201
Rentable square feet	59,649	26,019	40,283	21,072	36,756
Per rentable square foot	$ 13.42	$ 8.54	$ 17.94	$ 8.70	$ 13.12
Rental Rate Trends:					
Average final rate with expense pass throughs	$ 18.25	$ 14.16	$ 11.28	$ 17.99	$ 15.42
Average first year cash rental rate	$ 23.54	$ 16.24	$ 14.82	$ 21.51	$ 19.03
Percentage increase	28.9%	14.7%	31.4%	19.6%	23.4%

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

The following tables set forth scheduled lease expirations at our wholly owned in-service properties (excluding apartment units) as of March 31, 2002, assuming no tenant exercises renewal options.

Office Properties:

Lease Expiring	Number of Leases Expiring	Rentable Square Feet Subject to Expiring Leases	Percentage of Leased Square Footage Represented by Expiring Leases	Annual Rents Under Expiring Leases (1)	Average Annual Rental Rate Per Square Foot for Expirations	Percentage of Leased Rents Represented by Expiring Leases
				($ in thousands)		
2002	632	2,817,270	12.2%	$ 46,969	$16.67	11.9%
2003	549	3,454,440	15.1%	59,785	17.31	15.1%
2004	497	2,907,224	12.6%	52,347	18.01	13.2%
2005	413	3,104,392	13.5%	54,093	17.42	13.7%
2006	313	2,799,525	12.2%	50,280	17.96	12.7%
2007	97	1,368,541	5.9%	21,137	15.44	5.3%
2008	78	1,824,503	7.9%	28,934	15.86	7.3%
2009	22	711,208	3.1%	12,327	17.33	3.1%
2010	41	1,394,039	6.1%	24,623	17.66	6.2%
2011	39	1,344,417	5.8%	22,822	16.98	5.8%
Thereafter	64	1,279,727	5.6%	22,757	17.78	5.7%
	2,745	23,005,286	100.0%	$396,074	$17.22	100.0%

Industrial Properties:

Lease Expiring	Number of Leases Expiring	Rentable Square Feet Subject to Expiring Leases	Percentage of Leased Square Footage Represented by Expiring Leases	Annual Rents Under Expiring Leases (1)	Average Annual Rental Rate Per Square Foot for Expirations	Percentage of Leased Rents Represented by Expiring Leases
				($ in thousands)		
2002	138	1,763,116	19.5%	$ 8,225	$ 4.67	19.1%
2003	91	1,157,795	12.8%	6,104	5.27	14.1%
2004	94	2,567,310	28.4%	10,372	4.04	24.0%
2005	43	713,572	7.9%	4,187	5.87	9.7%
2006	38	781,946	8.7%	4,589	5.87	10.6%
2007	19	1,179,641	13.1%	4,932	4.18	11.4%
2008	7	214,340	2.4%	1,394	6.50	3.2%
2009	6	268,813	3.0%	1,907	7.09	4.4%
2010	3	46,508	0.5%	329	7.07	0.8%
2011	1	33,555	0.4%	159	4.74	0.4%
Thereafter	10	297,519	3.3%	987	3.32	2.3%
	450	9,024,115	100.0%	$ 43,185	$ 4.79	100.0%

(1) Annual Rents Under Expiring Leases are March 2002 rental revenue (base rent plus operating expense pass-throughs) multiplied by 12.

Retail Properties:

Lease Expiring	Number of Leases Expiring	Rentable Square Feet Subject to Expiring Leases	Percentage of Leased Square Footage Represented by Expiring Leases	Annual Rents Under Expiring Leases (1)	Average Annual Rental Rate Per Square Foot for Expirations	Percentage of Leased Rents Represented by Expiring Leases
				($ in thousands)		
2002	43	122,465	7.8%	$ 1,901	$15.52	5.8%
2003	38	102,067	6.5%	2,372	23.24	7.3%
2004	39	208,315	13.2%	2,268	10.89	7.0%
2005	41	95,027	6.0%	2,391	25.16	7.3%
2006	36	103,317	6.5%	3,005	29.09	9.2%
2007	25	96,990	6.1%	1,734	17.88	5.3%
2008	24	120,168	7.6%	3,472	28.89	10.7%
2009	21	168,355	10.7%	3,832	22.76	11.8%
2010	18	97,372	6.2%	2,531	25.99	7.8%
2011	20	108,418	6.9%	2,230	20.57	6.9%
Thereafter	22	355,906	22.5%	6,817	19.15	20.9%
	327	1,578,400	100.0%	$ 32,553	$20.62	100.0%

