

# HIGHWOODS PROPERTIES INC

## FORM 424B1

(Prospectus filed pursuant to Rule 424(b)(1))

Filed 6/21/1996

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

**PROSPECTUS SUPPLEMENT**  
(TO PROSPECTUS DATED JUNE 20, 1996)

**10,000,000 SHARES**

**HIGHWOODS PROPERTIES, INC. (LOGO APPEARS HERE)**  
**COMMON STOCK**

Highwoods Properties, Inc. ("Highwoods" or the "Company") is a self-administered and self-managed real estate investment trust ("REIT") that owns and operates a portfolio of 102 suburban office properties and 98 industrial (including 62 service center) properties located in Raleigh-Durham, Winston-Salem, Greensboro and Charlotte, North Carolina; Nashville, Tennessee; and Richmond, Virginia. The Company is the largest full service public real estate company in North Carolina. The Company has entered into a merger agreement with Crocker Realty Trust, Inc. ("Crocker") pursuant to which Highwoods will acquire Crocker's 58 suburban office properties and 12 service center properties located in the Southeastern United States (the "Merger"). Assuming consummation of the Merger, which is expected to occur in the third quarter of 1996, Highwoods will become one of the largest full service real estate operating companies in the Southeast, specializing in the ownership, management, acquisition and development of suburban office and industrial properties.

All of the shares of common stock, par value \$.01 per share, of the Company (the "Common Stock") offered hereby (the "Offering") are being sold by the Company. The Common Stock is listed on the New York Stock Exchange (the "NYSE") under the symbol "HIW." On June 20, 1996, the last reported sale price of the Common Stock on the NYSE was \$26 7/8. See "Price Range of Common Stock and Distribution History."

SEE "RISK FACTORS" BEGINNING ON PAGE S-10 HEREIN AND ON PAGE 4 IN THE ACCOMPANYING PROSPECTUS FOR CERTAIN FACTORS RELEVANT TO AN INVESTMENT IN THE COMMON STOCK.

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

**CRIMINAL OFFENSE.**

[CAPTION]

	PRICE TO PUBLIC	UNDERWRITING DISCOUNT (1)	PROCEEDS TO COMPANY (2)
Per Share.....	\$26.875	\$1.41	\$25.465
Total (3).....	\$268,750,000	\$14,100,000	\$254,650,000

(1) The Company has agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting."

(2) Before deducting estimated expenses payable by the Company of \$750,000.

(3) The Company has granted the Underwriters an option to purchase up to an additional 1,500,000 shares of Common Stock to cover over-allotments. If all of such shares are purchased, the total Price to Public, Underwriting Discount and Proceeds to Company will be \$309,062,500, \$16,215,000 and \$292,847,500, respectively. See "Underwriting."

**THE ATTORNEY GENERAL OF THE STATE OF NEW YORK HAS NOT PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.**

The shares of Common Stock are offered by the several Underwriters, subject to prior sale, when, as and if delivered to and accepted by them, subject to approval of certain legal matters by counsel for the Underwriters. The Underwriters reserve the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that delivery of the Common Stock offered hereby will be made in New York, New York on or about June 26, 1996.

**MERRILL LYNCH & CO.**

**DEAN WITTER REYNOLDS INC.**

**MORGAN STANLEY & CO.  
INCORPORATED**

**PAINWEBBER INCORPORATED**

**PRUDENTIAL SECURITIES INCORPORATED**

**THE ROBINSON-HUMPHREY COMPANY, INC.**

**SCOTT & STRINGFELLOW, INC.**

**The date of this Prospectus Supplement is June 20, 1996.**

(Highwoods logo)

(A map of the southern part of the United States showing the original market areas and expansion markets appear here)

\* ASSUMES COMPLETION OF THE MERGER. NO ASSURANCE CAN BE GIVEN THAT THE MERGER WILL BE CONSUMMATED. SEE "RISK FACTORS" HEREIN AND IN THE PROSPECTUS AND "RECENT DEVELOPMENTS" HEREIN.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE, IN THE OVER-THE- COUNTER MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

## PROSPECTUS SUPPLEMENT SUMMARY

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE MORE DETAILED DESCRIPTIONS AND THE FINANCIAL INFORMATION AND STATEMENTS APPEARING ELSEWHERE IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS OR INCORPORATED HEREIN AND THEREIN BY REFERENCE. UNLESS THE CONTEXT OTHERWISE REQUIRES, THE TERM

(I) "COMPANY" OR "HIGHWOODS" SHALL MEAN HIGHWOODS PROPERTIES, INC., PREDECESSORS OF HIGHWOODS PROPERTIES, INC. AND THOSE ENTITIES OWNED OR CONTROLLED BY HIGHWOODS PROPERTIES, INC., INCLUDING HIGHWOODS/FORSYTH LIMITED PARTNERSHIP (THE "OPERATING PARTNERSHIP"), (II) "CROCKER" SHALL MEAN CROCKER REALTY TRUST, INC., ITS PREDECESSORS AND THOSE ENTITIES OWNED OR CONTROLLED BY CROCKER, (III) "HIGHWOODS PROPERTIES" SHALL MEAN THE 102 SUBURBAN OFFICE AND 98 INDUSTRIAL (INCLUDING 62 SERVICE CENTER) PROPERTIES OWNED BY THE COMPANY, (IV) "CROCKER PROPERTIES" SHALL MEAN THE 58 SUBURBAN OFFICE AND 12 SERVICE CENTER PROPERTIES OWNED BY CROCKER AND (V) "PROPERTIES" SHALL MEAN THE HIGHWOODS PROPERTIES AND THE CROCKER PROPERTIES COMBINED. ALL INFORMATION ABOUT THE PROPERTIES AS OF MARCH 31, 1996 INCLUDES THE SEVEN PROPERTIES ACQUIRED BY THE COMPANY ON APRIL 1, 1996 FROM EAKIN & SMITH, INC. AND THEIR AFFILIATES ("EAKIN & SMITH") AND EXCLUDES INFORMATION ABOUT TWO PROPERTIES PLACED IN SERVICE BY THE COMPANY AFTER MARCH 31, 1996.

## THE COMPANY

### GENERAL

The Company is a self-administered and self-managed REIT that owns and operates a portfolio of 200 properties (the "Highwoods Properties") located in Raleigh-Durham (the "Research Triangle"), Winston-Salem/Greensboro (the "Piedmont Triad") and Charlotte, North Carolina; Nashville, Tennessee; and Richmond, Virginia. The Highwoods Properties consist of 102 suburban office properties and 98 industrial (including 62 service center) properties, contain an aggregate of approximately 10.3 million rentable square feet and are leased to approximately 1,100 tenants. At March 31, 1996, the Highwoods Properties were 94% leased. The Company also owns approximately 215 acres of land for future development. All of the development land is zoned and available for office and industrial development, 178 acres of which have utility infrastructure already in place. The Company conducts substantially all of its activities through, and all of its properties are held directly or indirectly by, Highwoods/Forsyth Limited Partnership (the "Operating Partnership"), of which the Company is the sole general partner.

The Company has entered into a merger agreement with Crocker Realty Trust, Inc. ("Crocker") pursuant to which Highwoods will acquire Crocker's 58 suburban office properties and 12 service center properties (the "Crocker Properties"), which are located in 15 markets throughout the Southeastern United States (the "Merger"). Assuming consummation of the Merger, which is expected to occur in the third quarter of 1996, Highwoods will own an aggregate of 270 suburban office and industrial properties, containing 15.9 million rentable square feet, which were 94% leased at March 31, 1996. The Company believes that the Merger provides Highwoods a unique investment opportunity for future growth by allowing the Company to expand and diversify its operations to growth-oriented markets throughout the Southeast.

### BUSINESS STRATEGY

Since becoming a public company in June 1994, it has been Highwoods' strategy to:

(Bullet) Diversify its initial suburban office portfolio to include industrial and service center properties;

(Bullet) Expand its geographical presence to selected Southeastern markets with growth and demographic characteristics similar to its existing markets;

(Bullet) Effectively manage growth through the acquisition of management expertise along with additional properties;

(Bullet) Maintain a flexible and conservative capital structure; and

(Bullet) Build an efficient, customer service-oriented regional organization.

## RECENT DEVELOPMENTS

### PENDING ACQUISITION OF CROCKER REALTY TRUST, INC.

GENERAL. On April 29, 1996, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Crocker Realty Trust, Inc. As a result of the Merger, Highwoods will acquire 58 suburban office properties

and 12 service center properties located in 15 Southeastern markets in Florida, North Carolina, South Carolina, Tennessee, Georgia, Virginia and Alabama. The Crocker Properties encompass 5.7 million rentable square feet and, at March 31, 1996, were 95% leased. For a description of the properties to be acquired in the Merger, see "Business and Properties -- The Crocker Properties."

Under the terms of the Merger Agreement, the Company will acquire all of the outstanding capital stock of Crocker in exchange for a cash payment of \$11.02 per share, subject to certain adjustments. Based on Crocker's 26,981,087 shares of outstanding capital stock at May 31, 1996, the purchase price will total approximately \$297 million. In addition, the Company will cash out certain existing options and warrants to purchase Crocker common stock for an estimated \$4.2 million and assume approximately \$240 million of Crocker's currently outstanding indebtedness. In connection with the Merger, the Company has also entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with certain of Crocker's stockholders who collectively own approximately 83% of Crocker's outstanding common stock, which obligates such stockholders to sell their shares to the Company at a cash price of \$11.02, subject to the same adjustments as required under the Merger Agreement. The Merger Agreement and the Stock Purchase Agreement may be terminated by the respective parties only in certain limited circumstances. In addition, under the terms of the Merger Agreement, certain specified assets and liabilities of Crocker will not be acquired by the Company. See "Recent Developments -- Pending Acquisition of Crocker Realty Trust, Inc."

**MANAGEMENT OF CROCKER PROPERTIES.** Upon completion of the Merger (or if earlier, June 30, 1996), Crocker's three senior officers, Thomas J. Crocker, Richard S. Ackerman and Robert E. Onisko, will resign as officers and directors of Crocker. See "Risks Factors -- Risks Associated with Rapid Growth." Following the consummation of the Merger, Highwoods will retain the services of several key Crocker employees who will be responsible for managing a significant portion of the Crocker Properties. See "Recent Developments -- Pending Acquisition of Crocker Realty Trust, Inc." and " -- Organizational Changes."

## **EAKIN & SMITH TRANSACTION**

On April 1, 1996, the Company completed a merger with Eakin & Smith and its affiliates ("Eakin & Smith") combining their property portfolios, management teams and business operations. Through the combination, the Company succeeded to the ownership of seven suburban office buildings totaling 848,000 square feet, a 103,000-square foot suburban office development project, 18 acres of development land and Eakin & Smith's brokerage and property management operations. All the properties and development land are located in Nashville, Tennessee. At March 31, 1996, the properties acquired in the Eakin & Smith Transaction were 97% leased.

The aggregate cost to the Company of the Eakin & Smith Transaction, assuming the completion of the in-process development project, was approximately \$98.5 million payable through the issuance of 537,138 limited partnership units ("Units") of the Operating Partnership and 489,421 shares of the Common Stock, the assumption of \$37 million of indebtedness (with a weighted average fixed rate of 8.0%), and cash payments of approximately \$33 million. The aggregate cost excludes deferred payments totaling 54,056 shares of Common Stock, which are attributable to Eakin & Smith's brokerage and property management operation; the payments will be made over a four-year period provided certain annual operating measurements are achieved.

As part of the Eakin & Smith Transaction, the three principals of Eakin & Smith, Inc. received options to purchase 105,000 shares of Common Stock at \$27.50 per share. Such options vest in four equal annual installments beginning with the second anniversary of the date of grant. Such principals also received warrants to purchase 150,000 shares of Common Stock for \$28.00 per share. In addition, John W. Eakin and Thomas S. Smith were added to the Company's Board of Directors.

## **DEVELOPMENT ACTIVITY**

The following table summarizes the three development projects placed in service by the Company during 1996:

PROPERTY	PROPERTY TYPE	LOCATION	RENTABLE SQUARE FEET	INITIAL COST
Hewlett Packard	Office	Piedmont Triad	15,000	\$ 1,000,000
Global Software	Office	Research Triangle	92,700	7,500,000
Regency One	Industrial	Piedmont Triad	127,600	3,500,000
Total			235,300	\$12,000,000

The Company has eight suburban office properties and one industrial property under development totaling 791,000 square feet of space. The following table summarizes these projects:

OFFICE PROPERTIES	LOCATION	RENTABLE SQUARE FEET	ESTIMATED COST	PERCENT PRELEASED	ESTIMATED COMPLETION DATE
MSA	Research Triangle	57,000	\$ 6,200,000	100%	4Q96
Healthsource	Research Triangle	180,000	14,400,000	100	4Q96
One Shockoe Plaza	Richmond	118,000	15,000,000	100	4Q96
Highwoods One	Richmond	126,000	12,500,000	0	4Q96
Situs One	Research Triangle	58,000	5,100,000	58	4Q96
Maryland Way	Nashville	103,000	11,500,000	50	4Q96
Inacom	Piedmont Triad	13,000	900,000	100	4Q96
North Park	Research Triangle	40,000	4,000,000	40	1Q97
Total or Weighted Average		695,000	\$69,600,000	67%	
INDUSTRIAL PROPERTY					
Regency Two	Piedmont Triad	96,000	\$ 2,800,000	39%	4Q96
Total or Weighted Average		791,000	\$72,400,000	66%	

Following the Merger, the Company will continue Crocker's development of an approximately 81,000-square foot office building in Center Point Office Park in Columbia, South Carolina. Crocker owns the other office building in the park, which building was 100% leased at March 31, 1996. The total cost of the project is expected to be approximately \$7.6 million, including the purchase of the land. Pursuant to a contract entered into with the contractor, the construction costs are fixed. The building is expected to be completed in the fourth quarter of 1996 and is approximately 50% pre-leased.

## OTHER PENDING ACQUISITIONS

The Company has entered into agreements to acquire two suburban office properties: one in Richmond, Virginia and the other in Nashville, Tennessee. The properties encompass 155,000 square feet in the aggregate and will be acquired at a total cost of \$15.3 million. The purchase price will be funded through a \$10.4 million cash payment and the assumption of a \$4.9 million, 8.75% non-recourse mortgage loan. Additionally, the Company has entered into a letter of intent to acquire two suburban office properties totaling 224,000 square feet and three acres of land in Nashville and Charlotte in exchange for 305,438 Units and \$5.7 million in cash.

## FINANCING ACTIVITIES AND LIQUIDITY

Set forth below is a summary description of the Company's recent financing activities:

**CREDIT FACILITY.** In March 1996, the Company closed on a \$140 million unsecured credit facility (the "Credit Facility"), which replaced an \$80 million secured facility. The Credit Facility is with NationsBank, First Union National Bank of North Carolina and Wachovia Bank of North Carolina and requires monthly payment of interest and matures on September 30, 1999. The initial interest rate on the Credit Facility is LIBOR plus 150 basis points. The interest rate will adjust based on the Company's senior unsecured credit rating within a range of LIBOR plus 100 basis points to LIBOR plus 175 basis points. The replacement of the secured facility with the Credit Facility enhanced the Company's financial flexibility by releasing the liens on 24 properties with a book value of approximately \$226 million.

**FINANCING OF THE EAKIN & SMITH TRANSACTION.** The Company financed the Eakin & Smith Transaction through the issuance of 537,138 Units and 489,421 shares of Common Stock, the assumption of \$37.0 million of mortgage indebtedness and a \$26.6 million draw on the Credit Facility. The mortgage indebtedness assumed has an average fixed rate of approximately 8% and an average remaining life of approximately six years. Approximately \$5.5 million of the mortgage indebtedness is fixed at a rate of 7.7% to the maturity date of the underlying debt through the use of an interest rate swap. Further, the Company entered into a five-year, \$7.0 million interest rate swap agreement that commences in January 1997 and effectively fixes \$7.0 million of the Company's variable rate debt at 8.0%.

**FINANCING OF THE PENDING MERGER.** In connection with the Merger, the Company obtained a commitment from NationsBank and First Union National Bank of North Carolina for a \$250 million revolving line of credit (the "Revolving Loan"). The Revolving Loan will replace the Credit Facility and will be used together with the proceeds from the Offering to fund the Merger.

The Revolving Loan will be unsecured for the first nine months and will bear interest at a rate of LIBOR plus 150 basis points. After the initial nine-month period, the Revolving Loan will either convert to a secured loan with a maturity date two years from its closing date or to an unsecured loan maturing on July 31, 1999. The Revolving Loan will remain unsecured if the Company generates at least \$300 million of net proceeds from equity offerings (including the proceeds from this Offering) during the initial nine-month period and meets certain covenants, including covenants relating to debt ratios, tangible net worth and interest coverage.

If the Revolving Loan remains unsecured after the initial nine-month period, it would have an interest rate that ranged from LIBOR plus 100 basis points to LIBOR plus 175 basis points based on the Company's senior unsecured credit rating. If the loan converts to a secured facility, the Company will be required to pledge assets at least equal in value to 60% of the outstanding amount of the Revolving Loan and the interest rate will equal LIBOR plus 175 basis points.

Also in connection with the Merger, the Company will assume approximately \$239.5 million of indebtedness at an average rate of 8.57%. This indebtedness includes: (i) a \$140 million mortgage note (the "Mortgage Note") with a fixed rate of 7.9% (ii) variable rate mortgage loans in the aggregate amount of \$69.4 million with a weighted average interest rate of 9.4% at March 31, 1996 and (iii) fixed rate mortgage loans in the amount of \$30.1 million with a weighted average interest rate of 9.8%.

The Company is currently considering various alternatives related to the \$99.5 million of indebtedness to be assumed in the Merger other than the Mortgage Note. The Company may repay this indebtedness with the proceeds from the issuance of either senior unsecured debt or conventional mortgage debt. To limit its exposure to increasing interest rates, the Company has entered into a forward-starting \$75 million interest rate swap agreement that commences on September 15, 1996. The interest rate swap matures on September 15, 2003 and will limit the Company's exposure to increases in interest rates on either \$75 million of LIBOR based floating rate borrowings or \$75 million of fixed rate debt issued in the future. Upon commencement of the interest rate swap, the Company will pay the counterparty a fixed rate of 7.02% while the counterparty will pay the Company an amount equal to 30-day LIBOR.

**PRO FORMA CAPITALIZATION.** Assuming completion of the Offering and the Merger, the Company's pro forma debt as of March 31, 1996 would have totaled \$554.8 million and would have represented 38% of total market capitalization (based on a stock price of \$26 7/8). The Company's pro forma interest coverage ratio (defined as income before minority interest plus depreciation and amortization and interest expense divided by contractual interest expense) for the quarter ended March 31, 1996 would have equaled 2.84x.

## **ORGANIZATIONAL CHANGES**

On May 20, 1996, the Company announced certain changes to its organizational structure, which will allow the Company to utilize its existing senior management for overall leadership while taking advantage of certain members of Crocker's management to integrate Crocker into the Highwoods organization. These changes will provide property and market specific experience to the combined portfolio. The Company believes that upon the completion of the Merger, approximately 85% of its portfolio will be managed and leased on a day-to-day basis by personnel that have previously managed, leased or developed the properties for which they are responsible.

In connection with the organizational changes, William T. Wilson, III was appointed to the newly created position of executive vice president and chief operating officer. Mr. Wilson will assume responsibility for all aspects of the Company's divisional operations and the Company's acquisition group. Prior to this appointment, he served as executive vice president and was responsible for the operations of the Forsyth division, which included the operations of the Piedmont Triad and Charlotte area properties. John E. Reece II will assume Mr. Wilson's responsibilities with respect to the Piedmont Triad area properties and will serve the Company as a vice president. Mr. Reece was previously responsible for the leasing, marketing and development activities of the Forsyth division. In addition, John W. Eakin has been appointed as senior vice president and will be responsible for operations in Tennessee (Nashville and Memphis), Alabama and Florida (Tampa, Boca Raton, Orlando and Jacksonville). Since joining the Company in April 1996



in connection with the Eakin & Smith Transaction, Mr. Eakin has been responsible for the Company's Nashville operations.

Upon completion of the Merger, Highwoods will retain the services of several key Crocker employees who will be responsible for managing a significant portion of the Crocker Properties, including Thomas F. Cochran who will manage the Company's business in Charlotte, North Carolina, Greenville, South Carolina, and Atlanta, Georgia; Michael E. Harris, who will be responsible for the management of the properties in the Memphis, Tennessee area; Scott I. Peek, Jr., who will manage the Company's business in the Tampa, Orlando and Jacksonville, Florida areas and Timothy F. Wallace, who will manage the Boca Raton area properties. See "Recent Developments -- Pending Acquisition of Crocker Realty Trust, Inc." and " -- Organizational Changes."

## THE PROPERTIES

The following table sets forth certain information about the Properties as of March 31, 1996:

	ANNUALIZED RENTAL REVENUE (1)		
	OFFICE PROPERTIES	INDUSTRIAL PROPERTIES (2)	TOTAL
Highwoods Properties.....	\$ 86,585,628	\$ 16,053,429	\$102,639,057
Crocker Properties.....	58,467,277	8,919,366	67,386,643
Total.....	\$145,052,905	\$ 24,972,795	\$170,025,700

  

	RENTABLE SQUARE FEET		
	OFFICE PROPERTIES	INDUSTRIAL PROPERTIES (2)	TOTAL
Highwoods Properties.....	6,389,737	3,674,951	10,064,688
Crocker Properties.....	4,449,739	1,212,084	5,661,823
Total.....	10,839,476	4,887,035	15,726,511

  

	PERCENT LEASED		
	OFFICE PROPERTIES	INDUSTRIAL PROPERTIES (2)	WEIGHTED AVERAGE
Highwoods Properties.....	95%(3)	91%(4)	94%
Crocker Properties.....	95(5)	93(6)	95
Weighted average.....	95%	92%	94%

  

	WEIGHTED AVERAGE AGE (YEARS) (7)		
	OFFICE PROPERTIES	INDUSTRIAL PROPERTIES (2)	WEIGHTED AVERAGE
Highwoods Properties.....	10.4	9.2(8)	10.2
Crocker Properties.....	8.9	11.2	9.2
Weighted Average (5).....	9.8	9.7	9.8

(1) Annualized Rental Revenue is March 1996 rental revenue (base rent plus operating expense pass throughs) multiplied by 12.

(2) Includes 74 service center properties, 12 of which are Crocker Properties.

(3) Includes 23 single-tenant properties comprising 1.5 million rentable square feet and 61,000 rentable square feet leased but not occupied.

(4) Includes 17 single-tenant properties comprising 1.0 million rentable square feet and 27,000 rentable square feet leased but not occupied.

(5) Includes 13 single-tenant properties comprising 861,000 rentable square feet and 68,000 rentable square feet leased but not occupied.

(6) Includes three single-tenant properties comprising 258,000 rentable square feet and 14,000 square feet leased but not occupied.

(7) Weighted according to Annualized Rental Revenue.

(8) Excludes Ivy Distribution Center. Ivy is a 400,000-rentable square foot warehouse, which was constructed in stages. A portion of the building was built in 1930; major expansions took place in the mid-1940s, mid-1950s and 1981. In 1989, the entire property was renovated to convert it from a manufacturing facility to a warehouse.

The following table sets forth certain information about the Properties in each of the 16 markets as of March 31, 1996:

	OFFICE PROPERTIES	INDUSTRIAL PROPERTIES (1)	TOTAL PROPERTIES	RENTABLE SQUARE FEET	ANNUALIZED RENTAL REVENUE
Research Triangle, NC.....	61	4	65	4,078,229	\$ 53,994,987
Piedmont Triad, NC.....	23	78	101	4,296,563	27,684,440
Nashville, TN.....	7	3	10	1,192,511	15,095,578
Tampa, FL.....	20	--	20	1,155,483	14,170,231
Charlotte, NC.....	12	16	28	1,253,847	13,088,036
Boca Raton, FL.....	3	--	3	506,834	9,682,756
Greenville, SC.....	5	2	7	687,150	7,501,621
Memphis, TN.....	5	--	5	382,131	7,232,995
Richmond, VA.....	10	1	11	481,908	5,284,603
Atlanta, GA.....	2	3	5	706,745	4,948,214
Columbia, SC.....	5	--	5	318,713	4,011,072
Orlando, FL.....	2	--	2	200,796	2,011,534
Birmingham, AL.....	1	--	1	111,905	1,632,892
Norfolk, VA.....	1	1	2	179,006	1,481,603
Jacksonville, FL.....	1	--	1	50,513	1,104,854
Asheville, NC.....	1	1	2	124,177	1,100,284
Total.....	159	109	268	15,726,511	\$170,025,700

(1) Includes 74 service center properties.

## THE OFFERING

Shares Offered.....	10,000,000 (1)
Shares to be Outstanding After the Offering.....	34,168,560 (2)
Use of Proceeds.....	The Company intends to use the net proceeds to fund a portion of the purchase price of all of the outstanding shares of Crocker Realty Trust, Inc.
NYSE Symbol.....	"HIW"

(1) Assumes the Underwriters' over-allotment option to purchase up to 1,500,000 shares of Common Stock is not exercised. See "Underwriting."

(2) Includes (a) 29,898,970 shares of Common Stock to be outstanding after the Offering and (b) 4,269,590 shares of Common Stock that may be issued upon redemption of outstanding Units, which are redeemable by the holder for cash or, at the option of the Company, shares of Common Stock on a one-for-one basis. Excludes (i) 890,500 shares of Common Stock reserved for issuance upon exercise of options granted pursuant to the Amended and Restated 1994 Stock Option Plan, (ii) 250,000 shares of Common Stock that may be issued upon the exercise of warrants granted to certain officers in connection with certain property acquisitions and (iii) 54,056 shares of Common Stock that may be issued in connection with the Eakin & Smith Transaction and 40,000 shares of Common Stock that may be issued upon redemption of Units that may be issued in connection with certain property acquisitions.

## SUMMARY SELECTED FINANCIAL DATA

The following table sets forth selected financial and operating information for the Company on a pro forma basis for the year ended December 31, 1995 and as of and for the three months ended March 31, 1996. The following table also sets forth selected financial and operating information on an historical basis for the Company for the period from June 14, 1994 (commencement of operations) to December 31, 1994, for the year ended December 31, 1995 and for the three months ended March 31, 1996 and 1995. The following information should be read in conjunction with the financial statements and notes thereto incorporated by reference herein and the pro forma financial statements and notes thereto included and incorporated by reference herein.

The pro forma operating data for the year ended December 31, 1995 assumes that the Forsyth Transaction, the Research Commons Acquisition, the Other Acquisitions, the Second Offering, the Third Offering, the Eakin & Smith Transaction, the Merger and this Offering all occurred as of January 1, 1995. The pro forma balance sheet as of March 31, 1996 assumes that this Offering, the Eakin & Smith Transaction and the Merger all occurred on March 31, 1996. The pro forma operating data for the three months ended March 31, 1996 assumes that this Offering, the Eakin & Smith Transaction and the Merger occurred as of January 1, 1995.

The pro forma information is based upon certain assumptions that are included in the notes to the pro forma financial statements incorporated by reference herein and the pro forma financial statements included elsewhere in this Prospectus Supplement. The pro forma financial information is unaudited and is not necessarily indicative of what the financial position and results of operations of the Company would have been as of and for the periods indicated, nor does it purport to represent the future financial position and results of operations for future periods.

	PRO FORMA THREE MONTHS ENDED MARCH 31, 1996	HISTORICAL THREE MONTHS ENDED MARCH 31, 1996	1995	PRO FORMA YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1995	JUNE 14, 1994 TO DECEMBER 31, 1994
<b>OPERATING DATA:</b>						
Total revenue.....	\$ 45,850	\$ 23,757	\$ 12,846	\$172,142	\$ 73,522	\$ 19,442
Rental property operating expenses.....	13,437(1)	6,154(2)	3,053(2)	46,225(1)	17,049(2)	5,110(2)
General and administrative....	1,284	934	523	4,218	2,737	810
Interest expense.....	11,739	3,951	2,470	48,122	13,720	3,220
Depreciation and amortization.....	6,755	3,716	1,921	26,587	11,082	2,607
Income before minority interest.....	12,635	9,002	4,879	46,990	28,934	7,695
Minority interest.....	(1,579)	(1,571)	(800)	(5,874)	(4,937)	(808)
Income before extraordinary item.....	11,056	7,431	4,079	41,116	23,997	6,887
Extraordinary item-loss on early extinguishment of debt.....	--	--	(875)	--	(875)	(1,273)
Net income.....	\$ 11,056	\$ 7,431	\$ 3,204	\$ 41,116	\$ 23,122	\$ 5,614
Net income per common share...	\$ 0.37	\$ 0.38	\$ 0.29	\$ 1.38	\$ 1.49	\$ .63
<b>BALANCE SHEET DATA (AT END OF PERIOD):</b>						
Real estate, net of accumulated depreciation....	\$1,225,525	\$602,276	\$429,556	\$ --	\$593,066	\$207,976
Total assets.....	1,288,157	632,644	455,909	--	621,134	224,777
Total mortgages and notes payable.....	554,831	196,718	140,698	--	182,736	66,864
<b>OTHER DATA:</b>						
Number of in-service properties.....	268	191	108	--	191	44
Total rentable square feet....	15,727,000	9,211,000	6,914,000	--	9,215,171	2,746,219

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

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

## **RISK FACTORS**

THIS PROSPECTUS SUPPLEMENT CONTAINS FORWARD-LOOKING STATEMENTS. ACTUAL RESULTS MAY DIFFER SIGNIFICANTLY FROM THOSE PROJECTED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED BELOW AND IN THE PROSPECTUS UNDER "RISK FACTORS." AN INVESTMENT IN THE COMMON STOCK INVOLVES VARIOUS RISKS. PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER THE FOLLOWING INFORMATION IN CONJUNCTION WITH THE OTHER INFORMATION CONTAINED IN THIS PROSPECTUS SUPPLEMENT AND THE PROSPECTUS BEFORE PURCHASING COMMON STOCK IN THE OFFERING.

### **RISKS ASSOCIATED WITH RAPID GROWTH**

The Company is currently experiencing a period of rapid growth. After giving effect to the Eakin & Smith Transaction and the Merger, the Company's property portfolio will have increased from 193 properties, consisting of approximately 9.4 million rentable square feet, to 270 properties, consisting of approximately 15.9 million rentable square feet. The Company's ability to manage its growth effectively will require it to integrate successfully the Eakin & Smith management team and those members of the Crocker management team who will continue with the Company after the Merger into its existing management structure. In connection with the Eakin & Smith Transaction, the Company retained all of Eakin & Smith's 46 employees. Furthermore, in connection with the Merger, the Company expects to add approximately 50 administrative, property management, leasing, marketing and maintenance personnel employed by Crocker. There can be no assurance that the Company will be able to integrate these additional employees into its organization or to manage the combined operations effectively. Furthermore, the inability of the Company to integrate the Properties in a timely and efficient manner could have an adverse effect on the Company's business.

Upon completion of the Merger, four former officers of Crocker will join the Company as vice presidents. Thomas F. Cochran will manage the Charlotte division, which includes Greenville, South Carolina and Atlanta, Georgia; Michael E. Harris will manage the Memphis division; Scott I. Peek, Jr. will manage the Tampa division, which includes Jacksonville and Orlando; and Timothy F. Wallace will manage the Boca Raton division. Thomas J. Crocker, the chairman of the board and chief executive officer of Crocker, Richard S. Ackerman, the president and chief operating officer of Crocker, and Robert E. Onisko, the vice president and chief financial officer of Crocker, will not join the Company. There can be no assurances that the Company will be able to integrate successfully the Crocker Properties into its portfolio without them. Furthermore, it is expected that Messrs. Crocker, Ackerman and Onisko will continue to be engaged in the commercial real estate business following the Merger. As part of their severance agreements, Messrs. Crocker, Ackerman and Onisko have agreed not to compete with the Company within the city limits of Boca Raton, Florida for periods ranging from 12 months (Mr. Onisko) to 18 months (Messrs. Crocker and Ackerman), except with respect to certain contracts that Mr. Crocker has to manage certain office projects owned by third parties and with respect to a mixed-use retail and office complex known as Mizner Park, which is owned by Mr. Crocker. Otherwise, Messrs. Crocker, Ackerman and Onisko will be able to compete with the Company in all of its markets. See "Recent Developments -- Pending Acquisition of Crocker Realty Trust, Inc. -- Management of Crocker Properties." Finally, there can be no assurance that the Merger will be consummated. See "Recent Developments -- Pending Acquisition of Crocker Realty Trust, Inc."

### **RISK OF FAILURE OF CROCKER TO QUALIFY AS A REIT**

Upon consummation of the Merger, Crocker will become a subsidiary of the Operating Partnership. Except for the Federal and state income taxes that might be payable upon the distribution of certain assets that will be distributed directly or indirectly to the stockholders of Crocker prior to the Merger (the "Excluded Assets"), the Merger has been structured to defer any tax recognition to Crocker. To accomplish this, the Company intends to maintain Crocker's separate status as an operating REIT. To maintain Crocker's REIT status, the Company intends to cause Crocker to sell a sufficient amount of common stock to at least 110 individuals to enable Crocker to meet the test for qualification of a REIT under Section 856(a)(5) of the Internal Revenue Code of 1986, as amended (the "Code"). The aggregate amount of common stock to be issued to such minority stockholders is not expected to exceed 1.0% of the equity of Crocker.

The Company expects Crocker at all times to maintain its status as a REIT and to continue to be organized and operated so as to maintain its qualification as a REIT. Since the ownership of Crocker stock by the Operating Partnership is considered to be the ownership of a real estate asset for purposes of the REIT qualification tests and since distributions received from a REIT are income included in both the 95% and 75% income tests of Code Sections 856(c)(2) and (3), the Company's qualification as a REIT should not be affected by the acquisition and ownership of Crocker. If, however, Crocker fails to qualify as a REIT for any reason while its shares are owned by the Company or

the Operating Partnership, the Company will no longer qualify as a REIT and the Company would be taxed as if it were a domestic corporation and its stockholders would be taxed in the same manner as stockholders of ordinary corporations. In that event, the Company could be subject to potentially significant tax liabilities and, therefore, the amount of cash available for distribution to its stockholders would be substantially reduced or eliminated.

Although the Company believes, and Crocker has represented, that commencing with Crocker's taxable year ended December 31, 1995, Crocker has operated in such a manner so as to meet the Code requirements for qualification as a REIT no assurances can be given that Crocker will qualify as REIT now or in the future. Crocker's qualification as a REIT is a condition to the Company's obligation to consummate the Merger. See "Recent Developments -- Pending Acquisition of Crocker Realty Trust, Inc." herein and "Federal Income Tax Considerations" in the Prospectus.

## **POSSIBLE ENVIRONMENTAL LIABILITIES ASSOCIATED WITH THE CROCKER PROPERTIES**

Under various federal, state and local laws, ordinances and regulations, such as the Comprehensive Environmental Response Compensation and Liability Act or "CERCLA," and common laws, an owner or operator of real estate is liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property as well as certain other costs, including governmental fines and injuries to persons and property. Such laws often impose such liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. The presence of such substances, or the failure to remediate such substances properly, may adversely affect the owner's or operator's ability to sell or rent such property or to borrow using such property as collateral. Persons who arrange for the disposal or treatment of hazardous or toxic substances may also be liable for the costs of removal or remediation of such substances at a disposal or treatment facility, whether or not such facility is owned or operated by such person. Certain environmental laws impose liability for release of asbestos-containing materials ("ACM") into the air, and third parties may seek recovery from owners or operators of real property for personal injuries associated with ACM. In connection with its ownership and operation of its properties, the Company may be potentially liable for these costs. In addition, the presence of hazardous or toxic substances at a site adjacent to or in the vicinity of a property could require the property owner to participate in remediation activities in certain cases or could have an adverse effect on the value of such property.

All of the Crocker Properties have been subjected to assessments by independent environmental consultants in the last three years. The environmental assessments of the Crocker Properties have not revealed any environmental liability that the Company believes would have a material adverse effect on the Company's results of operations, liquidity or financial position taken as a whole, nor is the Company aware of any such material environmental liability. Nevertheless, it is possible that the assessments do not reveal all environmental liabilities or that there are material environmental liabilities of which the Company is unaware. In addition, assumptions regarding the existence and nonexistence of contamination and groundwater flow are based on available sampling data, and there are no assurances that the data is reliable in all cases. Moreover, there can be no assurance that (i) future laws, ordinances or regulations will not impose any material environmental liability or (ii) the current environmental condition of the Crocker Properties will not be affected by tenants, by the condition of land or operations in the vicinity of the Crocker Properties (such as the presence of underground storage tanks), or by third parties unrelated to the Company. The environmental assessments have revealed the following:

(Bullet) A property located southwest of the Sabal VI property is listed on EPA's National Priority List (NPL). Groundwater at the site contains elevated levels of inorganic metals and the site appears to be hydraulically upgradient from the Sabal VI property. Sampling at the southwestern boundary of the Sabal VI property indicated levels of inorganic metals in the groundwater above the cleanup standards, while levels of such constituents in the soil were normal. Clean-up is ongoing at the NPL site, funded by responsible parties. Based on information known to date, there is no indication that the Sabal VI property is a source of this contamination, and it is unlikely that EPA or any other party would seek to impose liability on the Company for the presence of such contaminants.

(Bullet) Contamination exists in groundwater at two NPL sites adjacent to and upgradient from the Grassmere properties. Due to the geology of the area, the consultant advised that sampling on the property would not

definitively determine whether contamination from off-site had reached the Grassmere properties; therefore, no on-site sampling was performed. Funded clean-ups are ongoing at both NPL sites. Based on information known to date, there is no indication that the Grassmere properties are a source of the contamination, and it is unlikely that EPA or any other party would seek to impose liability on the Company for the presence of such contamination.

(Bullet) Lead was detected above the federal action level in drinking water from limited outlets at seven of the Crocker Properties. Federal law only requires that public water suppliers take action when this level is exceeded and requires no direct action by the Company. Sampling was limited and more thorough sampling would be required to accurately determine the sources and levels of lead in those buildings. However, if elevated lead levels do exist, it could present the potential for allegations of liability from third parties.

Some tenants use or generate hazardous substances in the ordinary course of their respective businesses. These tenants are required under their leases to comply with all applicable laws and have agreed to indemnify the Crocker for any claims resulting from noncompliance. The Company is not aware of any environmental problems resulting from tenants' use or generation of hazardous substances. There are no assurances that all tenants will comply with the terms of their leases or remain solvent and that the Company may not at some point be responsible for contamination caused by such tenants.

**SEE "RISK FACTORS" IN THE ACCOMPANYING PROSPECTUS FOR A DISCUSSION OF  
CERTAIN OTHER FACTORS RELEVANT TO AN INVESTMENT IN THE COMMON STOCK.**

## THE COMPANY

### GENERAL

Highwoods Properties, Inc. ("Highwoods" or the "Company") is a self-administered and self-managed REIT that owns and operates a portfolio of 200 properties (the "Highwoods Properties") located in Raleigh-Durham (the "Research Triangle"), Winston-Salem/Greensboro (the "Piedmont Triad") and Charlotte, North Carolina; Nashville, Tennessee; and Richmond, Virginia. The Highwoods Properties consist of 102 suburban office properties and 98 industrial (including 62 service center) properties, contain an aggregate of approximately 10.3 million rentable square feet and are leased to approximately 1,100 tenants. At March 31, 1996, the Highwoods Properties were 94% leased. The Company also owns approximately 215 acres of land for future development. All of the development land is zoned and available for office and industrial development, 178 acres of which have utility infrastructure already in place. The Company has entered into a merger agreement with Crocker Realty Trust, Inc. pursuant to which Highwoods will acquire Crocker's 58 suburban office properties and 12 service center properties (the "Crocker Properties"), which are located in 15 markets throughout the Southeastern United States (the "Merger"). Assuming consummation of the Merger, which is expected to occur in the third quarter of 1996, Highwoods will own an aggregate of 270 suburban office and industrial properties, containing 15.9 million rentable square feet, thereby becoming one of the largest full service real estate operating companies in the Southeast, specializing in the ownership, management, acquisition and development of suburban office and industrial properties. The Company believes that the Merger provides Highwoods a unique investment opportunity for future growth by allowing the Company to expand and diversify its operations to growth-oriented markets throughout the Southeast.

The Company conducts substantially all of its activities through, and all of its properties are held directly or indirectly by, Highwoods/Forsyth Limited Partnership (the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership and as of May 31, 1996, owned 82% of the partnership interests (the "Units") in the Operating Partnership and following the Offering will own approximately 87% of the Units. The remaining Units are owned by limited partners (including certain officers and directors of the Company). Each Unit may be redeemed by the holder thereof for cash or, at the Company's option, one share (subject to certain adjustments) of Common Stock. With each such exchange, the number of Units owned by the Company and, therefore, the Company's percentage interest in the Operating Partnership, will increase.

In addition to owning the Highwoods Properties and the development land, the Operating Partnership also provides services associated with leasing, property management, real estate development, construction and miscellaneous tenant services for its properties as well as for third parties. The Company conducts its third-party fee-based services through two subsidiaries of the Operating Partnership, Highwoods Services, Inc. and Forsyth Properties Services, Inc. (the "Service Companies"), and Forsyth-Carter Brokerage, L.L.C. ("Forsyth-Carter Brokerage"), a joint venture with Carter Oncor International.

The Company was incorporated in Maryland in February 1994. Its executive offices are located at 3100 Smoketree Court, Suite 600, Raleigh, North Carolina 27604, and its telephone number is (919) 872-4924. The Company also maintains regional offices in the Piedmont Triad, Charlotte, Richmond and Nashville.

### BUSINESS STRATEGY

Since becoming a public company in June 1994, it has been Highwoods' strategy to:

- (Bullet) Diversify its initial suburban office portfolio to include industrial and service center properties;
- (Bullet) Expand its geographical presence to selected Southeastern markets with growth and demographic characteristics similar to its existing markets;
- (Bullet) Effectively manage growth through the acquisition of management expertise along with additional properties;
- (Bullet) Maintain a flexible and conservative capital structure; and
- (Bullet) Build an efficient, customer service-oriented regional organization.

**DIVERSIFY PRODUCT TYPE.** The Company's strategy has been to assemble a portfolio of properties that enable it to offer buildings with a variety of cost, tenant finish and amenity choices that satisfy the facility needs of a wide range of tenants seeking commercial space. This strategy led, in part, to the Company's initial combination with Forsyth Properties, Inc. in February 1995 (the "Forsyth Transaction"), which added a diverse mix of industrial and service center

properties (as well as additional office properties) to its existing suburban office portfolio. The Company sought to diversify its portfolio to include industrial and service center properties because (i) such properties are less management intensive than most other classes of real estate, thereby reducing both operating and administrative expenses; (ii) industrial and service center properties generally do not require significant tenant improvement expenditures by the landlord to induce tenants to lease space and, with respect to industrial properties, tenants often make substantial improvements to the properties, which increase the likelihood of the tenant renewing its lease; and (iii) the development cycle for industrial and service center properties is relatively short, thereby mitigating development period risks. The Company focuses on the development and acquisition of facilities that may be adapted for lease to replacement tenants with facility needs different from the prior tenant, even where the building was constructed on a build-to-suit basis for the initial tenant.

The Company seeks to acquire suburban office and industrial properties at prices below replacement cost that offer attractive returns, including acquisitions of underperforming, high quality assets in situations offering opportunities for the Company to improve such assets' operating performance. The Company will also continue to engage in the selective development of suburban office and industrial projects, primarily in suburban business parks, and intends to focus on build-to-suit projects and projects where the Company has identified sufficient demand. In build-to-suit development, the building is significantly pre-leased to one or more tenants prior to construction. Furthermore, the Company believes that through build-to-suit projects, which often foster strong long-term relationships between the Company and the tenant, the Company positions itself for future development projects as the facility needs of the tenant increase. The Company also believes that its 215 acres of development land should provide it with a competitive advantage in its future development activities. The Company will also selectively seek opportunities for fee-producing development, management and brokerage business with third-party owners through the Service Companies and Forsyth-Carter Brokerage.

