

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, 1997

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 35,877,715 shares outstanding as of May 13, 1997.

HIGHWOODS PROPERTIES, INC.
QUARTERLY REPORT FOR THE PERIOD ENDED MARCH 31, 1997
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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 Company's 1996 Annual Report on Form 10-K.

HIGHWOODS PROPERTIES, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	MARCH 31, 1997 (UNAUDITED)	DECEMBER 31, 1996
ASSETS		
Real estate assets, at cost:		
Land.....	\$ 261,285	\$ 237,090
Buildings and improvements.....	1,362,029	1,152,990
Development in process.....	38,393	28,858
Furniture, fixtures and equipment.....	2,269	2,096
	1,663,976	1,421,034
Less -- accumulated depreciation	(52,028)	(43,160)
Net real estate assets.....	1,611,948	1,377,874
Cash and cash equivalents.....	8,246	11,070
Restricted cash.....	9,099	8,539
Accounts receivable.....	9,697	9,039
Advances to subsidiaries.....	3,538	2,406
Accrued straight line rents receivable.....	7,437	6,185
Other assets:		
Deferred leasing costs.....	11,787	9,601
Deferred financing costs.....	21,950	21,789
Prepaid expenses and other.....	4,662	3,901
	38,399	35,291
Less -- accumulated amortization.....	(8,158)	(6,964)
	30,241	28,327
	\$1,680,206	\$ 1,443,440
LIABILITIES AND STOCKHOLDERS' EQUITY		
Mortgages and notes payable.....	\$ 589,053	\$ 555,876
Accounts payable, accrued expenses and other liabilities.....	30,481	27,600
Total liabilities.....	619,534	583,476
Minority interest.....	169,752	89,617
Stockholders' equity:		
Preferred stock \$.01 par value, authorized 10,000,000 shares; issued and outstanding 125,000 shares of Series A Cumulative Redeemable Preferred Shares (liquidation preference of \$1,000 per share) at March 31, 1997.....	125,000	--
Common stock, \$.01 par value, authorized 100,000,000 shares; issued and outstanding 35,857,950 at March 31, 1997 and 35,636,155 at December 31, 1996.....	359	356
Additional paid-in capital.....	781,648	780,562
Distributions in excess of net income.....	(16,087)	(10,571)
Total stockholders' equity.....	890,920	770,347
	\$1,680,206	\$ 1,443,440

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,	
	1997	1996
REVENUE:		
Rental property.....	\$56,055	\$23,385
Interest and other income.....	2,266	372
	58,321	23,757
OPERATING EXPENSES:		
Rental property.....	15,342	6,154
Depreciation and amortization.....	9,310	3,716
Interest expense:		
Contractual.....	11,460	3,542
Amortization of deferred financing costs.....	575	409
	12,035	3,951
General and administrative.....	2,080	934
Income before minority interest and extraordinary item.....	19,554	9,002
MINORITY INTEREST.....	(3,129)	(1,571)
Income before extraordinary item.....	16,425	7,431
EXTRAORDINARY ITEM -- LOSS ON EARLY EXTINGUISHMENT OF DEBT.....	(3,337)	--
Net income.....	13,088	7,431
Dividends on preferred shares.....	(1,407)	--
Net income available for common stockholders.....	\$11,681	\$ 7,431
NET INCOME (LOSS) PER COMMON SHARE:		
Income before extraordinary item.....	\$.43	\$.38
Extraordinary item -- loss on early extinguishment of debt.....	(0.10)	\$ --
Net income.....	\$ 0.33	\$ 0.38
Weighted average shares outstanding.....	35,250	19,406

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

HIGHWOODS PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED AND IN THOUSANDS)