Total:

Lease Expiring	Number of Leases Expiring	Rentable Square Feet Subject to Expiring Leases	Percentage of Leased Square Footage Represented by Expiring Leases	Annual Rents Under Expiring Leases (1)	Average Annual Rental Rate Per Square Foot for Expirations	Percentage of Leased Rents Represented by Expiring Leases
				($ in thousands)		
2002	813	4,702,851	14.0%	$ 57,095	$12.14	12.1%
2003	678	4,714,302	14.0%	68,261	14.48	14.4%
2004	630	5,682,849	16.9%	64,987	11.44	13.8%
2005	497	3,912,991	11.6%	60,671	15.51	12.9%
2006	387	3,684,788	11.0%	57,874	15.71	12.3%
2007	141	2,645,172	7.9%	27,803	10.51	5.9%
2008	109	2,159,011	6.4%	33,800	15.66	7.2%
2009	49	1,148,376	3.4%	18,066	15.73	3.8%
2010	62	1,537,919	4.6%	27,483	17.87	5.8%
2011	60	1,486,390	4.4%	25,211	16.96	5.3%
Thereafter	96	1,933,152	5.8%	30,561	15.81	6.5%
	3,522	33,607,801	100.0%	$471,812	$14.04	100.0%

(1) Annual Rents Under Expiring Leases are March 2002 rental revenue (base rent plus operating expense pass-throughs) multiplied by 12.

Inflation

In the last five years, inflation has not had a significant impact on us because of the relatively low inflation rate in our geographic areas of operation. Most of the leases require the tenants to pay their share of increases in operating expenses, including common area maintenance, real estate taxes and insurance, thereby reducing our exposure to inflation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The effects of potential changes in interest rates are discussed below. Our market risk discussion includes "forward-looking statements" and represents an estimate of possible changes in fair value or future earnings that would occur assuming hypothetical future movements in interest rates. These disclosures are not precise indicators of expected future losses, but only indicators of reasonably possible losses. As a result, actual future results may differ materially from those presented. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources" for a description of our accounting policies and other information related to these financial instruments.

To meet in part our long-term liquidity requirements, we borrow funds at a combination of fixed and variable rates. Borrowings under our revolving loans bear interest at variable rates. Our long-term debt, which consists of long-term financings and the issuance of debt securities, typically bears interest at fixed rates. In addition, we have assumed fixed rate and variable rate debt in connection with acquiring properties. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, from time to time we enter into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We do not hold or issue these derivative contracts for trading or speculative purposes.

Certain Variable Rate Debt. As of March 31, 2002, the Company had approximately $268.3 million of variable rate debt outstanding that was not protected by interest rate hedge contracts. If the weighted average interest rate on this variable rate debt is 100 basis points higher or lower during the 12 months ended March 31, 2002, our interest expense would be increased or decreased approximately $2.7 million.

Interest Rate Hedge Contracts. For a discussion of our interest rate hedge contract in effect at March 31, 2002, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources--Capitalization." If interest rates increase by 100 basis points, the aggregate fair market value of this interest rate hedge contract as of March 31, 2002 would increase by approximately $38,283. If interest rates decrease by 100 basis points, the aggregate fair market value of this interest rate hedge contract as of March 31, 2002 would decrease by approximately $38,431.

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

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.

By: /s/ Ronald P. Gibson

Ronald P. Gibson
President and Chief Executive Officer

By: /s/ Carman J. Liuzzo

Carman J. Liuzzo
Chief Financial Officer
(Principal Accounting Officer)

Date: May 14, 2002