The Company may from time to time acquire properties from property owners through the exchange of Units in the Operating Partnership for the property owner's equity in the acquired properties. The Units received by these property owners would be redeemable for cash or, at the Company's option, shares of Common Stock. In connection with these transactions, the Company may also assume outstanding indebtedness associated with the acquired properties. The Company believes that this acquisition method may permit the Company to acquire properties at attractive prices from property owners wishing to enter into tax deferred transactions. Since the Company's inception, it has acquired 94 properties, comprising 5.8 million rentable square feet using the foregoing structure.

**EXPANSION OF GEOGRAPHIC FOCUS.** The Company has sought to increase the size of its portfolio by investing in markets that, like the Research Triangle, have strong demographic and economic characteristics. This strategy was also a major reason for the Forsyth Transaction, which broadened the Company's focus from beyond the Research Triangle to the Piedmont Triad and Charlotte areas of North Carolina, and led to the Company acquiring substantial portfolios in Richmond, Virginia and Nashville, Tennessee. The Company believes that the properties located in these markets have the potential over the long term to provide investment returns that exceed national averages. Each of the Company's existing markets has experienced strong employment, population and household formation growth over the past five years and is expected to continue to demonstrate strong growth over the next five years.

The Merger is a logical extension of the Company's expansion strategy. The Crocker Properties are located in four of the Company's existing markets and 11 other Southeastern markets with similar characteristics, including favorable employment, population and household formation growth and favorable suburban office and industrial supply and demand conditions when compared to national averages. The Merger would allow the Company to build upon its positions in its current markets and to establish an immediate presence in 11 additional markets located throughout the Southeast.

**MANAGED GROWTH STRATEGY.** The Company's strategy has been to focus its real estate activities in markets where it believes its extensive local knowledge gives it a competitive advantage over other real estate developers and operators with less local experience, particularly with regard to site selection, market information and clients. Through the Forsyth Transaction and its subsequent business combinations with Ross-Kreckman in July 1995 and with Eakin & Smith in April 1996, the Company was able to diversify its portfolio and to expand its geographic focus to include the three major North Carolina markets, as well as Richmond, Virginia and Nashville, Tennessee. In each of these transactions, the Company was able to maintain its localized approach to real estate by combining with local real estate operators with many years of development and management experience in their respective markets. In each of these new markets, the Company has established local offices containing separate operating divisions staffed by experienced



local operators. Upon consummation of the Merger, the Company will add an additional 11 markets with property-level management in place. The Company would also continue to employ substantially all of Crocker's senior property level managers who are experienced with the real estate operations of the properties and the local real estate market. The Company would also employ four of Crocker's regional managers who will continue to serve the Company in that capacity. With the addition of these key Crocker employees, the Company believes that upon consummation of the Merger, approximately 85% of its portfolio will be managed and leased on a day-to-day basis by personnel that have previously managed, leased or developed the properties for which they are or will be responsible. See "Recent Developments -- Pending Acquisition of Crocker Realty Trust, Inc."

**FLEXIBLE AND CONSERVATIVE CAPITAL STRUCTURE.** The Company is committed to maintaining a flexible and conservative capital structure that: (i) will allow it to grow through development and acquisition opportunities, (ii) provides the Company access to the capital markets on favorable terms and (iii) promotes future earnings growth.

Over the past year, the Company has concentrated on enhancing its financial flexibility by improving its capital structure. The Company completed an equity offering in August 1995 of 4,774,989 shares of Common Stock at a public offering price of \$24.50 per share, which raised net proceeds of approximately \$110 million. Proceeds from the equity offering were used to pay down existing indebtedness and repay interim debt. In March 1996, the Company expanded and converted its \$80 million secured line of credit to a \$140 million unsecured line of credit with NationsBank, First Union National Bank of North Carolina and Wachovia Bank of North Carolina. In connection with the Merger, the Company has obtained a commitment from NationsBank and First Union National Bank of North Carolina to replace the current line of credit with a new \$250 million unsecured facility. See "Recent Developments -- Financing Activities and Liquidity." The Company believes that these efforts as well as the Offering demonstrate the Company's intention to maintain a flexible and conservative capital structure. After giving effect to the Merger and this Offering, the Company's total debt to total market capitalization will be approximately 38%.

**EFFICIENT, CUSTOMER SERVICE-ORIENTED REGIONAL ORGANIZATION.** The Company provides a complete line of real estate services to its tenants and third parties. The Company believes that its in-house development, acquisition, construction management, leasing, brokerage and management services allow it to respond to the many demands of its existing and potential tenant base, and enable it to provide its tenants cost effective services such as build-to-suit construction and space modification, including tenant improvements and expansions. In addition, the breadth of the Company's capabilities and resources, particularly its in-house leasing and third-party brokerage services, provides it with market information not generally available and gives the Company increased access to development, acquisition and management opportunities. The Company believes that the operating efficiencies achieved through its fully integrated organization also provide a competitive advantage in setting its lease rates and pricing other services.

## **RECENT DEVELOPMENTS**

### **PENDING ACQUISITION OF CROCKER REALTY TRUST, INC.**

**GENERAL.** On April 29, 1996, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Crocker Realty Trust, Inc., a Maryland corporation ("Crocker"). As a result of the Merger, Highwoods will acquire 58 suburban office properties and 12 service center properties (the "Crocker Properties") located in 15 Southeastern markets in Florida, North Carolina, South Carolina, Tennessee, Georgia, Virginia and Alabama. The Crocker Properties encompass 5.7 million rentable square feet and, at March 31, 1996, were 95% leased. For a description of the properties to be acquired in the Merger, see "Business and Properties -- The Crocker Properties."

Through the Merger, the Company will establish itself as one of the largest real estate operating companies in the Southeastern United States, specializing in the ownership, management, acquisition and development of suburban office and industrial properties. Upon consummation of the Merger, the Company will have offices in North Carolina's three major markets, the Research Triangle, the Piedmont Triad and Charlotte; as well as in Richmond, Virginia; Nashville and Memphis, Tennessee; and Tampa and Boca Raton, Florida. Following the Merger, the Company will own 160 suburban office properties and 110 industrial (including 74 service center) properties (the "Properties"), totaling 15.9 million rentable square feet. At March 31, 1996, the Properties were 94% leased. The Company believes that the Merger provides Highwoods a unique investment opportunity for future growth by allowing the Company to expand and diversify its operations to growth-oriented markets throughout the Southeast. Seventeen of the Crocker Properties are located in existing Company markets, and the Company's substantial real estate experience in these markets should allow for management and operational cost savings due to economies of scale. In addition, the Crocker transaction

enhances the Company's opportunities to engage in single accretive acquisitions and developments in each of the Company's markets due to the inherent cost savings of previously established local real estate management and infrastructure.

Under the terms of the Merger Agreement, the Company will acquire all of the outstanding capital stock of Crocker in exchange for a cash payment of \$11.02 per share, subject to certain adjustments. Based on Crocker's 26,981,087 million shares of outstanding capital stock at May 31, 1996, the purchase price will total approximately \$297 million. In addition, the Company will cash out certain existing options and warrants to purchase Crocker common stock for an estimated \$4.2 million and assume approximately \$240 million of Crocker's currently outstanding indebtedness, having a weighted average interest rate of 8.6%. In connection with the Merger, the Company has also entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with AP CRTI Holdings, L. P. (an affiliate of Apollo Real Estate Advisors), AEW Partners, L.P. (an investment partnership advised by Aldrich Eastman Waltch), and Crocker's three senior executives (Thomas J. Crocker, Richard S. Ackerman and Robert E. Onisko), who together own approximately 83% of Crocker's outstanding common stock (collectively, the "Crocker Selling Stockholders"), which obligates such stockholders to sell their shares to the Company at a cash price of \$11.02, subject to the same adjustments as required under the Merger Agreement. The approximately \$247 million purchase price of such shares is part of the total approximately \$297 million purchase price for all of Crocker's outstanding shares.

As part of the Merger, for a period of one year following the closing, the Company has agreed to provide all employees of Crocker who continue with the Company with cash compensation and employee benefits at least equal to what was in existence at the closing date. In addition, for a period of six years following the closing, the Company has agreed to provide officers and directors of Crocker with indemnification coverage and liability insurance at the same level as existed prior to the Merger.

Under the terms of the Merger Agreement and the Stock Purchase Agreement, the right of the Company, Crocker or the Crocker Selling Stockholders to terminate the respective agreements is generally limited to the following: (i) the failure of Crocker to qualify as a REIT under Sections 856-860 of the Code; (ii) the failure of Crocker's stockholders to approve the Merger; (iii) the failure to obtain the consent to the transaction by certain of Crocker's lenders; (iv) Crocker's failure to comply with its covenants to continue to operate the business prior to the Merger within certain specified parameters; and (v) the existence of any order, judgement, decree, injunction or ruling of a court of competent jurisdiction restraining, enjoining or prohibiting consummation of the Merger. Under the terms of the Stock Purchase Agreement, the Crocker Selling Stockholders have agreed and granted irrevocable proxies to the Company, to vote in favor of the Merger. As a result, either through the acquisition of the Crocker Selling Stockholders' stock in Crocker or through exercise of the proxy, the Company can assure that Crocker's stockholders will approve the Merger. Under Maryland law, Crocker's stockholders do not have dissenters' rights in connection with the Merger Agreement and the consummation of the transactions contemplated thereby. Furthermore, the consummation of the Merger Agreement and the Stock Purchase Agreement by the Company is not subject to the approval of the Company's stockholders.

Under the terms of the Merger Agreement, Crocker will distribute certain of its assets and liabilities, which are not being acquired by the Company, to an entity to be owned by all or a portion of Crocker's stockholders (the "Crocker Distribution Entity"). The distributed assets comprise (i) approximately 258 acres of undeveloped land near or adjacent to certain of the Crocker Properties; (ii) partnership interests in two office properties in which Crocker only holds a partial joint venture interest; and (iii) rights under certain existing contracts or letters of intent to purchase from third parties certain office properties and undeveloped land (collectively, the "Excluded Assets"). The Excluded Assets have a current book value of approximately \$17.7 million. All costs (including any tax liabilities) associated with the distribution of the Excluded Assets will be borne by the Crocker Distribution Entity. The Crocker Distribution Entity will also (i) assume the liability, if any, relating to certain existing litigation involving one of Crocker's senior officers or will agree to reimburse the Company for the costs of insuring in full any such liability and (ii) enter into a lease agreement with Crocker that obligates it to pay Crocker, as a subsidiary of the Operating Partnership, a sum of \$1.8 million over a two-year period following the consummation of the Merger.

The Crocker Distribution Entity will also bear certain of Crocker's costs associated with the Merger. Under the terms of the Merger Agreement, (i) the Crocker Distribution Entity shall reimburse Crocker for the excess, if any, of the Designated Transaction Expenses (as hereinafter defined) over \$9,150,000 and (ii) Crocker shall pay to the Crocker Distribution Entity 50% of the excess, if any, of \$8,600,000 over the Designated Transaction Expenses. "Designated Transaction Expenses" shall mean expenses incurred by Crocker in connection with its proposed public offering, which was terminated as a result of the Merger, or in connection with the Merger Agreement and the Merger only in the

following categories: (i) fees and expenses of legal counsel; (ii) fees and expenses of accountants; (iii) fees and expenses of investment bankers and appraisers; (iv) printing expenses; (v) severance payments to employees (including officers); (vi) payments to Crocker's three senior executives in connection with the release of certain stock options held by them; and (vii) amounts due, if any, to any solicitation agent in connection with the exercise of Crocker's outstanding public warrants, which will be cashed out by Highwoods upon their exercise at a price equal to \$1.02 per share (the difference between their exercise price of \$10.00 per share and the \$11.02 per share merger consideration), subject to adjustment for changes in the purchase price per share of Crocker's common stock under the Merger Agreement.

**MANAGEMENT OF CROCKER PROPERTIES.** Upon completion of the Merger (or if earlier, June 30, 1996), Crocker's three senior officers, Thomas J. Crocker, Richard S. Ackerman and Robert E. Onisko, will resign as officers and directors of Crocker. In connection with their resignation, they will receive certain severance benefits, totaling in the aggregate, approximately \$5.1 million, which includes payments related to the cashing out of their respective stock options and warrants. As part of the severance agreements, the three senior officers have agreed not to compete with the Company within the city limits of Boca Raton, Florida, for periods ranging from 12 months (Mr. Onisko) to 18 months (Messrs. Crocker and Ackerman), except with respect to contracts that Mr. Crocker has to manage certain office projects owned by third parties and with respect to a mixed-use retail and office complex known as Mizner Park, which is owned by Mr. Crocker. See "Risks Factors -- Risks Associated with Rapid Growth."

Following the consummation of the Merger, Highwoods will retain the services of several key Crocker employees who will be responsible for managing a significant portion of the Crocker Properties. Thomas F. Cochran will manage the Company's business in Charlotte, North Carolina, Greenville, South Carolina, and Atlanta, Georgia and will serve as vice president. Mr. Cochran served as senior vice president for NationsBank from 1987 to 1993 where he was responsible for development and asset management of 47 of the properties in the Crocker portfolio. In 1993 he joined Patriot American Asset Management Corporation where he was a senior vice president and managed the portfolio. He became senior vice president with Crocker after the merger in 1995 between Crocker Realty Investors, Inc., and Southeastern Realty Corp., which owned the 47 properties. Michael E. Harris will manage the Company's business in the Memphis, Tennessee area, and will serve as vice president. Mr. Harris joined Crocker in January 1996 in connection with Crocker's acquisition of a portfolio of properties owned by Towermarc Corporation. While at Crocker, he managed the Memphis region. From 1981 to 1996, he served as senior vice president, general counsel and chief financial officer of Towermarc Corporation where he developed and managed approximately 2.0 million square feet of properties. Scott I. Peek, Jr. will manage the Company's business in the Tampa, Orlando and Jacksonville, Florida areas and will serve as vice president. Mr. Peek served as vice president with Towermarc Corporation from 1992 to 1996 prior to Crocker's acquisition of Towermarc's real estate holdings in January 1996. While with Towermarc, he was responsible for the leasing, property management and development activities of its Tampa and Jacksonville regions. After joining Crocker, he held a similar role in the Tampa region. Timothy F. Wallace will manage the Boca Raton division. Mr. Wallace has served as an assistant vice president at Crocker since 1993. His duties include asset management, leasing, construction management and marketing for Crocker's Boca Raton operations.

**SUBSIDIARIES OF CROCKER.** Crocker holds the 70 Crocker Properties through two partnerships and three corporations. Forty-six of the Crocker Properties are held by AP Southeast Portfolio Partners, L.P. (the "Financing Partnership"), a Delaware limited partnership that was formed on November 17, 1993 for the sole purpose of acquiring such properties from NationsBank of North Carolina, N.A., as trustee for the NCNB Real Estate Fund. (See " -- Financing Activities and Liquidity" for a description of the mortgage note that is secured by the 46 properties owned by the Financing Partnership.) AP Fontaine III Partners, L.P. is a Delaware limited partnership formed on October 28, 1993 for the sole purpose of acquiring one of the Crocker Properties. Neither partnership has employees and their activities are carried out by Crocker and its subsidiaries. Directly or indirectly, Crocker owns 100% of such partnerships. Three corporate subsidiaries hold the remaining 23 Crocker Properties as follows: three are owned by Crocker Realty Investors, Inc., a Florida corporation, 15 are owned by CRT Florida Holdings, Inc., a Florida corporation, and five are owned by CRT Tennessee Holdings Corp., a Tennessee corporation.

Crocker conducts its property management business through Crocker Realty Management, Inc. (the "Management Subsidiary"), a real estate operating company specializing in development, construction management, property management and leasing of office buildings and mixed-use properties. In addition to the Crocker Properties, the Management Subsidiary currently manages approximately 2.2 million square feet of commercial property, 70% of which space (representing 83% of Crocker's third-party revenue) is owned or managed by Thomas J. Crocker or Richard S. Ackerman and which is not expected to be managed by the Company after the Merger.

**TRANSACTION STRUCTURE.** Under the terms of the Merger Agreement, Cedar Acquisition Corporation ("Cedar"), a newly formed subsidiary of Highwoods, will merge into Crocker with Highwoods becoming the sole shareholder of Crocker. Highwoods intends to contribute the shares of common stock of Crocker to the Operating Partnership in exchange for Units. As a result, Crocker would become a subsidiary of the Operating Partnership. Except for the Federal and state income taxes that might be payable upon the distribution of the Excluded Assets, which taxes are to be paid by the Crocker Distribution Entity, the Merger has been structured to defer any tax recognition to Crocker at the corporate or subsidiary level. To accomplish this, the Company intends to maintain Crocker's separate status as an operating REIT. To maintain Crocker's REIT status, the Company intends to cause Crocker to sell a sufficient amount of common stock to at least 110 individuals to enable Crocker to meet the test for qualification of a REIT under Section 856(a)(5) of the Code. The aggregate amount of common stock to be issued to such minority stockholders is not expected to exceed 1.0% of the equity of Crocker. The Merger will be accounted for by the Company under the purchase method of accounting in accordance with Accounting Principles Board Opinion No. 16, "Business Combinations," as amended. Under this method of accounting, the purchase price will be allocated to assets acquired and liabilities assumed based on their estimated fair value at the closing date of the Merger.

**FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER.** The Merger is a taxable purchase of 100% of the outstanding stock of Crocker which will be taxable to the selling stockholders of Crocker but, except as described below relative to the Excluded Assets, will not be taxable at the Crocker corporate or subsidiary level. The Company's tax basis in its Crocker stock will be equal to the total cash it pays in the Merger for the Crocker stock, stock options and warrants. No gain or loss will result to the Company from the Merger. Crocker, however, may have corporate level taxable income and income tax liability due to the transfer of the Excluded Assets to the Crocker Distribution Entity or the transfer of the ownership interests in the Crocker Distribution Entity to some or all of the Crocker stockholders. Any tax liabilities arising from the transactions related to the Excluded Assets or the Crocker Distribution Entity will be borne by the Crocker Distribution Entity. Following the Merger, the Company will transfer all of the stock of Crocker to the Operating Partnership in exchange for Units and the settlement of certain intercompany indebtedness that was used to finance the Merger. This transaction will be a nontaxable transfer of property to a partnership in exchange for ownership interests in the partnership. The Company's tax basis in the Units so acquired will be equal to its tax basis in the Crocker stock transferred to the Operating Partnership, and no gain or loss will be realized by Crocker, the Company or the Operating Partnership as a result of this transaction.

The Company expects Crocker at all times to maintain its status as a REIT. As discussed in "Transaction Structure" above, Crocker or the Company will sell shares of Crocker common stock to individuals sufficient for Crocker to meet the REIT qualification requirement of 100 stockholders. Crocker and the Company also intend that Crocker will continue to be organized and operated so as to maintain its qualification as a REIT. Since the ownership of Crocker stock by the Operating Partnership is considered to be the ownership of a real estate asset for purposes of the REIT qualification tests and since distributions received from a REIT are income included in both the 95% and 75% income tests of Code Sections 856(c)(2) and (3), the Company's qualification as a REIT should not be affected by the acquisition and ownership of Crocker. If, however, Crocker fails to qualify as a REIT for any reason while its shares are owned by the Company or the Operating Partnership, the Company will no longer qualify as a REIT and the Company would be taxed as if it were a domestic corporation and its stockholders would be taxed in the same manner as stockholders of ordinary corporations. In that event, the Company could be subject to potentially significant tax liabilities and, therefore, the amount of cash available for distribution to its stockholders would be substantially reduced or eliminated. See "Risk Factors -- Risk of Failure of Crocker to Qualify as a REIT."

The Company believes, and Crocker has represented, that commencing with Crocker's taxable year ended December 31, 1995, Crocker has operated in such a manner so as to meet the Code requirements for qualification as a REIT. Crocker's qualification as a REIT is a condition to the Company's obligation to consummate the Merger.

## **EAKIN & SMITH TRANSACTION**

On April 1, 1996, the Company completed a merger with Eakin & Smith and its affiliates ("Eakin & Smith") combining their property portfolios, management teams and business operations. Through the combination, the Company succeeded to the ownership of seven suburban office buildings totaling 848,000 square feet, a 103,000-square-foot suburban office development project, 18 acres of development land and Eakin & Smith's brokerage and property management operations. All the properties and development land are located in Nashville, Tennessee. At March 31, 1996, the properties acquired in the transaction were 97% leased.

The aggregate cost to the Company of the Eakin & Smith Transaction, assuming the completion of the in-process development project, was approximately \$98.5 million payable through the issuance of 537,138 limited partnership units of the Operating Partnership and 489,421 shares of Common Stock, the assumption of \$37 million of indebtedness (with a weighted average fixed rate of 8.0%), and cash payments of approximately \$33 million. The cost excludes deferred payments of up to 54,056 shares of Common Stock, which are attributable to Eakin & Smith's brokerage and property management operation. A total payment of 13,514 shares of Common Stock will be made to the three principals of Eakin & Smith, Inc. for each of the first four 12-month periods following the combination in which third-party service revenue attributable to the Eakin & Smith brokerage and property management operations exceeds \$2,000,000.

As part of the Eakin & Smith Transaction, the three principals of Eakin & Smith, Inc. received options to purchase 105,000 shares of common stock at \$27.50 per share. Such options vest in four equal annual installments beginning with the second anniversary of the date of grant. Such principals also received warrants to purchase 150,000 shares of Common Stock for \$28.00 per share. In addition, John W. Eakin and Thomas S. Smith were added to the Company's Board of Directors. The third principal, W. Brian Reames, has also remained with the Company.

## DEVELOPMENT ACTIVITY

The following table summarizes the three development projects placed in service by the Company during 1996:

PROPERTY	PROPERTY TYPE	LOCATION	RENTABLE SQUARE FEET	INITIAL COST
Hewlett Packard	Office	Piedmont Triad	15,000	\$ 1,000,000
Global Software	Office	Research Triangle	92,700	7,500,000
Regency One	Industrial	Piedmont Triad	127,600	3,500,000
Total			235,300	\$12,000,000

The Company has eight suburban office properties and one industrial property under development totaling 791,000 square feet of space. The following table summarizes these projects:

OFFICE PROPERTIES	LOCATION	RENTABLE SQUARE FEET	ESTIMATED COST	PERCENT RELEASED	ESTIMATED COMPLETION DATE
MSA	Research Triangle	57,000	\$ 6,200,000	100%	4Q96
Healthsource	Research Triangle	180,000	14,400,000	100	4Q96
One Shockoe Plaza	Richmond	118,000	15,000,000	100	4Q96
Highwoods One	Richmond	126,000	12,500,000	0	4Q96
Situs One	Research Triangle	58,000	5,100,000	58	4Q96
Maryland Way	Nashville	103,000	11,500,000	50	4Q96
Inacom	Piedmont Triad	13,000	900,000	100	4Q96
North Park	Research Triangle	40,000	4,000,000	40	1Q97
Total or Weighted Average		695,000	\$69,600,000	67%	
INDUSTRIAL PROPERTY					
Regency Two	Piedmont Triad	96,000	\$ 2,800,000	39%	4Q96
Total or Weighted Average		791,000	\$72,400,000	66%	

Following the Merger, the Company will continue Crocker's development of an approximately 81,000-square foot office building in Center Point Office Park in Columbia, South Carolina. Crocker owns the other office building in the park, which building was 100% leased at March 31, 1996. The total cost of the project is expected to be approximately \$7.6 million, including the purchase of the land. Pursuant to a contract entered into with the contractor, the construction costs are fixed. The building is expected to be completed in the fourth quarter of 1996 and is approximately 50% pre-leased.

## **OTHER PENDING ACQUISITIONS**

The Company has entered into agreements to acquire two suburban office properties: one in Richmond, Virginia and the other in Nashville, Tennessee. The properties encompass 155,000 square feet in the aggregate and will be acquired at a total cost of \$15.3 million. The purchase price will be funded through a \$10.4 million cash payment and the assumption of a \$4.9 million, 8.75% non-recourse mortgage loan. Additionally, the Company has entered into a letter of intent to acquire two suburban office properties totaling 224,000 square feet and three acres of land in Nashville and Charlotte in exchange for 305,438 Units and \$5.7 million in cash.

## **FINANCING ACTIVITIES AND LIQUIDITY**

Set forth below is a summary description of the Company's recent financing activities:

**CREDIT FACILITY.** In March 1996, the Company closed on a \$140 million unsecured credit facility (the "Credit Facility"), which replaced an \$80 million secured facility. The Credit Facility is with NationsBank, First Union National Bank of North Carolina and Wachovia Bank of North Carolina and requires monthly payment of interest and matures on September 30, 1999. The initial interest rate on the Credit Facility is LIBOR plus 150 basis points. The interest rate will adjust based on the Company's senior unsecured credit rating within a range of LIBOR plus 100 basis points to LIBOR plus 175 basis points. The replacement of the secured facility with the Credit Facility enhanced the Company's financial flexibility by releasing the liens on 24 properties with a book value of approximately \$226 million.

**FINANCING OF THE EAKIN & SMITH TRANSACTION.** The Company financed the Eakin & Smith Transaction through the issuance of 537,138 Units of the Operating Partnership and 489,421 shares of Common Stock, the assumption of \$37.0 million of mortgage indebtedness and a \$26.6 million draw on the Credit Facility. The mortgage indebtedness assumed has an average fixed rate of approximately 8% and an average remaining life of approximately six years. Approximately \$5.5 million of the mortgage indebtedness is fixed at a rate of 7.7% to the maturity date of the underlying debt through the use of an interest rate swap. Further, the Company entered into a five-year, \$7.0 million interest rate swap agreement that commences in January 1997 and effectively fixes \$7.0 million of the Company's variable rate debt at 8.0%.

**FINANCING OF THE PENDING MERGER.** In connection with the Merger, the Company obtained a commitment from NationsBank and First Union National Bank of North Carolina for a \$250 million revolving line of credit (the "Revolving Loan"). The Revolving Loan will replace the Credit Facility and will be used together with the proceeds from the Offering to fund the Merger.

The Revolving Loan will be unsecured for the first nine months and will bear interest at a rate of LIBOR plus 150 basis points. After the initial nine-month period, the Revolving Loan will either convert to a secured loan with a maturity date two years from its closing date or to an unsecured loan maturing on July 31, 1999. The Revolving Loan will remain unsecured if the Company generates at least \$300 million of net proceeds from equity offerings (including the proceeds from this Offering) during the initial nine-month period and meets the following financial covenants:

(i) adjusted net operating income divided by total liabilities of not less than 16.5%; (ii) total liabilities not greater than 45% of market capitalization; (iii) tangible net worth of not less than \$700 million, which amount shall be increased by not less than 85% of the net proceeds of any future offerings of the Company's capital stock (including this Offering); (iv) a ratio of total liabilities to total assets at cost of no more than .50 to 1.0; (v) a ratio of earnings before interest, income tax, depreciation and amortization to interest expense plus capital expenditures of not less than 2.5 to 1.0; (vi) a ratio of unencumbered assets to unsecured debt of not less than 2.25 to 1.0; (vii) a ratio of secured debt to total assets of not more than .30 to 1.0; (viii) a ratio of adjusted net operating income as derived from unencumbered assets to interest expense paid on unsecured debt of not less than 2.25 to 1.0; and (ix) a ratio of adjusted net operating income derived from unencumbered assets to unsecured debt of not less than .18 to 1.0.

If the Revolving Loan remains unsecured after the initial nine-month period, it would have an interest rate that ranged from LIBOR plus 100 basis points to LIBOR plus 175 basis points based on the Company's senior unsecured credit rating. If the loan converts to a secured facility, the Company will be required to pledge assets at least equal in value to 60% of the outstanding amount of the Revolving Loan and the interest rate will equal LIBOR plus 175 basis points.

Also in connection with the Merger, the Company will assume approximately \$239.5 million of indebtedness at an average rate of 8.57%. This indebtedness includes: (i) a \$140 million mortgage note (the "Mortgage Note") with a fixed rate of 7.9% (ii) variable rate mortgage loans in the aggregate amount of \$69.4 million with a weighted average interest rate of 9.4% at March 31, 1996 and (iii) fixed rate mortgage loans in the amount of \$30.1 million with a weighted average interest rate of 9.8%.

The Mortgage Note is a conventional, monthly pay, first mortgage note in the principal amount of \$140 million issued by the Financing Partnership. The Mortgage Note is a limited recourse obligation of the Financing Partnership as to which, in the event of a default under the Indenture or the Mortgage, recourse may be had only against the specific 46 Properties (the "Mortgage Note Properties") and other assets that have been pledged as security therefor. The Mortgage Note was issued to Kidder Peabody Acceptance Corporation I pursuant to an Indenture, dated March 1, 1994 (the "Indenture"), among the Financing Partnership, Bankers Trust Company of California, N.A., and Bankers Trust Company.

The Mortgage Note bears interest on its outstanding principal balance at the rate of 7.88% per annum, subject to increase in the event of a default in the payment of any amount due, and matures on January 3, 2001. The Mortgage Note provides for scheduled monthly payments of interest only, which are due on the first business day of each calendar month.

The Mortgage Note is secured by a blanket, first mortgage lien on the Mortgage Note Properties (the "Mortgage"). The Mortgage Note is further secured by (i) a first priority assignment of all present and future leases encumbering portions of those Properties, (ii) a security interest in any personal property owned by Financing Partnership and (iii) a collateral assignment of the right, title and interest of the Financing Partnership in and rights to all management agreements relating to those Properties. As an additional security for the Mortgage Note, the Financing Partnership maintains with the Banker's Trust Company various "sweep accounts," a central cash collateral account (the "Cash Collateral Account") and a contingency reserve account (the "Contingency Reserve Account"). All rents with respect to the Mortgage Note Properties are made payable to, and deposited directly in, the sweep accounts, which are then transferred to the Cash Collateral Account, and all other property income and capital event proceeds are deposited into the Cash Collateral Account promptly upon receipt thereof. Cash of at least \$7 million (the "Contingency Reserve") is maintained in the Contingency Reserve Account.

The Indenture provides for a lockout period which prohibits optional redemption payments in respect of principal of the Mortgage Note (other than the premium-free redemption payment described below) prior to November 22, 1998. Thereafter, the Financing Partnership may make optional redemption payments in respect of principal of the Mortgage Note on any distribution date, subject to the payment of a yield maintenance charge in connection with such payments made prior to August 1, 2000. Notwithstanding the foregoing, the Financing Partnership may be required to make payments in respect of the principal of the Mortgage Note in certain limited circumstances and the Financing Partnership has a one-time right, exercisable at any time during the term of the Mortgage Note, to make the premium-free redemption payment in a principal amount not to exceed \$7 million, without any applicable yield maintenance charges.

Covenants in the Indenture restrict the Financing Partnership from, among other things, engaging in any business or activity other than that in connection with or relating to the ownership and operation of the Mortgage Note Properties, incurring, creating or assuming any indebtedness or encumbrance other than the Mortgage Note and as otherwise expressly permitted under the Indenture, or liquidating or dissolving or entering into any consolidation or merger. The Indenture also restricts the Financing Partnership's right to terminate any of its leases, and requires the Financing Partnership to maintain or cause the tenants to maintain specified insurance coverage, including rental loss insurance covering annual gross rentals net of noncontinuing expenses for a period of not less than two years.

Under the terms of the purchase agreement relating to the Mortgage Note Properties, the Financing Partnership may be obligated to pay NationsBank a deferred contingent purchase price. This contingent payment, which will in no event exceed \$4.4 million, is due on April 1, 1998 if the actual four-year cumulative cash flow of such Properties exceeds the projected four-year cumulative cash flow. Based on Crocker's estimates of future operations, the Company does not believe that any deferred contingent purchase price will be payable.

The Company is currently considering various alternatives related to the \$99.5 million of indebtedness to be assumed in the Merger other than the Mortgage Note. The Company may repay this indebtedness with the proceeds from the issuance of either senior unsecured debt or conventional mortgage debt. To limit its exposure to increasing interest rates, the Company has entered into a forward-starting \$75 million interest rate swap agreement that commences on September 15, 1996. The interest rate swap matures on September 15, 2003 and will limit the Company's exposure to increases in interest rates on either \$75 million of LIBOR based floating rate borrowings or \$75 million of fixed rate debt issued in the future. Upon commencement of the interest rate swap, the Company will pay the counterparty a fixed rate of 7.02% while the counterparty will pay the Company an amount equal to 30-day LIBOR.

**PRO FORMA CAPITALIZATION.** Assuming completion of the Offering and the Merger, the Company's pro forma debt as of March 31, 1996 would have totaled \$554.8 million and would have represented 38% of total market capitalization (based on a stock price of \$26 7/8). The Company's pro forma interest coverage ratio (defined as income before minority interest plus depreciation and amortization and interest expense divided by contractual interest expense) for the quarter ended March 31, 1996 would have equaled 2.84x.

## **ORGANIZATIONAL CHANGES**

On May 20, 1996 the Company announced certain changes to its organizational structure, which will allow the Company to utilize its existing senior management for overall leadership while taking advantage of certain members of Crocker's management to integrate Crocker into the Highwoods organization. These changes will provide property and market specific experience to the combined portfolio. The Company believes that upon the completion of the Merger, approximately 85% of its portfolio will be managed and leased on a day-to-day basis by personnel that have previously managed, leased or developed the properties for which they are responsible.

In connection with the organizational changes, William T. Wilson, III was appointed to the newly created position of executive vice president and chief operating officer. Mr. Wilson will assume responsibility for all aspects of the Company's divisional operations and the Company's acquisition group. Prior to this appointment, he served as executive vice president and was responsible for the operations of the Forsyth division, which included the operations of the Piedmont Triad and Charlotte area properties. John E. Reece II will assume Mr. Wilson's responsibilities with respect to the Piedmont Triad area properties and will serve the Company as a vice president. Mr. Reece was previously responsible for the leasing, marketing and development activities of the Forsyth division. In addition, John W. Eakin has been appointed as senior vice president and will be responsible for operations in Tennessee (Nashville and Memphis), Alabama and Florida (Tampa, Boca Raton, Orlando and Jacksonville). Since joining the Company in April 1996 in connection with the Eakin & Smith Transaction, Mr. Eakin has been responsible for the Company's Nashville operations.

Upon completion of the Merger, Messrs. Cochran, Harris, Peek and Wallace will join the Company from Crocker as vice presidents with specific regional responsibility. See " -- Pending Acquisition of Crocker Realty Trust, Inc."



## USE OF PROCEEDS

The net proceeds to the Company from the sale of Common Stock offered hereby (the "Offering") are expected to be approximately \$253.9 million (approximately \$292.1 million if the Underwriters' over-allotment option is exercised in full). The Company intends to use the net cash proceeds of the Offering to fund a portion of the purchase price of all of the outstanding shares of Crocker, the balance of which is expected to be funded with borrowings under the Revolving Loan.

Pending such uses, the net proceeds may be invested in short-term income producing investments such as commercial paper, government securities or money market funds that invest in government securities.

## PRICE RANGE OF COMMON STOCK AND DISTRIBUTION HISTORY

The Common Stock has been traded on the NYSE under the symbol "HIW" since its initial public offering in June 1994. The following table sets forth the high and low closing sales prices per share reported on the NYSE for the periods indicated and the distributions paid per share for each such period.

PERIOD OR QUARTER	CLOSING PRICE PER SHARE	
	HIGH	LOW
June 7, 1994 through June 30, 1994.....	\$ 21 1/2	\$ 19 7/8
July 1, 1994 through September 30, 1994.....	21	20
October 1, 1994 through December 31, 1994.....	21 5/8	18 3/4
January 1, 1995 through March 31, 1995.....	22	20
April 1, 1995 through June 30, 1995.....	25 1/2	21 1/4
July 1, 1995 through September 30, 1995.....	26 7/8	23 7/8
October 1, 1995 through December 31, 1995.....	28 3/8	25 1/2
January 1, 1996 through March 31, 1996.....	30 1/2	27 3/4
April 1, 1996 through June 20, 1996.....	30 1/4	26 7/8

  

PERIOD OR QUARTER	DISTRIBUTIONS PER SHARE	
June 7, 1994 through June 30, 1994.....	\$.075 (1)	
July 1, 1994 through September 30, 1994.....	.425	
October 1, 1994 through December 31, 1994.....	.425	
January 1, 1995 through March 31, 1995.....	.425	
April 1, 1995 through June 30, 1995.....	.450	
July 1, 1995 through September 30, 1995.....	.450	
October 1, 1995 through December 31, 1995.....	.450	
January 1, 1996 through March 31, 1996.....	.450	
April 1, 1996 through June 20, 1996.....	(.2)	

(1) No distribution was paid during this period. The accrued distribution of \$.075 per share was paid on November 16, 1994 at the time the Company paid its initial distribution for the period from inception to September 30, 1994.

(2) On June 3, 1996, the Company's Board of Directors declared a quarterly distribution of \$.48 per share (\$1.92 on an annualized basis) payable on August 21, 1996, to stockholders of record on August 9, 1996.

On June 20, 1996, the last reported sale price of the Common Stock on the NYSE was \$26 7/8 per share. On May 31, 1996, the Company had 521 stockholders of record.

The Company intends to continue to declare quarterly distributions on its Common Stock. However, no assurances can be given as to the amounts of future distributions as such distributions are subject to the Company's cash flow from operations, earnings, financial condition, capital requirements and such other factors as the Board of Directors deems relevant. The Company has determined that 100% of the per share distribution for 1994 and 93% of the per share distribution for 1995 represented ordinary income to the stockholders for income tax purposes. No assurance can be given that such percentage will not change in future years.

The Company has adopted a program for the reinvestment of distributions under which holders of Common Stock may elect automatically to reinvest distributions in additional Common Stock. The Company may, from time to time, repurchase Common Stock in the open market for purposes of fulfilling its obligations under this distribution reinvestment program or may elect to issue additional Common Stock.

## CAPITALIZATION

The following table sets forth the capitalization of the Company as of March 31, 1996 and on a pro forma basis assuming (i) the issuance of the 10,000,000 shares of Common Stock offered hereby and the anticipated use of the net proceeds thereof as described under "Use of Proceeds" and (ii) the Eakin & Smith Transaction and the Merger had occurred as of March 31, 1996. The information set forth in the table should be read in conjunction with the financial statements and the notes thereto incorporated herein by reference and the pro forma financial information and the notes thereto included elsewhere in this Prospectus Supplement and the consolidated financial statements and notes thereto incorporated by reference into the accompanying Prospectus.

	MARCH 31, 1996	
	HISTORICAL	PRO FORMA
	(DOLLARS IN THOUSANDS)	
Debt:		
Mortgages and notes payable.....	\$ 175,218	\$ 451,747
Credit Facility.....	21,500	103,084
Minority interest in Operating Partnership.....	73,440	88,212
Shareholders' Equity:		
Common Stock, \$.01 par value; 100,000,000 authorized; 19,407,641 and 29,897,062 respectively, issued and outstanding (1).....	194	299
Additional paid-in capital.....	355,248	622,502
Distributions in excess of net earnings.....	(2,933)	(2,933)
Total shareholders' equity.....	352,509	619,868
Total capitalization.....	\$ 622,667	\$1,262,911

(1) Excludes (a) 3,732,452 (historical) and 4,269,590 (pro forma) shares of Common Stock that may be issued upon redemption of Units (which are redeemable by the holder for cash or, at the Company's option, shares of Common Stock on a one-for-one basis) issued in connection with the formation of the Company and subsequent property acquisitions, (b) 890,500 shares of Common Stock reserved for issuance upon exercise of options granted pursuant to the Amended and Restated 1994 Stock Option Plan, (c) 250,000 shares of Common Stock that may be issued upon the exercise of warrants granted to certain officers in connection with certain property acquisitions, (d) 40,000 shares of Common Stock that may be issued upon redemption of Units that may be issued in connection with certain property acquisitions and (e) 54,056 shares of Common Stock that may be issued in connection with the Eakin & Smith Transaction.

## SELECTED FINANCIAL DATA

The following table sets forth selected financial and operating information for the Company on a pro forma basis for the year ended December 31, 1995 and as of and for the three months ended March 31, 1996. The following table also sets forth selected financial and operating information on an historical basis for the Company for the period from June 14, 1994 (commencement of operations) to December 31, 1994, for the year ended December 31, 1995 and for the three months ended March 31, 1996 and 1995. The following information should be read in conjunction with the financial statements and notes thereto incorporated by reference herein and the pro forma financial statements and notes thereto included and incorporated by reference herein.

The pro forma operating data for the year ended December 31, 1995 assumes that the Forsyth Transaction, the Research Commons Acquisition, the Other Acquisitions, the Second Offering, the Third Offering, the Eakin & Smith Transaction, the Merger and this Offering all occurred as of January 1, 1995. The pro forma balance sheet as of March 31, 1996 assumes that this Offering, the Eakin & Smith Transaction and the Merger all occurred on March 31, 1996. The pro forma operating data for the three months ended March 31, 1996 assumes that this Offering, the Eakin & Smith Transaction and the Merger occurred as of January 1, 1995.

The pro forma information is based upon certain assumptions that are included in the notes to the pro forma financial statements incorporated by reference herein and the pro forma financial statements included elsewhere in this Prospectus Supplement. The pro forma financial information is unaudited and is not necessarily indicative of what the financial position and results of operations of the Company would have been as of and for the periods indicated, nor does it purport to represent the future financial position and results of operations for future periods.

	PRO FORMA THREE MONTHS ENDED MARCH 31, 1996	HISTORICAL THREE MONTHS ENDED MARCH 31, 1996	1995	PRO FORMA YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1995	JUNE 14, 1994 TO DECEMBER 31, 1994
OPERATING DATA:						
Total revenue.....	\$ 45,850	\$ 23,757	\$ 12,846	\$172,142	\$ 73,522	\$ 19,442
Rental property operating expenses.....	13,437(1)	6,154(2)	3,053(2)	46,225(1)	17,049(2)	5,110(2)
General and administrative....	1,284	934	523	4,218	2,737	810
Interest expense.....	11,739	3,951	2,470	48,122	13,720	3,220
Depreciation and amortization.....	6,755	3,716	1,921	26,587	11,082	2,607
Income before minority interest.....	12,635	9,002	4,879	46,990	28,934	7,695
Minority interest.....	(1,579)	(1,571)	(800)	(5,874)	(4,937)	(808)
Income before extraordinary item.....	11,056	7,431	4,079	41,116	23,997	6,887
Extraordinary item-loss on early extinguishment of debt.....	--	--	(875)	--	(875)	(1,273)
Net income.....	\$ 11,056	\$ 7,431	\$ 3,204	\$ 41,116	\$ 23,122	\$ 5,614
Net income per common share...	\$ 0.37	\$ 0.38	\$ 0.29	\$ 1.38	\$ 1.49	\$ .63
BALANCE SHEET DATA (AT END OF PERIOD):						
Real estate, net of accumulated depreciation....	\$1,225,525	\$602,276	\$429,556	\$ --	\$593,066	\$207,976
Total assets.....	1,288,157	632,644	455,909	--	621,134	224,777
Total mortgages and notes payable.....	554,831	196,718	140,698	--	182,736	66,864
OTHER DATA:						
Number of in-service properties.....	268	191	108	--	191	44
Total rentable square feet....	15,727,000	9,211,000	6,914,000	--	9,215,171	2,746,219

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

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

## BUSINESS AND PROPERTIES

### GENERAL

The Company owns 102 suburban office properties and 98 industrial properties (the "Highwoods Properties"), which are located in the Research Triangle, the Piedmont Triad and Charlotte, North Carolina; Nashville, Tennessee; and Richmond, Virginia. The Company's office properties are mid-rise and single-story suburban office buildings. Its industrial properties include 36 warehouse and bulk distribution facilities and 62 service center properties. The Company's service center properties are generally at least 50% office finish and are suitable for office, retail, light industrial and warehouse uses. One hundred and eighty-three of the Highwoods Properties are in 31 business parks, 12 of which were developed by the Company. In the aggregate, the Company developed 88 of the Highwoods Properties. The Company provides management and leasing services for 191 of its 200 properties. See " -- The Highwoods Properties."