	THREE MONTHS ENDED MARCH 31, 1997	1996
OPERATING ACTIVITIES:		
Net income.....	\$ 13,088	\$ 7,431
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	9,885	4,125
Minority interest in income.....	2,493	1,571
Loss on early extinguishment of debt.....	3,973	--
Changes in operating assets and liabilities.....	(588)	(1,682)
Net cash provided by operating activities.....	28,851	11,445
INVESTING ACTIVITIES:		
Additions to real estate assets.....	(24,594)	(13,643)
Proceeds from disposition of real estate assets.....	--	900
Cash paid in exchange for partnership net assets.....	(5,081)	--
Other.....	(4,487)	(591)
Net cash used in investing activities.....	(34,162)	(13,334)
FINANCING ACTIVITIES:		
Distributions paid.....	(19,147)	(10,399)
Repayment of mortgages and notes payable.....	(110,093)	(1,018)
Payment of prepayment penalties.....	(3,973)	--
Borrowings on mortgages and notes payable.....	14,000	15,000
Net proceeds from the sale of common stock.....	57	--
Net proceeds from sale of preferred stock.....	121,804	--
Payment of deferred financing costs.....	(161)	(149)
Net cash provided by financing activities.....	2,487	3,434
Net (decrease) increase in cash and cash equivalents.....	(2,824)	1,545
Cash and cash equivalents at beginning of the period.....	11,070	6,838
Cash and cash equivalents at end of the period.....	\$ 8,246	\$ 8,383
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest.....	\$ 8,414	\$ 4,005

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

HIGHWOODS PROPERTIES, INC.
CONSOLIDATED STATEMENT 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 unit holders of the Operating Partnership or acquired subject to mortgage notes payable:

	THREE MONTHS ENDED MARCH 31, 1997
ASSETS:	
Rental property and equipment, net.....	\$213,090
LIABILITIES:	
Mortgages and notes payable assumed.....	129,270
Net assets.....	\$ 83,820

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 1997

(UNAUDITED)

1. BASIS OF PRESENTATION The consolidated financial statements include the accounts of Highwoods Properties, Inc. (the "Company"), Highwoods/Forsyth Limited Partnership (the "Operating Partnership") and the following subsidiaries:

Highwoods/Florida GP Corp.

Highwoods Realty GP Corp.

Highwoods/Tennessee Properties, Inc.

Highwoods/Florida Holdings GP, L.P.

AP-GP Southeast Portfolio Partners, L.P. Highwoods/Tennessee Holdings GP, L.P.

Highwoods/Tennessee Holdings, L.P.

AP Southeast Portfolio Partners, L.P.

Highwoods/Florida Holdings, L.P.

Forsyth Properties Services, Inc.

Highwoods Services, Inc.

Southeast Realty Options Corp.

The Company's investment in Highwoods Services, Inc. and Forsyth Properties Services, Inc. (the "Service Companies") 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 Section 856 through 860 of the Internal Revenue Code of 1986, as amended.

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, EARNINGS PER SHARE, which is required to be adopted on December 31, 1997. At that time, the Company will be required to change the method currently used to compute earnings per share and to restate all prior periods. Under the new requirements for calculating primary earnings per share, the dilutive effect of stock options will be excluded. The impact of Statement 128 on the calculation of primary and fully diluted earnings per share for these quarters is not material. Minority interest in the Company represents the limited partnership interest ("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 1996 Annual Report on Form 10-K.

HIGHWOODS PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

2. PRO FORMA INFORMATION The following unaudited pro forma information has been prepared assuming the following transactions all occurred as of January 1, 1996; (1) the 1997 acquisition of the Century Center and Anderson Properties portfolios and (2) the February 1997 issuance of \$125,000,000 of Preferred Stock. In connection with these transactions, the Company issued Units totaling 2,676,273 in 1997, which were recorded at their fair market value upon the closing date of the transactions.

	PRO FORMA QUARTER ENDED MARCH 31, 1997	PRO FORMA QUARTER ENDED MARCH 31, 1996
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	
Revenues.....	\$58,966	\$29,783
Net Income before Extraordinary Item.....	\$17,493	\$ 9,784
Net Income.....	\$14,156	\$ 6,447
Net Income per Common Share.....	\$.33	\$.19

The pro forma information is not necessarily indicative of what the Company's results of operations would have been if the transactions had occurred at the beginning of each period presented. Additionally, the pro forma information does not purport to be indicative of the Company's results of operations for future periods.