Upon consummation of the Merger, the Company will own an additional 58 suburban office properties and 12 service center properties (the "Crocker Properties"). The Crocker Properties are in 15 markets in Florida, North Carolina, South Carolina, Tennessee, Georgia, Virginia and Alabama, including four markets in which the Company owns properties (Charlotte, the Research Triangle and the Piedmont Triad, North Carolina and Nashville, Tennessee). Sixty-three of the Crocker Properties are located in business parks. See " -- The Crocker Properties."

The following table sets forth certain information about the Highwoods Properties and Crocker Properties (collectively, the "Properties") at March 31, 1996.

	ANNUALIZED RENTAL REVENUE (1)		
	OFFICE PROPERTIES	INDUSTRIAL PROPERTIES (2)	TOTAL
Highwoods Properties.....	\$ 86,585,628	\$ 16,053,429	\$102,639,057
Crocker Properties.....	58,467,277	8,919,366	67,386,643
Total.....	\$145,052,905	\$ 24,972,795	\$170,025,700

  

	RENTABLE SQUARE FEET		
	OFFICE PROPERTIES	INDUSTRIAL PROPERTIES (2)	TOTAL
Highwoods Properties.....	6,389,737	3,674,951	10,064,688
Crocker Properties.....	4,449,739	1,212,084	5,661,823
Total.....	10,839,476	4,887,035	15,726,511

  

	PERCENT LEASED		
	OFFICE PROPERTIES	INDUSTRIAL PROPERTIES (2)	WEIGHTED AVERAGE
Highwoods Properties.....	95%(3)	91%(4)	94%
Crocker Properties.....	95(5)	93(6)	95
Weighted average.....	95%	92%	94%

  

	WEIGHTED AVERAGE AGE (YEARS) (7)		
	OFFICE PROPERTIES	INDUSTRIAL PROPERTIES (2)	WEIGHTED AVERAGE
Highwoods Properties.....	10.4	9.2(8)	10.2
Crocker Properties.....	8.9	11.2	9.2
Weighted Average (5).....	9.8	9.7	9.8

(1) Annualized Rental Revenue is March 1996 rental revenue (base rent plus operating expense pass throughs) multiplied by 12.

(2) Includes 74 service center properties, 12 of which are Crocker Properties.

(3) Includes 23 single-tenant properties comprising 1.5 million rentable square feet and 61,000 rentable square feet leased but not occupied.

(4) Includes 17 single-tenant properties comprising 1.0 million rentable square feet and 27,000 rentable square feet based but not occupied.

(5) Includes 13 single-tenant properties comprising 861,000 rentable square feet and 68,000 rentable square feet leased but not occupied.

(6) Includes three single-tenant properties comprising 258,000 rentable square feet and 14,000 square feet leased but not occupied.

(7) Weighted according to Annualized Rental Revenue.

(8) Excludes Ivy Distribution Center. Ivy is a 400,000-rentable square foot warehouse, which was constructed in stages. A portion of the building was built in 1930; major expansions took place in the mid-1940s, mid-1950s and 1981. In 1989, the entire property was renovated to convert it from a manufacturing facility to a warehouse.

## PROPERTY LOCATIONS

Upon consummation of the Merger, the Company will own properties in 16 markets located in the Southeastern United States (the "Company Markets"). The following table sets forth certain information about the Properties in each of the Company Markets at March 31, 1996.

	OFFICE PROPERTIES	INDUSTRIAL PROPERTIES	TOTAL PROPERTIES	TOTAL RENTABLE SQUARE FEET	PERCENT OF TOTAL RENTABLE SQUARE FEET	ANNUALIZED RENTAL REVENUE
Research Triangle, NC.....	61	4	65	4,078,229	25.9%	\$ 53,994,987
Piedmont Triad, NC.....	23	78	101	4,296,563	27.3	27,684,440
Nashville, TN.....	7	3	10	1,192,511	7.6	15,095,578
Tampa, FL.....	20	--	20	1,155,483	7.4	14,170,231
Charlotte, NC.....	12	16	28	1,253,847	8.0	13,088,036
Boca Raton, FL.....	3	--	3	506,834	3.2	9,682,756
Greenville, SC.....	5	2	7	687,150	4.4	7,501,621
Memphis, TN.....	5	--	5	382,131	2.4	7,232,995
Richmond, VA.....	10	1	11	481,908	3.1	5,284,603
Atlanta, GA.....	2	3	5	706,745	4.5	4,948,214
Columbia, SC.....	5	--	5	318,713	2.0	4,011,072
Orlando, FL.....	2	--	2	200,796	1.3	2,011,534
Birmingham, AL.....	1	--	1	111,905	0.7	1,632,892
Norfolk, VA.....	1	1	2	179,006	1.1	1,481,603
Jacksonville, FL.....	1	--	1	50,513	0.3	1,104,854
Asheville, NC.....	1	1	2	124,177	0.8	1,100,284
Total.....	159	109	268	15,726,511	100.0%	\$170,025,700

	PERCENT OF TOTAL ANNUALIZED RENTAL REVENUE
Research Triangle, NC.....	31.8%
Piedmont Triad, NC.....	16.3
Nashville, TN.....	8.9
Tampa, FL.....	8.3
Charlotte, NC.....	7.7
Boca Raton, FL.....	5.7
Greenville, SC.....	4.4
Memphis, TN.....	4.2
Richmond, VA.....	3.1
Atlanta, GA.....	2.9
Columbia, SC.....	2.4
Orlando, FL.....	1.2
Birmingham, AL.....	1.0
Norfolk, VA.....	0.9
Jacksonville, FL.....	0.6
Asheville, NC.....	0.6
Total.....	100.0%

## TENANTS

The Properties are leased to approximately 1700 tenants, which engage in a wide variety of businesses including computers, healthcare, telecommunications, finance, insurance and electronics. The following table sets forth information concerning the 20 largest tenants of the Properties as of March 31, 1996:

TENANT	PORTFOLIO (1)	NUMBER OF LEASES	ANNUALIZED RENTAL REVENUE (2)	PERCENT OF TOTAL ANNUALIZED RENTAL REVENUE (2)
1. Federal Government				
Environmental Protection Agency.....	H	4	\$ 4,482,619	2.6%
U.S. Army and Marine Corps.....	H	2	243,473	0.1
National Institute of Health Sciences.....	H	1	165,394	0.1
Other.....	H	2	77,427	0.1
		9	\$ 4,968,913	2.9%
2. IBM Corporation.....	H,C	6	4,459,722	2.6
3. First Citizens Bank & Trust.....	H	7	2,766,733	1.6
4. Pharmacy Management Services, Inc.....	C	2	2,168,482	1.3
5. International Paper Company.....	H,C	3	2,023,997	1.2
6. Jacobs-Sirrine Engineers, Inc.....	C	1	1,801,694	1.1
7. MCI Telecommunications.....	C	2	1,488,024	0.9
8. Volvo.....	H,C	4	1,419,396	0.8
9. AT&T.....	H,C	9	1,382,118	0.8
10. Duke University.....	H	5	1,378,797	0.8
11. Sears, Roebuck & Company.....	H	4	1,364,841	0.8
12. Kraft Company.....	C	3	1,356,166	0.8
13. Clintrials of North Carolina.....	H	4	1,294,525	0.8
14. Blue Cross of SC.....	C	4	1,224,072	0.7
15. Commonwealth of Virginia Government.....	H	2	1,194,000	0.7
16. Glaxo Wellcome.....	H	3	1,193,100	0.7
17. The Kroger Company.....	H	1	1,115,250	0.7
18. GTE Data Services, Inc.....	C	1	1,092,403	0.6
19. Kaiser Foundation Health Plan.....	H	3	1,082,798	0.6
20. Southern National Bank	H	2	1,071,889	0.6
Total.....		75	\$ 35,846,920	21.1%

(1) H=Highwoods and C=Crocker.

(2) Annualized Rental Revenue is March 1996 rental revenue (base rent plus operating expense pass throughs) multiplied by 12.

## LEASE EXPIRATIONS OF THE PROPERTIES

The following table sets forth scheduled lease expirations for leases in place at the Properties as of March 31, 1996, for each of the next 10 years beginning with March 31, 1996, assuming no tenant exercises renewal options or is terminated due to default:

LEASE EXPIRING	NUMBER OF LEASES EXPIRING	RENTABLE SQUARE FEET SUBJECT TO EXPIRING LEASES	PERCENTAGE OF TOTAL LEASED SQUARE FEET REPRESENTED BY EXPIRING LEASES	ANNUALIZED RENTAL REVENUE UNDER EXPIRING LEASES (1)	PERCENTAGE OF TOTAL ANNUALIZED RENTAL REVENUE REPRESENTED BY EXPIRING LEASES
1996.....	408	2,592,163	17.6%	\$ 20,120,539	11.8%
1997.....	403	2,415,113	16.4	26,593,887	15.7
1998.....	378	2,386,835	16.2	29,079,769	17.1
1999.....	277	1,758,632	12.0	21,298,294	12.5
2000.....	255	2,162,057	14.7	26,854,838	15.8
2001.....	109	1,256,866	8.6	18,772,349	11.0
2002.....	47	887,028	6.0	10,602,121	6.2
2003.....	26	554,628	3.8	8,268,658	4.9
2004.....	11	131,507	0.9	1,914,110	1.1
2005.....	13	342,121	2.3	3,168,389	1.9
2006 and thereafter.....	8	216,228	1.5	3,352,746	2.0
Total.....	1,935	14,703,178	100.0%	\$170,025,700	100.0%

(1) Annualized Rental Revenue is March 1996 rental revenue (base rent plus operating expense pass throughs) multiplied by 12.

## THE HIGHWOODS PROPERTIES

OFFICE PROPERTIES. The Company's portfolio of office properties consists of 102 suburban office buildings. As of March 31, 1996, the office properties were 95% leased and totaled approximately 6.4 million rentable square feet. Ninety-one of the office properties are located in 19 developed business parks. All of the office properties have sufficient on-site parking for a fully occupied facility. The Company's office properties are close to major highways and suburban business centers, providing tenants with easy access to hotels, restaurants, shopping centers and other amenities. The office properties have an average age (weighted by Annualized Rental Revenue) of 10.4 years.

The following tables set forth certain leasing information (on a per rentable square foot basis) for the office properties owned by the Company for the three month-period ended March 31, 1996:

### NET EFFECTIVE RENTS RELATED TO RE-LEASED OFFICE SPACE AT THE HIGHWOODS PROPERTIES (1)

Number of lease transaction (signed leases).....	58
Rentable square footage leased.....	130,312
Average per rentable square foot over the lease term:	
Base rent (2).....	\$ 16.21
Tenant improvements.....	(1.49)
Leasing commissions.....	(0.35)
Rent concessions.....	--
Effective rent (3).....	\$ 14.37
Expense stop (4).....	(4.23)
Equivalent effective net rent (5).....	\$ 10.14
Average term in years.....	4

(1) Does not include the seven Properties in Nashville, Tennessee acquired in the Eakin & Smith Transaction on April 1, 1996.

(2) Equals aggregate base rent received over their respective terms from all lease transactions during the period, divided by the terms in months for such leases, multiplied by 12, divided by the total rentable square feet leased under all lease transactions during the period.

(3) Equals aggregate base rent received over their respective terms from all lease transactions during the period minus all tenant improvements and leasing commissions from all lease transactions during the period, divided by the terms in months for such leases, multiplied by 12, divided by the total rentable square feet leased under all lease transactions during the period.

(4) Equals the amount of real estate taxes, operating costs and utility costs that the landlord is obligated to pay on an annual basis. The tenant is required to pay any increases above such amount.

(5) Equals effective rent minus expense stop.

**RENTAL RATE TRENDS FOR HIGHWOODS PROPERTIES (1)**  
(OFFICE ONLY)

Number of leases commenced during period.....	58
Average final rate with expense pass throughs.....	\$15.20
Average first year cash rental rate.....	\$15.75
Percentage increase.....	3.62%

(1) Does not include the seven properties in Nashville, Tennessee acquired in the Eakin & Smith Transaction on April 1, 1996.

The following table sets forth the capital expenditures committed by the Company under signed leases for tenant improvements and lease commissions for re-leased office space owned by the Company for the three-month period ended March 31, 1996:

**CERTAIN EXPENDITURES RELATED TO RE-LEASED HIGHWOODS PROPERTIES (1)**  
(OFFICE ONLY)

Tenant improvements:	
Total dollars committed under signed leases.....	\$723,053
Rentable square feet.....	130,312
Per rentable square foot.....	\$ 5.55
Leasing commissions:	
Total dollars committed under signed leases.....	\$156,264
Rentable square feet.....	130,312
Per rentable square foot.....	\$ 1.20
Total:	
Total dollars committed under signed leases.....	\$879,317
Rentable square feet.....	130,312
Per rentable square foot.....	\$ 6.75

(1) Does not include the seven properties in Nashville, Tennessee acquired in the Eakin & Smith Transaction on April 1, 1996.



The following table sets forth scheduled lease expirations for leases for the Company's office properties in place as of March 31, 1996, for each of the 10 years beginning with March 31, 1996, assuming no tenant exercises renewal options or is terminated due to default:

**LEASE EXPIRATIONS OF HIGHWOODS PROPERTIES  
(OFFICE ONLY)**

LEASE EXPIRING	NUMBER OF LEASES EXPIRING	RENTABLE SQUARE FEET SUBJECT TO EXPIRING LEASES	PERCENTAGE OF TOTAL LEASED SQUARE FEET REPRESENTED BY EXPIRING LEASES	ANNUALIZED RENTAL REVENUE UNDER EXPIRING LEASES (1)	AVERAGE ANNUALIZED RENTAL REVENUE PER SQUARE FOOT UNDER EXPIRING LEASES	PERCENTAGE OF TOTAL ANNUALIZED RENTAL REVENUE REPRESENTED BY EXPIRING LEASES
Remainder of 1996.....	161	497,975	8.3%	\$ 6,645,478	\$13.35	7.7%
1997.....	177	908,552	15.1	12,851,425	14.14	14.8
1998.....	164	1,162,561	19.3	15,513,976	13.34	17.9
1999.....	114	717,269	11.9	10,149,965	14.15	11.7
2000.....	144	1,094,813	18.1	15,441,058	14.10	17.8
2001.....	56	754,483	12.5	11,924,532	15.80	13.8
2002.....	20	292,113	4.8	4,648,493	15.91	5.4
2003.....	13	364,610	6.0	5,816,399	15.95	6.7
2004.....	7	75,581	1.3	1,085,352	14.36	1.3
2005.....	5	30,491	0.5	503,488	16.51	0.6
Thereafter.....	6	133,755	2.2	2,005,462	14.99	2.3
Total or average.....	867	6,032,203	100.0%	\$ 86,585,628	\$14.35	100.0%

(1) Annualized Rental Revenue is March 1996 rental revenue (base rent plus operating expense pass throughs) multiplied by 12.

**THE INDUSTRIAL PROPERTIES.** The Company's portfolio includes 98 industrial properties. Ninety-three of these properties are located in 18 business or industrial parks. All of the Company's industrial properties have excellent access to interstate highway systems. As of March 31, 1996, the industrial properties were 91% leased and totaled approximately 3.7 million rentable square feet.

Thirty-six of the industrial properties, comprising approximately 2.8 million rentable square feet, are warehouse and bulk distribution facilities serving the storage and regional distribution needs of manufacturers and distribution companies. The Company's warehouse and distribution facilities are designed for bulk storage of materials and manufactured goods in buildings with interior heights typically of 20 feet or more and office build-out of generally 25% or less. All of the Company's distribution facilities have dock facilities for trucks as well as grade level loading for lighter vehicles and vans. Each of the Company's warehouse and distribution facilities is equipped with sprinkler systems.

Sixty-two of the Company's industrial properties, comprising approximately 1.0 million rentable square feet, are service center buildings, which are adaptable for a variety of uses, including office, light industrial, warehouse, distribution, assembly, research and development and retail. The service center properties have varying amounts of office finish (from 5% to 97%) and their rents vary accordingly. The service centers are frequently leased in units of 2,000 to 15,000 square feet and offer users interior heights of 14 feet or more for storage with grade level loading doors. Many provide dock facilities as well.

The following tables set forth certain leasing information (on a per rentable square foot basis) for the Company's industrial properties for the three-month period ended March 31, 1996:

# **NET EFFECTIVE RENTS RELATED TO RE-LEASED INDUSTRIAL SPACE AT THE HIGHWOODS PROPERTIES**

Number of lease transaction (signed leases).....	73
Rentable square footage leased.....	669,007
Average per rentable square foot over the lease term:	
Base rent (1).....	\$ 4.55
Tenant improvements.....	(0.18)
Leasing commissions.....	(0.08)
Rent concessions.....	--
Effective rent (2).....	\$ 4.29
Expense stop (3).....	(0.31)
Equivalent effective net rent (4).....	\$ 3.98
Average term in years.....	2

(1) Equals aggregate base rent received over their respective terms from all lease transactions during the period, divided by the terms in months for such leases, multiplied by 12, divided by the total rentable square feet leased under all lease transactions during the period.

(2) Equals aggregate base rent received over their respective terms from all lease transactions during the period minus all tenant improvements and leasing commissions from all lease transactions during the period, divided by the terms in months for such leases, multiplied by 12, divided by the total rentable square feet leased under all lease transactions during the period.

(3) Equals the amount of real estate taxes, operating costs and utility costs that the landlord is obligated to pay on an annual basis. The tenant is required to pay any increases above such amount.

(4) Equals effective rent minus expense stop.

## **RENTAL TRENDS FOR HIGHWOODS PROPERTIES (INDUSTRIAL ONLY)**

Number of leases commenced during period.....	69
Average final rate with expense pass throughs.....	\$4.45
Average first year cash rental rate.....	\$4.66
Percentage increase.....	4.72%

The following table sets forth the capital expenditures committed by the Company under signed leases for tenant improvements and lease commissions for re-leased industrial space during the three-month period ended March 31, 1996:

## **CERTAIN EXPENDITURES RELATED TO RE-LEASED HIGHWOODS PROPERTIES (INDUSTRIAL ONLY)**

Tenant improvements:	
Total dollars committed under signed leases.....	\$456,808
Rentable square feet.....	669,007
Per rentable square foot.....	\$ 0.68
Leasing commissions:	
Total dollars committed under signed leases.....	\$158,537
Rentable square feet.....	669,007
Per rentable square foot.....	\$ 0.24
Total:	
Total dollars committed under signed leases.....	\$615,345
Rentable square feet.....	669,007
Per rentable square foot.....	\$ 0.92

The following table sets forth scheduled lease expirations for leases in place at the Company's industrial properties as of March 31, 1996, for each of the 10 years beginning with March 31, 1996, assuming no tenant exercises renewal options or is terminated on account of tenant defaults:

### LEASE EXPIRATIONS OF HIGHWOODS PROPERTIES (INDUSTRIAL ONLY)

LEASE EXPIRING	NUMBER OF LEASES EXPIRING	RENTABLE SQUARE FEET SUBJECT TO EXPIRING LEASES	PERCENTAGE OF TOTAL LEASED SQUARE FEET REPRESENTED BY EXPIRING LEASES	ANNUALIZED RENTAL REVENUE UNDER EXPIRING LEASES (1)	AVERAGE ANNUALIZED RENTAL REVENUE PER SQUARE FOOT UNDER EXPIRING LEASES	PERCENTAGE OF TOTAL ANNUALIZED RENTAL REVENUE REPRESENTED BY EXPIRING LEASES
Remainder of 1996.....	156	1,553,489	46.4%	\$ 6,715,994	\$ 4.32	41.8%
1997.....	90	607,743	18.2	3,090,728	5.09	19.3
1998.....	86	328,357	9.8	2,225,222	6.78	13.9
1999.....	50	217,180	6.5	1,234,631	5.68	7.7
2000.....	20	311,315	9.3	1,499,486	4.82	9.3
2001.....	6	43,702	1.3	311,911	7.14	1.9
2002.....	2	257,210	7.7	766,355	2.98	4.8
2003.....	1	3,375	0.1	18,428	5.46	0.1
2004.....	--	--	0.0	--	--	--
2005.....	4	23,450	0.7	190,674	8.13	1.2
Thereafter.....	--	--	--	--	--	--
Total or average.....	415	3,345,821	100.0%	\$ 16,053,429	\$ 4.80	100.0%

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

### THE CROCKER PROPERTIES

The Crocker Properties consist of 58 suburban office buildings and 12 service center properties located in 15 metropolitan areas in seven states in the Southeastern United States encompassing a total of approximately 5.7 million rentable square feet. Sixty-three of the properties are located in suburban office parks and comprise approximately 4.7 million square feet of rentable space. The remaining seven properties are also located in suburban areas in the Southeast.

The Crocker Properties were developed between 1980 and 1991 and have a weighted average age of nine years. The majority of the Crocker Properties were acquired by Crocker or its predecessors in 1993, near the end of a downturn in commercial real estate markets that resulted from the over-building of the 1980s. Most of the Crocker Properties are used for more than one business activity. The Crocker Properties are similar in quality to that of the Highwoods Properties. They are primarily of brick or concrete construction, having one to ten stories, with lush landscaped areas and sufficient parking for their intended use. The Crocker Properties are well maintained and strategically located near transportation corridors. All of the Crocker Properties have been inspected by independent engineers since September 1993 and are in good to excellent physical condition. Other than regular maintenance operations and routine tenant improvements, the Company does not anticipate the necessity of undertaking any significant renovation or construction projects at any of the Crocker Properties in the near term. Certain of the Crocker Properties are encumbered by mortgage indebtedness. See "Recent Developments -- Financing Activities and Liquidity."

Management of the Crocker Properties is supervised by Crocker's asset managers in regional offices. On-site management is conducted by Crocker at 55 of its Properties. Highwoods intends to retain substantially all of Crocker's on-site managers following the Merger and to reduce the reliance on third-party property managers and leasing agents with respect to the Crocker Properties.

**OFFICE PROPERTIES.** The Crocker portfolio of office properties consists of 58 suburban office buildings. As of March 31, 1996, the office properties were 95% leased and totaled approximately 4.2 million rentable square feet. Fifty-one of the office properties are located in developed business parks. All of the office properties have sufficient on-site parking

for a fully occupied facility. The office properties have an average age (weighted by Annualized Rental Revenue) of 8.9 years.

The following tables set forth certain leasing information (on a per rentable square foot basis) for the office properties owned by Crocker for the three month-period ended March 31, 1996:

**NET EFFECTIVE RENTS RELATED TO RE-LEASED OFFICE SPACE  
AT THE CROCKER PROPERTIES**

Number of lease transaction (signed leases) (1).....	16
Rentable square footage leased.....	128,907
Average per rentable square foot over the lease term:	
Base rent (2).....	\$ 13.19
Tenant improvements.....	(0.33)
Leasing commissions.....	(0.36)
Rent concessions.....	--
Effective rent (3).....	\$ 12.50
Expense stop (4).....	(1.95)
Equivalent effective net rent (5).....	\$ 10.54
Average term in years.....	2

(1) Includes the exercise of a one-year lease renewal by IBM for 68,500 square feet at ONCC -- "W" building in the Research Triangle Park.

(2) Equals aggregate base rent received over their respective terms from all lease transactions during the period, divided by the terms in months for such leases, multiplied by 12, divided by the total rentable square feet leased under all lease transactions during the period.

(3) Equals aggregate base rent received over their respective terms from all lease transactions during the period minus all tenant improvements and leasing commissions from all lease transactions during the period, divided by the terms in months for such leases, multiplied by 12, divided by the total rentable square feet leased under all lease transactions during the period.

(4) Equals the amount of real estate taxes, operating costs and utility costs that the landlord is obligated to pay on an annual basis. The tenant is required to pay any increases above such amount.

(5) Equals effective rent minus expense stop.

**RENTAL RATE TRENDS FOR CROCKER PROPERTIES  
(OFFICE ONLY)**

Number of leases commenced during period.....	7
Average final rate with expense pass throughs.....	\$14.84
Average first year cash rental rate.....	\$16.21
Percentage increase.....	9.23%

The following table sets forth the capital expenditures committed by Crocker under signed leases for tenant improvements and lease commissions for re-leased office space owned by Crocker for the three-month period ended March 31, 1996:

**CERTAIN EXPENDITURES RELATED TO RE-LEASED CROCKER PROPERTIES  
(OFFICE ONLY)**

Tenant improvements:		
Total dollars committed under signed leases.....		\$180,538
Rentable square feet.....		128,907
Per rentable square foot.....		\$ 1.40
Leasing commissions:		
Total dollars committed under signed leases.....		\$116,847
Rentable square feet.....		128,907
Per rentable square foot.....		\$ 0.91
Total:		
Total dollars committed under signed leases.....		\$297,385
Rentable square feet.....		128,907
Per rentable square foot.....		\$ 2.31

The following table sets forth scheduled lease expirations for leases for Crocker's office properties in place as of March 31, 1996, for each of the 10 years beginning with March 31, 1996, assuming no tenant exercises renewal options or is terminated due to default:

**LEASE EXPIRATIONS OF CROCKER PROPERTIES  
(OFFICE ONLY)**

LEASE EXPIRING	NUMBER OF LEASES EXPIRING	RENTABLE SQUARE FEET SUBJECT TO EXPIRING LEASES	PERCENTAGE OF TOTAL LEASED SQUARE FEET REPRESENTED BY EXPIRING LEASES	ANNUALIZED RENTAL REVENUE UNDER EXPIRING LEASES (1)	AVERAGE ANNUALIZED RENTAL REVENUE PER SQUARE FOOT UNDER EXPIRING LEASES	PERCENTAGE OF TOTAL ANNUALIZED RENTAL REVENUE REPRESENTED BY EXPIRING LEASES
Remainder of 1996.....	71	389,110	9.3%	\$ 5,605,984	\$14.41	9.6%
1997.....	111	668,690	16.0	8,790,584	13.15	15.0
1998.....	106	726,341	17.4	9,880,076	13.60	16.9
1999.....	89	562,977	13.5	8,062,666	14.32	13.8
2000.....	75	502,275	12.0	7,903,807	15.74	13.5
2001.....	39	382,806	9.1	5,952,787	15.55	10.2
2002.....	25	337,705	8.1	5,187,273	15.36	8.9
2003.....	12	186,643	4.4	2,433,831	13.04	4.2
2004.....	4	55,926	1.3	828,758	14.82	1.4
2005.....	4	288,180	6.9	2,474,227	8.59	4.2
Thereafter.....	2	82,473	2.0	1,347,284	16.34	2.3
Total or average.....	538	4,183,126	100.0%	\$ 58,467,277	\$13.98	100.0%

(1) Annualized Rental Revenue is March 1996 rental revenue (base rent plus operating expense pass throughs) multiplied by 12.

**THE SERVICE CENTER PROPERTIES.** The Crocker portfolio includes 12 service center properties. All of these properties are located in business or industrial parks. All of the Crocker service center properties have excellent access to interstate highway systems. As of March 31, 1996, the service center properties were 93% leased and totaled approximately 1.1 million rentable square feet.

The Crocker service center properties are adaptable for a variety of uses, including office, light industrial, warehouse, distribution, assembly, research and development and retail. The service center properties have varying amounts of office finish (from 10% to 70%) and their rents vary accordingly. The service centers are frequently leased in units of 2,000 to 15,000 square feet and offer users interior heights of 14 feet or more for storage with grade level loading doors. Many provide dock facilities as well. All of the service centers have sufficient on-site parking for a fully occupied facility.

The following tables set forth certain leasing information (on a per rentable square foot basis) for the Crocker service center properties for the three-month period ended March 31, 1996:

### NET EFFECTIVE RENTS RELATED TO RE-LEASED SERVICE CENTER SPACE AT THE CROCKER PROPERTIES

Number of lease transaction (signed leases).....	7
Rentable square footage leased.....	50,413
Average per rentable square foot over the lease term:	
Base rent (1).....	\$ 6.12
Tenant improvements.....	(0.34)
Leasing commissions.....	(0.12)
Rent concessions.....	--
Effective rent (2).....	\$ 5.66
Expense stop (3).....	(0.34)
Equivalent effective net rent (4).....	\$ 5.32
Average term in years.....	3

(1) Equals aggregate base rent received over their respective terms from all lease transactions during the period, divided by the terms in months for such leases, multiplied by 12, divided by the total rentable square feet leased under all lease transactions during the period.

(2) Equals aggregate base rent received over their respective terms from all lease transactions during the period minus all tenant improvements and leasing commissions from all lease transactions during the period, divided by the terms in months for such leases, multiplied by 12, divided by the total rentable square feet leased under all lease transactions during the period.

(3) Equals the amount of real estate taxes, operating costs and utility costs that the landlord is obligated to pay on an annual basis. The tenant is required to pay any increases above such amount.

(4) Equals effective rent minus expense stop.

### RENTAL TRENDS FOR CROCKER PROPERTIES (SERVICE CENTER ONLY)

Number of leases commenced during period.....	3
Average final rate with expense pass throughs.....	\$6.72
Average first year cash rental rate.....	\$7.49
Percentage increase.....	11.46%

The following table sets forth the capital expenditures committed by Crocker under signed leases for tenant improvements and lease commissions for re-leased industrial space during the three-month period ended March 31, 1996:

**CERTAIN EXPENDITURES RELATED TO RE-LEASED CROCKER PROPERTIES  
(SERVICE CENTER ONLY)**

Tenant improvements:		
Total dollars committed under signed leases.....		\$79,512.90
Rentable square feet.....		50,413
Per rentable square foot.....		\$ 1.58
Leasing commissions:		
Total dollars committed under signed leases.....		\$10,878.25
Rentable square feet.....		50,413
Per rentable square foot.....		\$ 0.22
Total:		
Total dollars committed under signed leases.....		\$90,391.15
Rentable square feet.....		50,413
Per rentable square foot.....		\$ 1.79

The following table sets forth scheduled lease expirations for leases in place at Crocker's service center properties as of March 31, 1996, for each of the 10 years beginning with March 31, 1996, assuming no tenant exercises renewal options or is terminated on account of tenant defaults:

**LEASE EXPIRATIONS OF CROCKER PROPERTIES  
(SERVICE CENTER ONLY)**

LEASE EXPIRING	NUMBER OF LEASES EXPIRING	RENTABLE SQUARE FEET SUBJECT TO EXPIRING LEASES	PERCENTAGE OF TOTAL LEASED SQUARE FEET REPRESENTED BY EXPIRING LEASES	ANNUALIZED RENTAL REVENUE UNDER EXPIRING LEASES (1)	AVERAGE ANNUALIZED RENTAL REVENUE PER SQUARE FOOT UNDER EXPIRING LEASES	PERCENTAGE OF TOTAL ANNUALIZED RENTAL REVENUE REPRESENTED BY EXPIRING LEASES
Remainder of 1996.....	20	151,589	12.9%	\$1,153,083	\$ 7.61	13.3%
1997.....	25	230,128	20.9	1,861,150	8.09	20.2
1998.....	22	169,576	16.4	1,460,495	8.61	14.8
1999.....	24	261,206	20.8	1,851,032	7.09	22.9
2000.....	16	253,654	22.5	2,010,487	7.93	22.2
2001.....	8	75,875	6.5	583,119	7.69	6.6
2002.....	--	--	--	--	--	--
2003.....	--	--	--	--	--	--
2004.....	--	--	--	--	--	--
2005.....	--	--	--	--	--	--
Thereafter.....	--	--	--	--	--	--
Total or average.....	115	1,142,028	100.0%	\$8,919,366	\$ 7.81	100.0%

(1) Annualized Rental Revenue is March 1996 rental revenue (base rent plus operating expense pass throughs) multiplied by 12.

## TABLE OF PROPERTIES

The following table and the notes thereto set forth information regarding the Properties at March 31, 1996:

PROPERTY	BUILDING TYPE (1)	YEAR BUILT	RENTABLE SQUARE FEET	PERCENT LEASED AT MARCH 31, 1996	PERCENT OCCUPIED AT MARCH 31, 1996	PERCENT OFFICE FINISH
HIGHWOODS PROPERTIES						
RESEARCH TRIANGLE, NC						
HIGHWOODS OFFICE CENTER						
Amica	O	1983	20,708	100%	87%	100%
Arrowood	O	1979	58,743	100	100	100
Aspen	O	1980	36,666	87	87	100
Birchwood	O	1983	12,748	100	100	100
Cedar East	O	1981	39,904	100	100	100
Cedar West	O	1981	39,903	95	95	100
Cottonwood	O	1983	40,150	100	100	100
Cypress	O	1980	39,004	100	100	100
Dogwood	O	1983	40,613	100	100	100
Hawthorn	O	1987	63,797	100	100	100
Highwoods Tower	O	1991	185,222	99	98	100
Holly	O	1984	20,186	100	100	100
Ironwood	O	1978	35,695	96	96	100
Kaiser	O	1988	56,915	100	100	100
Laurel	O	1982	39,382	100	100	100
Leatherwood	O	1979	36,581	99	96	100
Smoketree Tower	O	1984	151,703	82	82	100
REXWOODS OFFICE CENTER						
2500 Blue Ridge	O	1982	61,864	100	100	100
Blue Ridge II	O	1988	20,673	100	100	100
Rexwoods Center	O	1990	41,686	100	100	100
Rexwoods II	O	1993	20,845	100	100	100
Rexwoods III	O	1992	42,484	100	100	100
Rexwoods IV	O	1995	42,003	76	76	100
TRIANGLE BUSINESS CENTER						
Bldg. 2A	O	1984	102,400	98	98	90
Bldg. 2B	S	1984	32,000	100	100	50
Bldg. 3	O	1988	135,360	96	96	80
Bldg. 7	O	1986	126,728	78	78	95
PROGRESS CENTER						
Cape Fear	O	1979	40,058	32	32	100
Catawba	O	1980	37,456	100	100	100
CompuChem	O	1980	105,540	100	100	100
NORTH PARK						
4800 North Park	O	1985	168,016	100	100	100
4900 North Park	O	1984	32,002	97	83	100
5000 North Park	O	1980	75,395	83	83	100
CREEKSTONE PARK						
Creekstone Crossing	O	1990	59,299	92	88	96
Riverbirch	O	1987	59,971	100	100	100
Willow Oak	O	1995	88,783	92	92	100
RESEARCH COMMONS						
EPA Administration	O	1966	46,718	100	100	100
EPA Annex	O	1966	145,875	100	100	50
4501 Bldg.	O	1985	56,566	100	100	100
4401 Bldg.	O	1987	115,526	84	84	93
4301 Bldg.	O	1989	90,894	100	100	27
4201 Bldg.	O	1991	83,731	100	100	100

### TENANTS LEASING

25% OR MORE  
OF RENTABLE  
SQUARE FEET AT  
MARCH 31, 1996

PROPERTY	
RESEARCH TRIANGLE, NC	
HIGHWOODS OFFICE CENTER	
Amica	Amica Mutual Insurance Company
Arrowood	First Citizens Bank & Trust
Aspen	N/A
Birchwood	Donohoe Construction Company, Southlight, Inc.
Cedar East	Amerimark Building Products
Cedar West	N/A
Cottonwood	First Citizens Bank & Trust
Cypress	GSA-Army Recruiters
Dogwood	First Citizens Bank & Trust
Hawthorn	Carolina Telephone



Highwoods Tower	Maupin, Taylor, Ellis & Adams
Holly	Capital Associated Industries
Ironwood	First Citizens Bank & Trust
Kaiser	Kaiser Foundation
Laurel	Microspace Communications, First
	Citizens Bank & Trust
Leatherwood	GAB North America, Inc.
Smoketree Tower	N/A
REXWOODS OFFICE CENTER	
2500 Blue Ridge	Rex Hospital, Inc.
Blue Ridge II	McGladrey & Pullen
Rexwoods Center	N/A
Rexwoods II	Raleigh Neurology Clinic (2),
	Miller Building Corporation
Rexwoods III	Piedmont Olsen Hensley, Inc.
Rexwoods IV	N/A
TRIANGLE BUSINESS CENTER	
Bldg. 2A	Harris Corporation, AAI Systems
	Management, Inc.
Bldg. 2B	International Paper
Bldg. 3	N/A
Bldg. 7	Broadband Technologies, Inc.
PROGRESS CENTER	
Cape Fear	N/A
Catawba	GSA -- EPA
CompuChem	CompuChem (3)
NORTH PARK	
4800 North Park	IBM-PC Division
4900 North Park	N/A
5000 North Park	N/A
CREEKSTONE PARK	
Creekstone Crossing	N/A
Riverbirch	Digital Equipment Corporation,
	Quintiles, Inc.
Willow Oak	AT&T Corporation
RESEARCH COMMONS	
EPA Administration	Environmental Protection Agency
EPA Annex	Environmental Protection Agency
4501 Bldg.	Martin Marietta
4401 Bldg.	Ericsson
4301 Bldg.	Glaxo Wellcome Inc. (4)
4201 Bldg.	Environmental Protection Agency

PROPERTY	BUILDING TYPE (1)	YEAR BUILT	RENTABLE SQUARE FEET	PERCENT LEASED AT MARCH 31, 1996	PERCENT OCCUPIED AT MARCH 31, 1996	PERCENT OFFICE FINISH
HOCK PORTFOLIO						
Fairfield I	O	1987	50,540	92%	92%	100%
Fairfield II	O	1989	61,064	90	90	100
Qualex	O	1985	67,000	100	100	100
4101 Roxboro	O	1984	56,000	100	100	100
4020 Roxboro	O	1989	40,000	100	100	100
SIX FORKS CENTER						
Six Forks Center I	O	1982	33,867	100	100	100
Six Forks Center II	O	1983	55,603	94	94	100
Six Forks Center III	O	1987	60,662	99	99	100
OTHER RESEARCH TRIANGLE PROPERTIES						
Colony Corporate Center	O	1985	53,324	100	100	100
Concourse	O	1986	131,645	99	99	100
Expressway One Warehouse	I	1990	59,600	100	100	5
Holiday Inn	O	1984	30,000	100	100	100
Lake Plaza East	O	1984	71,254	97	97	100
Phoenix	O	1990	26,449	91	91	100
South Square I	O	1988	56,401	100	100	100
South Square II	O	1989	58,793	100	100	100
Cotton Building	O	1972	40,035	100	100	79
TOTAL OR WEIGHTED AVERAGE			3,702,030	95%	95%	

#### TENANTS LEASING

25% OR MORE

OF RENTABLE

SQUARE FEET AT

MARCH 31, 1996

PROPERTY		
HOCK PORTFOLIO		
Fairfield I	Reliance	
Fairfield II	Qualex	
Qualex	Qualex	
4101 Roxboro	Duke -- Cardiology	
4020 Roxboro	Duke -- Pediatrics	
	Duke -- Cardiology	
SIX FORKS CENTER		
Six Forks Center I	Centura Bank	
Six Forks Center II	N/A	
Six Forks Center III	EDS	
OTHER RESEARCH TRIANGLE PROPERTIES		
Colony Corporate Center	Rust Environmental & Infrastructure, Fujitsu	
Concourse	Clintrials	
Expressway One Warehouse	West's Durham Transfer & Storage	
Holiday Inn	Holiday Inns, Inc.	
Lake Plaza East	N/A	
Phoenix	N/A	
South Square I	Blue Cross and Blue Shield	
South Square II	Coastal Healthcare Group, Inc.	
Cotton Building	Cotton Inc., Associated Insurances Inc.	
TOTAL OR WEIGHTED AVERAGE		

#### PIEDMONT TRIAD, NC

##### AIRPARK EAST

Highland Industries	S	1990	12,500	100	100	48
Service Center 1	S	1985	18,575	86	86	96
Service Center 2	S	1985	18,672	100	100	94
Service Center 3	S	1985	16,498	86	86	97
Service Center 4	S	1985	16,500	100	100	100
Copier Consultants	S	1990	20,000	100	100	60
Service Court	S	1990	12,600	75	75	100
Bldg. 01	O	1990	24,423	100	100	100
Bldg. 02	O	1986	23,827	100	100	100
Bldg. 03	O	1986	23,182	100	100	100
Bldg. A	O	1986	56,272	85	85	100
Bldg. B	O	1988	54,088	93	93	100
Bldg. C	O	1990	134,893	100	100	100
Sears Cenfact	O	1989	49,504	100	100	100
Hewlett Packard	O	1996	15,000	76	76	100
Warehouse 1	I	1985	64,000	100	100	21
Warehouse 2	I	1985	64,000	88	88	48
Warehouse 3	I	1986	57,600	100	100	8
Warehouse 4	I	1988	54,000	100	100	89
AIRPARK NORTH						
DC-1	I	1986	112,000	100	100	7
DC-2	I	1987	111,905	100	100	61

DC-3	I	1988	75,000	100	100	5
DC-4	I	1988	60,000	100	100	8
AIRPARK WEST						
Airpark I	O	1984	60,000	100	100	100
Airpark II	O	1985	45,680	100	0	100
Airpark IV	O	1985	22,612	100	87	100
Airpark V	O	1985	21,923	100	100	100
Airpark VI	O	1985	22,097	94	94	100
PIEDMONT TRIAD, NC						
AIRPARK EAST						
Highland Industries	Highland Industries, Inc. (5)					
Service Center 1	Genetic Design					
Service Center 2	Genetic Design					
Service Center 3	ECPI					
Service Center 4	Genetic Design					
Copier Consultants	Copier Consultants					
Service Court	Genetic Design					
Bldg. 01	Health & Hygiene					
Bldg. 02	United States Postal Service					
Bldg. 03	Time Warner, Martin Marietta					
Bldg. A	N/A					
Bldg. B	Hewlett-Packard Co., United States Postal Service					
Bldg. C	John Hancock					
Sears Cenfact	Sears Roebuck & Company					
Hewlett Packard	Hewlett Packard Co.					
Warehouse 1	Guilford Business Forms, Inc., Safelite Glass Corp.					
Warehouse 2	Volvo GM Heavy Truck Corp., State Street Bank Realty					
Warehouse 3	US Air Inc., Garlock, Inc.					
Warehouse 4	First Data Resources, Inc.					
AIRPARK NORTH						
DC-1	VSA, Inc.					
DC-2	Sears Roebuck & Co., Summit Pet Products Dist. Inc., Electric South					
DC-3	Fashions Outlet of America, Inc., Continuous Forms & Checks, Inc.					
DC-4	RSVP Communications, Inc.					
AIRPARK WEST						
Airpark I	Volvo GM Heavy Truck Corp.					
Airpark II	Mohawk Carpet Corporation					
Airpark IV	Max Radio of Greensboro					
Airpark V	NCR Corporation					
Airpark VI	Brookstone College, Anacomp					

PROPERTY	BUILDING TYPE (1)	YEAR BUILT	RENTABLE SQUARE FEET	PERCENT LEASED AT MARCH 31, 1996	PERCENT OCCUPIED AT MARCH 31, 1996	PERCENT OFFICE FINISH
WEST POINT BUSINESS PARK						
BMF Warehouse	I	1986	240,000	100%	100%	3%
WP-11	I	1988	89,600	36	36	8
WP-12	I	1988	89,600	100	100	4
WP-13	I	1988	89,600	100	100	2
WP-3 & 4	S	1988	18,059	100	100	54
WP-5	S	1995	25,200	76	76	20
Fairchild Bldg.	I	1990	89,000	100	100	20
LUWA Bahnson Bldg.	O	1990	27,000	100	100	100
UNIVERSITY COMMERCIAL CENTER						
W-1	I	1983	44,400	100	100	1
W-2	I	1983	46,500	100	100	7
SR-1	S	1983	23,112	100	100	68
SR-2 01/02	S	1983	17,282	100	100	67
SR-3	S	1984	23,825	65	65	70
Bldg. 01/02	O	1983	9,993	51	51	100
Bldg. 03	O	1985	37,077	71	71	100
Bldg. 04	O	1986	34,470	60	60	100
IVY DISTRIBUTION CENTER (6)	I	1930- 1980	400,000	57	57	2
KNOLLWOOD OFFICE CENTER						
370 Knollwood	O	1994	90,315	100	100	100
380 Knollwood	O	1990	164,141	97	97	100
STONELEIGH BUSINESS PARK						
7327 W. Friendly Ave.	S	1987	11,180	100	100	59
7339 W. Friendly Ave.	S	1989	11,784	100	100	59
7341 W. Friendly Ave.	S	1988	21,048	100	100	36
7343 W. Friendly Ave.	S	1988	13,463	100	100	36
7345 W. Friendly Ave.	S	1988	12,300	100	100	36
7347 W. Friendly Ave.	S	1988	17,978	100	100	36
7349 W. Friendly Ave.	S	1988	9,840	100	100	36
7351 W. Friendly Ave.	S	1988	19,723	100	100	36
7353 W. Friendly Ave.	S	1988	22,826	100	100	36
7355 W. Friendly Ave.	S	1988	13,296	88	88	36
SPRING GARDEN PLAZA						
4000 Spring Garden St.	S	1983	21,773	74	74	69
4002 Spring Garden St.	S	1983	6,684	100	100	69
4004 Spring Garden St.	S	1983	23,724	83	83	69
POMONA CENTER -- PHASE I						
7 Dundas Circle	S	1986	14,760	91	91	55
8 Dundas Circle	S	1986	16,488	100	100	55
9 Dundas Circle	S	1986	9,972	100	100	55
POMONA CENTER -- PHASE II						
302 Pomona Dr.	S	1987	16,488	94	94	55
304 Pomona Dr.	S	1987	4,344	75	75	55
306 Pomona Dr.	S	1987	9,840	88	88	55
308 Pomona Dr.	S	1987	14,184	96	96	55
5 Dundas Circle	S	1987	14,184	83	83	55
WESTGATE ON WENDOVER -- PHASE I						
305 South Westgate Dr.	S	1985	5,760	83	83	54
307 South Westgate Dr.	S	1985	12,672	100	100	54
309 South Westgate Dr.	S	1985	12,960	100	44	54
311 South Westgate Dr.	S	1985	14,400	100	100	54
315 South Westgate Dr.	S	1985	10,368	89	89	54
317 South Westgate Dr.	S	1985	15,552	100	100	54
319 South Westgate Dr.	S	1985	10,368	100	100	54

#### TENANTS LEASING

25% OR MORE  
OF RENTABLE  
SQUARE FEET AT  
MARCH 31, 1996

PROPERTY	
WEST POINT BUSINESS PARK	
BMF Warehouse	Sara Lee Knit Products, Inc.
WP-11	Microfibres
WP-12	Norel Plastics, Sara Lee
WP-13	Sara Lee Knit Products, Inc.
WP-3 & 4	Tri-Communications, Inc., Royso Safety, Inc.
WP-5	N/A
Fairchild Bldg.	Fairchild Industrial Products
LUWA Bahnson Bldg.	Luwa Bahnson, Inc.
UNIVERSITY COMMERCIAL CENTER	
W-1	Lagenthal Corp.
W-2	Paper Supply Company
SR-1	N/A
SR-2 01/02	Decision Point Marketing
SR-3	Decision Point Marketing

Bldg. 01/02	N/A
Bldg. 03	N/A
Bldg. 04	N/A
IVY DISTRIBUTION CENTER (6)	N/A
KNOLLWOOD OFFICE CENTER	
370 Knollwood	Krispy Kreme, Prudential Carolinas Realty
380 Knollwood	N/A
STONELEIGH BUSINESS PARK	
7327 W. Friendly Ave.	American Telecom, Salem Imaging
7339 W. Friendly Ave.	IKEA, R.F. Micro Devices
7341 W. Friendly Ave.	R.F. Micro Devices
7343 W. Friendly Ave.	Executone
7345 W. Friendly Ave.	Disston
7347 W. Friendly Ave.	Law Engineering, Winship
7349 W. Friendly Ave.	N/A
7351 W. Friendly Ave.	General Transport, Burlington Air Express
7353 W. Friendly Ave.	Office Equipment, Windsor Door
7355 W. Friendly Ave.	R.F. Micro Devices
SPRING GARDEN PLAZA	
4000 Spring Garden St.	N/A
4002 Spring Garden St.	Jordan Graphics
4004 Spring Garden St.	N/A
POMONA CENTER -- PHASE I	
7 Dundas Circle	N/A
8 Dundas Circle	N/A
9 Dundas Circle	Netcom, Conservatop Corporation
POMONA CENTER -- PHASE II	
302 Pomona Dr.	
304 Pomona Dr.	Fortune Personnel Consultants
306 Pomona Dr.	AEL Defense Corporation
308 Pomona Dr.	Hering North America
5 Dundas Circle	
WESTGATE ON WENDOVER -- PHASE I	
305 South Westgate Dr.	Alarmguard, The Computer Store
307 South Westgate Dr.	Anders Lufvenholm
309 South Westgate Dr.	Network Information, McRae Graphics
311 South Westgate Dr.	N/A
315 South Westgate Dr.	N/A
317 South Westgate Dr.	N/A
319 South Westgate Dr.	N/A

PROPERTY	BUILDING TYPE (1)	YEAR BUILT	RENTABLE SQUARE FEET	PERCENT LEASED AT MARCH 31, 1996	PERCENT OCCUPIED AT MARCH 31, 1996	PERCENT OFFICE FINISH
WESTGATE ON WENDOVER -- PHASE II						
206 South Westgate Dr.	S	1986	17,376	100%	100%	65%
207 South Westgate Dr.	S	1986	26,448	100	100	65
300 South Westgate Dr.	S	1986	12,960	100	100	65
4600 Dundas Circle	S	1985	11,922	100	100	65
4602 Dundas Circle	S	1985	13,017	61	61	65
RADAR ROAD						
500 Radar Rd.	I	1981	78,000	100	100	4
502 Radar Rd.	I	1986	15,000	100	100	10
504 Radar Rd.	I	1986	15,000	100	100	10
506 Radar Rd.	I	1986	15,000	100	100	10
HOLDEN/85 BUSINESS PARK						
2616 Phoenix Dr.	I	1985	31,894	100	100	32
2606 Phoenix Dr. -- 100	S	1989	15,000	100	100	32
2606 Phoenix Dr. -- 200	S	1989	15,000	100	100	32
2606 Phoenix Dr. -- 300	S	1989	7,380	67	67	32
2606 Phoenix Dr. -- 400	S	1989	12,300	90	90	32
2606 Phoenix Dr. -- 500	S	1989	15,180	100	100	32
2606 Phoenix Dr. -- 600	S	1989	18,540	90	90	32
INDUSTRIAL VILLAGE						
7906 Industrial Village Rd.	I	1985	15,000	100	100	15
7908 Industrial Village Rd.	I	1985	15,000	100	100	15
7910 Industrial Village Rd.	I	1985	15,000	100	100	15
OTHER PIEDMONT TRIAD PROPERTIES						
6348 Burnt Poplar	I	1990	125,000	100	100	4
6350 Burnt Poplar	I	1992	57,600	100	100	3
Stratford	O	1991	135,533	97	97	100
Chesapeake	I	1993	250,000	100	100	3
3288 Robinhood	O	1989	19,599	76	76	100
TOTAL OR WEIGHTED AVERAGE			4,167,233	92%	90%	

#### TENANTS LEASING

25% OR MORE

OF RENTABLE

SQUARE FEET AT

MARCH 31, 1996

PROPERTY	
WESTGATE ON WENDOVER -- PHASE II	
206 South Westgate Dr.	Home Care of the Central Carolinas
207 South Westgate Dr.	Health Equipment Services
300 South Westgate Dr.	N/A
4600 Dundas Circle	Oakwood Homes, Aquaterra, Inc.
4602 Dundas Circle	Four Seasons Apparel
RADAR ROAD	
500 Radar Rd.	Amoco Foam
502 Radar Rd.	East Texas Distributing
504 Radar Rd.	Triad International Maintenance, Dayva Industries
506 Radar Rd.	Triad International Maintenance, American Coatings
HOLDEN/85 BUSINESS PARK	
2616 Phoenix Dr.	Pliana, Inc.
2606 Phoenix Dr. -- 100	Piedmont Plastics, Rexham Corp.
2606 Phoenix Dr. -- 200	REHAU, Inc., Readervision, Inc.
2606 Phoenix Dr. -- 300	N/A
2606 Phoenix Dr. -- 400	Spectrum Financial Services
2606 Phoenix Dr. -- 500	The Record Exchange
2606 Phoenix Dr. -- 600	AT&T, Sumitomo Electrical
INDUSTRIAL VILLAGE	
7906 Industrial Village Rd.	Texas Aluminum
7908 Industrial Village Rd.	Bullock Distributors, Air Express
7910 Industrial Village Rd.	Wadkin North America, Inc.
OTHER PIEDMONT TRIAD PROPERTIES	
6348 Burnt Poplar	Sears Roebuck & Co.
6350 Burnt Poplar	Industries for the Blind
Stratford	Southern National Bank
Chesapeake	Chesapeake Display & Packaging
3288 Robinhood	N/A
TOTAL OR WEIGHTED AVERAGE	

CHARLOTTE, NC

STEELE CREEK PARK

Bldg. A	I	1989	42,500	100	100	19
---------	---	------	--------	-----	-----	----

Bldg. B	I	1985	15,031	100	100	20
Bldg. E	I	1985	39,300	79	79	13
Bldg. G-1	I	1989	22,500	44	44	11
Bldg. H	I	1987	53,614	100	100	16
Bldg. K	I	1985	19,400	100	100	25
HIGHWOODS/FORSYTH BUSINESS PARK						
4101 Stuart Andrew Blvd.	S	1984	12,185	81	81	60
4105 Stuart Andrew Blvd.	S	1984	4,528	100	100	60
4109 Stuart Andrew Blvd.	S	1984	15,212	94	94	60
4201 Stuart Andrew Blvd.	S	1982	19,333	63	63	60
4205 Stuart Andrew Blvd.	S	1982	23,401	100	100	60
4209 Stuart Andrew Blvd.	S	1982	15,901	100	100	60
4215 Stuart Andrew Blvd.	S	1982	23,372	88	88	60
4301 Stuart Andrew Blvd.	S	1982	40,601	89	89	60
4321 Stuart Andrew Blvd.	S	1982	12,774	100	100	60
CHARLOTTE, NC						
STEELE CREEK PARK						
Bldg. A	Terrell Gear Drives, Inc.					
Bldg. B	Pumps Parts & Services Inc. (7)					
Bldg. E	Bradman-Lake Inc., Aptech, Inc.					
Bldg. G-1	Safewaste Corp.					
Bldg. H	Sugravo Rallis Engraving, Eurotherm Drives, Inc.					
Bldg. K	Aptech, Inc.					
HIGHWOODS/FORSYTH BUSINESS PARK						
4101 Stuart Andrew Blvd.	N/A					
4105 Stuart Andrew Blvd.	Re-Directions, Transit & Level Clinic, Bell/Sysco Food					
4109 Stuart Andrew Blvd.	N/A					
4201 Stuart Andrew Blvd.	N/A					
4205 Stuart Andrew Blvd.	Sunbelt Video, Inc.					
4209 Stuart Andrew Blvd.	N/A					
4215 Stuart Andrew Blvd.	Cleaning Services Group, Rodan, Inc.					
4301 Stuart Andrew Blvd.	Circle K					
4321 Stuart Andrew Blvd.	Communications Technology					

PROPERTY	BUILDING TYPE (1)	YEAR BUILT	RENTABLE SQUARE FEET	PERCENT LEASED AT MARCH 31, 1996	PERCENT OCCUPIED AT MARCH 31, 1996	PERCENT OFFICE FINISH
PARKWAY PLAZA						
Building 1	O	1982	58,263	88%	88%	100%
Building 2	O	1983	88,227	93	93	100
Building 3	O	1984	82,307	81	81	100
Building 7 (8)	O	1985	60,722	100	100	100
Building 8 (8)	O	1986	40,615	100	100	100
Building 9 (8)	I	1984	110,000	100	100	32
OTHER CHARLOTTE PROPERTIES						
First Citizens	O	1989	57,214	100	100	100
TOTAL OR WEIGHTED AVERAGE			857,000	93%	93%	

TENANTS LEASING

25% OR MORE  
OF RENTABLE  
SQUARE FEET AT  
MARCH 31, 1996

PROPERTY	
PARKWAY PLAZA	
Building 1	BASF Corporation
Building 2	N/A
Building 3	N/A
Building 7 (8)	Northwest Mortgage
Building 8 (8)	Greenpoint Financial Corp.
Building 9 (8)	Personal Financial Asst., Inc.
OTHER CHARLOTTE PROPERTIES	
First Citizens	Volvo Car Finance, Inc.
TOTAL OR WEIGHTED AVERAGE	

NASHVILLE, TN  
MARYLAND FARMS

Eastpark 1	O	1978	29,797	96	96	100
Eastpark 2	O	1978	85,516	100	100	100
Eastpark 3	O	1978	77,480	99	99	100
5310 Maryland Way	O	1994	76,615	100	100	100
OTHER NASHVILLE PROPERTIES						
Lakeview	O	1986	99,722	100	100	100
3401 Westend	O	1982	253,010	98	98	100
BNA	O	1985	234,377	92	92	100
TOTAL OR WEIGHTED AVERAGE			856,517	97%	97%	

NASHVILLE, TN  
MARYLAND FARMS

Eastpark 1	Brentwood Music, Volunteer Credit Corp.
Eastpark 2	PMT Services, Inc.
Eastpark 3	N/A
5310 Maryland Way	BellSouth
OTHER NASHVILLE PROPERTIES	
Lakeview	The Kroger Co. (9), Centex
3401 Westend	N/A
BNA	N/A
TOTAL OR WEIGHTED AVERAGE	

RICHMOND, VA

INNSBROOK OFFICE CENTER

Markel American	O	1988	39,306	93	93	100
Proctor-Silex	O	1986	58,366	100	100	100
Vantage Place I	O	1987	15,334	100	100	100
Vantage Place II	O	1987	14,223	90	90	100
Vantage Place III	O	1988	14,615	100	100	100
Vantage Place IV	O	1988	14,616	100	100	100
Vantage Point	O	1990	63,867	100	100	100
Innsbrook Tech I	S	1991	18,095	100	100	58
DEQ Technology Center	O	1991	53,999	81	81	80
DEQ Office	O	1991	70,423	100	100	100
TECHNOLOGY PARK						
Virginia Center	O	1985	119,064	92	75	70
TOTAL OR WEIGHTED AVERAGE			481,908	95%	91%	
TOTAL OR WEIGHTED AVERAGE OF ALL HIGHWOODS PROPERTIES			10,064,688	94%	93%	

RICHMOND, VA

INNSBROOK OFFICE CENTER

Markel American	Mark IV
Proctor-Silex	Proctor-Silex, Inc.
Vantage Place I	Rountrey and Associates
Vantage Place II	Hastings-Tapley
Vantage Place III	Stenrich Group, Inc.



Vantage Place IV	Corvel Healthcare, Cemetary Mgmt.
Vantage Point	EDS, Colonial Inc.
Innsbrook Tech I	Air Specialists of VA, Hobbs & Assoc.
DEQ Technology Center	Virginia State Gov., First Health
DEQ Office	Virginia State Gov.
TECHNOLOGY PARK	
Virginia Center	N/A
TOTAL OR WEIGHTED AVERAGE	
TOTAL OR WEIGHTED AVERAGE OF ALL	
HIGHWOODS PROPERTIES	

PROPERTY	BUILDING TYPE (1)	YEAR BUILT	RENTABLE SQUARE FEET	PERCENT LEASED AT MARCH 31, 1996	PERCENT OCCUPIED AT MARCH 31, 1996	PERCENT OFFICE FINISH
			TENANTS LEASING 25% OR MORE OF RENTABLE SQUARE FEET AT MARCH 31, 1996			

### CROCKER PROPERTIES

TAMPA, FL						
Tower Place	O	1988	180,848	93%	93%	100%
Atrium	O	1989	129,855	71	71	100
Sabal Business Center VI	O	1988	99,136	100	100	100
Progressive Insurance	O	1988	83,648	100	100	100
Sabal Business Center VII	O	1990	71,248	100	100	100
Sabal Business Center V	O	1988	60,578	100	100	100
Registry II	O	1987	58,781	94	94	100
Registry I	O	1985	58,319	86	86	100
Sabal Business Center IV	O	1984	49,368	100	100	90
Sabal Tech Center	O	1989	48,220	100	100	100
Sabal Park Plaza	O	1987	46,758	93	93	100
Sabal Lake Building	O	1986	44,533	88	88	100
Sabal Business Center I	O	1982	40,698	88	88	100
Benjamin Center #9	O	1989	38,405	85	85	90
Sabal Business Center II	O	1984	32,660	79	79	80
Benjamin Center #7	O	1991	30,960	83	83	90
Registry Square	O	1988	26,568	94	94	100
Expo Building	O	1981	25,600	100	100	100
Sabal Business Center III	O	1984	21,300	74	74	100
Day Care Center	O	1986	8,000	100	100	100
TOTAL OR WEIGHTED AVERAGE			1,155,483	91%	91%	
ATLANTA, GA						
Oakbrook V	O	1985	204,381	100	100	70
Oakbrook III	S	1984	164,330	100	100	60
Oakbrook II	S	1983	141,942	67	67	60
Oakbrook I	S	1981	106,680	87	84	50
Oakbrook IV	O	1985	89,412	100	100	70
TOTAL OR WEIGHTED AVERAGE			706,745	92%	92%	
GREENVILLE, SC						
Brookfield-Jacobs-Sirrine	O	1990	228,345	100	100	100
Brookfield Plaza	O	1987	116,800	90	73	100
Patewood Business Center	S	1983	103,302	100	100	70
Patewood V	O	1990	100,187	100	100	100
Patewood IV	O	1989	61,649	100	100	100
Patewood III	O	1989	61,367	76	76	100
Brookfield-YMCA	S	1990	15,500	46	46	50
TOTAL OR WEIGHTED AVERAGE			687,150	95%	95%	
BOCA RATON, FL						
One Boca Place	O	1987	277,630	98	98	100
Scott Center	O	1989	148,944	96	96	100
Crocker Financial Plaza	O	1980	80,260	98	98	100
TOTAL OR WEIGHTED AVERAGE			506,834	98%	98%	
TAMPA, FL						
Tower Place	N/A					
Atrium	GTE Data Services, Incorporated					
Sabal Business Center VI	Pharmacy Management Services, Inc.					
Progressive Insurance	Progressive American Insurance Co.					
Sabal Business Center VII	Pharmacy Management Services, Inc.					
Sabal Business Center V	Lebbar-Friedman Inc.					
Registry II	N/A					
Registry I	N/A					
Sabal Business Center IV	Phillips Educational Group of Central Florida, Inc., TGC Home Health Care, Inc.					
Sabal Tech Center	National RX Services, Inc.					
Sabal Park Plaza	State of Florida Department of Revenue, ERM South, Inc.					
Sabal Lake Building	Warner Publisher Services, Inc.					
Sabal Business Center I	N/A					
Benjamin Center #9	First Image Management Company					
Sabal Business Center II	Owen Ayres and Associates, Inc.					
Benjamin Center #7	Basetec Office Systems, Inc.					
Registry Square	Proctor & Redfern, Inc.					
Expo Building	Exposystems, Inc.					
Sabal Business Center III	Eli Witt Co.					

Day Care Center	Telesco Enterprises, Inc.
TOTAL OR WEIGHTED AVERAGE	
ATLANTA, GA	
Oakbrook V	N/A
Oakbrook III	N/A
Oakbrook II	N/A
Oakbrook I	N/A
Oakbrook IV	N/A
TOTAL OR WEIGHTED AVERAGE	
GREENVILLE, SC	
Brookfield-Jacobs-Sirrine	Jacobs-Sirrine Engineers, Inc.
Brookfield Plaza	Dow Brands, Inc.
Patewood Business Center	N/A
Patewood V	Bell Atlantic Mobile Systems, Inc., PYA/Monarch, Inc.
Patewood IV	MCI Telecommunications Corp.
Patewood III	MCI Telecommunications Corp.
Brookfield-YMCA	Kids & Company at Pelham Falls, Inc.
TOTAL OR WEIGHTED AVERAGE	
BOCA RATON, FL	
One Boca Place	N/A
Scott Center	N/A
Crocker Financial Plaza	N/A
TOTAL OR WEIGHTED AVERAGE	

PROPERTY	BUILDING TYPE (1)	YEAR BUILT	RENTABLE SQUARE FEET	PERCENT LEASED AT MARCH 31, 1996	PERCENT OCCUPIED AT MARCH 31, 1996	PERCENT OFFICE FINISH
CHARLOTTE, NC						
Oakhill Business Park- Twin Oaks	O	1985	97,652	94%	94%	85%
Oakhill Business Park- Water Oak	O	1985	90,853	97	97	100
Oakhill Business Park-Scarlet Oak	O	1982	76,433	100	100	70
Oakhill Business Park-English Oak	O	1984	55,013	100	100	80
Oakhill Business Park-Willow Oak	O	1982	38,448	100	0	100
Oakhill Business Park-Laurel Oak	O	1984	38,448	74	74	100
TOTAL OR WEIGHTED AVERAGE			396,847	95%	85%	
MEMPHIS, TN						
International Place Phase II	O	1988	208,006	100	100	100
Southwind Office Center "A"	O	1991	62,179	100	99	100
Southwind Office Center "B"	O	1990	61,860	100	98	100
Kirby Centre	O	1984	32,007	98	98	100
Medical Properties, Inc.	O	1988	18,079	100	100	100
TOTAL OR WEIGHTED AVERAGE			382,131	100%	99%	
RESEARCH TRIANGLE, NC						
ONCC-Phase I	S	1981	101,127	92	92	60
ONCC-"W" Building	O	1983	91,335	100	100	80
5301 Departure Drive	S	1984	84,899	100	100	50
ONCC 3645 Trust Drive	O	1984	50,652	81	81	90
ONCC 5220 Green's Dairy Road	O	1984	29,869	100	100	90
ONCC 5200 Green's Dairy Road	O	1984	18,317	82	82	80
TOTAL OR WEIGHTED AVERAGE			376,199	95%	95%	
NASHVILLE, TN						
Grassmere II	S	1985	145,092	94	94	70
Grassmere III	S	1990	103,000	100	100	60
Grassmere I	S	1984	87,902	100	100	70
TOTAL OR WEIGHTED AVERAGE			335,994	97%	97%	
COLUMBIA, SC						
Fontaine I	O	1985	97,576	96	96	80
Center Point I	O	1988	71,380	100	95	100
Fontaine II	O	1987	70,762	62	57	70
Fontaine III	O	1988	57,888	100	100	100
Fontaine V	O	1990	21,107	100	100	100
TOTAL OR WEIGHTED AVERAGE			318,713	90%	88%	
ORLANDO, FL						
Metrowest I	O	1988	102,019	99	99	90
Southwest Corporate Center	O	1984	98,777	100	100	100
TOTAL OR WEIGHTED AVERAGE			200,796	100%	100%	

TENANTS LEASING  
25% OR MORE  
OF RENTABLE  
SQUARE FEET AT  
MARCH 31, 1996

PROPERTY	
CHARLOTTE, NC	
Oakhill Business Park- Twin Oaks	Springs Industries, Inc.
Oakhill Business Park- Water Oak	N/A
Oakhill Business Park-Scarlet Oak	Krueger Ringier, Inc., The Computer Group, Inc.
Oakhill Business Park-English Oak	The Employers Association of the Carolinas
Oakhill Business Park-Willow Oak	Coats American
Oakhill Business Park-Laurel Oak	Paramount Parks Inc., Woolpert Consultants
TOTAL OR WEIGHTED AVERAGE	
MEMPHIS, TN	
International Place Phase II	AC Humko Corp., International Paper Company
Southwind Office Center "A"	Promus Hotels, Inc.
Southwind Office Center "B"	Check Solutions, Inc.
Kirby Centre	Financial Federal Savings Bank, Union Central Life Insurance Co. Health Tech Affiliates, Inc.
Medical Properties, Inc.	
TOTAL OR WEIGHTED AVERAGE	
RESEARCH TRIANGLE, NC	
ONCC-Phase I	Monolith Corporation
ONCC-"W" Building	International Business Machines Corp.
5301 Departure Drive	ABB Power T&D Co., Inc., Cardiovascular Diagnostics, Inc.
ONCC 3645 Trust Drive	Customer Access Resources, Inc.
ONCC 5220 Green's Dairy Road	N/A
ONCC 5200 Green's Dairy Road	Carolina Power & Light Company

TOTAL OR WEIGHTED AVERAGE	
NASHVILLE, TN	
Grassmere II	N/A
Grassmere III	Harris Graphics Corporation
Grassmere I	Contel Cellular of Nashville, Inc.
TOTAL OR WEIGHTED AVERAGE	
COLUMBIA, SC	
Fontaine I	Blue Cross and Blue Shield of
	South Carolina
Center Point I	Sedgewick James of South Carolina,
	Inc.,
	BellSouth Mobility, Inc.
Fontaine II	N/A
Fontaine III	Companion Health Care
Fontaine V	Roche Biomedical Laboratories,
	Inc.
TOTAL OR WEIGHTED AVERAGE	
ORLANDO, FL	
Metrowest I	N/A
Southwest Corporate Center	Walt Disney World Co.
TOTAL OR WEIGHTED AVERAGE	

PROPERTY	BUILDING TYPE (1)	YEAR BUILT	RENTABLE SQUARE FEET	PERCENT LEASED AT MARCH 31, 1996	PERCENT OCCUPIED AT MARCH 31, 1996	PERCENT OFFICE FINISH
NORFOLK, VA						
Battlefield I	S	1987	97,633	100%	100%	10%
Greenbrier Business Center	O	1984	81,373	100	100	80
TOTAL OR WEIGHTED AVERAGE			179,006	100%	100%	
ASHEVILLE, NC						
Ridgefield II	O	1989	63,500	100	84	80
Ridgefield I	S	1987	60,677	100	100	70
TOTAL OR WEIGHTED AVERAGE			124,177	100%	92%	
BIRMINGHAM, AL						
Grandview I	O	1989	111,905	98%	98%	100
PIEDMONT TRIAD, NC						
Deep River I	O	1989	78,094	100	100	90
Forsyth I	O	1985	51,236	58	58	100
TOTAL OR WEIGHTED AVERAGE			129,330	83%	83%	
JACKSONVILLE, FL						
Towermarc Plaza	O	1991	50,513	100%	100%	100
TOTAL OR WEIGHTED AVERAGE OF ALL CROCKER PROPERTIES			5,661,823	95%	93%	
TOTAL OR WEIGHTED AVERAGE OF ALL PROPERTIES			15,726,511	94%	93%	
TENANTS LEASING 25% OR MORE OF RENTABLE SQUARE FEET AT MARCH 31, 1996						
PROPERTY						
NORFOLK, VA						
Battlefield I			Kasei Memory Products, Inc.			
Greenbrier Business Center			Canon Computer Systems, Inc., Roche Biomedical Laboratories, Inc.			
TOTAL OR WEIGHTED AVERAGE						
ASHEVILLE, NC						
Ridgefield II			N/A			
Ridgefield I			Memorial Mission Hospital, Inc.			
TOTAL OR WEIGHTED AVERAGE						
BIRMINGHAM, AL						
Grandview I			Computer Sciences Corporation			
PIEDMONT TRIAD, NC						
Deep River I			N/A			
Forsyth I			Alexander & Alexander			
TOTAL OR WEIGHTED AVERAGE						
JACKSONVILLE, FL						
Towermarc Plaza			Aetna Casualty			
TOTAL OR WEIGHTED AVERAGE OF ALL CROCKER PROPERTIES						
TOTAL OR WEIGHTED AVERAGE OF ALL PROPERTIES						

(1) I = Industrial, S = Service Center and O = Office.

(2) Raleigh Neurology Clinic has an option to purchase 33% of the Property in December 1998 for cash at the then current fair market value, as to be determined by an independent appraiser.

(3) CompuChem's lease expired May 31, 1996.

(4) Glaxo Wellcome has the option to purchase the Property from March 1997 to the earlier of lease termination (currently March 2000) or March 2003 for cash at the then current fair market value to be determined by an appraiser chosen by the Company, provided the terms of such purchase are acceptable to the Company and Glaxo Wellcome.

(5) Highland Industries, Inc., which entered into a 10-year lease beginning January 1991, has the option during the term of its lease to purchase the Property for a price of \$1,034,000 during each of the first five years and, thereafter, at decreasing amounts through the tenth year of the lease term when the price will be \$926,000.

(6) Ivy Distribution Center enables the Company to establish relationships with potential tenants that need large blocks of affordable storage space, frequently on a short-term basis. With the exception of 1989 when the building was renovated to convert it from a manufacturing facility to a bulk warehouse facility, Ivy Distribution Center has produced a positive cash flow every year since its acquisition in 1978.

(7) Pump Parts & Services, Inc. has an option to purchase the Property for a purchase price of \$37.37 per square foot (\$561,708) (as of August

1995) subject to a minimum increase in the per square foot purchase price of 5% per year.

(8) Properties subject to ground lease expiring December 31, 2082. The Company has the option to purchase land during the lease term at the greater of \$35,000 per acre or 85% of appraised value.

(9) Kroger Co. has an option to purchase the Property through January 2001. The purchase price under the option is \$10 million through January 1999 (and \$10.8 million from January 1999 through January 2001) subject to all encumbrances, plus unamortized tenant improvements funded by the Company and unamortized leasing commissions.

## MANAGEMENT

### DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information with respect to the directors and executive officers of the Company:

NAME	AGE	PRINCIPAL OCCUPATIONS AND OTHER DIRECTORSHIPS
O. Temple Sloan, Jr.	56	Director and Chairman of the Board of Directors. Mr. Sloan is a founder of the predecessor of the Company and most recently served as its secretary-treasurer. Mr. Sloan also serves as chairman of General Parts, Inc., a nationwide distributor of automobile replacement parts, which he founded. Mr. Sloan is vice chairman of the board of trustees of Peace College and is a trustee of St. Andrews College.
Ronald P. Gibson	51	Director, President and Chief Executive Officer. Mr. Gibson is a founder of the Company and has served as its president since its incorporation in 1992 and as managing partner of its predecessor since its formation in 1978. Mr. Gibson is a member of the Society of Industrial and Office Realtors and is a director of Capital Associated Industries.
William T. Wilson, III	42	Director, Executive Vice President and Chief Operating Officer. Mr. Wilson joined Forsyth in 1982 and served as its president from 1993 until its merger with the Company. Mr. Wilson serves on the board of directors of Amos Cottage Rehabilitation Hospital, an affiliate of the Department of Pediatrics of Bowman Gray School of Medicine, Old Salem, Inc. and Reynolda House, Inc.
John L. Turner	49	Director, Vice Chairman of the Board of Directors and Chief Investment Officer. Mr. Turner began his career in the real estate industry in 1969 and co-founded Forsyth's predecessor in 1975. Mr. Turner is active in several Piedmont Triad economic development and business recruiting organizations. Mr. Turner serves on the University of North Carolina board of visitors and on the Winston-Salem board of directors of NationsBank.
John W. Eakin	41	Director and Senior Vice President. Mr. Eakin is responsible for operations in Tennessee, Florida and Alabama. Mr. Eakin joined the Company on April 1, 1996 upon consummation of the merger of Eakin & Smith into the Company. Prior to the combination, Mr. Eakin was a founder and president of Eakin & Smith, Inc., which managed, leased and developed office and industrial space in Nashville, Tennessee.
Thomas S. Smith	37	Director and Vice President. Mr. Smith joined the Company as a director and vice president on April 1, 1996 in connection with the Company's combination with Eakin & Smith. Prior to the combination, Mr. Smith was a founder and chairman of Eakin & Smith, Inc. since its formation in 1987.
Thomas W. Adler	55	Director. Mr. Adler is chairman and a principal of Cleveland Real Estate Partners, a fee-based real estate service company based in Cleveland, Ohio. Mr. Adler helped create the Grubb and Ellis Institutional Investment Group and previously served as its president. Mr. Adler served five years as a member of the executive committee and board of governors of the National Association of Real Estate Investment Trusts, and he was national president in 1990 of the Society of Industrial and Office Realtors. Mr. Adler formerly served on the board of directors of the National Association of Realtors and currently serves on the board of governors of the American Society of Real Estate Counselors. He is an active member of the Urban Land Institute.
William E. Graham, Jr.	66	Director. Mr. Graham is a lawyer in private practice with the firm of Hunton & Williams. Before joining Hunton & Williams on January 1, 1994, Mr. Graham was vice chairman of Carolina Power & Light Company and had previously served as its general counsel. Mr. Graham is a former member of the board of directors of Carolina Power & Light Company and currently serves on the Raleigh board of directors of NationsBank. He also serves on the board of directors of BB&T Mutual Funds Group and is a former director of Kaiser Foundation Health Plan of North Carolina.
Robert L. Kirby	65	Director. Mr. Kirby is a self-employed management consultant. Before retiring from the banking business in 1990, Mr. Kirby spent 34 years with NationsBank and its predecessor, North Carolina National Bank. At the time of his retirement, he was president and a member of the board of directors of NCNB National Bank of Florida. Mr. Kirby is a member of the board of directors of NationsBank of Texas, N.A. and Cato Corporation.



NAME	AGE	PRINCIPAL OCCUPATIONS AND OTHER DIRECTORSHIPS
L. Glenn Orr, Jr.	55	Director. Mr. Orr is a director of Southern National Corporation and was its chairman of the board of directors, president and chief executive officer prior to its recent merger with Branch Banking and Trust. Mr. Orr, who previously served as president and chief executive officer of Forsyth Bank and Trust Co. and president of Community Bank in Greenville, S.C., is former president of the North Carolina Bankers Association. He is a trustee of Wake Forest University.
Willard H. Smith, Jr.	59	Director. Mr. Smith joined the board on April 29, 1996. Mr. Smith recently retired from Merrill Lynch, which he joined in 1979. He was named a managing director at Merrill Lynch in 1983. Mr. Smith worked in the firm's equity underwriting syndicate and, since 1992, focused on the company's REIT equity underwriting efforts. Mr. Smith is a member of the board of directors of Cohen & Steers Realty Shares, Cohen & Steers Realty Income Fund, Cohen & Steers Total Return Realty Fund and Essex Property Trust, Inc.
Stephen Timko	67	Director. Mr. Timko is treasurer of Beaunit Corporation. He has served as associate vice president of financial affairs for Temple University and chief financial officer and executive vice president of finance and administration for Beaunit Corporation.
Edward J. Fritsch	37	Senior Vice President and Secretary. Mr. Fritsch is responsible for the operations of the Company's Research Triangle division. Mr. Fritsch joined the Company in 1982 and is a certified property manager.
Carman J. Liuzzo	35	Vice President, Chief Financial Officer and Treasurer. Mr. Liuzzo joined the Company in 1994 and currently serves as chief financial officer. Prior to joining the Company, Mr. Liuzzo was vice president and chief accounting officer for Boddie-Noell Enterprise, Inc. and Boddie-Noell Restaurant Properties, Inc. Mr. Liuzzo is a certified public accountant.
John E. Reece II	36	Vice President. Mr. Reece is responsible for the operations of the Company's Piedmont Triad area properties. Mr. Reece serves on the executive committee and is a former president of the Piedmont Triad Chapter of the National Association of Industrial and Office Park Developers.

In addition, Thomas F. Cochran has agreed to serve as a vice president and will be an executive officer of the Company upon consummation of the Merger. Mr. Cochran will manage the Charlotte, Greenville and Atlanta regions. Mr. Cochran served as senior vice president for NationsBank from 1987 to 1993 where he was responsible for development and asset management of 47 of the Crocker Properties. In 1993 he joined Patriot American Asset Management where he was a senior vice president and continued the management of 47 Crocker Properties. Mr. Cochran became senior vice president with Crocker upon the merger of Southeast Realty Corp. with Crocker Realty Investors, Inc. in July 1995.

In addition, Messrs. Harris, Peek and Wallace, who are officers of Crocker, have agreed to serve as officers of Highwoods upon consummation of the Merger. See "Recent Developments -- Pending Acquisition of Crocker Realty Trust, Inc."

## UNDERWRITING

Subject to the terms and conditions contained in the terms agreement and the related underwriting agreement (collectively the "Underwriting Agreement"), the Company has agreed to sell to each of the underwriters named below (the "Underwriters"), and each of the Underwriters, for whom Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), Dean Witter Reynolds Inc., Morgan Stanley & Co. Incorporated, PaineWebber Incorporated, Prudential Securities Incorporated, The Robinson-Humphrey Company, Inc. and Scott & Stringfellow, Inc. are acting as representatives (the "Representatives"), has severally agreed to purchase from the Company, the respective number of shares of Common Stock set forth below opposite their respective names.

UNDERWRITER	NUMBER OF SHARES
Merrill Lynch, Pierce, Fenner & Smith Incorporated.....	898,000
Dean Witter Reynolds Inc.....	892,000
Morgan Stanley & Co. Incorporated.....	892,000
PaineWebber Incorporated.....	892,000
Prudential Securities Incorporated.....	892,000
The Robinson-Humphrey Company, Inc.....	892,000
Scott & Stringfellow, Inc.....	892,000
Alex. Brown & Sons Incorporated.....	150,000
Donaldson, Lufkin & Jenrette Securities Corporation.....	150,000
A.G. Edwards & Sons, Inc.....	150,000
Oppenheimer & Co., Inc.....	150,000
Salomon Brothers Inc.....	150,000
Schroder Wertheim & Co. Incorporated.....	150,000
Smith Barney Inc.....	150,000
Advest, Inc.....	75,000
Robert W. Baird & Co. Incorporated.....	75,000
J.C. Bradford & Co.....	75,000
Cowen & Company.....	75,000
Craigie Incorporated.....	75,000
Dain Bosworth Incorporated.....	75,000
Davenport & Co. of Virginia, Inc.....	75,000
Dominick & Dominick, Incorporated.....	75,000
Equitable Securities Corporation.....	75,000
EVEREN Securities, Inc.....	75,000
Fahnestock & Co. Inc.....	75,000
First Albany Corporation.....	75,000
First of Michigan Corporation.....	75,000
Furman Selz LLC.....	75,000
Gruntal & Co., Incorporated.....	75,000
J.J.B. Hillard, W.L. Lyons, Inc.....	75,000
Interstate/Johnson Lane Corporation.....	75,000
Janney Montgomery Scott Inc.....	75,000
Edward D. Jones & Co.....	75,000
Ladenburg, Thalmann & Co. Inc.....	75,000
Legg Mason Wood Walker, Incorporated.....	75,000
Marion Bass Securities Corporation.....	75,000
McDonald & Company Securities, Inc.....	75,000
Morgan Keegan & Company, Inc.....	75,000
Piper Jaffray Inc.....	75,000
Principal Financial Securities, Inc.....	75,000
Ragen MacKenzie Incorporated.....	75,000
Rauscher Pierce Refsnes, Inc.....	75,000
Raymond James & Associates, Inc.....	75,000

UNDERWRITER	NUMBER OF SHARES
Southeast Research Partners, Inc.....	75,000
Stephens Inc.....	75,000
Sterne, Agee & Leach, Inc.....	75,000
Stifel, Nicolaus & Company, Incorporated.....	75,000
Sutro & Co. Incorporated.....	75,000
Tucker Anthony Incorporated.....	75,000
Wheat, First Securities, Inc.....	75,000
Total.....	10,000,000

In the Underwriting Agreement, the several Underwriters have agreed, respectively, subject to the terms and conditions set forth in the Underwriting Agreement, to purchase all of the shares of Common Stock being sold pursuant to the Underwriting Agreement if any such shares are purchased. Under certain circumstances, the commitments of non-defaulting Underwriters may be increased.

The Representatives have advised the Company that the Underwriters propose initially to offer the shares of Common Stock to the public at the public offering price set forth on the cover page of this Prospectus Supplement and to certain dealers at such price less a concession not in excess of \$.80 per share. The Underwriters may allow, and such dealers may re-allow, a discount not in excess of \$.10 per share on sales to certain other dealers. After the initial public offering, the public offering price, concession and discount may be changed.

The Company has granted to the Underwriters an option, exercisable for 30 days after the date of this Prospectus Supplement, to purchase up to 1,500,000 additional shares of Common Stock to cover over-allotments, if any, at the initial offering price to the public less the underwriting discount set forth on the cover page of this Prospectus Supplement. If the Underwriters exercise this option, each Underwriter will have a firm commitment, subject to certain conditions, to purchase approximately the same percentage thereof which the number of shares of Common Stock to be purchased by it shown in the foregoing table bears to the total number of shares of Common Stock initially offered hereby.

In the Underwriting Agreement, the Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act. Insofar as indemnification of the Underwriters for liabilities arising under the Securities Act may be permitted pursuant to the foregoing provisions, the Company has been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

The Company and the executive officers and directors of the Company have agreed that for a period of 120 days from the date of this Prospectus Supplement they will not, without the prior written consent of Merrill Lynch, sell, offer to sell, grant any option for the sale of, or otherwise dispose of any shares of Common Stock or any security convertible into or exercisable for shares, except for the issuance of Common Stock in connection with property acquisitions, the 1994 Stock Option Plan or the conversion of Units.

Merrill Lynch from time to time provides investment banking and financial advisory services to the Company. Merrill Lynch also acted as representative of various underwriters in connection with public offerings of the Company's Common Stock in 1994 and 1995. In connection with the Merger, Morgan Stanley & Co. Incorporated rendered advisory services and provided an opinion to the Board of Directors of the Company for which they will be paid a total fee of approximately \$3.3 million.

The Common Stock is listed on the New York Stock Exchange under the symbol "HIW."

## LEGAL MATTERS

Certain legal matters will be passed upon for the Company by Smith Helms Mulliss & Moore, L.L.P., Raleigh, North Carolina. Certain legal matters related to the Offering will be passed upon for the Underwriters by Andrews & Kurth L.L.P., Washington, D.C. Smith Helms Mulliss & Moore, L.L.P. and Andrews & Kurth L.L.P. will rely on Piper & Marbury L.L.P., Baltimore, Maryland as to certain matters of Maryland law.