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 MARCH 31, 1997

Revenues from rental operations increased \$32.7 million, or 140%, from \$23.4 million for the three months ended March 31, 1996 to \$56.1 million for the comparable 1997 period. The increase is primarily a result of the acquisition of 7.3 million square feet of office and industrial properties, the completion of 984,000 square feet of development activity during 1996 and the addition of 3.2 million square feet in the first quarter of 1997 from the acquisition of the Anderson Properties and Century Center portfolios. (See " -- Acquisition of Century Center and Anderson Properties Portfolios.") The Company's portfolio increased from 9.2 million square feet at March 31, 1996 to 21.2 million square feet at March 31, 1997. Same property revenues, which are the revenues of the 190 properties owned on January 1, 1996, increased 1% for the three months ended March 31, 1997, compared to the same three months of 1996. Expected vacancies in two of the Company's properties offset a 3% increase in the revenues of the other 188 properties.

During the three months ended March 31, 1997, 167 leases representing 1,351,000 square feet of office and industrial space commenced at an average rate per square foot which was 5.4% higher than the average rate per square foot on the expired leases.

Interest and other income increased \$1.9 million from \$400,000 in 1996 to \$2.3 million in 1997. The increase is related to the receipt of \$800,000 in lease termination fees in the first quarter of 1997 and an increase in third-party management fees derived from the management contracts assumed in the merger with Eakin & Smith, Inc. on April 1, 1996.

Rental operating expenses increased \$9.1 million or 147% from \$6.2 million in 1996 to \$15.3 million in 1997. The increase is a result of the addition of 12.0 million square feet through a combination of acquisitions and developments during 1996 and the first quarter of 1997. Rental operating expenses as a percentage of related revenues increased from 26.3% in 1996 to 27.4% in 1997. 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 March 31, 1997 and 1996 was \$9.3 million and \$3.7 million, respectively. The increase of \$5.6 million, or 151%, is due to a 155% average increase in depreciable assets. Interest expense increased \$8.0 million or 200%, from \$4.0 million in 1996 to \$12.0 million in 1997. The increase is attributable to the 201% average increase in outstanding debt for the quarter related to the Company's acquisition activities. Interest expense for the three months ended March 31, 1997 and 1996 included \$575,000 and \$409,000, 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 decreased from 4.0% of rental revenue in 1996 to 3.7% in 1997. The decrease is attributable to the realization of the economies of scale related to the acquisition of the 5.7-million square foot Crocker portfolio, which was completed in September 1996.

Net income before minority interest and extraordinary item equaled \$19.6 million and \$9.0 million for the three-month periods ended March 31, 1997 and 1996, respectively. The Company's net income allocated to minority interest totaled \$3.1 million and \$1.6 million for the three-month periods ended March 31, 1997 and 1996, respectively. The Company incurred an extraordinary loss in the first quarter of 1997 of \$3.3 million related to the early extinguishment of debt assumed in the acquisition of the Anderson Properties and Century Center portfolios. The Company also accrued \$1.4 million in dividends for the \$125.0 million of preferred stock that the Company issued in February 1997 (see " -- Liquidity and Capital Resources" below).

LIQUIDITY AND CAPITAL RESOURCES

For the three months ended March 31, 1997, cash provided by operating activities increased by \$17.5 million or 154% to \$28.9 million, as compared to \$11.4 million for the same period in 1996. The increase is primarily due to the increase in net income resulting from the Company's property acquisitions in 1996 and the first quarter of 1997. Cash used for investing activities increased by \$20.9 million or 157% to \$34.2 million for the first three months of 1997, as compared to \$13.3 million for the same 1996 period. The increase is attributable to the Company's ongoing acquisition and development of suburban office and industrial properties. Cash provided by financing activities decreased by \$900,000 or 26% to \$2.5 million for the first three months of 1997, as compared to \$3.4 million for the same period in 1996. During the first quarter of 1997, cash provided by financing activities consisted, primarily, of \$121.8 million in net proceeds from the sale of preferred stock, which was offset by net payments of \$5 million to reduce existing indebtedness and \$105 million to pay off the assumed indebtedness associated with the Century Center and Anderson Transactions (defined below). Additionally, payments of distributions increased by \$8.7 million to \$19.1 million for the first three months of 1997, as compared with \$10.4 million for the same period in 1996. The increase is due to the greater number of shares outstanding and a 7% increase in the distribution rate.