## INDEX TO PRO FORMA FINANCIAL STATEMENTS

	PAGE
Pro Forma Condensed Combining Balance Sheet (unaudited) as of March 31, 1996.....	F-2
Notes to Pro Forma Balance Sheet.....	F-3
Pro Forma Condensed Combining Statement of Operations (unaudited) for the quarter ended March 31, 1996.....	F-5
Notes to Pro Forma Statement of Operations.....	F-6
Pro Forma Condensed Combining Statement of Operations (unaudited) for the year ended December 31, 1995.....	F-8
Notes to Pro Forma Statement of Operations.....	F-9

# HIGHWOODS PROPERTIES, INC.

## PRO FORMA CONDENSED COMBINING BALANCE SHEET (UNAUDITED)

MARCH 31, 1996  
(IN THOUSANDS)

	HISTORICAL (A)	EAKIN & SMITH TRANSACTION	OFFERING (F)	CROCKER REALTY TRUST (G)	MERGER
<b>ASSETS</b>					
Real estate assets, net.....	\$602,276	\$91,911(b)	\$ --	\$376,039	\$ 155,299(h)
Cash and cash equivalents.....	8,383		253,900	17,742	(253,900)(i)
Accounts and notes receivables.....	7,861			1,557	
Accrued straight line rent receivable.....	3,807			3,461	
Other assets.....	10,317			14,635	(5,131)(j)
	\$632,644	\$91,911	\$253,900	\$413,434	\$(103,732)
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Mortgages and notes payable.....	\$196,718	\$63,680(c)	\$ --	\$239,502	\$ 54,931(i)
Accounts payable, accrued expenses and other.....	9,977			15,269	
Total liabilities.....	206,695	63,680	--	254,771	54,931
Minority interest.....	73,440	14,772(d)			
Stockholders' equity:					
Common stock.....	194	5(e)	100	270	(270)(k)
Additional paid in capital.....	355,248	13,454(e)	253,800	158,393	(158,393)(k)
Distributions in excess of net earnings.....	(2,933)				
Total stockholders' equity.....	352,509	13,459	253,900	158,663	(158,663)
	\$632,644	\$91,911	\$253,900	\$413,434	\$(108,252)
<b>PRO FORMA</b>					
<b>ASSETS</b>					
Real estate assets, net.....	\$1,225,525				
Cash and cash equivalents.....	26,125				
Accounts and notes receivables.....	9,418				
Accrued straight line rent receivable.....	7,268				
Other assets.....	19,821				
	\$1,288,157				
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Mortgages and notes payable.....	\$ 554,831				
Accounts payable, accrued expenses and other.....	25,246				
Total liabilities.....	580,077				
Minority interest.....	88,212				
Stockholders' equity:					
Common stock.....	299				
Additional paid in capital.....	622,502				
Distributions in excess of net earnings.....	(2,933)				
Total stockholders' equity.....	624,388				
	\$1,288,157				

# HIGHWOODS PROPERTIES, INC.

## NOTES TO PRO FORMA BALANCE SHEET (UNAUDITED)

MARCH 31, 1996

### 1. BASIS OF PRESENTATION

The accompanying unaudited pro forma condensed combining balance sheet is presented as if the following transactions had been consummated on March 31, 1996: (a) the completion of the acquisition of Eakin & Smith, Inc. and its affiliates ("Eakin & Smith"), (b) the completion of the proposed Crocker Realty Trust, Inc. ("Crocker") stock purchase and merger (the "Merger") and (c) the issuance of 10,000,000 shares of Common Stock at an assumed price of \$26.875 per share (the "Offering").

The acquisitions have been or will be accounted for using the purchase method of accounting. Accordingly, assets acquired and liabilities assumed have been or will be recorded at their estimated fair values which may be subject to further refinement, including appraisals and other analyses. Management does not expect that the final allocation of the purchase prices for the above acquisitions will differ materially from the preliminary allocations.

This unaudited pro forma condensed combining balance sheet should be read in conjunction with the pro forma condensed combining statement of operations of the Company for the quarter ended March 31, 1996 and information included under the captions "The Company" and "Recent Developments" in this Prospectus Supplement; the consolidated financial statements and related notes of the Company included in its Annual Report on Form 10-K for the year ended December 31, 1995, the unaudited financial statements and related notes of the Company included in its Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, and the financial statements and related notes of the entities acquired by the Company included in its Current Reports on Form 8-K dated February 10, 1995, July 12, 1995, December 18, 1995, April 1, 1996 and April 29, 1996 (each, as may have been amended) incorporated by reference in this Prospectus Supplement. The pro forma financial statements and related notes to the pro forma financial statements of the entities acquired by the Company included in its Form 8-K dated April 1, 1996 and April 29, 1996 does not give effect to the Offering mentioned above.

The pro forma condensed combining balance sheet is unaudited and is not necessarily indicative of what the actual financial position would have been had the aforementioned transactions actually occurred on March 31, 1996 nor does it purport to represent the future financial position of the Company.

### 2. ADJUSTMENTS TO THE UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

(a.) Represents the Company's historical balance sheet contained in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.

(b.) Represents the initial purchase price of \$91,610,000 for the seven in-service suburban office properties totaling 848,000 square feet, the 103,000-square foot suburban development project, 18 acres of development land and Eakin and Smith's brokerage and property management operations (the "Eakin & Smith Transaction") plus closing costs of approximately \$300,000. The entire purchase price was allocated to the real estate assets based on the fair value at the date of acquisition. Additionally, the Company has entered into a contingent consideration arrangement with the three principals of Eakin & Smith whereby an additional 54,056 shares of common stock may be issued to these individuals if third-party service revenue attributable to the Eakin & Smith brokerage and property management operations exceed specified levels in future periods. Any contingent consideration issued will be recorded as additional purchase price and allocated to the fair value of the brokerage and property management operations. As noted in Note 1, the initial allocation at estimated fair value may be subject to further refinement, however, management does not expect the final allocation will differ materially from the preliminary allocations.

(c.) Represents the assumption of \$37,027,000 of mortgage indebtedness at an average rate of 8.0% and borrowings on the Company's Credit Facility of \$26,653,000 to fund the cash component of the Eakin & Smith Transaction.

(d.) Represents the issuance of 537,138 Units of Highwoods/Forsyth Limited Partnership valued at the April 1, 1996 closing price of the Company's Common Stock of \$27.50 to the sellers in connection with the Eakin & Smith Transaction.

**HIGHWOODS PROPERTIES, INC.**

**NOTES TO PRO FORMA BALANCE SHEET -- CONTINUED**

**2. ADJUSTMENTS TO THE UNAUDITED PRO FORMA CONDENSED BALANCE SHEET -- Continued**

(e.) Represents the issuance of 489,421 shares of Common Stock valued at the April 1, 1996 closing price of \$27.50 to the sellers in connection with the Eakin & Smith Transaction.

(f.) Represents the issuance of 10,000,000 shares in the Offering and the investment of the net proceeds in cash and cash equivalents. In determining net proceeds from the Offering, underwriting discounts and other offering costs have been assumed to equal \$14,850,000.

(g.) Represents the historical balance sheet of Crocker as of March 31, 1996.

(h.) Represents the adjustment to record the real estate assets of Crocker at their fair values.

(i.) Represents the funding of the cash purchase price for the outstanding common stock of Crocker (26,981,087 shares outstanding at \$11.02 per share or \$297,331,000) and the expenses of the Merger (\$11,500,000). The total cash requirement of \$308,831,000 is assumed to be funded from the net proceeds from the Offering of \$253,900,000 described in (f.) above and through a draw from the Company's credit facility of \$54,931,000.

(j.) Represents the elimination of the management contract and goodwill assets included in the Crocker historical balance sheet.

(k.) Represents the elimination of the common stock and additional paid in capital amounts included in the Crocker historical balance sheet.

# HIGHWOODS PROPERTIES, INC.

## PRO FORMA CONDENSED COMBINING STATEMENT OF OPERATIONS (UNAUDITED)

### FOR THE QUARTER ENDED MARCH 31, 1996 (IN THOUSANDS, EXCEPT PER SHARE DATA)

				MERGER	
	HISTORICAL (A)	EAKIN & SMITH TRANSACTION (B)	CROCKER HISTORICAL (C)	PRE-ACQUISITION RESULTS (D)	PRO FORMA ADJUSTMENTS
REVENUE:					
Rental property.....	\$23,385	\$3,000	\$16,970	\$ 520	\$ 300 (e)
Other income.....	372	964	890	12	(563) (f)
	23,757	3,964	17,860	532	(263)
OPERATING EXPENSES:					
Rental property.....	6,154	957	6,310	179	(615) (g)
Leasing, development and construction.....	--	452	--		--
Depreciation and amortization....	3,716	526	2,722	108	(317) (h)
Interest expense:					
Contractual.....	3,542	739	5,055	215	1,429 (i)
Amortization of deferred financing costs.....	409		272		78 (j)
	3,951	739	5,327	215	1,507
General and administrative.....	934	153	1,870		(1,673) (k)
Income before minority interest...	9,002	1,137	1,631	30	835
Minority interest.....	(1,571)				(8) (l)
Net income.....	\$ 7,431	\$1,137	\$ 1,631	\$ 30	\$ 827
Net income per share.....	\$ 0.38				
Weighted average shares.....	19,406				
	PRO FORMA				
REVENUE:					
Rental property.....	\$44,175				
Other income.....	1,675				
	45,850				
OPERATING EXPENSES:					
Rental property.....	12,985				
Leasing, development and construction.....	452				
Depreciation and amortization....	6,755				
Interest expense:					
Contractual.....	10,980				
Amortization of deferred financing costs.....	759				
	11,739				
General and administrative.....	1,284				
Income before minority interest...	12,635				
Minority interest.....	(1,579)				
Net income.....	\$11,056				
Net income per share.....	\$ 0.37				
Weighted average shares.....	29,897				



# HIGHWOODS PROPERTIES, INC.

## NOTES TO PRO FORMA STATEMENT OF OPERATIONS (UNAUDITED)

### FOR THE QUARTER ENDED MARCH 31, 1996

#### 1. BASIS OF PRESENTATION

The accompanying unaudited pro forma condensed combining statement of operations is presented as if the following transactions had been consummated on January 1, 1995: (a) the completion of the Eakin & Smith Transaction and (b) the completion of the Merger and the Offering.

This unaudited pro forma condensed combining statement of operations should be read in conjunction with the pro forma condensed balance sheet of the Company for the quarter ended March 31, 1996 and information included under the captions "The Company" and "Recent Developments" in this Prospectus Supplement; the consolidated financial statements and related notes of the Company included in its Annual Report on Form 10-K for the year ended December 31, 1995, the unaudited financial statements and related notes of the Company included in its Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, and the financial statements and related notes of the entities acquired by the Company included in its Current Reports on Form 8-K dated February 10, 1995, July 12, 1995, December 18, 1995, April 1, 1996 and April 29, 1996 (each, as may have been amended) incorporated by reference in this Prospectus Supplement. The pro forma financial statements and related notes to the pro forma financial statements of the entities acquired by the Company included in its Form 8-K dated April 1, 1996 and April 29, 1996 does not give effect to the Offering mentioned above.

The pro forma condensed combining statement of operations does not reflect approximately \$5,000,000 of non-recurring expenses which the Company expects to incur in connection with the Crocker Transaction.

The pro forma condensed combining statement of operations is unaudited and is not necessarily indicative of what the Company's actual results would have been had the aforementioned transactions actually occurred on January 1, 1995 nor does it purport to represent the future operating results of the Company.

#### 2. ADJUSTMENTS TO THE UNAUDITED PRO FORMA CONDENSED COMBINING STATEMENT OF OPERATIONS

(a.) Represents the Company's historical statement of operations contained in its Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.

(b.) Reflects the historical statement of operations of Eakin & Smith for the quarter ended March 31, 1996.

(c.) Represents the historical statement of operations of Crocker contained in its Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.

(d.) Reflects the historical operations of the Towermarc properties, which were acquired by Crocker on January 16, 1996, adjusted on a pro forma basis for interest (assumed debt of \$57,800,000 at an average rate of 9.0%) and depreciation expense, for the period from January 1, 1996 to January 16, 1996, the date of the acquisition of Towermarc. Depreciation expense is calculated on the purchase price allocated to buildings \$(61,051), site improvements \$(5,201) and tenant improvements \$(2,040) with depreciation calculated on a straight-line basis over useful lives of 40 years, 15 years, and the life of the respective leases, respectively.

(e.) Reflects incremental rental income from a new lease agreement entered into in connection with the Merger. The lease agreement is a condition of the Merger.

(f.) Reflects the elimination of certain third-party leasing and property management income of Crocker not retained by the Company.

(g.) Reflects the net adjustment to rental property expenses to eliminate the costs related to certain assets (primarily land held for development) which will be distributed to the current stockholders of Crocker (\$200,000) and for other property operating costs (primarily personnel and office costs for duplicative property management operations) that are expected to be eliminated upon the completion of the Merger (\$415,000).

# HIGHWOODS PROPERTIES, INC.

## NOTES TO PRO FORMA STATEMENT OF OPERATIONS -- CONTINUED

### 2. ADJUSTMENTS TO THE UNAUDITED PRO FORMA CONDENSED COMBINING STATEMENT OF OPERATIONS -- Continued

(h.) Represents the net adjustment to depreciation expense based upon an assumed allocation of the purchase price to land, buildings, furniture, fixtures and equipment and development in process and building depreciation computed on a straight-line basis using an estimated life of 40 years for buildings and 7 years for furniture, fixtures and equipment as follows (in thousands):

Eakin & Smith Transaction.....	\$ (73)
Merger.....	(244)
Total.....	\$ (317)

(i.) Represents the net adjustment to interest expense to reflect interest costs on borrowings under the Company's Credit Facility at an assumed rate of 7.0% (the capped interest rate based on a 30-day LIBOR rate of 5.50% plus 1.50%) as follows (in thousands):

Eakin & Smith Transaction (1).....	\$ 468
Merger (2).....	961
Total.....	\$1,429

(1) \$26,653,000 of borrowings at 7.0% for three months.

(2) \$54,931,000 of borrowings at 7.0% for three months.

(j.) Represents the amortization of the commitment fee (\$937,000) on the Credit Facility over the 36-month term.

(k.) Represents the net adjustment to general and administrative expense to reflect the estimated incremental costs (primarily salaries) to the Company of operating a Nashville division and to reflect the elimination of certain costs (primarily executive salaries (\$250,000), administrative costs (\$575,000), the expenses incurred to generate third-party revenue (\$600,000) and the expenses of operating as a public entity (\$295,000)) of Crocker not expected to be incurred by the Company as follows (in thousands):

Eakin & Smith Transaction.....	\$ 47
Merger.....	(1,720)
Total.....	\$ (1,673)

(l.) Represents the net adjustment to minority interest to reflect the pro forma minority interest percentage of 12.5%.

# HIGHWOODS PROPERTIES, INC.

## PRO FORMA CONDENSED COMBINING STATEMENT OF OPERATIONS (UNAUDITED)

### FOR THE YEAR ENDED DECEMBER 31, 1995 (IN THOUSANDS, EXCEPT PER SHARE DATA)

	HISTORICAL (A)	FORSYTH PROPERTIES TRANSACTIONS RESEARCH COMMONS ACQUISITION AND SECOND OFFERING (B)	OTHER ACQUISITIONS (C)	THIRD OFFERING (D)	COMBINED COMPANY PRE-MERGER AND EAKIN & SMITH PRO FORMA	EAKIN & SMITH TRANSACTION (E)	MERGER CROCKER HISTORICAL (F)
REVENUE:							
Revenue:							
Rental							
property.....	\$ 71,217	\$4,362	\$ 12,658	\$ --	\$ 88,237	\$ 9,222	\$ 42,489
Other income....	2,305	50	--	--	2,355	3,125	1,777
	73,522	4,412	12,658	--	90,592	12,347	44,266
OPERATING							
EXPENSES:							
Rental							
property.....	17,049	923	3,368	135	21,475	2,977	13,601
Leasing, development and construction...	--	--	--	--	--	583	--
Depreciation and amortization...	11,082	985	1,883	--	13,950	1,956	6,772
Interest expense:							
Contractual....	12,101	888	3,586	(1,598)	14,977	2,161	16,212
Amortization of deferred financing costs.....	1,619	46	--	--	1,665	--	594
	13,720	934	3,586	(1,598)	16,642	2,161	16,806
General and administrative...	2,737	83	--	98	2,918	763	2,813
Income before minority interest.....	28,934	1,487	3,821	1,365	35,607	3,907	4,274
Minority interest.....	(4,937)	(384)	--	(376)	(5,697)	--	--
Income before extraordinary item.....	\$ 23,997	\$1,103	\$ 3,821	\$ 989	\$ 29,910	\$ 3,907	\$ 4,274
Income per share before extraordinary item.....	\$ 1.55						
Weighted average shares.....	15,487						
	PRE- ACQUISITION RESULTS (G)	PRO FORMA ADJUSTMENTS	PRO FORMA				
REVENUE:							
Revenue:							
Rental							
property.....	\$23,985	\$ 1,200(h)	\$ 165,133				
Other income....	2,380	(2,628) (i)	7,009				
	26,365	(1,428)	172,142				
OPERATING							
EXPENSES:							
Rental							
property.....	9,619	(2,030) (j)	45,642				
Leasing, development and construction...	--	--	583				
Depreciation and amortization...	4,881	(972) (k)	26,587				
Interest expense:							
Contractual....	5,689	6,512(l)	45,551				
Amortization of deferred financing costs.....	--	312(m)	2,571				
	5,689	6,824	48,122				
General and administrative...	2,376	(4,652) (n)	4,218				
Income before minority interest.....	3,800	(598)	46,990				
Minority interest.....	--	(177) (o)	(5,874)				
Income before extraordinary							

item.....	\$ 3,800	\$ (775)	\$ 41,116
Income per			
share before			
extraordinary			
item.....			\$ 1.38
Weighed average			
shares.....			29,897

# HIGHWOODS PROPERTIES, INC.

## NOTES TO PRO FORMA STATEMENT OF OPERATIONS (UNAUDITED)

### FOR THE YEAR ENDED DECEMBER 31, 1995

#### 1. BASIS OF PRESENTATION

The accompanying unaudited pro forma condensed combining statement of operations is presented as if the following transactions had been consummated on January 1, 1995:

- (a.) the acquisition of 57 properties, 76 acres of development land and the business operations of Forsyth Properties, Inc. and its affiliates (the "Forsyth Transaction");
- (b.) the acquisition of six properties (the "Research Commons Properties") and 60 acres of development land located in the Research Commons office park (the "Research Commons Acquisition");
- (c.) the issuance of 5,640,000 shares of Common Stock of the Company at a price of \$20.75 per share issued in connection with the Forsyth Transaction (the "Second Offering");
- (d.) the acquisition of 56 properties and six acres of development land (the "Bissell Portfolio") located in Greensboro and Charlotte, North Carolina; the acquisition of five properties (the "Hock Portfolio") located in Durham, North Carolina; the acquisition of six properties (the "Parkway Plaza Portfolio") located in Charlotte, North Carolina; the acquisition of two properties (the "Initial Innsbrook Portfolio") located in Richmond, Virginia; the acquisition of six properties (the "Ross-Kreckman Portfolio") located in Richmond, Virginia; the acquisition of two properties (the "DEQ Property") located in Richmond, Virginia; and the acquisition of 62 acres of development land (the "DEQ Land") located in Richmond, Virginia (collectively, the "Other Acquisitions");
- (e.) the issuance of 4,774,989 shares of Common Stock of the Company at a price of \$24.50 per share (the "Third Offering");
- (f.) the completion of the Eakin and Smith Transaction;
- (g.) the completion of the Merger; and
- (h.) the completion of the Offering.

This unaudited pro forma condensed combining statement of operations should be read in conjunction with the pro forma condensed combining balance sheet of the Company for the quarter ended March 31, 1996 and information included under the captions "The Company" and "Recent Developments" in this Prospectus Supplement; the consolidated financial statements and related notes of the Company included in its Annual Report on Form 10-K for the year ended December 31, 1995, the unaudited financial statements and related notes of the Company included in its Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, and the financial statements and related notes of the entities acquired by the Company included in its Current Reports on Form 8-K dated February 10, 1995, July 12, 1995, December 18, 1995, April 1, 1996 and April 29, 1996 (each, as may have been amended) incorporated by reference in this Prospectus Supplement.

The pro forma condensed combining statement of operations does not reflect approximately \$5,000,000 of non-recurring expenses which the Company expects to incur in connection with the Merger.

The pro forma condensed combining statement of operations is unaudited and is not necessarily indicative of what the Company's actual results would have been had the aforementioned transactions actually occurred on January 1, 1995 nor does it purport to represent the future operating results of the Company.

#### 2. ADJUSTMENTS TO THE UNAUDITED PRO FORMA STATEMENT OF OPERATIONS

- (a.) Represents the Company's historical statement of operations contained in its Annual Report on Form 10-K for the year ended December 31, 1995.

# HIGHWOODS PROPERTIES, INC.

## NOTES TO PRO FORMA STATEMENT OF OPERATIONS -- CONTINUED

### 2. ADJUSTMENTS TO THE UNAUDITED PRO FORMA STATEMENT OF OPERATIONS -- Continued

(b.) Reflects the Second Offering and the historical operations of the Forsyth Properties and Research Commons Properties, adjusted on a pro forma basis for interest and depreciation expense, for the period of time during 1995 prior to their acquisition by the Company.

(c.) Reflects the historical operations of the Other Acquisitions, adjusted on a pro forma basis for interest and depreciation expense, for the period of time during 1995 prior to their acquisition by the Company.

(d.) Reflects the reduction in interest expense associated with the repayment of certain debt and the addition of certain incremental rental property and general and administrative expenses as a result of the Bissell and Ross-Kreckman Portfolio acquisitions.

(e.) Reflects the historical statement of operations of Eakin & Smith for the year ended December 31, 1995.

(f.) Represents the historical statement of operations of Crocker contained in its Annual Report on Form 10-K for the year ended December 31, 1995.

(g.) Reflects the historical operations of Crocker Realty Investors, Inc., Crocker & Sons, Inc., Crocker Realty Management Services, Inc., the Sabal properties and the Towermarc properties, adjusted on a pro forma basis for interest and depreciation expense, for the period of time during 1995 prior to their acquisition by Crocker.

Interest expense reflects incremental indebtedness of approximately \$97.4 million for the first half of 1996 at an average rate of 9.94% and \$57.8 million for the second half of 1996 at an average rate of 9.70% plus loan cost amortization of \$292. Historical indebtedness was also reduced by \$20 million which was prepaid on December 28, 1995 using the proceeds of a private placement. The \$20 million had a fixed rate of interest of 11.5%. Depreciation is calculated using the respective purchase prices allocated to buildings, site improvements and tenant improvements with depreciation calculated on a straight-line basis over useful lives of 40 years, 15 years, and the life of the respective leases, respectively.

(h.) Reflects incremental rental income from a lease agreement entered into in connection with the Merger. This agreement was a condition of the Merger transaction.

(i.) Reflects the elimination of certain third-party leasing and property management income of Crocker not retained by the Company.

(j.) Reflects the net adjustment to rental property expenses to eliminate the costs related to certain assets (primarily land held for development) that will be distributed to the current stockholders of Crocker (\$800,000) and for other property operating costs (primarily personnel and office expenses related to duplicative property management operations) which are expected to be eliminated upon the completion of the Merger (\$1,230,000).

(k.) Represents the net adjustment to depreciation expense based upon an assumed allocation of the purchase price to land, buildings, furniture, fixtures and equipment and development in process and building depreciation computed on a straight-line basis using an estimated life of 40 years for buildings and 7 years for furniture, fixtures and equipment as follows (in thousands):

Eakin & Smith Transaction.....	\$ (145)
Merger.....	(827)
Total.....	\$ (972)

# HIGHWOODS PROPERTIES, INC.

## NOTES TO PRO FORMA STATEMENT OF OPERATIONS -- CONTINUED

### 2. ADJUSTMENTS TO THE UNAUDITED PRO FORMA STATEMENT OF OPERATIONS -- Continued

(l.) Represents the net adjustment to interest expense to reflect interest costs on borrowings under the Company's Credit Facility at an assumed rate of 7.0% capped (the effective interest rate based on a 30-day LIBOR rate of 5.50% plus 1.50%) and assumed debt as follows (in thousands):

Eakin & Smith Transaction (1).....	\$2,667
Merger (2).....	3,845
Total.....	\$6,512

(1) \$26,653,000 of borrowings under Credit Facility at 7% plus \$10,075 of assumed debt at 8.0%.

(2) \$54,931,000 of borrowings at 7.0%.

(m.) Represents the amortization of the commitment fee (\$937,000) on the Credit Facility over the 36 month period.

(n.) Represents the net adjustment to general and administrative expense to reflect the estimated incremental costs to the Company of operating a Nashville division (primarily salaries) and to reflect the elimination of certain costs (primarily executive salaries (\$1,020,000), administrative costs (\$1,875,000), the expenses incurred to generate third-party revenue (\$994,000) and the expenses of operating as a public entity \$800,000) of Crocker not expected to be incurred by the Company as follows (in thousands):

Eakin & Smith Transaction.....	\$ 37
Merger.....	(4,689)
Total.....	\$(4,652)

(o.) Represents the net adjustment to minority interest to reflect the pro forma minority interest percentage of 12.5%.

# PROSPECTUS

\$1,000,000,000  
**HIGHWOODS PROPERTIES, INC.**  
**COMMON STOCK, PREFERRED STOCK AND DEPOSITARY SHARES**  
**HIGHWOODS/FORSYTH LIMITED PARTNERSHIP**  
**DEBT SECURITIES**

Highwoods Properties, Inc. (the "Company") may from time to time offer in one or more series (i) shares of common stock, \$.01 par value per share ("Common Stock"), (ii) shares of preferred stock, \$.01 par value per share ("Preferred Stock") and (iii) shares of Preferred Stock represented by depositary shares (the "Depositary Shares"), with an aggregate public offering price of up to \$650,000,000 (or its equivalent in another currency based on the exchange rate at the time of sale) in amounts, at prices and on terms to be determined at the time of offering. Highwoods/Forsyth Limited Partnership (the "Operating Partnership") may from time to time offer in one or more series unsecured non-convertible debt securities ("Debt Securities"), with an aggregate public offering price of up to \$350,000,000 (or its equivalent in another currency based on the exchange rate at the time of sale) in amounts, at prices and on terms to be determined at the time of offering. The Common Stock, Preferred Stock, Depositary Shares and Debt Securities, (collectively, the "Securities") may be offered, separately or together, in separate series in amounts, at prices and on terms to be set forth in one or more supplements to this Prospectus (each a "Prospectus Supplement"). If any Debt Securities issued by the Operating Partnership are rated below investment grade at the time of issuance, such Debt Securities will be fully and unconditionally guaranteed by the Company as to payment of principal, premium, if any, and interest (the "Guarantees"). Debt securities rated investment grade may also be accompanied by a Guarantee to the extent and on the terms described herein and in the accompanying Prospectus Supplement. The Company conducts substantially all of its activity through, and all of its properties are held directly or indirectly by, the Operating Partnership. Consequently, the Company's operating cash flow and its ability to service its financial obligations, including the Guarantees, is dependent upon the cash flow of and distributions or other payments from the Operating Partnership to the Company.

The specific terms of the Securities in respect of which this Prospectus is being delivered will be set forth in the applicable Prospectus Supplement and will include, where applicable: (i) in the case of Common Stock, any initial public offering price; (ii) in the case of Preferred Stock, the specific title and stated value, any dividend, liquidation, redemption, conversion, voting and other rights, and any initial public offering price; (iii) in the case of Depositary Shares, the fractional share of Preferred Stock represented by each such Depositary Share; and (iv) in the case of Debt Securities, the specific title, aggregate principal amount, currency, form (which may be registered or bearer, or certificated or global), authorized denominations, maturity, rate (or manner of calculation thereof) and time of payment of interest, terms for redemption at the option of the Operating Partnership or repayment at the option of the holder, terms for sinking fund payments, covenants, applicability of any Guarantees and any initial public offering price. In addition, such specific terms may include limitations on direct or beneficial ownership and restrictions on transfer of the Securities, in each case as may be appropriate to preserve the status of the Company as a real estate investment trust ("REIT") for Federal income tax purposes.

The applicable Prospectus Supplement will also contain information, where applicable, about certain United States Federal income tax considerations relating to, and any listing on a securities exchange of, the Securities covered by such Prospectus Supplement.

**SEE "RISK FACTORS" BEGINNING ON PAGE 4 OF THIS PROSPECTUS FOR A DESCRIPTION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY PURCHASERS OF THE SECURITIES.**

The Securities may be offered directly, through agents designated from time to time by the Company or the Operating Partnership, or to or through underwriters or dealers. If any agents or underwriters are involved in the sale of any of the Securities, their names, and any applicable purchase price, fee, commission or discount arrangement between or among them, will be set forth, or will be calculable from the information set forth, in an accompanying Prospectus Supplement. See "Plan of Distribution." No Securities may be sold without delivery of a Prospectus Supplement describing the method and terms of the offering of such series of Securities.

**THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS**

**PROSPECTUS. ANY REPRESENTATION TO THE  
CONTRARY IS A CRIMINAL OFFENSE.**

**THE ATTORNEY GENERAL OF THE STATE OF NEW YORK HAS NOT PASSED  
ON OR ENDORSED THE MERITS OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.**

The date of this Prospectus is June 20, 1996.



## AVAILABLE INFORMATION

The Company is, and upon effectiveness of this registration statement the Operating Partnership will be, subject to the information requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith the Company files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission") and the Operating Partnership will file reports with the Commission. Such reports, proxy statements and other information may be inspected and copied, at prescribed rates, at the public reference facilities of the Commission at 450 Fifth Street, N.W., Washington, DC 25049, Room 1024, and at the Commission's New York regional office at Seven World Trade Center, New York, New York 10048 and at the Commission's Chicago regional office at Citicorp Center, 500 W. Madison Street, Chicago, Illinois 60661. Copies of such material can also be obtained at prescribed rates by writing to the public reference section of the Commission at 450 Fifth Street, N.W., Washington, DC 20549. In addition, the Common Stock of the Company is listed on the New York Stock Exchange ("NYSE"), and similar information concerning the Company can be inspected and copied at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

The Company and the Operating Partnership have filed with the Commission a registration statement on Form S-3 (the "Registration Statement") under the Securities Act, with respect to the Securities. This prospectus ("Prospectus"), which constitutes a part of the Registration Statement, does not contain all of the information set forth in the Registration Statement and in the exhibits and schedules thereto. For further information with respect to the Company, the Operating Partnership and the Securities, reference is hereby made to such Registration Statement, exhibits and schedules. The Registration Statement may be inspected without charge at, or copies obtained upon payment of prescribed fees from, the Commission and its regional offices at the locations listed above. Any statements contained herein concerning a provision of any document are not necessarily complete, and, in each instance, reference is made to the copy of such document filed as an exhibit to the Registration Statement or otherwise filed with the Commission. Each such statement is qualified in its entirety by such reference.

## INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed by the Company (Commission File No. 1-13100) with the Commission pursuant to the Exchange Act are incorporated herein by reference and made a part hereof:

- a. The Company's Annual Report on Form 10-K for the year ended December 31, 1995 (as amended on Form 10-K/A on June 3, 1996 and June 18, 1996);
- b. The description of the Common Stock of the Company included in the Company's Registration Statement on Form 8-A, dated May 16, 1994;
- c. The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996 (as amended on Form 10-Q/A on June 3, 1996 and June 18, 1996); and
- d. The Company's Current Reports on Form 8-K, dated February 10, 1995, July 12, 1995 (as amended on Form 8-K/A on September 6, 1995 and June 3, 1996), December 18, 1995, April 1, 1996 (as amended on Form 8-K/A on June 3, 1996 and June 18, 1996), and April 29, 1996 (as amended on Form 8-K/A on June 3, 1996 and June 18, 1996).

All documents filed by the Company or the Operating Partnership with the Commission pursuant to Sections 13(a) and 13(c) of the Exchange Act and any definitive proxy statements so filed pursuant to Section 14 of the Exchange Act and any reports filed pursuant to Section 15(d) of the Exchange Act after the date of this Prospectus and prior to the termination of the offering of the Securities to which this Prospectus relates shall be deemed to be incorporated by reference into this Prospectus and to be a part hereof from the date of filing of such documents. Any statement contained in a document incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document that is incorporated by reference herein modifies or supersedes such earlier statement. Any such statements modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Copies of any or all of the documents specifically incorporated herein by reference (not including the exhibits to such documents, unless such exhibits are specifically incorporated by reference in such documents) will be furnished without charge to each person, including any beneficial owner, to whom a copy of this Prospectus is delivered upon written or oral request. Requests should be made to: Investor Relations, 3100 Smoketree Court, Suite 600, Raleigh, North Carolina 27604.

## THE COMPANY AND THE OPERATING PARTNERSHIP

The Company is a self-administered and self-managed real estate investment trust ("REIT") that began operations through a predecessor in 1978. At May 31, 1996, the Company owned a portfolio of 200 office and industrial properties (the "Properties"), together with approximately 215 acres of land (the "Development Land") for future development. The Properties consist of 102 suburban office properties and 98 industrial (including 62 service center) properties, located in Raleigh-Durham, Winston-Salem, Greensboro and Charlotte, North Carolina, Nashville, Tennessee and Richmond, Virginia. As of May 31, 1996, the Properties consisted of approximately 10.3 million square feet, which were leased to approximately 1,100 tenants.

The Company conducts substantially all of its activities through, and all of the Properties are held directly or indirectly by, Highwoods/Forsyth Limited Partnership (the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership and as of May 31, 1996, owned 82% of the partnership interests (the "Units") in the Operating Partnership. The remaining Units are owned by limited partners (including certain officers and directors of the Company). Each Unit may be redeemed by the holder thereof for cash or, at the Company's option, one share (subject to certain adjustments) of the Common Stock. With each such exchange, the number of Units owned by the Company and, therefore, the Company's percentage interest in the Operating Partnership, will increase. Because the Company conducts substantially all of its activity through, and all of its properties are held directly or indirectly by, the Operating Partnership, the description of the business, property information, policies with respect to certain activities, investment policies and management information for the Operating Partnership are the same as the Company. Such information may be found in the Company's Annual Report on Form 10-K for the year ended December 31, 1995.

The only businesses or assets of the Company which are not conducted or owned directly or indirectly through the Operating Partnership are the brokerage and property management business and related assets acquired on April 1, 1996 through the Company's merger with Nashville, Tennessee-based Eakin & Smith, Inc. (the "Eakin & Smith Transaction"). In addition to owning the Properties and the Development Land, the Operating Partnership also provides services associated with leasing, property management, real estate development, construction and miscellaneous tenant services for the Properties as well as for third parties. The Company conducts its third-party fee-based services through two subsidiaries of the Operating Partnership, Highwoods Services, Inc. and Forsyth Properties Services, Inc. (the "Service Companies"), and Forsyth-Carter Brokerage L.L.C. ("Forsyth-Carter Brokerage"), a joint venture with Carter Oncor International.

On April 29, 1996, the Company entered into a merger agreement (the "Merger Agreement") with Crocker Realty Trust, Inc. ("Crocker") pursuant to which the Company will acquire 58 suburban office properties and 12 service center properties (the "Crocker Properties") located in 15 Southeastern markets in Florida, North Carolina, South Carolina, Tennessee, Georgia, Virginia and Alabama. The Crocker Properties encompass 5.7 million rentable square feet and, at March 31, 1996, were 95% leased. Through the merger with Crocker (the "Merger"), which is expected to occur in the third quarter of 1996, the Company will establish itself as one of the largest real estate operating companies in the Southeastern United States specializing in the ownership, management, acquisition and development of suburban office and industrial properties. Under the terms of the Merger Agreement, the Company will acquire all of the outstanding capital stock of Crocker in exchange for a cash payment of \$11.02 per share, subject to certain adjustments. Based on Crocker's 26,981,087 million shares of outstanding capital stock at May 31, 1996, the purchase price will total approximately \$297 million. In addition, the Company will cash out certain existing options and warrants to purchase Crocker common stock for an estimated \$4.2 million and assume approximately \$240 million of Crocker's currently outstanding indebtedness, having a weighted average interest rate of 8.6%. In connection with the Merger, the Company has also entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with certain stockholders of Crocker, who together own approximately 83% of Crocker's outstanding common stock (collectively, the "Crocker Selling Stockholders"), which obligates such stockholders to sell their shares to the Company at a cash price of \$11.02, subject to the same adjustments as required under the Merger Agreement. The approximately \$247 million purchase price for such shares is part of the total approximately \$297 million purchase price for all of Crocker's outstanding shares. The Merger Agreement and the Stock Purchase Agreement may be terminated by the respective parties only in certain limited circumstances. In addition, under the terms of the Merger Agreement, certain specified assets and liabilities of Crocker will not be acquired by the Company. The Merger will be accounted for by

the Company under the purchase method of accounting in accordance with Accounting Principles Board Opinion No. 16, "Business Combinations," as amended. Under this method of accounting, the purchase price will be allocated to assets acquired and liabilities assumed based on their estimated fair value at the closing date of the Merger.

The Company is a Maryland corporation that was incorporated in 1994. The Operating Partnership is a North Carolina limited partnership formed in 1994. The Company's and the Operating Partnership's executive offices are located at 3100 Smoketree Court, Suite 600, Raleigh, North Carolina 27604, and their telephone number is (919) 872-4924. The Company maintains offices in each of its primary markets.

## **RISK FACTORS**

Prospective investors should carefully consider, among other factors, the matters described below before purchasing offered Securities.

### **NO LIMITATION IN ORGANIZATIONAL DOCUMENTS ON INCURRENCE OF DEBT**

The Company intends to limit the extent of its borrowing to less than 50% of its total market capitalization (i.e., the market value of issued and outstanding shares of Common Stock and Units plus total debt), but the organizational documents of the Company do not contain any limitation on the amount or percentage of indebtedness the Company might incur. The Indenture (as defined herein), however, will contain limits on the Company's ability to incur indebtedness. If the Company's policy limiting borrowing were changed, the Company could become more highly leveraged, resulting in an increase in debt service that could adversely affect the Company's funds from operations and ability to make expected distributions to stockholders and in an increased risk of default on its obligations. As of May 31, 1996, the Company's ratio of debt to total market capitalization was approximately 28%.

### **GEOGRAPHIC CONCENTRATION**

The Company's revenues and the value of its Properties may be affected by a number of factors, including the local economic climate (which may be adversely impacted by business layoffs or downsizing, industry slowdowns, changing demographics and other factors) and local real estate conditions (such as oversupply of or reduced demand for office and other competing commercial properties). As of May 31, 1996, the Properties were located in the following areas (with the number of Properties noted parenthetically): Raleigh-Durham, North Carolina (60); Greensboro, Winston-Salem and High Point, North Carolina (100); Charlotte, North Carolina (22); Richmond, Virginia (11); and Nashville, Tennessee (7). Using March 1996 base rent totals, the North Carolina properties represented 87.5% of the annualized base rent of the Properties, with Raleigh-Durham Properties alone constituting 53.1%. Although the Merger would broaden the Company's geographic focus by adding 11 new markets throughout the Southeastern United States, based on March 1996 rent rolls, the North Carolina Properties would still represent 56.4% of the Company's annualized rental revenue, with properties located in Raleigh-Durham accounting for 31.8% following the Merger. The Company's performance and its ability to make distributions to stockholders is therefore dependent on the economic conditions in these market areas. In addition, there can be no assurance as to the continued growth of the economy in these markets.

### **ABILITY OF THE COMPANY TO PAY ON GUARANTEES**

With the exception of the Nashville, Tennessee brokerage and property management operations, all other operations of the Company are conducted by the Operating Partnership. The principal asset of the Company is its interest (82% as of May 31, 1996) in the Operating Partnership. As a result, the Company is dependent upon the receipt of distributions or other payments from the Operating Partnership in order to meet its financial obligations, including its obligations under any Guarantees. Any Guarantees will be effectively subordinated to existing and future liabilities of the Operating Partnership. At May 31, 1996, the Operating Partnership had approximately \$275 million of indebtedness outstanding, of which approximately \$207 million is secured by interests in certain real estate assets. The Operating Partnership is a party to loan agreements with various bank lenders which require the Operating Partnership to comply with various financial and other covenants before it may make distributions to the Company. Although the Operating

Partnership presently is in compliance with such covenants, there is no assurance that it will continue to be in compliance and that it will be able to continue to make distributions to the Company.

## **RISKS IN THE EVENT OF CERTAIN TRANSACTIONS BY THE OPERATING PARTNERSHIP OR THE COMPANY**

The Indenture does not contain any provisions that would afford holders of Debt Securities protection in the event of (i) a highly leveraged or similar transaction involving the Operating Partnership, the management of the Operating Partnership or the Company, or any affiliate of any such party, (ii) a change of control, or (iii) certain reorganizations, restructures, mergers or similar transactions involving the Operating Partnership or the Company.

## **CONFLICTS OF INTERESTS IN THE BUSINESS OF THE COMPANY**

**TAX CONSEQUENCES UPON SALE OR REFINANCING OF PROPERTIES.** Holders of Units may suffer different and more adverse tax consequences than the Company upon the sale or refinancing of any of the Properties and, therefore, such holders, including certain of the Company's officers and directors, and the Company may have different objectives regarding the appropriate pricing and timing of any sale or refinancing of such Properties. While the Company, as the sole general partner of the Operating Partnership, has the exclusive authority as to whether and on what terms to sell or refinance an individual Property, those members of the Company's management and Board of Directors of the Company who hold Units may influence the Company not to sell or refinance the Properties even though such sale might otherwise be financially advantageous to the Company, or may influence the Company to refinance Properties with a high level of debt.

**POLICIES WITH RESPECT TO CONFLICTS OF INTERESTS.** The Company has adopted certain policies relating to conflicts of interest. These policies include a bylaw provision requiring all transactions in which executive officers or directors have a conflicting interest to be approved by a majority of the independent directors of the Company or a majority of the shares of capital stock held by disinterested stockholders. There can be no assurance that the Company's policies will be successful in eliminating the influence of such conflicts, and if they are not successful, decisions could be made that might fail to reflect fully the interests of all stockholders.

**COMPETITIVE REAL ESTATE ACTIVITIES OF MANAGEMENT.** John W. Eakin and Thomas S. Smith, both of whom became officers and directors of the Company in connection with the Eakin & Smith Transaction, maintain an ownership interest in an office building in the central business district of Nashville, Tennessee, which building may compete for potential tenants with the Company's Nashville office properties.

## **LIMITATIONS ON ACQUISITION AND CHANGE IN CONTROL**

**OWNERSHIP LIMIT.** The Company's Articles of Incorporation prohibit ownership of more than 9.8% of the outstanding capital stock of the Company by any person. Such restriction is likely to have the effect of precluding acquisition of control of the Company by a third party without consent of the Board of Directors even if a change in control were in the interest of stockholders.

**REQUIRED CONSENT OF THE OPERATING PARTNERSHIP FOR MERGER OR OTHER SIGNIFICANT CORPORATE ACTION.** The Company may not merge, consolidate or engage in any combination with another person or sell all or substantially all of its assets unless such transaction includes the merger of the Operating Partnership, which requires the approval of the holders of a majority of the outstanding Units. Should the Company ever own less than a majority of the outstanding Units, this voting requirement might limit the possibility for acquisition or change in the control of the Company. As of May 31, 1996, the Company owned approximately 82% of the Units.

**STAGGERED BOARD.** The Board of Directors of the Company has three classes of directors, the terms of which will expire in 1996, 1997 and 1998. Directors for each class will be chosen for a three-year term. The staggered terms for directors may affect the stockholders' ability to change control of the Company even if a change in control were in the stockholders' interest.

## **DEPENDENCE ON DISTRIBUTIONS FROM OPERATING PARTNERSHIP IN ORDER TO QUALIFY AS A REIT**

To obtain the favorable tax treatment associated with REITs, the Company generally will be required each year to distribute to its stockholders at least 95% of its net taxable income. Because the Company conducts substantially all of its business activities through the Operating Partnership, the ability of the Company to make such distributions is dependent upon the receipt of distributions or other payments from the Operating Partnership.

## **ADVERSE IMPACT ON DISTRIBUTIONS OF FAILURE TO QUALIFY AS A REIT**

The Company and the Operating Partnership intend to operate in a manner so as to permit the Company to remain qualified as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"). Although the Company believes that it will operate in such a manner, no assurance can be given that the Company will remain qualified as a REIT. If in any taxable year the Company were to fail to qualify as a REIT, the Company would not be allowed a deduction for distributions to stockholders in computing taxable income and would be subject to Federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate rates.

## **BROAD DISCRETION IN USE OF PROCEEDS**

The Company and the Operating Partnership may use the proceeds from sales of Securities for many different purposes and will not be restricted by any provisions of the Articles of Incorporation of the Company or the agreement of limited partnership of the Operating Partnership. As a result, no assurance can be given that such proceeds will be employed in a manner consistent with the current investment practices of the Company and the Operating Partnership.

## **REAL ESTATE INVESTMENT RISKS**

**GENERAL RISKS.** Real property investments are subject to varying degrees of risk. The yields available from equity investments in real estate depend in large part on the amount of income generated and expenses incurred. If the Company's properties do not generate revenues sufficient to meet operating expenses, including debt service, tenant improvements, leasing commissions and other capital expenditures, the Company may have to borrow additional amounts to cover fixed costs and the Company's cash flow and ability to make distributions to its stockholders will be adversely affected.