On February 7, 1997, the Company issued 125,000 shares of 8 5/8% perpetual preferred stock for \$1,000 per share. The preferred stock is not redeemable prior to February 2027. The preferred stock is not subject to any sinking fund or mandatory redemption and is not convertible into any other securities of the Company.

The Company's total indebtedness at March 31, 1997, totaled \$589.1 million and was comprised of \$321.4 million of secured indebtedness with an average rate of 8.0% and \$267.7 million of unsecured indebtedness with an average rate of 7.1%. All of the mortgage and notes payable outstanding at March 31, 1997 were either fixed rate obligations or variable rate obligations covered by interest rate protection agreements (see below).

Based on the Company's total market capitalization of \$2.1 billion at March 31, 1997, (at the March 31, 1997 stock price of \$33.50 and assuming the redemption for shares of Common Stock of the 6,916,000 Units of minority interest in the Operating Partnership), the Company's debt represented approximately 28% of its total market capitalization.

To protect the Company from increases in interest expense due to changes in the variable rate, the Company: (i) purchased an interest rate cap limiting its exposure to an increase in interest rates (one-month LIBOR plus 135 basis points) to 7.60% with respect to \$80 million of the Company's \$280 million unsecured revolving loan (the "Revolving Loan"), under which the Company had \$29 million outstanding at March 31, 1997, and (ii) entered into interest rate swaps that limit its exposure to an increase in the interest rates to 7.24% in connection with the \$34 million of variable rate mortgages. The interest rate on all such variable rate debt is adjusted at monthly intervals, subject to the Company's interest rate protection program. Payments received from the counterparties under the interest rate protection agreements were \$0 and \$2,000 for the three months ended March 31, 1997 and 1996, respectively. 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 rate under the Revolving Loan and the variable rate mortgages, even if such rate 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.

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. 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 additional 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.

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.

FUNDS FROM OPERATIONS AND CASH AVAILABLE FOR DISTRIBUTIONS The Company considers 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. Funds from Operations 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. Funds from Operations 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. Funds from Operations 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.

Funds from operations 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, 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 months ended March 31, 1997 and 1996 are summarized in the following table (in thousands):

	QUARTER ENDED MARCH 31,	
	1997	1996
FUNDS FROM OPERATIONS:		
Income before minority interest and extraordinary item.....	\$19,554	\$ 9,002
Add (deduct):		
Dividends to preferred shareholders.....	(1,407)	--
Depreciation and amortization.....	9,310	3,716
Third-party service company cash flow.....	--	150
FUNDS FROM OPERATIONS BEFORE MINORITY INTEREST.....	27,457	12,868
CASH AVAILABLE FOR DISTRIBUTION:		
Add (deduct):		
Rental income from straight-line rents.....	(1,230)	(416)
Amortization of deferred financing costs.....	575	409
Non-incremental revenue generating capital expenditures (1):		
Building improvements paid.....	(1,070)	(474)
Second generation tenant improvements paid.....	(1,371)	(750)
Second generation lease commissions paid.....	(1,091)	(112)
CASH AVAILABLE FOR DISTRIBUTION.....	\$23,270	\$11,525
Weighted average shares/Units outstanding (2).....	41,758	23,139
DIVIDEND PAYOUT RATIO:		
Funds from operations.....	73.0%	80.9%
Cash available for distribution.....	86.1%	90.3%

(1) Amounts represent cash expenditures.

(2) Assumes redemption of Units for shares of Common Stock. Minority interest Unit holders and the stockholders of the Company share equally on a per share and per Unit basis; therefore, the resultant per share information is unaffected by the conversion. On April 29, 1997, the Company's Board of Directors declared a dividend of \$.48 per share (\$1.92 on an annualized basis) payable on May 21, 1997 to stockholders of record on May 9, 1997.

ACQUISITION OF CENTURY CENTER AND ANDERSON PROPERTIES PORTFOLIOS CENTURY CENTER TRANSACTION

On January 9, 1997, the Company acquired the 17-building Century Center Office Park, four affiliated industrial properties and 20 acres of land for development located in suburban Atlanta, Georgia (the "Century Center Transaction"). The properties total 1.6 million rentable square feet and, as of March 31, 1997, were 99% leased. The cost of the Century Center Transaction was \$55.6 million in Units (valued at \$29.25 per Unit, the market value of a share of Common Stock as of the signing of a letter of intent for the Century Center Transaction), the assumption of \$19.4 million of secured debt and a cash payment of \$53.1 million, drawn from the Company's Revolving Loan. All Units issued in the transaction are subject to restrictions on transfer and redemption. Such restrictions are scheduled to expire over a three-year period in equal annual installments commencing one year from the date of issuance.