The Company's revenues and the value of its properties may be adversely affected by a number of factors, including the national economic climate; the local economic climate; local real estate conditions; the perceptions of prospective tenants of the attractiveness of the property; the ability of the Company to provide adequate management, maintenance and insurance; and increased operating costs (including real estate taxes and utilities). In addition, real estate values and income from properties are also affected by such factors as applicable laws, including tax laws, interest rate levels and the availability of financing.

**COMPETITION.** Numerous office and industrial properties compete with the Company's properties in attracting tenants to lease space. Some of these competing properties are newer or better located than some of the Company's properties. Significant development of office or industrial properties in a particular area could have a material effect on the Company's ability to lease space in its properties and on the rents charged.

**BANKRUPTCY AND FINANCIAL CONDITION OF TENANTS.** At any time, a tenant of the Company's Properties may seek the protection of the bankruptcy laws, which could result in the rejection and termination of such tenant's lease and thereby cause a reduction in the cash flow available for distribution by the Company. Although the Company has not experienced material losses from tenant bankruptcies, no assurance can be given that tenants will not file for bankruptcy protection in the future or, if any tenants file, that they will affirm their leases and continue to make rental payments in a timely manner. In addition, a tenant from time to time may experience a downturn in its business which may weaken its financial condition and result in the failure to make rental payments when due. If tenant leases are not affirmed following bankruptcy or if a tenant's financial condition weakens, the Company's income may be adversely affected.

**RENEWAL OF LEASES AND RELETTING OF SPACE.** The Company will be subject to the risks that upon expiration of leases for space located in its properties, the leases may not be renewed, the space may not be relet or the terms of renewal or reletting (including the cost of required renovations) may be less favorable than current lease terms. If the Company were unable to promptly relet or renew the leases for all or a substantial portion of this space or if the rental rates upon such renewal or reletting were significantly lower than expected rates, then the Company's cash flow and ability to make expected distributions to stockholders may be adversely affected.

**ILLIQUIDITY OF REAL ESTATE.** Equity real estate investments are relatively illiquid. Such illiquidity will tend to limit the ability of the Company to vary its portfolio promptly in response to changes in economic or other conditions. In addition, the Code limits the Company's ability to sell properties held for fewer than four years, which may affect the Company's ability to sell properties without adversely affecting returns to holders of Common Stock.

**CHANGES IN LAWS.** Because increases in income, service or transfer taxes are generally not passed through to tenants under leases, such increases may adversely affect the Company's cash flow and its ability to make distributions to stockholders. The Properties are also subject to various Federal, state and local regulatory requirements, such as requirements of the Americans with Disabilities Act and state and local fire and life safety requirements. Failure to comply with these requirements could result in the imposition of fines by governmental authorities or awards of damages to private litigants. The Company believes that the Properties are currently in compliance with all such regulatory requirements. However, there can be no assurance that these requirements will not be changed or that new requirements will not be imposed which would require significant unanticipated expenditures by the Company and could have an adverse effect on the Company's cash flow and expected distributions.

**CONSEQUENCES OF INABILITY TO SERVICE MORTGAGE DEBT.** Pursuant to loan agreements with bank lenders, a portion of the Properties are mortgaged to secure payment of such indebtedness, and if the Company or the Operating Partnership were to be unable to meet such payments, a loss could be sustained as a result of foreclosure on the Properties by the bank lenders.

## **RISK OF DEVELOPMENT, CONSTRUCTION AND ACQUISITION ACTIVITIES**

The Company intends to actively continue development and construction of office and industrial properties, including development on the Development Land. Risks associated with the Company's development and construction activities, including activities relating to the Development Land, may include: abandonment of development opportunities; construction costs of a property exceeding original estimates, possibly making the property uneconomical; occupancy rates and rents at a newly completed property may not be sufficient to make the property profitable; financing may not be available on favorable terms for development of a property; and construction and lease-up may not be completed on schedule, resulting in increased debt service expense and construction costs. In addition, new development activities, regardless of whether or not they are ultimately successful, typically require a substantial portion of management's time and attention. Development activities are also subject to risks relating to the inability to obtain, or delays in obtaining, all necessary zoning, land-use, building, occupancy, and other required governmental permits and authorizations.

The Company intends to actively continue to acquire office and industrial properties. Acquisitions of office and industrial properties entail risks that investments will fail to perform in accordance with expectations. Estimates of the costs of improvements to bring an acquired property up to standards established for the market position intended for that property may prove inaccurate. In addition, there are general investment risks associated with any new real estate investment.

Although the Company has limited its development, acquisition, management and leasing business primarily to markets with which management is familiar, the Company may expand its business to new geographic markets. Management believes that much of its past success has been a result of its local expertise. The Company may not initially possess the same level of familiarity with new markets, which could adversely affect its ability to develop, acquire, manage or lease properties in any new localities.

## **POSSIBLE ENVIRONMENTAL LIABILITIES**

Under various Federal, state and local laws, ordinances and regulations, such as the Comprehensive Environmental Response Compensation and Liability Act or "CERCLA," and common laws, an owner or operator of real estate is liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property as well as certain other costs, including governmental fines and injuries to persons and property. Such laws often impose such liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. The presence of such substances, or the failure to remediate such substances properly, may adversely affect the owner's or operator's ability to sell or rent such property or to borrow using such property as collateral. Persons who arrange for the disposal or treatment of hazardous or toxic substances may also be liable for the costs of removal or remediation of such substances at a disposal or treatment facility, whether or not such facility is owned or operated by such person. Certain environmental laws impose liability for release of asbestos-containing materials into the air, and third parties may seek recovery from owners or operators of real property for personal injuries associated with asbestos-containing materials.

As of the date hereof, all but one of the Properties had been subjected to a Phase I environmental assessment. These assessments have not revealed, nor is management of the Company aware of, any environmental liability that it believes would have a material adverse effect on the Company's financial position, operations or liquidity taken as a whole. This projection, however, could prove to be incorrect depending on certain factors. For example, the Company's assessments may not reveal all environmental liabilities or there may be material environmental liabilities of which the Company is unaware. In addition, assumptions regarding groundwater flow and the existence of contamination are based on available sampling data, and there are no assurances that the data is reliable in all cases. Moreover, there can be no assurance that (i) future laws, ordinances or regulations will not impose any material environmental liability or (ii) the current environmental condition of the Properties will not be affected by tenants, by the condition of land or operations in the vicinity of the Properties (such as the presence of underground storage tanks), or by third parties unrelated to the Company.

Some tenants use or generate hazardous substances in the ordinary course of their respective businesses. These tenants are required under their leases to comply with all applicable laws and have agreed to indemnify the Company for any claims resulting from noncompliance, and the Company is not aware of any environmental problems resulting from tenants' use or generation of hazardous substances. There are no assurances that all tenants will comply with the terms of their leases or remain solvent and that the Company may not at some point be responsible for contamination caused by such tenants.

## **EFFECT ON COMMON STOCK PRICE OF SHARES AVAILABLE FOR FUTURE SALE UPON CONVERSION OF UNITS**

Sales of a substantial number of shares of Common Stock, or the perception that such sales could occur, could adversely affect prevailing market prices of the Common Stock. In connection with the Company's initial formation and public offering and certain subsequent acquisitions, as of the date hereof, approximately 4.2 million Units have been issued to various holders, including certain officers and directors of the Company. In connection with the issuance of Units, each holder thereof agreed not to sell or otherwise dispose of such Units or shares of Common Stock received upon exchange of such Units for a period of one year. At the conclusion of such period, any shares of Common Stock issued upon exchange of Units may be sold in the public markets upon registration or available exemptions from registration. No prediction can be made about the effect that future sales of Common Stock will have on the market price of shares. At May 31, 1996, the one-year lock-up period with respect to 3.4 million Units had expired.

## **USE OF PROCEEDS**

Unless otherwise specified in the applicable Prospectus Supplement, the Company and the Operating Partnership intend to use the net proceeds from the sale of Securities for general corporate purposes, including the development and acquisition of additional properties and other acquisition transactions, the payment of certain outstanding debt, and improvements to certain properties in the Company's portfolio. The Company is required, by the terms of the partnership agreement of the Operating Partnership, to invest the net proceeds of any sale of Common Stock, Preferred Stock or Depositary Shares in the Operating Partnership in exchange for additional Units or preferred Units, as the case may be.

## **RATIOS OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS**

The ratios of earnings to combined fixed charges and preferred stock dividends for the Company and the Operating Partnership for the three months ended March 31, 1996 and for the years ended December 31, 1995, 1994, 1993, 1992 and 1991 were 2.93x, 3.00x, 2.42x, 0.97x, 0.95x and 0.79x, respectively. Earnings were inadequate to cover fixed charges by \$171,000, \$239,000 and \$913,000 for the years ended December 31, 1993, 1992 and 1991, respectively. These deficiencies occurred prior to the Company's initial public offering of Common Stock in June 1994. Prior to the completion of this offering, the Company's predecessor (the "Highwoods Group") operated in a manner as to minimize taxable income to the owners. As a result, although the Properties have generated positive net cash flow, the Highwoods Group had net losses for the years ended December 31, 1991 through 1993. The initial public offering allowed the Operating Partnership to significantly deleverage the Properties and improve its ratio of earnings to fixed charges.

The ratios of earnings to combined fixed charges were computed by dividing earnings by fixed charges. For this purpose, earnings consist of income from continuing operations before minority interest and fixed charges. Fixed charges consist of interest expense (including interest costs capitalized) and the amortization of debt issuance costs. To date, the Company has not issued any Preferred Stock.

## **DESCRIPTION OF DEBT SECURITIES**

The Debt Securities will be issued under an Indenture (the "Indenture"), between the Operating Partnership, the Company and a trustee to be named prior to the first issuance of Debt Securities. A form of the Indenture has been filed as an exhibit to the Registration Statement of which this Prospectus is a part and will be available for inspection at the corporate trust office of the trustee or as described above under "Available Information." The Indenture is subject to, and governed by, the Trust Indenture Act of 1939, as amended (the "TIA"). The statements made hereunder relating to the Indenture and the Debt Securities to be issued thereunder are summaries of certain provisions thereof and do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all provisions of the Indenture and such Debt Securities. All section references appearing herein are to sections of the Indenture, and capitalized terms used but not defined herein shall have the respective meanings set forth in the Indenture.

## **GENERAL**

The Debt Securities will be direct, unsecured obligations of the Operating Partnership and will rank equally with all other unsecured and unsubordinated indebtedness of the Operating Partnership. At May 31, 1996, the total outstanding debt of the Operating Partnership was \$275 million, \$207 million of which was secured debt. The Debt Securities may be issued without limit as to aggregate principal amount, in one or more series, in each case as established from time to time in or pursuant to authority granted by a resolution of the Board of Directors of the Company as sole general partner of the Operating Partnership or as established in one or more indentures supplemental to the Indenture. All Debt Securities of one series need not be issued at the same time and, unless otherwise provided, a series may be reopened, without the consent of the holders of the Debt Securities of such series, for issuances of additional Debt Securities of such series (Section 301).



If any Debt Securities are rated below investment grade at the time of issuance, such Debt Securities will be fully and unconditionally guaranteed by the Company as to payment of principal, premium, if any, and interest.

The Indenture provides that there may be more than one trustee (the "Trustee") thereunder, each with respect to one or more series of Debt Securities. Any Trustee under the Indenture may resign or be removed with respect to one or more series of Debt Securities, and a successor Trustee may be appointed to act with respect to such series (Section 608). In the event that two or more persons are acting as Trustee with respect to different series of Debt Securities, each such Trustee shall be a trustee of a trust under the Indenture separate and apart from the trust administered by any other Trustee (Section 609), and, except as otherwise indicated herein, any action described herein to be taken by a Trustee may be taken by each such Trustee with respect to, and only with respect to, the one or more series of Debt Securities for which it is Trustee under the Indenture.

Reference is made to the Prospectus Supplement relating to the series of Debt Securities being offered for the specific terms thereof, including:

- (1) the title of such Debt Securities;
- (2) the aggregate principal amount of such Debt Securities and any limit on such aggregate principal amount;
- (3) the percentage of the principal amount at which such Debt Securities will be issued and, if other than the principal amount thereof, the portion of the principal amount thereof payable upon declaration of acceleration of the maturity thereof;
- (4) the date or dates, or the method for determining such date or dates, on which the principal of such Debt Securities will be payable;
- (5) the rate or rates (which may be fixed or variable), or the method by which such rate or rates shall be determined, at which such Debt Securities will bear interest, if any;
- (6) the date or dates, or the method for determining such date or dates, from which any interest will accrue, the dates on which any such interest will be payable, the record dates for such interest payment dates, or the method by which any such date shall be determined, the person to whom such interest shall be payable, and the basis upon which interest shall be calculated if other than that of a 360-day year of twelve 30-day months;
- (7) the place or places where the principal of (and premium, if any) and interest, if any, on such Debt Securities will be payable, such Debt Securities may be surrendered for registration of transfer or exchange and notices or demands to or upon the Operating Partnership in respect of such Debt Securities and the Indenture may be served;
- (8) the period or periods within which, the price or prices at which and the terms and conditions upon which such Debt Securities may be redeemed, as a whole or in part, at the option of the Operating Partnership, if the Operating Partnership is to have such an option;
- (9) the obligation, if any, of the Operating Partnership to redeem, repay or purchase such Debt Securities pursuant to any sinking fund or analogous provision or at the option of a holder thereof, and the period or periods within which, the price or prices at which and the terms and conditions upon which such Debt Securities will be redeemed, repaid or purchased, as a whole or in part, pursuant to such obligation;
- (10) if other than U.S. dollars, the currency or currencies in which such Debt Securities are denominated and payable, which may be a foreign currency or units of two or more foreign currencies or a composite currency or currencies, and the terms and conditions relating thereto;
- (11) whether the amount of payments of principal of (and premium, if any) or interest, if any, on such Debt Securities may be determined with reference to an index, formula or other method (which index, formula or method may, but need not be, based on a currency, currencies, currency unit or

units or composite currency or currencies) and the manner in which such amounts shall be determined;

(12) the events of default or covenants of such Debt Securities, to the extent different from or in addition to those described herein;

(13) whether such Debt Securities will be issued in certificated and/or book-entry form;

(14) whether such Debt Securities will be in registered or bearer form and, if in registered form, the denominations thereof if other than \$1,000 and any integral multiple thereof and, if in bearer form, the denominations thereof if other than \$5,000 and terms and conditions relating thereto;

(15) with respect to any series of Debt Securities rated below investment grade at the time of issuance, the Guarantees (the "Guaranteed Securities");

(16) if the defeasance and covenant defeasance provisions described herein are to be inapplicable or any modification of such provisions;

(17) whether and under what circumstances the Operating Partnership will pay additional amounts on such Debt Securities in respect of any tax, assessment or governmental charge and, if so, whether the Operating Partnership will have the option to redeem such Debt Securities in lieu of making such payment;

(18) with respect to any Debt Securities that provide for optional redemption or prepayment upon the occurrence of certain events (such as a change of control of the Operating Partnership), (i) the possible effects of such provisions on the market price of the Operating Partnership's or the Company's securities or in deterring certain mergers, tender offers or other takeover attempts, and the intention of the Operating Partnership to comply with the requirements of Regulation 14E under the Exchange Act and any other applicable securities laws in connection with such provisions; (ii) whether the occurrence of the specified events may give rise to cross-defaults on other indebtedness such that payment on such Debt Securities may be effectively subordinated; and (iii) the existence of any limitation on the Operating Partnership's financial or legal ability to repurchase such Debt Securities upon the occurrence of such an event (including, if true, the lack of assurance that such a repurchase can be effected) and the impact, if any, under the Indenture of such a failure, including whether and under what circumstances such a failure may constitute an Event of Default;

(19) if other than the Trustee, the identify of each security registrar and/or paying agent; and

(20) any other terms of such Debt Securities.

The Debt Securities may provide for less than the entire principal amount thereof to be payable upon declaration of acceleration of the maturity thereof ("Original Issue Discount Securities"). If material or applicable, special U.S. Federal income tax, accounting and other considerations applicable to Original Issue Discount Securities will be described in the applicable Prospectus Supplement.

Except as described under "Merger, Consolidation or Sale" or as may be set forth in any Prospectus Supplement, the Indenture does not contain any other provisions that would limit the ability of the Operating Partnership to incur indebtedness or that would afford holders of the Debt Securities protection in the event of (i) a highly leveraged or similar transaction involving the Operating Partnership, the management of the Operating Partnership or the Company, or any affiliate of any such party, (ii) a change of control, or (iii) a reorganization, restructuring, merger or similar transaction involving the Operating Partnership that may adversely affect the holders of the Debt Securities. In addition, subject to the limitations set forth under "Merger, Consolidation or Sale," the Operating Partnership or the Company may, in the future, enter into certain transactions, such as the sale of all or substantially all of its assets or the merger or consolidation of the Operating Partnership or the Company, that would increase the amount of the Operating Partnership's indebtedness or substantially reduce or eliminate the Operating Partnership's assets, which may have an adverse effect on the Operating Partnership's ability to service its indebtedness, including the Debt Securities. In addition, restrictions on ownership and transfers of the Company's common stock and preferred stock which are designed to preserve its status as a REIT may act to prevent or hinder a change of control.

See "Description of Common Stock -- Certain Provisions Affecting Change of Control" and "Description of Preferred Stock -- Restrictions on Ownership." Reference is made to the applicable Prospectus Supplement for information with respect to any deletions from, modifications of or additions to the events of default or covenants that are described below, including any addition of a covenant or other provision providing event risk or similar protection.

Reference is made to " -- Certain Covenants" below and to the description of any additional covenants with respect to a series of Debt Securities in the applicable Prospectus Supplement. Except as otherwise described in the applicable Prospectus Supplement, compliance with such covenants generally may not be waived with respect to a series of Debt Securities by the Board of Directors of the Company as sole general partner of the Operating Partnership or by the Trustee unless the Holders of at least majority in principal amount of all outstanding Debt Securities of such series consent to such waiver, except to the extent that the defeasance and covenant defeasance provisions of the Indenture described under " -- Discharge, Defeasance and Covenant Defeasance" below apply to such series of Debt Securities. See " -- Modification of the Indenture."

## **GUARANTEES**

The Company will fully, unconditionally and irrevocably guarantee the due and punctual payment of principal of, premium, if any, and interest on any Debt Securities rated below investment grade at the time of issuance by the Operating Partnership, and the due and punctual payment of any sinking fund payments thereon, when and as the same shall become due and payable, whether at a maturity date, by declaration of acceleration, call for redemption or otherwise. In addition, Debt Securities rated investment grade may also be accompanied by a Guarantee to the extent and on the terms described in the applicable Prospectus Supplement.

## **DENOMINATIONS, INTEREST, REGISTRATION AND TRANSFER**

Unless otherwise described in the applicable Prospectus Supplement, the Debt Securities of any series which are registered securities, other than registered securities issued in global form (which may be of any denomination), shall be issuable in denominations of \$1,000 and any integral multiple thereof and the Debt Securities which are bearer securities, other than bearer securities issued in global form (which may be of any denomination), shall be issuable in denominations of \$5,000 (Section 302).

Unless otherwise specified in the applicable Prospectus Supplement, the principal of (and premium, if any) and interest on any series of Debt Securities will be payable at the corporate trust office of the Trustee, provided that, at the option of the Operating Partnership, payment of interest may be made by check mailed to the address of the Person entitled thereto as it appears in the applicable Security Register or by wire transfer of funds to such Person at an account maintained within the United States (Sections 301, 307 and 1002).

Any interest not punctually paid or duly provided for on any Interest Payment Date with respect to a Debt Security ("Defaulted Interest") will forthwith cease to be payable to the Holder on the applicable Regular Record Date and may either be paid to the Person in whose name such Debt Security is registered at the close of business on a special record date (the "Special Record Date") for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to the Holder of such Debt Security not less than 10 days prior to such Special Record Date, or may be paid at any time in any other lawful manner, all as more completely described in the Indenture.

Subject to certain limitations imposed upon Debt Securities issued in book-entry form, the Debt Securities of any series will be exchangeable for other Debt Securities of the same series and of a like aggregate principal amount and tenor of different authorized denominations upon surrender of such Debt Securities at the corporate trust office of the Trustee referred to above. In addition, subject to certain limitations imposed upon Debt Securities issued in book-entry form, the Debt Securities of any series may be surrendered for registration of transfer thereof at the corporate trust office of the Trustee referred to above. Every Debt Security surrendered for registration of transfer or exchange shall be duly endorsed or accompanied by a written instrument of transfer. No service charge will be made for any registration of transfer or exchange of any Debt Securities, but the Trustee or the Operating Partnership may require payment of a sum sufficient to

cover any tax or other governmental charge payable in connection therewith (Section 305). If the applicable Prospectus Supplement refers to any transfer agent (in addition to the Trustee) initially designated by the Operating Partnership with respect to any series of Debt Securities, the Operating Partnership may at any time rescind the designation of any such transfer agent or approve a change in the location through which any such transfer agent acts, except that Operating Partnership will be required to maintain a transfer agent in each place of payment for such series. The Operating Partnership may at any time designate additional transfer agents with respect to any series of Debt Securities (Section 1002).

Neither the Operating Partnership nor the Trustee shall be required (i) to issue, register the transfer of or exchange any Debt Security if such Debt Security may be among those selected for redemption during a period beginning at the opening of business 15 days before selection of the Debt Securities to be redeemed and ending at the close of business on the day of such selection, or (ii) to register the transfer of or exchange any Registered Security so selected for redemption in whole or in part, except, in the case of any Registered Security to be redeemed in part, the portion thereof not to be redeemed, or (iii) to exchange any Bearer Security so selected for redemption except that such a Bearer Security may be exchanged for a Registered Security of that series and like tenor, provided that such Registered Security shall be simultaneously surrendered for redemption, or (iv) to issue, register the transfer of or exchange any Security which has been surrendered for repayment at the option of the Holder, except the portion, if any, of such Debt Security not to be so repaid (Section 305).

## **MERGER, CONSOLIDATION OR SALE**

The Operating Partnership or the Company may consolidate with, or sell, lease or convey all or substantially all of its assets to, or merge with or into, any other entity, provided that (a) the Operating Partnership or the Company, as the case may be, shall be the continuing entity, or the successor entity (if other than the Operating Partnership or the Company, as the case may be) formed by or resulting from any such consolidation or merger or which shall have received the transfer of such assets shall expressly assume payment of the principal of (and premium, if any) and interest on all the Debt Securities and the due and punctual performance and observance of all of the covenants and conditions contained in the Indenture; (b) immediately after giving effect to such transaction, no Event of Default under the Indenture, and no event which, after notice or the lapse of time, or both, would become such an Event of Default, shall have occurred and be continuing; and (c) an officer's certificate and legal opinion covering such conditions shall be delivered to the Trustee (Sections 801 and 803).

## **CERTAIN COVENANTS**

**LIMITATIONS ON INCURRENCE OF DEBT.** The Operating Partnership will not, and will not permit any Subsidiary to, incur any Debt (as defined below), other than intercompany debt (representing Debt to which the only parties are the Company, the Operating Partnership and any of their Subsidiaries (but only so long as such Debt is held solely by any of the Company, the Operating Partnership and any Subsidiary) that is subordinate in right of payment to the Debt Securities) if, immediately after giving effect to the incurrence of such additional Debt, the aggregate principal amount of all outstanding Debt of the Operating Partnership and its Subsidiaries on a consolidated basis determined in accordance with generally accepted accounting principles is greater than 60% of the sum of (i) the Operating Partnership's Total Assets (as defined below) as of the end of the calendar quarter covered in the Operating Partnership's Annual Report on Form 10-K or Quarterly Report on Form 10-Q, as the case may be, most recently filed with the Commission (or, if such filing is not permitted under the Exchange Act, with the Trustee) prior to the incurrence of such additional Debt and (ii) the increase in Total Assets from the end of such quarter including, without limitation, any increase in Total Assets resulting from the incurrence of such additional Debt (such increase together with the Operating Partnership's Total Assets shall be referred to as the "Adjusted Total Assets") (Section 1011).

In addition to the foregoing limitations on the incurrence of Debt, the Operating Partnership will not, and will not permit any Subsidiary to, incur any Debt secured by any mortgage, lien, charge, pledge, encumbrance or security interest of any kind upon any of the property of the Operating Partnership, or any Subsidiary ("Secured Debt"), whether owned at the date of the Indenture or thereafter acquired, if, immediately after giving effect to the incurrence of such additional Secured Debt, the aggregate principal amount of all

outstanding Secured Debt of the Operating Partnership and its Subsidiaries on a consolidated basis is greater than 40% of the Operating Partnership's Adjusted Total Assets (Section 1011).

In addition to the foregoing limitations on the incurrence of Debt, the Operating Partnership will not, and will not permit any Subsidiary to, incur any Debt if the ratio of Consolidated Income Available for Debt Service to the Annual Service Charge (in each case as defined below) for the four consecutive fiscal quarters most recently ended prior to the date on which such additional Debt is to be incurred shall have been less than 1.5 to 1.0 on a pro forma basis after giving effect to the incurrence of such Debt and to the application of the proceeds therefrom, and calculated on the assumption that (i) such Debt and any other Debt incurred by the Operating Partnership or its Subsidiaries since the first day of such four-quarter period and the application of the proceeds therefrom, including to refinance other Debt, had occurred at the beginning of such period, (ii) the repayment or retirement of any other Debt by the Operating Partnership or its Subsidiaries since the first day of such four-quarter period had been incurred, repaid or retired at the beginning of such period (except that, in making such computation, the amount of Debt under any revolving credit facility shall be computed based upon the average daily balance of such Debt during such period), (iii) the income earned on any increase in Adjusted Total Assets since the end of such four-quarter period had been earned, on an annualized basis, during such period, and (iv) in the case of any acquisition or disposition by the Operating Partnership or any Subsidiary of any asset or group of assets since the first day of such four-quarter period, including, without limitation, by merger, stock purchase or sale, or asset purchase or sale, such acquisition or disposition or any related repayment of Debt had occurred as of the first day of such period with the appropriate adjustments with respect to such acquisition or disposition being included in such pro forma calculation (Section 1011).

For purposes of the foregoing provisions regarding the limitation on the incurrence of Debt, Debt shall be deemed to be "incurred" by the Operating Partnership and its Subsidiaries on a consolidated basis whenever the Operating Partnership and its Subsidiaries on a consolidated basis shall create, assume, guarantee or otherwise become liable in respect thereof.

**MAINTENANCE OF TOTAL UNENCUMBERED ASSETS.** The Operating Partnership is required to maintain Total Unencumbered Assets of not less than 200% of the aggregate outstanding principal amount of all outstanding Unsecured Debt (Section 1013).

**LIMITATIONS ON DISTRIBUTIONS.** The Operating Partnership will not make any distribution, by reduction of capital or otherwise (other than distributions payable in securities evidencing interests in the Operating Partnership's capital for the purpose of acquiring interests in real property or otherwise) unless, immediately after giving pro forma effect to such distribution (a) no default under the Indenture or event of default under any mortgage, indenture or instrument under which there may be issued, or by which there may be secured or evidenced, any Debt of the Operating Partnership, the Company or any Subsidiary shall have occurred or be continuing, and (b) the aggregate sum of all distributions made after the date of the Indenture shall not exceed the sum of

(i) 95% of the aggregate cumulative Funds From Operations of the Operating Partnership accrued on a cumulative basis from the date of the Indenture until the end of the last fiscal quarter prior to the contemplated payment, and (ii) the aggregate Net Cash Proceeds received by the Operating Partnership after the date of the Indenture from the issuance and sale of Capital Stock of the Operating Partnership or the Company; provided, however, that the foregoing limitation shall not apply to any distribution or other action which is necessary to maintain the Company's status as a REIT, under the Code, if the aggregate principal amount of all outstanding Debt of the Company and the Operating Partnership on a consolidated basis at such time is less than 60% of Adjusted Total Assets (Section 1012).

Notwithstanding the foregoing, the Operating Partnership will not be prohibited from making the payment of any distribution within 30 days of the declaration thereof if at such date of declaration such payment would have complied with the provisions of the immediately preceding paragraph.

**EXISTENCE.** Except as permitted under "Merger, Consolidation or Sale," the Operating Partnership and the Company are required to do or cause to be done all things necessary to preserve and keep in full force and effect their existence, rights and franchises; PROVIDED, HOWEVER, that the Operating Partnership or the Company shall not be required to preserve any right or franchise if it determines that the preservation thereof is no longer desirable in the conduct of its business and that the loss thereof is not disadvantageous in any material respect to the Holders of the Debt Securities (Section 1007).

**MAINTENANCE OF PROPERTIES.** The Operating Partnership is required to cause all of its material properties used or useful in the conduct of its business or the business of any Subsidiary to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and to cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Operating Partnership may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times; PROVIDED, HOWEVER, that the Operating Partnership and its Subsidiaries shall not be prevented from selling or otherwise disposing for value their respective properties in the ordinary course of business (Section 1005).

**INSURANCE.** The Operating Partnership is required to, and is required to cause each of its Subsidiaries to, keep all of its insurable properties insured against loss or damage at least equal to their then full insurable value with financially sound and reputable insurance companies (Section 1006).

**PAYMENT OF TAXES AND OTHER CLAIMS.** The Operating Partnership and the Company are required to pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (i) all taxes, assessments and governmental charges levied or imposed upon it or any Subsidiary or upon its income, profits or property or that of any Subsidiary, and (ii) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien upon the property of the Operating Partnership, the Company, or any Subsidiary; PROVIDED, HOWEVER, that the Operating Partnership and the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings (Section 1014).

**PROVISION OF FINANCIAL INFORMATION.** The Holders of Debt Securities will be provided with copies of the annual reports and quarterly reports of the Operating Partnership. Whether or not the Operating Partnership is subject to Section 13 or 15(d) of the Exchange Act and for so long as any Debt Securities are outstanding, the Operating Partnership will, to the extent permitted under the Exchange Act, be required to file with the Commission the annual reports, quarterly reports and other documents that the Operating Partnership would have been required to file with the Commission pursuant to such Section 13 or 15(d) (the "Financial Statements") if the Operating Partnership were so subject, such documents to be filed with the Commission on or prior to the respective dates (the "Required Filing Dates") by which the Operating Partnership would have been required so to file such documents if the Operating Partnership were so subject. The Operating Partnership will also in any event (x) within 15 days of each Required Filing Date (i) transmit by mail to all Holders of Debt Securities, as their names and addresses appear in the Security Register, without cost to such Holders, copies of the annual reports and quarterly reports which the Operating Partnership would have been required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act if the Operating Partnership were subject to such Sections and (ii) file with the Trustee copies of the annual reports, quarterly reports and other documents that the Operating Partnership would have been required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act if the Operating Partnership were subject to such Sections and (y) if filing such documents by the Operating Partnership with the Commission is not permitted under the Exchange Act, promptly upon written request and payment of the reasonable cost of duplication and delivery, supply copies of such documents to any prospective Holder (Section 1015).

As used herein and in the Prospectus Supplement:

"ANNUAL SERVICE CHARGE" as of any date means the amount which is expensed and capitalized in any 12-month period for interest on Debt.

"CAPITAL STOCK" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations, rights in or other equivalents (however designated) of such Person's capital stock or other equity participations, including partnership interests, whether general or limited, in such Person, including any preferred stock, and any rights (other than debt securities convertible into capital stock), warrants or options exchangeable for or convertible into such capital stock, whether now outstanding or issued after the date of this Prospectus.

"CONSOLIDATED INCOME AVAILABLE FOR DEBT SERVICE" for any period means Consolidated Net Income (as defined below) of the Operating Partnership and its Subsidiaries (i) plus amounts which have been deducted for (a) interest on Debt of the Operating Partnership and its Subsidiaries, (b) provision for taxes of the

Operating Partnership and its Subsidiaries based on income, (c) amortization of debt discount, (d) depreciation and amortization, (e) the effect of any noncash charge resulting from a change in accounting principles in determining Consolidated Net Income for such period, (f) amortization of deferred charges and (g) provisions for or realized losses on properties and (ii) less amounts that have been included for gains on properties.

"CONSOLIDATED NET INCOME" for any period means the amount of consolidated net income (or loss) of the Operating Partnership and its Subsidiaries for such period determined on a consolidated basis in accordance with generally accepted accounting principles ("GAAP").

"DEBT" means any indebtedness, whether or not contingent, in respect of (i) borrowed money evidenced by bonds, notes, debentures or similar instruments,

(ii) indebtedness secured by any mortgage, pledge, lien, charge, encumbrance or any security interest existing on property, (iii) the reimbursement obligations, contingent or otherwise, in connection with any letters of credit actually issued or amounts representing the balance deferred and unpaid of the purchase price of any property except any such balance that constitutes an accrued expense or trade payable or (iv) any lease of property which would be reflected on a consolidated balance sheet as a capitalized lease in accordance with GAAP, in the case of items of indebtedness under (i) through (iii) above to the extent that any such items (other than letters of credit) would appear as a liability on a consolidated balance sheet in accordance with GAAP, and also includes, to the extent not otherwise included, any obligation to be liable for, or to pay, as obligor, guarantor or otherwise (other than for purposes of collection in the ordinary course of business), indebtedness of another person.

"FUNDS FROM OPERATIONS" ("FFO") for any period means the Consolidated Net Income of the Operating Partnership and its Subsidiaries for such period without giving effect to depreciation and amortization, gains or losses from extraordinary items, gains or losses on sales of real estate, gains or losses on investments in marketable securities and any provision/benefit for income taxes for such period, plus the allocable portion, based on the Operating Partnership's ownership interest, of funds from operations of unconsolidated joint ventures, all determined on a consistent basis.

Management considers Funds from Operations to be a useful financial performance measure of the operating performance of an equity REIT because, together with net income and cash flows, Funds from Operations 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 Funds from Operations should not be considered as an alternative to net income as an indicator of the Operating Partnership'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, Funds from Operations as disclosed by other REITS, may not be comparable to the Company's calculation of Funds from Operations, as described above.

"NET CASH PROCEEDS" means the proceeds of any issuance or sale of Capital Stock or options, warrants or rights to purchase Capital Stock, in the form of cash or cash equivalents, including payments in respect of deferred payment obligations when received in the form of, or stock or other assets when disposed for, cash or cash equivalents (except to the extent that such obligations are financed or sold with recourse to the Operating Partnership or any Subsidiary), net of attorney's fees, accountant's fees and brokerage, consultation, underwriting and other fees and expenses actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"SUBSIDIARY" means any entity of which the Operating Partnership or one or more other Subsidiaries owns or controls, directly or indirectly, more than 50% of the shares of Voting Stock.

"TOTAL ASSETS" as of any date means the sum of (i) the Undepreciated Real Estate Assets and (ii) all other assets of the Operating Partnership and its Subsidiaries on a consolidated basis determined in accordance with GAAP (but excluding intangibles and accounts receivable).

"TOTAL UNENCUMBERED ASSETS" means the sum of (i) those Undepreciated Real Estate Assets not subject to an encumbrance and (ii) all other assets of the Operating Partnership and its Subsidiaries not subject to an encumbrance determined in accordance with GAAP (but excluding intangibles and accounts receivable).

"UNDEPRECIATED REAL ESTATE ASSETS" as of any date means the cost (original cost plus capital improvements) of real estate assets of the Operating Partnership and its Subsidiaries on such date, before depreciation and amortization, determined on a consolidated basis in accordance with GAAP.

"UNSECURED DEBT" means Debt of the Operating Partnership or any Subsidiary which is not secured by any mortgage, lien, charge, pledge or security interest of any kind upon any of the properties owned by the Operating Partnership or any of its Subsidiaries.

"VOTING STOCK" means stock having general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees, provided that stock that carries only the right to vote conditionally on the happening of an event shall not be considered Voting Stock.

ADDITIONAL COVENANTS. Any additional or different covenants of the Operating Partnership or the Company with respect to any series of Debt Securities will be set forth in the Prospectus Supplement relating thereto.

## **EVENTS OF DEFAULT, NOTICE AND WAIVER**

The Indenture provides that the following events are "Events of Default" with respect to any series of Debt Securities issued thereunder: (a) default for 30 days in the payment of any installment of interest on any Debt Security of such series; (b) default in the payment of the principal of (or premium, if any on) any Debt Security of such series at its maturity; (c) default in making any sinking fund payment as required for any Debt Security of such series; (d) default in the performance of any other covenant of the Operating Partnership or the Company contained in the Indenture (other than a covenant added to the Indenture solely for the benefit of a series of Debt Securities issued thereunder other than such series), such default having continued for 60 days after written notice as provided in the Indenture; (e) default in the payment of an aggregate principal amount exceeding \$5,000,000 of any evidence of recourse indebtedness of the Operating Partnership or the Company or any mortgage, indenture or other instrument under which such indebtedness is issued or by which such indebtedness is secured, such default having occurred after the expiration of any applicable grace period and having resulted in the acceleration of the maturity of such indebtedness, but only if such indebtedness is not discharged or such acceleration is not rescinded or annulled; (f) certain events of bankruptcy, insolvency or reorganization, or court appointment of a receiver, liquidator or trustee of the Operating Partnership, the Company or any Significant Subsidiary or any of their respective property; and (g) any other Event of Default provided with respect to a particular series of Debt Securities. The term "Significant Subsidiary" means each significant subsidiary (as defined in Regulation S-X promulgated under the Securities Act) of the Operating Partnership or the Company (Section 501).

If an Event of Default under the Indenture with respect to Debt Securities of any series at the time Outstanding occurs and is continuing, then in every such case the Trustee or the Holders of not less than 25% in principal amount of the Outstanding Debt Securities of that series may declare the principal amount (or, if the Debt Securities of that series are Original Issue Discount Securities or Indexed Securities, such portion of the principal amount as may be specified in the terms thereof) of all of the Debt Securities of that series to be due and payable immediately by written notice thereof to the Operating Partnership and the Company (and to the Trustee if given by the Holders). However, at any time after such a declaration of acceleration with respect to Debt Securities of such series (or of all Debt Securities then Outstanding under the Indenture, as the case may be) has been made, but before a judgment or decree for payment of the money due has been obtained by the Trustee, the Holders of not less than a majority in principal amount of Outstanding Debt Securities of such series (or of all Debt Securities then Outstanding under the Indenture, as the case may be) may rescind and annul such declaration and its consequences if (a) the Operating Partnership or the Company shall have deposited with the Trustee all required payments of the principal of (and premium, if any) and interest on the Debt Securities of such series (or of all Debt Securities then Outstanding under the Indenture, as the case may be), plus certain fees, expenses, disbursements and advances of the Trustee and (b) all Events of Default, other than the non-payment of accelerated principal of (or specified portion thereof), or premium (if any) or interest on the Debt Securities of such series (or of all



Debt Securities then Outstanding under the Indenture, as the case may be) have been cured or waived as provided in the Indenture (Section 502). The Indenture also provides that the Holders of not less than a majority in principal amount of the Outstanding Debt Securities of any series (or of all Debt Securities then Outstanding under the Indenture, as the case may be) may waive any past default with respect to such series and its consequences, except a default (x) in the payment of the principal of (or premium, if any) or interest on any Debt Security of such series or (y) in respect of a covenant or provision contained in the Indenture that cannot be modified or amended without the consent of the Holder of each Outstanding Debt Security affected thereby (Section 513).

The Trustee will be required to give notice to the Holders of Debt Securities within 90 days of a default under the Indenture unless such default has been cured or waived; PROVIDED, HOWEVER, that the Trustee may withhold notice to the Holders of any series of Debt Securities of any default with respect to such series (except a default in the payment of the principal of (or premium, if any) or interest on any Debt Security of such series or in the payment of any sinking fund installment in respect of any Debt Security of such series) if specified Responsible Officers of the Trustee consider such withholding to be in the interest of such Holders (Section 602).

The Indenture provides that no Holders of Debt Securities of any series may institute any proceedings, judicial or otherwise, with respect to the Indenture or for any remedy thereunder, except in the case of failure of the Trustee, for 60 days, to act after it has received a written request to institute proceedings in respect of an Event of Default from the Holders of not less than 25% in principal amount of the Outstanding Debt Securities of such series, as well as an offer of indemnity reasonably satisfactory to it (Section 507). This provision will not prevent, however, any holder of Debt Securities from instituting suit for the enforcement of payment of the principal of (and premium, if any) and interest on such Debt Securities at the respective due dates thereof (Section 508).

Subject to provisions in the Indenture relating to its duties in case of default, the Trustee is under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any Holders of any series of Debt Securities then Outstanding under the Indenture, unless such Holders shall have offered to the Trustee thereunder reasonable security or indemnity (Section 601). The Holders of not less than a majority in principal amount of the Outstanding Debt Securities of any series (or of all Debt Securities then Outstanding under the Indenture, as the case may be) shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or of exercising any trust or power conferred upon the Trustee. However, the Trustee may refuse to follow any direction which is in conflict with any law or the Indenture, or which may be unduly prejudicial to the holders of Debt Securities of such series not joining therein (Section 512).

Within 120 days after the close of each fiscal year, the Operating Partnership and the Company (if the Debt Securities are Guaranteed Securities) must deliver to the Trustee a certificate, signed by one of several specified officers of the Company, stating whether or not such officer has knowledge of any default under the Indenture and, if so, specifying each such default and the nature and status thereof (Sections 1009 and 1010).

## **MODIFICATION OF THE INDENTURE**

Modifications and amendments of the Indenture will be permitted to be made only with the consent of the Holders of not less than a majority in principal amount of all Outstanding Debt Securities or series of Outstanding Debt Securities which are affected by such modification or amendment; PROVIDED, HOWEVER, that no such modification or amendment may, without the consent of the Holder of each such Debt Security affected thereby, (a) change the Stated Maturity of the principal of, or premium (if any) or any installment of interest on, any such Debt Security, reduce the principal amount of, or the rate or amount of interest on, or any premium payable on redemption of, any such Debt Security, or reduce the amount of principal of an Original Issue Discount Security that would be due and payable upon declaration of acceleration of the maturity thereof or would be provable in bankruptcy, or adversely affect any right or repayment of the holder of any such Debt Security, change the place of payment, or the coin or currency, for payment of principal of, premium, if any, or interest on any such Debt Security or impair the right to institute suit for the enforcement of any payment on or with respect to any such Debt Security; (b) reduce the above-stated

percentage of outstanding Debt Securities of any series necessary to modify or amend the Indenture, to waive compliance with certain provisions thereof or certain defaults and consequences thereunder or to reduce the quorum or voting requirements set forth in the Indenture; (c) modify or affect in any manner adverse to the Holders the terms and conditions of the obligations of the Company in respect of the payment of principal (and premium, if any) and interest on any Guaranteed Securities; or (d) modify any of the foregoing provisions or any of the provisions relating to the waiver of certain past defaults or certain covenants, except to increase the required percentage to effect such action or to provide that certain other provisions may not be modified or waived without the consent of the Holder of such Debt Security (Section 902).

The Indenture provides that the Holders of not less than a majority in principal amount of a series of Outstanding Debt Securities have the right to waive compliance by the Operating Partnership and/or the Company with certain covenants relating to such series of Debt Securities in the Indenture (Section 1008).