Century Center Office Park is located on approximately 77 acres, of which approximately 61 acres are controlled under long-term fixed rental ground leases that expire in 2058. The rent under the leases is approximately \$180,000 per year with scheduled 10% increases in 1999 and 2009. The leases do not contain a right to purchase the subject land.

The Company estimates a first-year net operating income from the properties acquired in the Century Center Transaction of \$13.3 million. See " -- Disclosure Regarding Forward-looking Statements" below.

ANDERSON TRANSACTION

On February 12, 1997, the Company acquired a portfolio of industrial, office and undeveloped properties in Atlanta from Anderson Properties, Inc. and affiliates (the "Anderson Transaction"). The Anderson Transaction involved 22 industrial properties and six office properties totaling 1.6 million rentable square feet, three industrial development projects totaling 402,000 square feet and 137 acres of land for development. The in-service properties were 95% leased as of March 31, 1997. The development projects have a cost-to-date of \$4.0 million and are expected to be completed during 1997.

The cost of the Anderson Transaction consisted of the issuance of \$22.9 million of Units (valued at \$29.25 per Unit, the market value of a share of Common Stock as of the signing of a letter of intent relating to the transaction), the assumption of \$7.8 million of mortgage debt and a cash payment of \$37.7 million. The cash amount does not include \$10.7 million expected to be paid to complete the three development projects. Approximately \$5.5 million of the Units are newly created Class B Units, which differ from other Units in that they are not eligible for cash distributions from the Operating Partnership. The Class B Units will convert to regular Units in 25% annual installments commencing one year from the date of issuance. Prior to such conversion, such Units will not be redeemable for cash or Common Stock. All other Units issued in the transaction are also subject to restrictions on transfer or redemption. Such lock-up restrictions will expire over a three-year period in equal annual installments commencing one year from the date of issuance.

The Company estimates a first-year net operating income from the properties acquired in the Anderson Transaction of \$5.7 million. See "Disclosure Regarding Forward-looking Statements" below.

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, 1996.

PROPERTY INFORMATION

The following table sets forth certain information with respect to the Company's properties as of March 31, 1997:

	RENTABLE SQUARE FEET	NUMBER OF PROPERTIES	PERCENT LEASED/ PRE-LEASED
IN-SERVICE:			
Office.....	13,972,000	208	94%
Industrial.....	7,030,000	137	90%
Total.....	21,002,000	345	93%
UNDER DEVELOPMENT:			
Office.....	947,000	14	51%
Industrial.....	595,000	6	26%
Total.....	1,542,000	20	41%
TOTAL:			
Office.....	14,919,000	222	
Industrial.....	7,625,000	143	
Total.....	22,544,000	365	

The following table sets forth certain information with respect to the Company's properties under development as of March 31, 1997:

NAME	LOCATION	SQUARE FOOTAGE	BUDGETED COST	COST AT 3/31/97	PRE-LEASING PERCENTAGE	ESTIMATED COMPLETION
OFFICE:						
Center Point V.....	Columbia	19,000	\$ 1,700,000	\$ 1,014,000	64%	2Q97
Southwind III.....	Memphis	69,000	7,000,000	1,072,000	67	4Q97
Colonnade.....	Memphis	89,000	9,400,000	--	28	1Q98
Highwoods Plaza II.....	Nashville	104,000	10,400,000	3,600,000	4	3Q97
Two AirPark East.....	Piedmont Triad	57,000	4,600,000	2,400,000	0	2Q97
AirPark East-Simplex...	Piedmont Triad	12,000	900,000	400,000	60	2Q97
RMIC.....	Piedmont Triad	90,000	8,000,000	--	100	2Q98
Sycamore.....	Research Triangle	70,000	6,400,000	3,000,000	89	2Q97
North Park.....	Research Triangle	43,000	4,000,000	2,800,000	38	2Q97
Rexwood V.....	Research Triangle	60,000	7,100,000	1,600,000	0	4Q97
ClinTrials.....	Research Triangle	185,000	21,500,000	3,700,000	100	2Q98
Grove Park I.....	Richmond	20,000	1,600,000	1,000,000	0	3Q97
Highwoods Two.....	Richmond	74,000	7,000,000	2,600,000	11	3Q97
West Shore III.....	Richmond	55,000	5,300,000	1,600,000	43	3Q97
OFFICE TOTAL OR WEIGHTED AVERAGE.....		947,000	\$ 94,900,000	\$24,786,000	51%	
INDUSTRIAL PROPERTIES						
Chastain Place.....	Atlanta	108,000	\$ 4,200,000	\$ 3,000,000	10%	2Q97
TradePort-1.....	Atlanta	87,000	3,000,000	--	0	3Q97
TradePort-2.....	Atlanta	87,000	3,000,000	--	0	3Q97
Newpoint.....	Atlanta	119,000	4,500,000	1,000,000	0	3Q97
R.F. Micro Devices.....	Piedmont Triad	49,000	7,700,000	1,600,000	100	4Q97
Highwoods Airport Center.....	Richmond	145,000	5,500,000	2,600,000	66	2Q97
INDUSTRIAL TOTAL OR WEIGHTED AVERAGE.....		595,000	\$ 27,900,000	\$ 8,200,000	26%	
COMPANY TOTAL OR WEIGHTED AVERAGE.....		1,542,000	\$ 122,800,000	\$32,986,000	41%	

The following tables set forth certain information about the Company's leasing activities for the three months ended March 31, 1997 and 1996.

	1997		1996	
	OFFICE	INDUSTRIAL	OFFICE	INDUSTRIAL
NET EFFECTIVE RENTS RELATED TO RE-LEASED SPACE:				
Number of lease transactions (signed leases).....	112	55	58	73
Rentable square footage leased.....	738,461	612,175	130,312	669,007
Average per rentable square foot over the lease term:				
Base rent.....	\$ 15.47	\$ 5.12	\$ 16.21	\$ 4.55
Tenant improvements.....	(1.08)	(0.20)	(1.49)	(0.18)
Leasing commissions.....	(0.40)	(0.15)	(0.35)	(0.08)
Rent concessions.....	(0.02)	(0.01)	--	--
Effective rent.....	\$ 13.97	\$ 4.76	\$ 14.37	\$ 4.29
Expense stop.....	(3.62)	(0.22)	(4.23)	(0.31)
Equivalent effective net rent.....	\$ 10.35	\$ 4.54	\$ 10.14	\$ 3.98
Average term in years.....	5	3	4	2
CAPITAL EXPENDITURES RELATED TO RE-LEASED SPACE:				
Tenant improvements:				
Total dollars committed under signed leases.....	\$3,745,604	\$ 398,591	\$723,053	\$ 456,808
Rentable square feet.....	738,461	612,175	130,312	669,007
Per rentable square foot.....	\$ 5.07	\$ 0.65	\$ 5.55	\$ 0.68
Leasing commissions:				
Total dollars committed under signed leases.....	\$1,395,209	\$ 305,492	\$156,264	\$ 158,537
Rentable square feet.....	738,461	612,175	130,312	669,007
Per rentable square foot.....	\$ 1.89	\$ 0.50	\$ 1.20	\$ 0.24
Total:				
Total dollars committed under signed leases.....	\$5,140,813	\$ 704,083	\$879,317	\$ 615,345
Rentable square feet.....	738,461	612,175	130,312	669,007
Per rentable square foot.....	\$ 6.96	\$ 1.15	\$ 6.75	\$ 0.92
RENTAL RATE TRENDS:				
Number of leases commenced during period.....	112	55	58	69
Average final rate with expense pass throughs.....	\$ 13.59	\$ 5.12	\$ 15.20	\$ 4.45
Average first year cash rental rate.....	\$ 14.36	\$ 5.35	\$ 15.75	\$ 4.66
Percentage increase.....	5.67%	4.49%	3.62%	4.72%