Modifications and amendments of the Indenture will be permitted to be made by the Operating Partnership, the Company and the Trustee without the consent of any Holder of Debt Securities for any of the following purposes: (i) to evidence the succession of another Person to the Operating Partnership as obligor or the Company as guarantor under the Indenture; (ii) to add to the covenants of the Operating Partnership or the Company for the benefit of the Holders of all or any series of Debt Securities or to surrender any right or power conferred upon the Operating Partnership or the Company in the Indenture; (iii) to add Events of Default for the benefit of the Holders of all or any series of Debt Securities; (iv) to add or change any provisions of the Indenture to facilitate the issuance of, or to liberalize certain terms of, Debt Securities in bearer form, or to permit or facilitate the issuance of Debt Securities in uncertificated form, provided that such action shall not adversely affect the interests of the Holders of the Debt Securities of any series in any material respect; (v) to amend or supplement any provisions of the Indenture, provided that no such amendment or supplement shall materially adversely affect the interests of the Holders of any Debt Securities then Outstanding; (vi) to secure the Debt Securities; (vii) to establish the form or terms of Debt Securities of any series; (viii) to provide for the acceptance of appointment by a successor Trustee to facilitate the administration of the trusts under the Indenture by more than one Trustee; (ix) to cure any ambiguity, defect or inconsistency in the Indenture, provided that such action shall not adversely affect the interests of Holders of Debt Securities of any series in any material respect; or (x) to supplement any of the provisions of the Indenture to the extent necessary to permit or facilitate defeasance and discharge of any series of such Debt Securities, provided that such action shall not adversely affect the interests of the Holders of the Debt Securities of any series in any material respect (Section 901). In addition, with respect to Guaranteed Securities, without the consent of any Holder of Debt Securities the Company, or a subsidiary thereof, may directly assume the due and punctual payment of the principal of, any premium and interest on all the Guaranteed Securities and the performance of every covenant of the Indenture on the part of the Operating Partnership to be performed or observed. Upon any such assumption, the Company or such subsidiary shall succeed to, and be substituted for and may exercise every right and power of, the Operating Partnership under the Indenture with the same effect as if the Company or such subsidiary had been the issuer of the Guaranteed Securities and the Operating Partnership shall be released from all obligations and covenants with respect to the Guaranteed Securities. No such assumption shall be permitted unless the Company has delivered to the Trustee

(i) an officer's certificate and an opinion of counsel, stating, among other things, that the Guarantee and all other covenants of the Company in the Indenture remain in full force and effect and (ii) an opinion of independent counsel that the Holders of Guaranteed Securities shall have no United States Federal tax consequences as a result of such assumption, and that, if any Debt Securities are then listed on the New York Stock Exchange, that such Debt Securities shall not be delisted as a result of such assumption (Section 805).

The Indenture provides that in determining whether the Holders of the requisite principal amount of Outstanding Debt Securities of a series have given any request, demand, authorization, direction, notice, consent or waiver thereunder or whether a quorum is present at a meeting of Holders of Debt Securities, (i) the principal amount of an Original Issue Discount Security that shall be deemed to be Outstanding shall be the amount of the principal thereof that would be due and payable as of the date of such determination upon declaration of acceleration of the maturity thereof, (ii) the principal amount of a Debt Security denominated in a foreign currency that shall be deemed Outstanding shall be the U.S. dollar equivalent, determined on the issue date for such Debt Security, of the principal amount (or, in the case of an Original Issue

Discount Security, the U.S. dollar equivalent on the issue date of such Debt Security of the amount determined as provided in (i) above), (iii) the principal amount of an Indexed Security that shall be deemed Outstanding shall be the principal face amount of such Indexed Security at original issuance, unless otherwise provided with respect to such Indexed Security pursuant to the Indenture, and (iv) Debt Securities owned by the Operating Partnership, the Company or any other obligor upon the Debt Securities or any affiliate of the Operating Partnership, the Company or of such other obligor shall be disregarded.

The Indenture contains provisions for convening meetings of the Holders of Debt Securities of a series (Section 1501). A meeting will be permitted to be called at any time by the Trustee, and also, upon request, by the Operating Partnership, the Company (in respect of a series of Guaranteed Securities) or the holders of at least 10% in principal amount of the Outstanding Debt Securities of such series, in any such case upon notice given as provided in the Indenture (Section 1502). Except for any consent that must be given by the Holder of each Debt Security affected by certain modifications and amendments of the Indenture, any resolution presented at a meeting or adjourned meeting duly reconvened at which a quorum is present will be permitted to be adopted by the affirmative vote of the Holders of a majority in principal amount of the Outstanding Debt Securities of that series; PROVIDED, HOWEVER, that, except as referred to above, any resolution with respect to any request, demand, authorization, direction, notice, consent, waiver or other action that may be made, given or taken by the Holders of a specified percentage, which is less than a majority, in principal amount of the Outstanding Debt Securities of a series may be adopted at a meeting or adjourned meeting duly reconvened at which a quorum is present by the affirmative vote of the Holders of such specified percentage in principal amount of the Outstanding Debt Securities of that series. Any resolution passed or decision taken at any meeting of Holders of Debt Securities of any series duly held in accordance with the Indenture will be binding on all Holders of Debt Securities of that series. The quorum at any meeting called to adopt a resolution, and at any reconvened meeting, will be Persons holding or representing a majority in principal amount of the Outstanding Debt Securities of a series; provided, however, that if any action is to be taken at such meeting with respect to a consent or waiver which may be given by the Holders of not less than a specified percentage in principal amount of the Outstanding Debt Securities of a series, the Persons holding or representing such specified percentage in principal amount of the Outstanding Debt Securities of such series will constitute a quorum (Section 1504).

Notwithstanding the foregoing provisions, any action to be taken at a meeting of Holders of Debt Securities of any series with respect to any action that the Indenture expressly provides may be taken by the Holders of a specified percentage which is less than a majority in principal amount of the Outstanding Debt Securities of a series may be taken at a meeting at which a quorum is present by the affirmative vote of Holders of such specified percentage in principal amount of the Outstanding Debt Securities of such series (Section 1504).

#### **DISCHARGE, DEFEASANCE AND COVENANT DEFEASANCE**

The Operating Partnership may discharge certain obligations to Holders of any series of Debt Securities that have not already been delivered to the Trustee for cancellation and that either have become due and payable or will become due and payable within one year (or scheduled for redemption within one year) by irrevocably depositing with the Trustee, in trust, funds in such currency or currencies, currency unit or units or composite currency or currencies in which such Debt Securities are payable in an amount sufficient to pay the entire indebtedness on such Debt Securities in respect of principal (and premium, if any) and interest to the date of such deposit (if such Debt Securities have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be (Section 401).

Unless otherwise provided in the applicable Prospectus Supplement, the Operating Partnership may elect either (a) to defease and discharge itself and the Company (if such Debt Securities are Guaranteed Securities) from any and all obligations with respect to such Debt Securities (except for the obligation to pay additional amounts, if any, upon the occurrence of certain events of tax, assessment or governmental charge with respect to payments on such Debt Securities and the obligations to register the transfer or exchange of such Debt Securities, to replace temporary or mutilated, destroyed, lost or stolen Debt Securities, to maintain an office or agency in respect of such Debt Securities and to hold moneys for payment in trust) ("defeasance") or (b) to release itself and the Company (if such Debt Securities are Guaranteed Securities) from their obligations with respect to such Debt Securities under certain sections of the Indenture

(including the restrictions described under "Certain Covenants") and if provided pursuant to Section 301 of the Indenture, their obligations with respect to any other covenant, and any omission to comply with such obligations shall not constitute a default or an Event of Default with respect to such Debt Securities ("covenant defeasance"), in either case upon the irrevocable deposit by the Operating Partnership or the Company (if the Debt Securities are Guaranteed Securities) with the Trustee, in trust, of an amount, in such currency or currencies, currency unit or units or composite currency or currencies in which such Debt Securities are payable at Stated Maturity, or Government Obligations (as defined below), or both, applicable to such Debt Securities which through the scheduled payment of principal and interest in accordance with their terms will provide money in an amount sufficient to pay the principal of (and premium, if any) and interest on such Debt Securities, and any mandatory sinking fund or analogous payments thereon, on the scheduled due dates therefor (Section 402).

Such a trust will only be permitted to be established if, among other things, the Operating Partnership or the Company (if the Debt Securities are Guaranteed Securities) has delivered to the Trustee an Opinion of Counsel (as specified in the Indenture) to the effect that the Holders of such Debt Securities will not recognize income, gain or loss for U.S. Federal income tax purposes as a result of such defeasance or covenant defeasance and will be subject to U.S. Federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance or covenant defeasance had not occurred, and such Opinion of Counsel, in the case of defeasance, must refer to and be based upon a ruling of the Internal Revenue Service or a change in applicable United States Federal income tax law occurring after the date of the Indenture (Section 402).

"Government Obligations" means securities that are (i) direct obligations of the United States of America or the government that issued the foreign currency in which the Debt Securities of a particular series are payable, for the payment of which its full faith and credit is pledged or (ii) obligations of a person controlled or supervised by and acting as an agency or instrumentality of the United States of America or such government that issued the foreign currency in which the Debt Securities of such series are payable, the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America or such other government, and that, in either case, are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such Government Obligation or a specific payment of interest on or principal of any such Government Obligation held by such custodian for the account of the holder of a depository receipt, PROVIDED that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the Government Obligation or the specific payment of interest on or principal of the Government Obligation evidenced by such depository receipt.

Unless otherwise provided in the applicable Prospectus Supplement, if after the Operating Partnership or the Company (if the Debt Securities are Guaranteed Securities) has deposited funds and/or Government Obligations to effect defeasance or covenant defeasance with respect to Debt Securities of any series,

(a) the Holder of a Debt Security of such series is entitled to, and does, elect pursuant to the Indenture or the terms of such Debt Security to receive payment in a currency, currency unit or composite currency other than that in which such deposit has been made in respect of such Debt Security, or (b) a Conversion Event (as defined below) occurs in respect of the currency, currency unit or composite currency in which such deposit has been made, the indebtedness represented by such Debt Security shall be deemed to have been, and will be, fully discharged and satisfied through the payment of the principal of (and premium, if any) and interest on such Debt Security as they become due out of the proceeds yielded by converting the amount so deposited in respect of such Debt Security into the currency, currency unit or composite currency in which such Debt Security becomes payable as a result of such election or such Conversion Event based on the applicable market exchange rate (Section 402). "Conversion Event" means the cessation of use of (i) a currency, currency unit or composite currency both by the government of the country that issued such currency and for the settlement of transactions by a central bank or other public institutions of or within the international banking community, (ii) the ECU both within the European Monetary System and for the settlement of transactions by public institutions of or within the European Union or (iii) any currency unit or composite currency other than the ECU for the purposes for which it was established. Unless otherwise provided in the applicable Prospectus Supplement, all payments of principal of (and premium, if any) and interest on any

Debt Security that is payable in a foreign currency that ceases to be used by its government of issuance shall be made in U.S. dollars.

If the Operating Partnership effects covenant defeasance with respect to any Debt Securities and such Debt Securities are declared due and payable because of the occurrence of any Event of Default other than the Event of Default described in clause (d) under "Events of Default, Notice and Waiver" with respect to Sections no longer applicable to such Debt Securities or described in clause (g) under "Events of Default, Notice and Waiver" with respect to any other covenant as to which there has been covenant defeasance, the amount in such currency, currency unit or composite currency in which such Debt Securities are payable, and Government Obligations on deposit with the Trustee, will be sufficient to pay amounts due on such Debt Securities at the time of their Stated Maturity but may not be sufficient to pay amounts due on such Debt Securities at the time of the acceleration resulting from such Event of Default. However, the Operating Partnership and the Company (if such Debt Securities are Guaranteed Securities) would remain liable to make payment of such amounts due at the time of acceleration.

The applicable Prospectus Supplement may further describe the provisions, if any, permitting such defeasance or covenant defeasance, including any modifications to the provisions described above, with respect to the Debt Securities of or within a particular series.

## **NO CONVERSION RIGHTS**

The Debt Securities will not be convertible into or exchangeable for any capital stock of the Company or equity interest in the Operating Partnership.

## **GLOBAL SECURITIES**

The Debt Securities of a series may be issued in whole or in part in the form of one or more global securities (the "Global Securities") that will be deposited with, or on behalf of, a depositary (the "Depositary") identified in the applicable Prospectus Supplement relating to such series. Global Securities may be issued in either registered or bearer form and in either temporary or permanent form. The specific terms of the depositary arrangement with respect to a series of Debt Securities will be described in the applicable Prospectus Supplement relating to such series.

## DESCRIPTION OF PREFERRED STOCK

### GENERAL

The Company is authorized to issue 10,000,000 shares of preferred stock, \$.01 par value per share, of which no Preferred Stock was outstanding at the date hereof.

The following description of the Preferred Stock sets forth certain general terms and provisions of the Preferred Stock to which any Prospectus Supplement may relate. The statements below describing the Preferred Stock are in all respects subject to and qualified in their entirety by reference to the applicable provisions of the Company's Amended and Restated Articles of Incorporation (the "Articles of Incorporation") and Bylaws and any applicable amendment to the Articles of Incorporation designating terms of a series of Preferred Stock (a "Designating Amendment").

### TERMS

Subject to the limitations prescribed by the Articles of Incorporation, the board of directors is authorized to fix the number of shares constituting each series of Preferred Stock and the designations and powers, preferences and relative, participating, optional or other special rights and qualifications, limitations or restrictions thereof, including such provisions as may be desired concerning voting, redemption, dividends, dissolution or the distribution of assets, conversion or exchange, and such other subjects or matters as may be fixed by resolution of the board of directors. The Preferred Stock will, when issued, be fully paid and nonassessable by the Company and will have no preemptive rights.

Reference is made to the Prospectus Supplement relating to the Preferred Stock offered thereby for specific terms, including:

- (1) The title and stated value of such Preferred Stock;
- (2) The number of shares of such Preferred Stock offered, the liquidation preference per share and the offering price of such Preferred Stock;
- (3) The dividend rate(s), period(s) and/or payment date(s) or method(s) of calculation thereof applicable to such Preferred Stock;
- (4) The date from which dividends on such Preferred Stock shall accumulate, if applicable;
- (5) The procedures for any auction and remarketing, if any, for such Preferred Stock;
- (6) The provision for a sinking fund, if any, for such Preferred Stock;
- (7) The provision for redemption, if applicable, of such Preferred Stock;
- (8) Any listing of such Preferred Stock on any securities exchange;
- (9) The terms and conditions, if applicable, upon which such Preferred Stock will be convertible into Common Stock of the Company, including the conversion price (or manner of calculation thereof);
- (10) Whether interests in such Preferred Stock will be represented by Depositary Shares;
- (11) Any other specific terms, preferences, rights, limitations or restrictions of such Preferred Stock;
- (12) A discussion of Federal income tax considerations applicable to such Preferred Stock;
- (13) The relative ranking and preferences of such Preferred Stock as to dividend rights and rights upon liquidation, dissolution or winding up of the affairs of the Company;
- (14) Any limitations on issuance of any series of Preferred Stock ranking senior to or on a parity with such series of Preferred Stock as to dividend rights and rights upon liquidation, dissolution or winding up of the affairs of the Company; and
- (15) Any limitations on direct or beneficial ownership and restrictions on transfer, in each case as may be appropriate to preserve the status of the Company as a REIT.

## **RANK**

Unless otherwise specified in the Prospectus Supplement, the Preferred Stock will, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Company, rank (i) senior to all classes or series of Common Stock of the Company, and to all equity securities ranking junior to such Preferred Stock; (ii) on a parity with all equity securities issued by the Company the terms of which specifically provide that such equity securities rank on a parity with the Preferred Stock; and (iii) junior to all equity securities issued by the Company the terms of which specifically provide that such equity securities rank senior to the Preferred Stock. The term "equity securities" does not include convertible debt securities.

## **DIVIDENDS**

Holders of the Preferred Stock of each series will be entitled to receive, when, as and if declared by the board of directors of the Company, out of assets of the Company legally available for payment, cash dividends at such rates and on such dates as will be set forth in the applicable Prospectus Supplement. Each such dividend shall be payable to holders of record as they appear on the share transfer books of the Company on such record dates as shall be fixed by the board of directors of the Company.

Dividends on any series of the Preferred Stock may be cumulative or non-cumulative, as provided in the applicable Prospectus Supplement. Dividends, if cumulative, will be cumulative from and after the date set forth in the applicable Prospectus Supplement. If the board of directors of the Company fails to declare a dividend payable on a dividend payment date on any series of the Preferred Stock for which dividends are non-cumulative, then the holders of such series of the Preferred Stock will have no right to receive a dividend in respect of the dividend period ending on such dividend payment date, and the Company will have no obligation to pay the dividend accrued for such period, whether or not dividends on such series are declared payable on any future dividend payment date.

If Preferred Stock of any series is outstanding, no dividends will be declared or paid or set apart for payment on any capital stock of the Company of any other series ranking, as to dividends, on a parity with or junior to the Preferred Stock of such series for any period unless (i) if such series of Preferred Stock has a cumulative dividend, full cumulative dividends have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for such payment on the Preferred Stock of such series for all past dividend periods and the then current dividend period or (ii) if such series of Preferred Stock does not have a cumulative dividend, full dividends for the then current dividend period have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for such payment on the Preferred Stock of such series. When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon Preferred Stock of any series and the shares of any other series of Preferred Stock ranking on a parity as to dividends with the Preferred Stock of such series, all dividends declared upon Preferred Stock of such series and any other series of Preferred Stock ranking on a parity as to dividends with such Preferred Stock shall be declared pro rata so that the amount of dividends declared per share of Preferred Stock of such series and such other series of Preferred Stock shall in all cases bear to each other the same ratio that accrued dividends per share on the Preferred Stock of such series (which shall not include any accumulation in respect of unpaid dividends for prior dividend periods if such Preferred Stock does not have a cumulative dividend) and such other series of Preferred Stock bear to each other. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on Preferred Stock of such series which may be in arrears.

Except as provided in the immediately preceding paragraph, unless (i) if such series of Preferred Stock has a cumulative dividend, full cumulative dividends on the Preferred Stock of such series have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period, and (ii) if such series of Preferred Stock does not have a cumulative dividend, full dividends on the Preferred Stock of such series have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for the then current dividend period, no dividends (other than in shares of Common Stock or other capital shares ranking junior to the Preferred Stock of such series as to dividends and upon liquidation) shall be declared or paid or set aside for payment or other distribution shall be declared or made upon the Common Stock, or any other capital shares of the Company ranking junior to or

on a parity with the Preferred Stock of such series as to dividends or upon liquidation, nor shall any shares of Common Stock, or any other capital shares of the Company ranking junior to or on a parity with the Preferred Stock of such series as to dividends or upon liquidation be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such shares) by the Company (except by conversion into or exchange for other capital shares of the Company ranking junior to the Preferred Stock of such series as to dividends and upon liquidation).

## **REDEMPTION**

If so provided in the applicable Prospectus Supplement, the Preferred Stock will be subject to mandatory redemption or redemption at the option of the Company, as a whole or in part, in each case upon the terms, at the times and at the redemption prices set forth in such Prospectus Supplement.

The Prospectus Supplement relating to a series of Preferred Stock that is subject to mandatory redemption will specify the number of shares of such Preferred Stock that shall be redeemed by the Company in each year commencing after a date to be specified, at a redemption price per share to be specified, together with an amount equal to all accrued and unpaid dividends thereon (which shall not, if Preferred Stock does not have a cumulative dividend, include any accumulation in respect of unpaid dividends for prior dividend periods) to the date of redemption. The redemption price may be payable in cash or other property, as specified in the applicable Prospectus Supplement. If the redemption price for Preferred Stock of any series is payable only from the net proceeds of the issuance of capital shares of the Company, the terms of such Preferred Stock may provide that, if no such capital shares shall have been issued or to the extent the net proceeds from any issuance are insufficient to pay in full the aggregate redemption price then due, such Preferred Stock shall automatically and mandatorily be converted into the applicable capital shares of the Company pursuant to conversion provisions specified in the applicable Prospectus Supplement.

Notwithstanding the foregoing, unless (i) if such series of Preferred Stock has a cumulative dividend, full cumulative dividends on all shares of any series of Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period, and (ii) if such series of Preferred Stock does not have a cumulative dividend, full dividends of the Preferred Stock of any series have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for the then current dividend period, no shares of any series of Preferred Stock shall be redeemed unless all outstanding Preferred Stock of such series is simultaneously redeemed; PROVIDED, HOWEVER, that the foregoing shall not prevent the purchase or acquisition of Preferred Stock of such series to preserve the REIT status of the Company or pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding Preferred Stock of such series. In addition, unless (i) if such series of Preferred Stock has a cumulative dividend, full cumulative dividends on all outstanding shares of any series of Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all past dividends periods and the then current dividend period, and (ii) if such series of Preferred Stock does not have a cumulative dividend, full dividends on the Preferred Stock of any series have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for the then current dividend period, the Company shall not purchase or otherwise acquire directly or indirectly any shares of Preferred Stock of such series (except by conversion into or exchange for capital shares of the Company ranking junior to the Preferred Stock of such series as to dividends and upon liquidation); PROVIDED, HOWEVER, that the foregoing shall not prevent the purchase or acquisition of Preferred Stock of such series to preserve the REIT status of the Company or pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding Preferred Stock of such series.

If fewer than all of the outstanding shares of Preferred Stock of any series are to be redeemed, the number of shares to be redeemed will be determined by the Company and such shares may be redeemed pro rata from the holders of record of such shares in proportion to the number of such shares held or for which redemption is requested by such holder (with adjustments to avoid redemption of fractional shares) or by lot in a manner determined by the Company.



Notice of redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each holder of record of Preferred Stock of any series to be redeemed at the address shown on the share transfer books of the Company. Each notice shall state: (i) the redemption date; (ii) the number of shares and series of the Preferred Stock to be redeemed; (iii) the redemption price; (iv) the place or places where certificates for such Preferred Stock are to be surrendered for payment of the redemption price; (v) that dividends on the shares to be redeemed will cease to accrue on such redemption date; and (vi) the date upon which the holder's conversion rights, if any, as to such shares shall terminate. If fewer than all the shares of Preferred Stock of any series are to be redeemed, the notice mailed to each such holder thereof shall also specify the number of shares of Preferred Stock to be redeemed from each such holder. If notice of redemption of any Preferred Stock has been given and if the funds necessary for such redemption have been set aside by the Company in trust for the benefit of the holders of any Preferred Stock so called for redemption, then from and after the redemption date dividends will cease to accrue on such Preferred Stock, and all rights of the holders of such shares will terminate, except the right to receive the redemption price.

## **LIQUIDATION PREFERENCE**

Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company, then, before any distribution or payment shall be made to the holders of any Common Stock or any other class or series of capital shares of the Company ranking junior to the Preferred Stock in the distribution of assets upon any liquidation, dissolution or winding up of the Company, the holders of each series of Preferred Stock shall be entitled to receive out of assets of the Company legally available for distribution to shareholders liquidating distributions in the amount of the liquidation preference per share (set forth in the applicable Prospectus Supplement), plus an amount equal to all dividends accrued and unpaid thereon (which shall not include any accumulation in respect of unpaid dividends for prior dividend periods if such Preferred Stock does not have a cumulative dividend). After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Preferred Stock will have no right or claim to any of the remaining assets of the Company. If, upon any such voluntary or involuntary liquidation, dissolution or winding up, the available assets of the Company are insufficient to pay the amount of the liquidating distributions on all outstanding Preferred Stock and the corresponding amounts payable on all shares of other classes or series of capital shares of the Company ranking on a parity with the Preferred Stock in the distribution of assets, then the holders of the Preferred Stock and all other such classes or series of capital shares shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

If liquidating distributions shall have been made in full to all holders of Preferred Stock, the remaining assets of the Company shall be distributed among the holders of any other classes or series of capital shares ranking junior to the Preferred Stock upon liquidation, dissolution or winding up, according to their respective rights and preferences and in each case according to their respective number of shares. For such purposes, the consolidation or merger of the Company with or into any other corporation, trust or entity, or the sale, lease or conveyance of all or substantially all of the property or business of the Company, shall not be deemed to constitute a liquidation, dissolution or winding up of the Company.

## **VOTING RIGHTS**

Holders of the Preferred Stock will not have any voting rights, except as set forth below or as otherwise from time to time required by law or as indicated in the applicable Prospectus Supplement.

Whenever dividends on any shares of Preferred Stock shall be in arrears for six or more consecutive quarterly periods, the holders of such shares of Preferred Stock (voting separately as a class with all other series of preferred stock upon which like voting rights have been conferred and are exercisable) will be entitled to vote for the election of two additional directors of the Company at a special meeting called by the holders of record of at least 10% of any series of Preferred Stock so in arrears (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders) or at the next annual meeting of stockholders, and at each subsequent annual meeting until (i) if such series of Preferred Stock has a cumulative dividend, all dividends accumulated on such shares of Preferred Stock for the past dividend periods and the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment or (ii) if such series of Preferred Stock does

not have a cumulative dividend, four consecutive quarterly dividends shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment. In such case, the entire board of directors of the Company will be increased by two directors.

Unless provided otherwise for any series of Preferred Stock, so long as any shares of Preferred Stock remain outstanding, the Company will not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of each series of Preferred Stock outstanding at the time, given in person or by proxy, either in writing or at a meeting (such series voting separately as a class), (i) authorize or create, or increase the authorized or issued amount of, any class or series of capital stock ranking prior to such series of Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up or reclassify any authorized capital stock of the Company into such shares, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares; or (ii) amend, alter or repeal the provisions of the Company's Articles of Incorporation or the Designating Amendment for such series of Preferred Stock, whether by merger, consolidation or otherwise (an "Event"), so as to materially and adversely affect any right, preference, privilege or voting power of such series of Preferred Stock or the holders thereof; PROVIDED, HOWEVER, with respect to the occurrence of any of the Events set forth in (ii) above, so long as the Preferred Stock remains outstanding with the terms thereof materially unchanged, taking into account that upon the occurrence of an Event, the Company may not be the surviving entity, the occurrence of any such Event shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting power of holders of Preferred Stock and provided further that (x) any increase in the amount of the authorized Preferred Stock or the creation or issuance of any other series of Preferred Stock, or (y) any increase in the amount of authorized shares of such series or any other series of Preferred Stock, in each case ranking on a parity with or junior to the Preferred Stock of such series with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of such series of Preferred Stock shall have been redeemed or called for redemption and sufficient funds shall have been deposited in trust to effect such redemption.

## **CONVERSION RIGHTS**

The terms and conditions, if any, upon which any series of Preferred Stock is convertible into shares of Common Stock will be set forth in the applicable Prospectus Supplement relating thereto. Such terms will include the number of shares of Common Stock into which the shares of Preferred Stock are convertible, the conversion price (or manner of calculation thereof), the conversion period, provisions as to whether conversion will be at the option of the holders of the Preferred Stock or the Company, the events requiring an adjustment of the conversion price and provisions affecting conversion in the event of the redemption of such series of Preferred Stock.

## **SHAREHOLDER LIABILITY**

As discussed below under "Description of Common Stock -- General," applicable Maryland law provides that no shareholder, including holders of Preferred Stock, shall be personally liable for the acts and obligations of the Company and that the funds and property of the Company shall be the only recourse for such acts or obligations.

## **RESTRICTIONS ON OWNERSHIP**

As discussed below under "Description of Common Stock -- Certain Provisions Affecting Change of Control -- OWNERSHIP LIMITATIONS AND RESTRICTIONS ON TRANSFERS," for the Company to qualify as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"), not more than 50% in value of its outstanding capital shares may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) during the last half of a taxable year. To ensure that the Company remains a qualified REIT, the Articles of Incorporation provide that no holder (other than persons approved by the directors at their option and in their discretion) may own, or be deemed to own by virtue of the

attribution provisions of the Code, more than 9.8% of the issued and outstanding capital stock of the Company. To assist the Company in meeting this requirement, the Company may take certain actions to limit the beneficial ownership, directly or indirectly, by a single person of the Company's outstanding equity securities, including any Preferred Stock of the Company. Therefore, the Designating Amendment for each series of Preferred Stock may contain provisions restricting the ownership and transfer of the Preferred Stock. The applicable Prospectus Supplement will specify any additional ownership limitation relating to a series of Preferred Stock.

## **REGISTRAR AND TRANSFER AGENT**

The Registrar and Transfer Agent for the Preferred Stock will be set forth in the applicable Prospectus Supplement.

## **DESCRIPTION OF DEPOSITARY SHARES**

### **GENERAL**

The Company may issue receipts ("Depositary Receipts") for Depositary Shares, each of which will represent a fractional interest of a share of a particular series of Preferred Stock, as specified in the applicable Prospectus Supplement. Shares of Preferred Stock of each series represented by Depositary Shares will be deposited under a separate deposit agreement (each, a "Deposit Agreement") among the Company, the depositary named therein (a "Preferred Stock Depositary") and the holders from time to time of the Depositary Receipts. Subject to the terms of the applicable Deposit Agreement, each owner of a Depositary Receipt will be entitled, in proportion to the fractional interest of a share of a particular series of Preferred Stock represented by the Depositary Shares evidenced by such Depositary Receipt, to all the rights and preferences of the Preferred Stock represented by such Depositary Shares (including dividend, voting, conversion, redemption and liquidation rights).

The Depositary Shares will be evidenced by Depositary Receipts issued pursuant to the applicable Deposit Agreement. Immediately following the issuance and delivery of the Preferred Stock by the Company to a Preferred Stock Depositary, the Company will cause such Preferred Stock Depositary to issue, on behalf of the Company, the Depositary Receipts. Copies of the applicable form of Deposit Agreement and Depositary Receipt may be obtained from the Company upon request, and the statements made hereunder relating to Deposit Agreements and the Depositary Receipts to be issued thereunder are summaries of certain anticipated provisions thereof and do not purport to be complete and are subject to, and qualified in their entirety by reference to, all of the provisions of the applicable Deposit Agreement and related Depositary Receipts.

### **DIVIDENDS AND OTHER DISTRIBUTIONS**

A Preferred Stock Depositary will be required to distribute all cash dividends or other cash distributions received in respect of the applicable Preferred Stock to the record holders of Depositary Receipts evidencing the related Depositary Shares in proportion to the number of such Depositary Receipts owned by such holders, subject to certain obligations of holders to file proofs, certificates and other information and to pay certain charges and expenses to such Preferred Stock Depositary.

In the event of a distribution other than in cash, a Preferred Stock Depositary will be required to distribute property received by it to the record holders of Depositary Receipts entitled thereto, subject to certain obligations of holders to file proofs, certificates and other information and to pay certain charges and expenses to such Preferred Stock Depositary, unless such Preferred Stock Depositary determines that it is not feasible to make such distribution, in which case such Preferred Stock Depositary may, with the approval of the Company, sell such property and distribute the net proceeds from such sale to such holders.

No distribution will be made in respect of any Depositary Share to the extent that it represents any Preferred Stock that has been converted or exchanged.

## **WITHDRAWAL OF STOCK**

Upon surrender of the Depositary Receipts at the corporate trust office of the applicable Preferred Stock Depositary (unless the related Depositary Shares have previously been called for redemption or converted), the holders thereof will be entitled to delivery at such office, to or upon each such holder's order, of the number of whole or fractional shares of the applicable Preferred Stock and any money or other property represented by the Depositary Shares evidenced by such Depositary Receipts. Holders of Depositary Receipts will be entitled to receive whole or fractional shares of the related Preferred Stock on the basis of the proportion of Preferred Stock represented by each Depositary Share as specified in the applicable Prospectus Supplement, but holders of such shares of Preferred Stock will not thereafter be entitled to receive Depositary Shares therefor. If the Depositary Receipts delivered by the holder evidence a number of Depositary Shares in excess of the number of Depositary Shares representing the number of shares of Preferred Stock to be withdrawn, the applicable Preferred Stock Depositary will be required to deliver to such holder at the same time a new Depositary Receipt evidencing such excess number of Depositary Shares.

## **REDEMPTION OF DEPOSITARY SHARES**

Whenever the Company redeems shares of Preferred Stock held by a Preferred Stock Depositary, such Preferred Stock Depositary will be required to redeem as of the same redemption date the number of Depositary Shares representing shares of the Preferred Stock so redeemed, provided the Company shall have paid in full to such Preferred Stock Depositary the redemption price of the Preferred Stock to be redeemed plus an amount equal to any accrued and unpaid dividends thereon to the date fixed for redemption. The redemption price per Depositary Share will be equal to the redemption price and any other amounts per share payable with respect to the Preferred Stock. If fewer than all the Depositary Shares are to be redeemed, the Depositary Shares to be redeemed will be selected pro rata (as nearly as may be practicable without creating fractional Depositary Shares) or by any other equitable method determined by the Company.

From and after the date fixed for redemption, all dividends in respect of the shares of Preferred Stock so called for redemption will cease to accrue, the Depositary Shares so called for redemption will no longer be deemed to be outstanding and all rights of the holders of the Depositary Receipts evidencing the Depositary Shares so called for redemption will cease, except the right to receive any moneys payable upon such redemption and any money or other property to which the holders of such Depositary Receipts were entitled upon such redemption upon surrender thereof to the applicable Preferred Stock Depositary.

## **VOTING OF THE PREFERRED STOCK**

Upon receipt of notice of any meeting at which the holders of the applicable Preferred Stock are entitled to vote, a Preferred Stock Depositary will be required to mail the information contained in such notice of meeting to the record holders of the Depositary Receipts evidencing the Depositary Shares that represent such Preferred Stock. Each record holder of Depositary Receipts evidencing Depositary Shares on the record date (which will be the same date as the record date for the Preferred Stock) will be entitled to instruct such Preferred Stock Depositary as to the exercise of the voting rights pertaining to the amount of Preferred Stock represented by such holder's Depositary Shares. Such Preferred Stock Depositary will be required to vote the amount of Preferred Stock represented by such Depositary Shares in accordance with such instructions, and the Company will agree to take all reasonable action that may be deemed necessary by such Preferred Stock Depositary in order to enable such Preferred Stock Depositary to do so. Such Preferred Stock Depositary will be required to abstain from voting the amount of Preferred Stock represented by such Depositary Shares to the extent it does not receive specific instructions from the holders of Depositary Receipts evidencing such Depositary Shares. A Preferred Stock Depositary will not be responsible for any failure to carry out any instruction to vote, or for the manner or effect of any such vote made, as long as any such action or non-action is in good faith and does not result from negligence or willful misconduct of such Preferred Stock Depositary.

## **LIQUIDATION PREFERENCE**

In the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, the holders of each Depositary Receipt will be entitled to the fraction of the liquidation preference

accorded each share of Preferred Stock represented by the Depositary Share evidenced by such Depositary Receipt, as set forth in the applicable Prospectus Supplement.

## **CONVERSION OF PREFERRED STOCK**

The Depositary Shares, as such, will not be convertible into Common Stock or any other securities or property of the Company. Nevertheless, if so specified in the applicable Prospectus Supplement relating to an offering of Depositary Shares, the Depositary Receipts may be surrendered by holders thereof to the applicable Preferred Stock Depositary with written instructions to such Preferred Stock Depositary to instruct the Company to cause conversion of the Preferred Stock represented by the Depositary Shares evidenced by such Depositary Receipts into whole shares of Common Stock, other shares of Preferred Stock of the Company or other shares of stock, and the Company will agree that upon receipt of such instructions and any amounts payable in respect thereof, it will cause the conversion thereof utilizing the same procedures as those provided for delivery of Preferred Stock to effect such conversion. If the Depositary Shares evidenced by a Depositary Receipt are to be converted in part only, a new Depositary Receipt or Receipts will be issued for any Depositary Shares not to be converted. No fractional shares of Common Stock will be issued upon conversion, and if such conversion will result in a fractional share being issued, an amount will be paid in cash by the Company equal to the value of the fractional interest based upon the closing price of the Common Stock on the last business day prior to the conversion.

## **AMENDMENT AND TERMINATION OF A DEPOSIT AGREEMENT**

Any form of Depositary Receipt evidencing Depositary Shares that will represent Preferred Stock and any provision of a Deposit Agreement will be permitted at any time to be amended by agreement between the Company and the applicable Preferred Stock Depositary. However, any amendment that materially and adversely alters the rights of the holders of Depositary Receipts or that would be materially and adversely inconsistent with the rights granted to the holders of the related Preferred Stock will not be effective unless such amendment has been approved by the existing holders of at least two-thirds of the applicable Depositary Shares evidenced by the applicable Depositary Receipts then outstanding. No amendment shall impair the right, subject to certain anticipated exceptions in the Deposit Agreements, of any holder of Depositary Receipts to surrender any Depositary Receipt with instructions to deliver to the holder the related Preferred Stock and all money and other property, if any, represented thereby, except in order to comply with law. Every holder of an outstanding Depositary Receipt at the time any such amendment becomes effective shall be deemed, by continuing to hold such Depositary Receipt, to consent and agree to such amendment and to be bound by the applicable Deposit Agreement as amended thereby.

A Deposit Agreement will be permitted to be terminated by the Company upon not less than 30 days' prior written notice to the applicable Preferred Stock Depositary if (i) such termination is necessary to preserve the Company's status as a REIT or (ii) a majority of each series of Preferred Stock affected by such termination consents to such termination, whereupon such Preferred Stock Depositary will be required to deliver or make available to each holder of Depositary Receipts, upon surrender of the Depositary Receipts held by such holder, such number of whole or fractional shares of Preferred Stock as are represented by the Depositary Shares evidenced by such Depositary Receipts together with any other property held by such Preferred Stock Depositary with respect to such Depositary Receipts. The Company will agree that if a Deposit Agreement is terminated to preserve the Company's status as a REIT, then the Company will use its best efforts to list the Preferred Stock issued upon surrender of the related Depositary Shares on a national securities exchange. In addition, a Deposit Agreement will automatically terminate if (i) all outstanding Depositary Shares thereunder shall have been redeemed, (ii) there shall have been a final distribution in respect of the related Preferred Stock in connection with any liquidation, dissolution or winding up of the Company and such distribution shall have been distributed to the holders of Depositary Receipts evidencing the Depositary Shares representing such Preferred Stock or (iii) each share of the related Preferred Stock shall have been converted into stock of the Company not so represented by Depositary Shares.

## **CHARGES OF A PREFERRED STOCK DEPOSITARY**

The Company will pay all transfer and other taxes and governmental charges arising solely from the existence of a Deposit Agreement. In addition, the Company will pay the fees and expenses of a Preferred

Stock Depositary in connection with the performance of its duties under a Deposit Agreement. However, holders of Depositary Receipts will pay certain other transfer and other taxes and governmental charges as well as the fees and expenses of a Preferred Stock Depositary for any duties required by such holders to be performed which are outside of those expressly provided for in the applicable Deposit Agreement.

## **RESIGNATION AND REMOVAL OF DEPOSITARY**

A Preferred Stock Depositary will be permitted to resign at any time by delivering to the Company notice of its election to do so, and the Company will be permitted at any time to remove a Preferred Stock Depositary, any such resignation or removal to take effect upon the appointment of a successor Preferred Stock Depositary. A successor Preferred Stock Depositary will be required to be appointed within 60 days after delivery of the notice of resignation or removal and will be required to be a bank or trust company having its principal office in the United States and having a combined capital and surplus of at least \$50,000,000.

## **MISCELLANEOUS**

A Preferred Stock Depositary will be required to forward to holders of Depositary Receipts any reports and communications from the Company which are received by such Preferred Stock Depositary with respect to the related Preferred Stock.

Neither a Preferred Stock Depositary nor the Company will be liable if it is prevented from or delayed in, by law or any circumstances beyond its control, performing its obligations under a Depositary Agreement. The obligations of the Company and a Preferred Stock Depositary under a Deposit Agreement will be limited to performing their duties thereunder in good faith and without negligence (in the case of any action or inaction in the voting of Preferred Stock represented by the applicable Depositary Shares), gross negligence or willful misconduct, and neither the Company nor any applicable Preferred Stock Depositary will be obligated to prosecute or defend any legal proceeding in respect of any Depositary Receipts, Depositary Shares or shares of Preferred Stock represented thereby unless satisfactory indemnity is furnished. The Company and any Preferred Stock Depositary will be permitted to rely on written advice of counsel or accountants, or information provided by persons presenting shares of Preferred Stock represented thereby for deposit, holders of Depositary Receipts or other persons believed in good faith to be competent to give such information, and on documents believed in good faith to be genuine and signed by a proper party.

In the event a Preferred Stock Depositary shall receive conflicting claims, requests or instructions from any holders of Depositary Receipts, on the one hand, and the Company, on the other hand, such Preferred Stock Depositary shall be entitled to act on such claims, requests or instructions received from the Company.

## **DESCRIPTION OF COMMON STOCK**

### **GENERAL**

The authorized capital stock of the Company includes 100,000,000 shares of Common Stock, \$.01 par value per share. Each outstanding share of Common Stock entitles the holder to one vote on all matters presented to shareholders for a vote. Holders of Common Stock have no preemptive rights. As of the date hereof, there were 29,898,970 shares of Common Stock outstanding and 4,269,590 shares reserved for issuance upon exchange of outstanding Units.

Shares of Common Stock currently outstanding are listed for trading on the New York Stock Exchange (the "NYSE"). The Company will apply to the NYSE to list the additional shares of Common Stock to be sold pursuant to any Prospectus Supplement, and the Company anticipates that such shares will be so listed.

All shares of Common Stock issued will be duly authorized, fully paid, and non-assessable. Distributions may be paid to the holders of Common Stock if and when declared by the board of directors of the Company out of funds legally available therefor. The Company intends to continue to pay quarterly dividends.

Under Maryland law, shareholders are generally not liable for the Company's debts or obligations. If the Company is liquidated, subject to the right of any holders of preferred stock, if any, to receive preferential distributions, each outstanding share of Common Stock will be entitled to participate pro rata in the assets remaining after payment of, or adequate provision for, all known debts and liabilities of the Company.

The Articles of Incorporation of the Company provide for the board of directors to be divided into three classes of directors, each class to consist as nearly as possible of one-third of the directors. At each annual meeting of shareholders, the class of directors to be elected at such meeting will be elected for a three-year term and the directors in the other two classes will continue in office. The overall effect of the provisions in the Articles of Incorporation with respect to the classified board may be to render more difficult a change of control of the Company or removal of incumbent management. Holders of Common Stock have no right to cumulative voting for the election of directors. Consequently, at each annual meeting of shareholders, the holders of a plurality of the shares of Common Stock are able to elect all of the successors of the class of directors whose term expires at that meeting. Directors may be removed only for cause and only with the affirmative vote of the holders of two-thirds of the shares of capital stock entitled to vote in the election of directors.

## **CERTAIN PROVISIONS AFFECTING CHANGE OF CONTROL**

**GENERAL.** Pursuant to the Company's Articles of Incorporation and the Maryland general corporation law (the "MGCL"), the Company cannot merge into or consolidate with another corporation or enter into a statutory share exchange transaction in which it is not the surviving entity or sell all or substantially all of the assets of the Company unless the Board of Directors adopts a resolution declaring the proposed transaction advisable and a majority of stockholders entitled to vote thereon (voting together as a single class) approve the transaction. In addition, the agreement of limited partnership of the Operating Partnership (the "Operating Partnership Agreement") requires that any such merger or sale of all or substantially all of the assets of the Operating Partnership be approved by a majority of the holders of Units (including Units owned by the Company).

**MARYLAND BUSINESS COMBINATION AND CONTROL SHARE STATUTES.** The MGCL establishes special requirements with respect to business combinations between Maryland corporations and interested stockholders unless exemptions are applicable. Among other things, the law prohibits for a period of five years a merger and other specified or similar transactions between a company and an interested stockholder and requires a supermajority vote for such transactions after the end of the five-year period. The Company's Articles of Incorporation contain a provision exempting the Company from the requirements and provisions of the Maryland business combination statute. There can be no assurance that such provision will not be amended or repealed at any point in the future.

The MGCL also provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares owned by the acquiror or by officers or directors who are employees of the Company. The control share acquisition statute does not apply to shares acquired in a merger, consolidation or share exchange if the Company is a party to the transaction, or to acquisitions approved or exempted by the Articles of Incorporation or bylaws of the Company. The Company's bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of the Company's stock. There can be no assurance that such provision will not be amended or repealed, in whole or in part, at any point in the future.