The following tables set forth scheduled lease expirations for executed leases as of March 31, 1997 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)	AVERAGE ANNUAL RENTAL RATE FOR EXPIRATIONS (1)	PERCENTAGE OF LEASED RENTS REPRESENTED BY EXPIRING LEASES
Remainder of 1997	398	1,498,221	11.5%	\$ 21,069,902	\$ 14.06	10.9%
1998	346	2,173,248	16.7	31,148,453	14.33	16.1
1999	358	1,815,970	14.0	26,651,573	14.68	13.7
2000	291	2,006,635	15.5	30,735,992	15.32	15.8
2001	246	1,900,736	14.6	31,454,164	16.55	16.2
2002	120	1,109,540	8.6	17,210,090	15.51	8.9
2003	44	814,967	6.3	12,379,650	15.19	6.4
2004	18	299,578	2.3	4,676,802	15.61	2.4
2005	15	420,356	3.2	4,539,398	10.80	2.3
2006	13	550,512	4.2	7,488,277	13.60	3.9
Thereafter	24	405,528	3.1	6,525,976	16.09	3.4
Total or average	1,873	12,995,291	100.0%	\$193,880,277	\$ 14.92	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)	AVERAGE ANNUAL RENTAL RATE FOR EXPIRATIONS (1)	PERCENTAGE OF LEASED RENTS REPRESENTED BY EXPIRING LEASES
Remainder of 1997	192	1,498,955	23.5%	\$ 7,407,487	\$ 4.94	22.0%
1998	151	1,208,786	18.9	6,677,064	5.52	19.9
1999	144	1,437,649	22.5	7,367,167	5.12	21.9
2000	70	929,625	14.6	5,412,980	5.82	16.1
2001	54	603,166	9.4	3,677,615	6.10	11.0
2002	15	476,789	7.5	1,722,633	3.61	5.1
2003	1	3,375	0.1	18,833	5.58	0.1
2004	4	56,069	0.9	447,992	7.99	1.3
2005	5	38,532	0.6	311,843	8.09	0.9
2006	1	127,600	2.0	575,476	4.51	1.7
Thereafter	0	--	0.0	--	--	0.0
Total or average	637	6,380,546	100.0%	\$ 33,619,090	\$ 5.27	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 -- None
- Item 2. Changes in Securities -- None
- Item 3. Defaults Upon Senior Securities -- None
- Item 4. Submission of Matters to a Vote of Security Holders -- None
- Item 5. Other Information -- None
- Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

EXHIBIT NO.	DESCRIPTION
27	Financial Data Schedule

(b) Reports on Form 8-K During the three months ended March 31, 1997, the Company filed a report on Form 8-K, dated January 9, 1997 (as amended by Form 8-K/A on February 7, 1997 and by Form 8-K/A on March 10, 1997), in connection with the Century Center Transaction and the Anderson Transaction. The Form 8-K, as amended, 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. The Company also filed a report on Form 8-K, dated February 12, 1997, in connection with the issuance of 125,000 8 5/8% Series A Cumulative Redeemable Preferred Shares.

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: May 15, 1997

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
27	Financial Data Schedule

ARTICLE 5

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 1997
PERIOD START	JAN 01 1997
PERIOD END	MAR 31 1997
CASH	17,345,000
SECURITIES	0
RECEIVABLES	13,235,000
ALLOWANCES	0
INVENTORY	0
CURRENT ASSETS	35,242,000
PP&E	1,662,976,000
DEPRECIATION	52,028,000
TOTAL ASSETS	1,680,206,000
CURRENT LIABILITIES	30,481,000
BONDS	589,053,000
PREFERRED MANDATORY	0
PREFERRED	125,000,000
COMMON	359,000
OTHER SE	935,313,000
TOTAL LIABILITY AND EQUITY	1,680,206,000
SALES	56,055,000
TOTAL REVENUES	58,321,000
CGS	15,342,000
TOTAL COSTS	24,652,000
OTHER EXPENSES	2,080,000
LOSS PROVISION	0
INTEREST EXPENSE	12,035,000
INCOME PRETAX	19,554,000
INCOME TAX	0
INCOME CONTINUING	16,425,000
DISCONTINUED	0
EXTRAORDINARY	3,337,000
CHANGES	0
NET INCOME	11,681,000
EPS PRIMARY	.33
EPS DILUTED	.33

End of Filing

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