The Company's Articles of Incorporation (including the provision exempting the Company from the Maryland business combination statute) may not be amended without the affirmative vote of at least a majority of the shares of capital stock outstanding and entitled to vote thereon voting together as a single class, provided that certain provisions of the Articles of Incorporation may not be amended without the approval of the holders of two-thirds of the shares of capital stock of the Company outstanding and entitled to vote thereon voting together as a single class. The Company's bylaws may be amended by the Board of Directors or a majority of the shares cast of capital stock entitled to vote thereupon at a duly constituted meeting of stockholders.

If either of the foregoing exemptions in the Articles of Incorporation or bylaws is amended, the Maryland business combination statute or the control share acquisition statute could have the effect of discouraging offers to acquire the Company and of increasing the difficulty of consummating any such offer.

**OWNERSHIP LIMITATIONS AND RESTRICTIONS ON TRANSFERS.** For the Company to remain qualified as a REIT under the Code, not more than 50% in value of its outstanding shares of Common Stock may be owned, directly or indirectly, by five or fewer individuals (defined in the Code to include certain entities) during the last half of a taxable year, and such shares must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. To ensure that the Company remains a qualified REIT, the Articles of Incorporation provide that no holder (other than persons approved by the directors at their option and in their discretion) may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 9.8% (the "Ownership Limit") of the issued and outstanding capital stock of the Company. The Board of Directors may waive the Ownership Limit if evidence satisfactory to the Board of Directors and the Company's tax counsel is presented that the changes in ownership will not jeopardize the Company's status as a REIT.

If any stockholder purports to transfer shares to a person and either the transfer would result in the Company failing to qualify as a REIT, or the stockholder knows that such transfer would cause the transferee to hold more than the Ownership Limit, the purported transfer shall be null and void, and the stockholder will be deemed not to have transferred the shares. In addition, if any person holds shares of capital stock in excess of the Ownership Limit, such person will be deemed to hold the excess shares in trust for the Company, will not receive distributions with respect to such shares and will not be entitled to vote such shares. The person will be required to sell such shares to the Company for the lesser of the amount paid for the shares and the average closing price for the 10 trading days immediately preceding the redemption or to sell such shares at the direction of the Company, in which case the Company will be reimbursed for its expenses in connection with the sale and will receive any amount of such proceeds that exceeds the amount such person paid for the shares. If the Company repurchases such shares, it may pay for the shares with Units. The foregoing restrictions on transferability and ownership will not apply if the Board of Directors and the stockholders (by the affirmative vote of the holders of two-thirds of the outstanding shares of capital stock entitled to vote on the matter) determine that it is no longer in the best interests of the Company to continue to qualify as a REIT.

All certificates representing shares of Common Stock bear a legend referring to the restrictions described above.

Every beneficial owner of more than 5% (or such lower percentage as required by the Code or regulations thereunder) of the issued and outstanding shares of capital stock must file a written notice with the Company no later than January 30 of each year, containing the name and address of such beneficial owner, the number of shares of Common Stock and/or Preferred Stock owned and a description of how the shares are held. In addition, each stockholder shall be required upon demand to disclose to the Company in writing such information as the Company may request in order to determine the effect of such stockholder's direct, indirect and constructive ownership of such shares on the Company's status as a REIT.

These ownership limitations could have the effect of precluding acquisition of control of the Company by a third party unless the Board of Directors and the stockholders determine that maintenance of REIT status is no longer in the best interest of the Company.

## **REGISTRAR AND TRANSFER AGENT**

The Registrar and Transfer Agent for the Common Stock is First Union National Bank, Charlotte, North Carolina.



## **FEDERAL INCOME TAX CONSIDERATIONS**

The following summary of certain Federal income tax considerations to the Company is based on current law, is for general purposes only, and is not tax advice. The summary addresses the material Federal income tax considerations relating to the Company's REIT status, as well as material Federal income tax considerations relating to the Operating Partnership. The tax treatment of a holder of any of the Securities will vary depending upon the terms of the specific securities acquired by such holder, as well as his particular situation, and this discussion does not attempt to address any aspects of Federal income taxation relating to holders of Securities. Certain Federal income tax considerations relevant to holders of the Securities will be provided in the applicable Prospectus Supplement relating thereto.

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

### **TAXATION OF THE COMPANY AS A REIT**

**GENERAL.** Commencing with its taxable year ended December 31, 1994, the Company has elected to be taxed as a real estate investment trust under sections 856 through 860 of the Code. The Company believes that, commencing with its taxable year ended December 31, 1994, it has been organized and is operating in such a manner as to qualify for taxation as a REIT under the Code, and the Company intends to continue to operate in such a manner, but no assurance can be given that it has operated or will operate in a manner so as to qualify or remain qualified.

These sections of the Code are highly technical and complex. The following sets forth the material aspects of the sections that govern the Federal income tax treatment of a REIT and its shareholders. This summary is qualified in its entirety by the applicable Code provisions, rules and regulations promulgated thereunder, and administrative and judicial interpretation thereof.

Smith Helms Mulliss & Moore, L.L.P. has acted as tax counsel to the Company in connection with the offering of the Securities and the Company's election to be taxed as a REIT and in the opinion of Smith Helms Mulliss & Moore, L.L.P., commencing with the Company's taxable year ended December 31, 1994, the Company has been organized and operated in conformity with the requirements for qualification and taxation as a REIT under the Code, and the Company's current organization and proposed method of operation will enable it to continue to meet the requirements for qualification and taxation as a REIT under the Code. This opinion is based on the factual representations of the Company concerning its business and properties. Moreover, such qualification and taxation as a REIT depends upon the Company's ability to meet the various qualification tests imposed under the Code discussed below on a continuing basis, through actual annual operating results, distribution levels and diversity of stock ownership. Accordingly, no assurance can be given that the actual results of the Company's operations for any particular taxable year will satisfy such requirements.

### **FEDERAL INCOME TAXATION OF THE COMPANY**

If the Company qualifies for taxation as a REIT, it generally will not be subject to Federal corporate income tax on that portion of its ordinary income or capital gain that is currently distributed to stockholders. The REIT provisions of the Code generally allow a REIT to deduct distributions paid to its stockholders substantially eliminating the Federal "double taxation" on earnings (once at the corporate level when earned and once again at the stockholder level when distributed) that usually results from investments in a corporation. Nevertheless, the Company will be subject to Federal income tax as follows: First, the Company will be taxed at regular corporate rates on its undistributed REIT taxable income, including undistributed net capital gains. Second, under certain circumstances, the Company may be subject to the "alternative minimum tax" as a consequence of its items of tax preference. Third, if the Company has net income from the sale or other disposition of "foreclosure property" that is held primarily for sale to customers in the ordinary course of business or other non-qualifying income from foreclosure property, it will be subject to tax at the highest corporate rate on such income. Fourth, if the Company has net income from prohibited transactions

(which are, in general, certain sales or other dispositions of property other than foreclosure property held primarily for sale to customers in the ordinary course of business), such income will be subject to a 100% tax. Fifth, if the Company should fail to satisfy either of the 75% or 95% gross income tests (discussed below) but has nonetheless maintained its qualification as a REIT because certain other requirements have been met, it will be subject to a 100% tax on the net income attributable to the greater of the amount by which the Company fails either the 75% or 95% test, multiplied by a fraction intended to reflect the Company's profitability. Sixth, if the Company fails to distribute during each year at least the sum of (i) 85% of its ordinary income for such year, (ii) 95% of its capital gain net income for such year and (iii) any undistributed taxable income from prior periods, the Company will be subject to a 4% excise tax on the excess of such required distribution over the amounts actually distributed. Seventh, if the Company should acquire any asset from a C corporation (i.e., a corporation generally subject to full corporate-level tax) in a carryover-basis transaction and the Company subsequently recognizes gain on the disposition of such asset during the 10-year period (the "Recognition Period") beginning on the date on which the asset was acquired by the Company, then, to the extent of the excess of (a) the fair market value of the asset as of the beginning of the applicable Recognition Period over (b) the Company's adjusted basis in such asset as of the beginning of such Recognition Period (the "Built-In Gain"), such gain will be subject to tax at the highest regular corporate rate, pursuant to guidelines issued by the IRS (the "Built-In Gain Rules").

## **REQUIREMENTS FOR QUALIFICATION**

To qualify as a REIT, the Company has elected to be so treated and must meet the requirements, discussed below, relating to the Company's organization, sources of income, nature of assets and distributions of income to stockholders.

**ORGANIZATIONAL REQUIREMENTS.** The Code defines a REIT as a corporation, trust or association: (i) that is managed by one or more trustees or directors, (ii) the beneficial ownership of which is evidenced by transferable shares or by transferable certificates of beneficial interest, (iii) that would be taxable as a domestic corporation but for the REIT requirements, (iv) that is neither a financial institution nor an insurance company subject to certain provisions of the Code, (v) the beneficial ownership of which is held by 100 or more persons, and (vi) during the last half of each taxable year not more than 50% in value of the outstanding stock of which is owned, directly or indirectly, through the application of certain attribution rules, by five or fewer individuals (as defined in the Code to include certain entities). In addition, certain other tests regarding the nature of its income and assets, described below, also must be satisfied. The Code provides that conditions (i) through (iv), inclusive, must be met during the entire taxable year and that condition (v) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. For purposes of conditions (v) and (vi), pension funds and certain other tax-exempt entities are treated as individuals or persons, subject to a "look-through" exception in the case of condition (vi). In addition, the Company's Articles of Incorporation currently include certain restrictions regarding transfer of its Common Stock, which restrictions are intended (among other things) to assist the Company in continuing to satisfy conditions (v) and (vi) above.

In the case of a REIT that is a partner in a partnership, Treasury Regulations provide that the REIT will be deemed to own its proportionate share of the assets of the partnership and will be deemed to be entitled to the income of the partnership attributable to such share. In addition, the character of the assets and gross income of the partnership retain the same character in the hands of the REIT for purposes of Section 856 of the Code, including satisfying the gross income tests and asset tests. Thus, the Company's proportionate share of the assets, liabilities and items of income of the Operating Partnership (including the Operating Partnership's share of the assets and liabilities and items of income with respect to any partnership in which it holds an interest) will be treated as assets, liabilities and items of income of the Company for purposes of applying the requirements described herein.

**INCOME TESTS.** In order to maintain qualification as a REIT, the Company annually must satisfy three gross income requirements. First, at least 75% of the Company's gross income (excluding gross income from prohibited transactions) for each taxable year must be derived directly or indirectly from investments relating to real property; including investments in other REITs, or mortgages on real property (including

"rents from real property" and, in certain circumstances, interest) or from certain types of temporary investments. Second, at least 95% of the Company's gross income (excluding gross income from prohibited transactions) for each taxable year must be derived from such real property investments, dividends, interest and gain from the sale or disposition of stock or securities (or from any combination of the foregoing). Third, short-term gain from the sale or other disposition of stock or securities, gain from prohibited transactions and gain on the sale or other disposition of real property held for less than four years (apart from involuntary conversions and sales of foreclosure property) must represent less than 30% of the Company's gross income (including gross income from prohibited transactions) for each taxable year.

Rents received by the Company will qualify as "rents from real property" in satisfying the gross income requirements for a REIT described above only if several conditions are met. First, the amount of rent must not be based in whole or in part on the income or profits of any person. However, an amount received or accrued generally will not be excluded from the term "rents from real property" solely by reason of being based on a fixed percentage or percentages of receipts or sales. Second, the Code provides that rents received from a tenant will not qualify as "rents from real property" in satisfying the gross income tests if the REIT, or an owner of 10% or more of the REIT, directly or constructively owns 10% or more of such tenant (a "Related Party Tenant"). Third, if rent attributable to personal property, leased in connection with a lease of real property, is greater than 15% of the total rent received under the lease, then the portion of rent attributable to such personal property will not qualify as "rents from real property." Finally, for rents received to qualify as "rents from real property," the REIT generally must not operate or manage the property or furnish or render services to the tenants of such property, other than through an independent contractor from whom the REIT derives no revenue, provided, however, the Company may directly perform certain services that are "usually or customarily rendered" in connection with the rental of space for occupancy only and are not otherwise considered "rendered to the occupant" of the property.

The Company does not currently charge and does not anticipate charging rent that is based in whole or in part on the income or profits of any person. The Company also does not anticipate either deriving rent attributable to personal property leased in connection with real property that exceeds 15% of the total rents or receiving rent from Related Party Tenants.

The Operating Partnership does provide certain services with respect to the Properties. The Company believes that the services with respect to the Properties that are and will be provided directly are usually or customarily rendered in connection with the rental of space for occupancy only and are not otherwise rendered to particular tenants and therefore that the provision of such services will not cause rents received with respect to the Properties to fail to qualify as rents from real property. Services with respect to the Properties that the Company believes may not be provided by the Company or the Operating Partnership directly without jeopardizing the qualification of rent as "rents from real property" will be performed by independent contractors.

The Operating Partnership and the Company receive fees in consideration of the performance of property management and brokerage and leasing services with respect to certain Properties not owned entirely by the Operating Partnership. Such fees will not qualify under the 75% or the 95% gross income tests. The Operating Partnership also may receive certain other types of income with respect to the properties it owns that will not qualify for either of these tests. In addition, distributions on the Operating Partnership's stock in the Service Companies and its allocable portion of the income earned by Forsyth-Carter Brokerage will not qualify under the 75% gross income test. The Company believes, however, that the aggregate amount of such fees and other non-qualifying income in any taxable year, which represents approximately 3.6% of the Company's gross income on a pro forma basis and 1.0% of the Company's income on an actual basis for the year ended December 31, 1995, will not cause the Company to exceed the limits on non-qualifying income under either the 75% or the 95% gross income test.

If the Company fails to satisfy one or both of the 75% or 95% gross income tests for any taxable year, it may nevertheless qualify as a REIT for that year if it is eligible for relief under certain provisions of the Code. These relief provisions will be generally available if (i) the Company's failure to meet these tests was due to reasonable cause and not due to willful neglect, (ii) the Company attaches a schedule of the sources of its income to its Federal income tax return and (iii) any incorrect information on the schedule is not due to fraud with intent to evade tax. It is not possible, however, to state whether in all circumstances the

Company would be entitled to the benefit of these relief provisions. For example, if the Company fails to satisfy the gross income tests because non-qualifying income that the Company intentionally incurs exceeds the limits on such income, the IRS could conclude that the Company's failure to satisfy the tests was not due to reasonable cause. As discussed above in " -- Federal Income Taxation of the Company," even if these relief provisions apply, a tax would be imposed with respect to the excess net income. No similar mitigation provision provides relief if the Company fails the 30% income test, and in such case, the Company would cease to qualify as a REIT.

**ASSET TESTS.** At the close of each quarter of its taxable year, the Company also must satisfy three tests relating to the nature and diversification of its assets. First, at least 75% of the value of the Company's total assets must be represented by real estate assets, including shares in other REITs, cash, cash items and government securities. Second, no more than 25% of the Company's total assets may be represented by securities other than those in the 75% asset class. Third, of the investments included in the 25% asset class, the value of any one issuer's securities owned by the Company may not exceed 5% of the value of the Company's total assets, and the Company may not own more than 10% of any one issuer's outstanding voting securities.

The 5% test must generally be met for any quarter in which the Company acquires securities of an issuer. Thus, this requirement must be satisfied not only on the date on which the Company acquired the securities of the Service Companies, but also each time the Company increases its ownership of their respective securities (including as a result of increasing its interest in the Operating Partnership as limited partners exercise their redemption rights). Although the Company plans to take steps to ensure that it satisfies the 5% value test for any quarter with respect to which retesting is to occur, there can be no assurance that such steps will always be successful or will not require a reduction in the Company's overall interest in either of the Service Companies.

The Operating Partnership owns 100% of the nonvoting stock and 1% of the voting stock of each of the Service Companies, and by virtue of its ownership of Units, the Company will be considered to own its pro rata share of such stock. See "The Company and the Operating Partnership". Neither the Company nor the Operating Partnership, however, will own more than 1% of the voting securities of either of the Service Companies. In addition, the Company and its senior management do not believe that the Company's pro rata share of the value of the securities of either of the Service Companies exceeds 5% of the total value of the Company's assets. The Company's belief is based in part upon its analysis of the estimated value of the securities of each of the Service Companies owned by the Operating Partnership relative to the estimated value of the other assets owned by the Operating Partnership. No independent appraisals will be obtained to support this conclusion, and Smith Helms Mulliss & Moore, L.L.P., in rendering its opinion as to the qualification of the Company as a REIT, is relying on the conclusions of the Company and its senior management as to the value of the securities of each of the Service Companies. There can be no assurance, however, that the IRS might not contend that the value of such securities held by the Company (through the Operating Partnership) exceeds the 5% value limitation.

After initially meeting the asset tests at the close of any quarter, the Company will not lose its status as a REIT for failure to satisfy the asset tests at the end of a later quarter solely by reason of changes in asset values. If the failure to satisfy the asset tests results from an acquisition of securities or other property during a quarter, the failure can be cured by disposition of sufficient non-qualifying assets within 30 days after the close of that quarter. The Company intends to maintain adequate records of the value of its assets to ensure compliance with the asset tests and to take such other actions within 30 days after the close of any quarter as may be required to cure any noncompliance.

**ANNUAL DISTRIBUTION REQUIREMENTS.** In order to be taxed as a REIT, the Company is required to distribute dividends (other than capital gain dividends) to its stockholders in an amount at least equal to (a) the sum of (i) 95% of the Company's "REIT taxable income" (computed without regard to the dividends-paid deduction and the Company's capital gain) and (ii) 95% of the net income, if any, from foreclosure property in excess of the special tax on income from foreclosure property, minus (b) the sum of certain items of non-cash income. Such distributions must be paid in the taxable year to which they relate, or in the following taxable year, if declared before the Company timely files its Federal income tax return for such year and if paid on or before the first regular dividend payment after such declaration. Even if the Company satisfies

the foregoing distribution requirements, to the extent that the Company does not distribute all of its net capital gain or "REIT taxable income" as adjusted, it will be subject to tax thereon at regular capital gains or ordinary corporate tax rates. Furthermore, if the Company should fail to distribute during each calendar year at least the sum of (a) 85% of its ordinary income for that year,

(b) 95% of its capital gain net income for that year and (c) any undistributed taxable income from prior periods, the Company would be subject to a 4% excise tax on the excess of such required distribution over the amounts actually distributed. In addition, during its Recognition Period, if the Company disposes of any asset subject to the Built-In Gain Rules, the Company will be required, pursuant to guidance issued by the IRS, to distribute at least 95% of the Built-In Gain (after tax), if any, recognized on the disposition of the asset.

The Company intends to make timely distributions sufficient to satisfy the annual distribution requirements. In this regard, the Operating Partnership Agreement authorizes the Company, as general partner, to take such steps as may be necessary to cause the Operating Partnership to distribute to its partners an amount sufficient to permit the Company to meet these distribution requirements.

It is expected that the Company's REIT taxable income will be less than its cash flow due to the allowance of depreciation and other non-cash charges in computing REIT taxable income. Accordingly, the Company anticipates that it will generally have sufficient cash or liquid assets to enable it to satisfy the 95% distribution requirement. It is possible, however, that the Company, from time to time, may not have sufficient cash or other liquid assets to meet the 95% distribution requirement or to distribute such greater amount as may be necessary to avoid income and excise taxation, due to timing differences between

(i) the actual receipt of income and the actual payment of deductible expenses and (ii) the inclusion of such income and the deduction of such expenses in arriving at taxable income of the Company, or as a result of nondeductible cash expenditures such as principal amortization or capital expenditures in excess of noncash deductions. In the event that such timing differences occur, the Company may find it necessary to arrange for borrowings or, if possible, pay taxable stock dividends in order to meet the distribution requirement.

Under certain circumstances, the Company may be able to rectify a failure to meet the distribution requirement for a year by paying "deficiency dividends" to shareholders in a later year, which may be included in the Company's deduction for dividends paid for the earlier year. Thus, the Company may be able to avoid being taxed on amounts distributed as deficiency dividends. The Company will, however, be required to pay interest based upon the amount of any deduction taken for deficiency dividends.

## **FAILURE TO QUALIFY**

If the Company fails to qualify for taxation as a REIT in any taxable year and the relief provisions do not apply, the Company will be subject to tax (including any applicable alternative minimum tax) on its taxable income at regular corporate rates. Distributions to shareholders in any year in which the Company fails to qualify will not be deductible by the Company nor will they be required to be made. In such event, to the extent of current or accumulated earnings and profits, all distributions to stockholders will be dividends, taxable as ordinary income, except that, subject to certain limitations of the Code, corporate distributees may be eligible for the dividends-received deduction. Unless the Company is entitled to relief under specific statutory provisions, the Company also will be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. It is not possible to state whether in all circumstances the Company would be entitled to such statutory relief. For example, if the Company fails to satisfy the gross income tests because non-qualifying income that the Company intentionally incurs exceeds the limit on such income, the IRS could conclude that the Company's failure to satisfy the tests was not due to reasonable cause.

## **TAXATION OF U.S. STOCKHOLDERS**

As used herein, the term "U.S. Stockholder" means a holder of Common Stock that (for Federal income tax purposes) (a) is a citizen or resident of the United States, (b) is a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof or (c) is an estate or trust, the income of which is subject to Federal income taxation regardless of its source. For any taxable year for which the Company qualifies for taxation as a REIT, amounts distributed to taxable U.S. Stockholders will be taxed as discussed below.

**DISTRIBUTIONS GENERALLY.** Distributions to U.S. Stockholders, other than capital gain dividends discussed below, will constitute dividends up to the amount of the Company's current or accumulated earnings and profits and, to that extent, will be taxable to the stockholders as ordinary income. These distributions are not eligible for the dividends-received deduction for corporations. To the extent that the Company makes a distribution in excess of its current or accumulated earnings and profits, the distribution will be treated first as a tax-free return of capital, reducing the tax basis in the U.S. Stockholder's Common Stock, and the distribution in excess of such basis will be taxable as gain realized from the sale of its Common Stock. Dividends declared by the Company in October, November or December of any year payable to a stockholder of record on a specified date in any such month shall be treated as both paid by the Company and received by the stockholders on December 31 of the year, provided that the dividends are actually paid by the Company during January of the following calendar year. Stockholders are not allowed to include on their own Federal income tax returns any tax losses of the Company.

The Company will be treated as having sufficient earnings and profits to treat as a dividend any distribution by the Company up to the amount required to be distributed in order to avoid imposition of the 4% excise tax discussed in " -- Federal Income Taxation of the Company" above. Moreover, any "deficiency dividend" will be treated as an ordinary or capital gain dividend, as the case may be, regardless of the Company's earnings and profits. As a result, stockholders may be required to treat certain distributions that would otherwise result in a tax-free return of capital as taxable dividends.

**CAPITAL GAIN DISTRIBUTIONS.** Distributions to U.S. Stockholders that are properly designated by the Company as capital gain distributions will be treated as long-term capital gains (to the extent they do not exceed the Company's actual net capital gain) for the taxable year without regard to the period for which the stockholder has held his stock. However, corporate stockholders may be required to treat up to 20% of certain capital gain dividends as ordinary income. Capital gain dividends are not eligible for the dividends-received deduction for corporations.

**PASSIVE ACTIVITY LOSS AND INVESTMENT INTEREST LIMITATIONS.** Distributions from the Company and gain from the disposition of Common Stock will not be treated as passive activity income, and therefore stockholders will not be able to apply any "passive losses" against such income. Dividends from the Company (to the extent they do not constitute a return of capital) will generally be treated as investment income for purposes of the investment interest limitation; net capital gain from the disposition of Common Stock or capital gain dividends generally will be excluded from investment income.

**CERTAIN DISPOSITIONS OF SHARES.** Losses incurred on the sale or exchange of Common Stock held for less than six months (after applying certain holding period rules) will be deemed long-term capital loss to the extent of any capital gain dividends received by the selling stockholder from those shares.

**TREATMENT OF TAX-EXEMPT STOCKHOLDERS.** Distributions from the Company to a tax-exempt employee pension trust or other domestic tax-exempt shareholder generally will not constitute "unrelated business taxable income" ("UBTI") unless the stockholder has borrowed to acquire or carry its Common Stock. Qualified trusts that hold more than 10% (by value) of the shares of certain REITs may be required to treat a certain percentage of such a REIT's distributions as UBTI. This requirement will apply only if (i) the REIT would not qualify as such for Federal income tax purposes but for the application of a "look-through" exception to the five or fewer requirement applicable to shares held by qualified trusts and (ii) the REIT is "predominantly held" by qualified trusts. A REIT is predominantly held if either (i) a single qualified trust holds more than 25% by value of the REIT interests or (ii) one or more qualified trusts, each owning more than 10% by value of the REIT interests, hold in the aggregate more than 50% of the REIT interests. The percentage of any REIT dividend treated as UBTI is equal to the ratio of (a) the UBTI earned by the REIT (treating the REIT as if it were a qualified trust and therefore subject to tax on UBTI) to (b) the total gross income (less certain associated expenses) of the REIT. A de minimis exception applies where the ratio set forth in the preceding sentence is less than 5% for any year. For these purposes, a qualified trust is any trust described in Section 401 (a) of the Code and exempt from tax under Section 501(a) of the Code. The provisions requiring qualified trusts to treat a portion of REIT distributions as UBTI will not apply if the REIT is able to satisfy the five or fewer requirement without relying upon the "look-through" exception. The restrictions on ownership of Common Stock in the Articles of Incorporation generally will prevent

application of the provisions treating a portion of REIT distributions as UBTI to tax-exempt entities purchasing Common Stock, absent a waiver of the restrictions by the Board of Directors.

## **SPECIAL TAX CONSIDERATIONS FOR NON-U.S. STOCKHOLDERS**

The rules governing United States income taxation of non-resident alien individuals, foreign corporations, foreign partnerships and foreign trusts and estates (collectively, "Non-U.S. Stockholders") are complex, and the following discussion is intended only as a summary of these rules. Prospective Non-U.S. Stockholders should consult with their own tax advisors to determine the impact of Federal, state and local income tax laws on an investment in the Company, including any reporting requirements.

In general, Non-U.S. Stockholders will be subject to regular Federal income tax with respect to their investment in the Company if the investment is "effectively connected" with the Non-U.S. Stockholder's conduct of a trade or business in the United States. A corporate Non-U.S. Stockholder that receives income that is (or is treated as) effectively connected with a U.S. trade or business may also be subject to the branch profits tax under Section 884 of the Code, which is payable in addition to regular United States Federal corporate income tax. The following discussion will apply to Non-U.S. Stockholders whose investment in the Company is not so effectively connected.

A distribution by the Company that is not attributable to gain from the sale or exchange by the Company of a United States real property interest and that is not designated by the Company as a capital gain distribution will be treated as an ordinary income dividend to the extent that it is made out of current or accumulated earnings and profits. Generally, any ordinary income dividend will be subject to a Federal income tax equal to 30% of the gross amount of the dividend unless this tax is reduced by an applicable tax treaty. Such a distribution in excess of the Company's earnings and profits will be treated first as a return of capital that will reduce a Non-U.S. Stockholder's basis in its Common Stock (but not below zero) and then as gain from the disposition of such shares, the tax treatment of which is described under the rules discussed below with respect to dispositions of Common Stock.

Distributions by the Company that are attributable to gain from the sale or exchange of a United States real property interest will be taxed to a Non-U.S. Stockholder under the Foreign Investment in Real Property Tax Act of 1980 ("FIRPTA"). Under FIRPTA, such distributions are taxed to a Non-U.S. Stockholder as if the distributions were gains "effectively connected" with a United States trade or business. Accordingly, a Non-U.S. Stockholder will be taxed at the normal capital gain rates applicable to a U.S. Stockholder (subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of non-resident alien individuals).

Although tax treaties may reduce the Company's withholding obligations, the Company generally will be required to withhold from distributions to Non-U.S. Stockholders, and remit to the IRS, (i) 35% of designated capital gain dividends (or, if greater, 35% of the amount of any distributions that could be designated as capital gain dividends) and (ii) 30% of ordinary dividends paid out of earnings and profits. In addition, if the Company designates prior distributions as capital gain dividends, subsequent distributions, up to the amount of such prior distributions, will be treated as capital gain dividends for purposes of withholding. A distribution in excess of the Company's earnings and profits will be subject to 30% dividend withholding. If the amount of tax withheld by the Company with respect to a distribution to a Non-U.S. Stockholder exceeds the stockholder's United States tax liability with respect to such distribution, the Non-U.S. Stockholder may file for a refund of such excess from the IRS.

Unless the Common Stock constitutes a "United States real property interest" within the meaning of FIRPTA, a sale of Common Stock by a Non-U.S. Stockholder generally will not be subject to Federal income taxation. The Common Stock will not constitute a United States real property interest if the Company is a "domestically controlled REIT." A domestically controlled REIT is a REIT in which at all times during a specified testing period less than 50% in value of its shares is held directly or indirectly by Non-U.S. Stockholders. It is currently anticipated that the Company will be a domestically controlled REIT and therefore that the sale of Common Stock will not be subject to taxation under FIRPTA. However, because the Common Stock will be publicly traded, no assurance can be given that the Company will continue to be a domestically controlled REIT. Notwithstanding the foregoing, capital gains not subject to FIRPTA will be taxable to a Non-U.S. Stockholder if the Non-U.S. Stockholder is a non-resident alien individual who is

present in the United States for 183 days or more during the taxable year and certain other conditions apply, in which case the non-resident alien individual will be subject to a 30% tax on his or her U.S. source capital gains. If the Company were not a domestically controlled REIT, whether a Non-U.S. Stockholder's sale of Common Stock would be subject to tax under FIRPTA as a sale of a United States real property interest would depend on whether the Common Stock were "regularly traded" on an established securities market (such as the New York Stock Exchange) on which the Common Stock will be listed and on the size of the selling stockholder's interest in the Company. If the gain on the sale of Common Stock were subject to taxation under FIRPTA, the Non-U.S. Stockholder would be subject to the same treatment as a U.S. Stockholder with respect to the gain (subject to applicable alternative minimum tax and a special alternative minimum tax in the case of non-resident alien individuals). In addition, distributions that are treated as gain from the disposition of Common Stock and that are subject to tax under FIRPTA also may be subject to a 30% branch profit tax when made to a foreign corporate stockholder that is not entitled to either a reduced rate or an exemption under a treaty. In any event, a purchaser of Common Stock from a Non-U.S. Stockholder will not be required to withhold under FIRPTA on the purchase price if the purchased Common Stock is "regularly traded" on an established securities market or if the Company is a domestically controlled REIT. Otherwise, under FIRPTA the purchaser of Common Stock from a Non-U.S. Stockholder may be required to withhold 10% of the purchase price and remit this amount to the IRS.

## **INFORMATION REPORTING REQUIREMENTS AND BACKUP WITHHOLDING TAX**

Under certain circumstances, U.S. Stockholders may be subject to backup withholding at a rate of 31% on payments made with respect to, or cash proceeds of a sale or exchange of, Common Stock. Backup withholding will apply only if the holder (i) fails to furnish his or her taxpayer identification number ("TIN") (which, for an individual, would be his or her Social Security Number), (ii) furnishes an incorrect TIN, (iii) is notified by the IRS that he or she has failed to report properly payments of interest and dividends or is otherwise subject to backup withholding or (iv) under certain circumstances, fails to certify, under penalties of perjury, that he or she has furnished a correct TIN and (a) that he or she has not been notified by the IRS that he or she is subject to backup withholding for failure to report interest and dividend payments or (b) that he or she has been notified by the IRS that he or she is no longer subject to backup withholding. Backup withholding will not apply with respect to payments made to certain exempt recipients, such as corporations and tax-exempt organizations.

U.S. Stockholders should consult their own tax advisors regarding their qualifications for exemption from backup withholding and the procedure for obtaining such an exemption. Backup withholding is not an additional tax. Rather, the amount of any backup withholding with respect to a payment to a U.S. Stockholder will be allowed as a credit against the U.S. Stockholder's United States Federal income tax liability and may entitle the U.S. Stockholder to a refund, provided that the required information is furnished to the IRS.

Additional issues may arise pertaining to information reporting and backup withholding for Non-U.S. Stockholders. Non-U.S. Stockholders should consult their tax advisors with regard to U.S. information reporting and backup withholding.

## **TAX ASPECTS OF THE OPERATING PARTNERSHIP**

**GENERAL.** Substantially all of the Company's investments are held through the Operating Partnership. In general, partnerships are "pass-through" entities which are not subject to Federal income tax. Rather, partners are allocated their proportionate shares of the items of income, gain, loss, deduction and credit of a partnership, and are potentially subject to tax thereon, without regard to whether the partners receive a distribution from the partnership. The Company includes in its income its proportionate share of the foregoing Operating Partnership items for purposes of the various REIT income tests and in the computation of its REIT taxable income. Moreover, for purposes of the REIT asset tests, the Company includes its proportionate share of assets held by the Operating Partnership.

**ENTITY CLASSIFICATION.** The Company's interest in the Operating Partnership involves special tax considerations, including the possibility of a challenge by the IRS of the status of the Operating Partnership as a partnership (as opposed to an association taxable as a corporation) for Federal income tax purposes. If the



Operating Partnership is treated as an association, it would be taxable as a corporation and therefore subject to an entity-level tax on its income. In such a situation, the character of the Company's assets and items of gross income would change, which would prevent the Company from qualifying as a REIT. See " -- Failure to Qualify" above for a discussion of the effect of the Company's failure to meet such tests for a taxable year. In addition, any change in the Operating Partnership's status for tax purposes might be treated as a taxable event in which case the Company might incur a tax liability without any related cash distributions.

An organization formed as a partnership will be treated as a partnership for Federal income tax purposes rather than as a corporation only if it has no more than two of the four corporate characteristics that the Treasury Regulations use to distinguish a partnership from a corporation for tax purposes. These four characteristics are (i) continuity of life, (ii) centralization of management, (iii) limited liability and (iv) free transferability of interests. The Operating Partnership has not requested, and does not intend to request, a ruling from the IRS that it will be treated as a partnership for Federal income tax purposes. Instead, in connection with the filing of the Registration Statement of which this Prospectus is a part, Smith Helms Mulliss & Moore, L.L.P. has delivered its opinion dated June 3, 1996 to the effect that based on the provisions of the Operating Partnership's partnership agreement (the "Partnership Agreement"), certain factual assumptions and certain representations described in the opinion, the Operating Partnership will be treated as a partnership for Federal income tax purposes. Smith Helms Mulliss & Moore, L.L.P. undertakes no obligation to update this opinion subsequent to such date. Unlike a private letter ruling, an opinion of counsel is not binding on the IRS, and no assurance can be given that the IRS will not challenge the status of the Operating Partnership as a partnership for Federal income tax purposes.

**TAX ALLOCATIONS WITH RESPECT TO THE PROPERTIES.** Pursuant to Section 704(c) of the Code, income, gain, loss and deduction attributable to appreciated or depreciated property (such as the Properties) that is contributed to a partnership in exchange for an interest in the partnership, must be allocated in a manner such that the contributing partner is charged with, or benefits from, respectively, the unrealized gain or unrealized loss associated with the property at the time of the contribution. The amount of such unrealized gain or unrealized loss is generally equal to the difference between the fair market value of contributed property at the time of contribution, and the adjusted tax basis of such property at the time of contribution (a "Book-Tax Difference"). Such allocations are solely for Federal income tax purposes and do not affect the book capital accounts or other economic or legal arrangements among the partners. The Operating Partnership was formed by way of contributions of appreciated property (including the Properties). Consequently, the Partnership Agreement requires such allocations to be made in a manner consistent with Section 704(c) of the Code.

In general, the partners who have contributed partnership interests in the Properties to the Operating Partnership (the "Contributing Partners") will be allocated lower amounts of depreciation deductions for tax purposes than such deductions would be if determined on a pro rata basis. In addition, in the event of the disposition of any of the contributed assets (including the Properties) which have a Book-Tax Difference, all income attributable to such Book-Tax Difference will generally be allocated to the Contributing Partners, and the Company will generally be allocated only its share of capital gains attributable to appreciation, if any, occurring after the closing of any offering of Securities. This will tend to eliminate the Book-Tax Difference over the life of the Operating Partnership. However, the special allocation rules of Section 704(c) do not always entirely eliminate the Book-Tax Difference on an annual basis or with respect to a specific taxable transaction such as a sale. Thus, the carryover basis of the contributed assets in the hands of the Operating Partnership will cause the Company to be allocated lower depreciation and other deductions, and possibly amounts of taxable income in the event of a sale of such contributed assets in excess of the economic or book income allocated to it as a result of such sale. This may cause the Company to recognize taxable income in excess of cash proceeds, which might adversely affect the Company's ability to comply with the REIT distribution requirements. See " -- Requirements for Qualification -- ANNUAL DISTRIBUTION REQUIREMENTS."

Treasury Regulations under Section 704(c) of the Code provide partnerships with a choice of several methods of accounting for Book-Tax Differences, including retention of the "traditional method" under current law, or the election of certain methods which would permit any distortions caused by a Book-Tax Difference to be entirely rectified on an annual basis or with respect to a specific taxable transaction such as a sale. The Operating Partnership and the Company have determined to use the "traditional method" for

accounting for Book-Tax Differences with respect to the Properties contributed to the Partnership. As a result of such determination, distributions to shareholders will be comprised of a greater portion of taxable income rather than a return of capital. The Operating Partnership and the Company have not determined which of the alternative methods of accounting for Book-Tax Differences will be elected with respect to Properties contributed to the Partnership in the future.

With respect to any property purchased by the Operating Partnership, such property will initially have a tax basis equal to its fair market value and

Section 704(c) of the Code will not apply.

**BASIS IN OPERATING PARTNERSHIP INTEREST.** The Company's adjusted tax basis in its interest in the Operating Partnership generally (i) will be equal to the amount of cash and the basis of any other property contributed to the Operating Partnership by the Company, (ii) will be increased by (a) its allocable share of the Operating Partnership's income and (b) its allocable share of indebtedness of the Operating Partnership and (iii) will be reduced, but not below zero, by the Company's allocable share of (a) losses suffered by the Operating Partnership, (b) the amount of cash distributed to the Company and (c) by constructive distributions resulting from a reduction in the Company's share of indebtedness of the Operating Partnership.

If the allocation of the Company's distributive share of the Operating Partnership's loss exceeds the adjusted tax basis of the Company's partnership interest in the Operating Partnership, the recognition of such excess loss will be deferred until such time and to the extent that the Company has an adjusted tax basis in its partnership interest. To the extent that the Operating Partnership's distributions, or any decrease in the Company's share of the indebtedness of the Operating Partnership (such decreases being considered a cash distribution to the partners), exceed the Company's adjusted tax basis, such excess distributions (including such constructive distributions) constitute taxable income to the Company. Such taxable income will normally be characterized as a capital gain, and if the Company's interest in the Operating Partnership has been held for longer than the long-term capital gains. Under current law, capital gains and ordinary income of corporations are generally taxed at the same marginal rates.

**SALE OF THE PROPERTIES.** The Company's share of gain realized by the Operating Partnership on the sale of any property held by the Operating Partnership as inventory or other property held primarily for sale to customers in the ordinary course of the Operating Partnership's trade or business will be treated as income from a prohibited transaction that is subject to a 100% penalty tax. See " -- Federal Income Taxation of the Company -- INCOME TESTS." Such prohibited transaction income may also have an adverse effect upon the Company's ability to satisfy the income tests for qualification as a REIT. Under existing law, whether property is held as inventory or primarily for sale to customers in the ordinary course of the Operating Partnership's trade or business is a question of fact that depends on all the facts and circumstances with respect to the particular transaction. The Operating Partnership intends to hold the Properties for investment with a view to long-term appreciation, to engage in the business of acquiring, developing, owning, and operating the Properties (and other properties) and to make such occasional sales of the Properties, including peripheral land, as are consistent with the Operating Partnership's investment objectives.

## **OTHER TAX CONSIDERATIONS**

**FEDERAL TAX ASPECTS OF THE CROCKER ACQUISITION.** Under the terms of the Merger Agreement, Cedar Acquisition Corporation ("Cedar"), a newly formed subsidiary of Highwoods, will merge into Crocker with Highwoods becoming the sole stockholder of Crocker. Highwoods intends to contribute the shares of common stock of Crocker to the Operating Partnership in exchange for limited partnership interests therein. As a result, Crocker would become a subsidiary of the Operating Partnership. Except for the Federal and state income taxes that might be payable upon the distribution of certain assets which will be distributed directly or indirectly to the stockholders of Crocker prior to the Merger (the "Excluded Assets"), which taxes are to be reimbursed to Crocker by the distributee stockholders, the Merger has been structured to defer any tax recognition to Crocker. To accomplish this, the Company intends to maintain Crocker's separate status as an operating REIT. To maintain Crocker's REIT status, the Company intends to cause Crocker to sell a sufficient amount of common stock to at least 110 individuals to enable Crocker to meet the test for qualification of a REIT under Section 856(a)(5) of the Code. The aggregate amount of common stock to be issued to such minority stockholders is not expected to exceed 1.0% of the equity of Crocker.

The Merger is a taxable purchase of 100% of the outstanding stock of Crocker, which will be taxable to the selling stockholders of Crocker but, except as described below relative to the Excluded Assets, will not be taxable at the Crocker corporate or subsidiary level. The Company's tax basis in its Crocker stock will be equal to the total cash it pays in the Merger for the Crocker stock, stock options and warrants. No gain or loss will result to the Company from the Merger. Following the Merger, the Company will transfer all of the stock of Crocker to the Operating Partnership in exchange for Units and the settlement of certain intercompany indebtedness that was used to finance the Merger. This transaction will be a nontaxable transfer of property to a partnership in exchange for ownership interests in the partnership. The Company's tax basis in the Units so acquired will be equal to its tax basis in the Crocker stock transferred to the Operating Partnership and no gain or loss should be realized by Crocker, the Company or the Operating Partnership as a result of this transaction.

The Company expects Crocker at all times to maintain its status as a REIT and to continue to be organized and operated so as to maintain its qualification as a REIT. Since the ownership of Crocker stock by the Operating Partnership is considered to be the ownership of a real estate asset for purposes of the REIT qualification tests and since distributions received from a REIT are income included in both the 95% and 75% income tests of Code Sections 856(c)(2) and (3), the Company's qualification as a REIT should not be affected by the acquisition and ownership of Crocker. If, however, Crocker fails to qualify as a REIT for any reason while its shares are owned by the Company or the Operating Partnership, the Company will no longer qualify as a REIT and the Company would be taxed as if it were a domestic corporation and its stockholders would be taxed in the same manner as stockholders of ordinary corporations. In that event, the Company could be subject to potentially significant tax liabilities and, therefore, the amount of cash available for distribution to its stockholders would be substantially reduced or eliminated.

The Company believes, and Crocker has represented that, commencing with Crocker's taxable year ended December 31, 1995, Crocker has operated in such a manner so as to meet the Code requirements for qualification as a REIT. Crocker's qualification as a REIT is a condition to the Company's obligation to consummate the Merger.

**SERVICE COMPANIES.** A portion of the amounts to be used to fund distributions to stockholders is expected to come from the Operating Partnership from distributions on stock of the Service Companies held by the Operating Partnership. Neither of the Service Companies will qualify as a REIT, and the Service Companies will pay Federal, state and local income taxes on their taxable incomes at normal corporate rates. Any Federal, state or local income taxes that the Service Companies are required to pay will reduce the cash available for distribution by the Company to its stockholders.

As described above, the value of the securities of each of the Service Companies held by the Company cannot exceed 5% of the value of the Company's assets at a time when a Unit holder in the Operating Partnership exercises his or her redemption right (or the Company otherwise is considered to acquire additional securities of either of the Service Companies). See " -- Federal Income Taxation of the Company." This limitation may restrict the ability of each of the Service Companies to increase the size of its respective business unless the value of the assets of the Company is increasing at a commensurate rate.

## **STATE AND LOCAL TAX**

The Company and its stockholders may be subject to state and local tax in various states and localities, including those in which it or they transact business, own property, or reside. The tax treatment of the Company and the stockholders in such jurisdictions may differ from the Federal income tax treatment described above. Consequently, prospective stockholders should consult their own tax advisors regarding the effect of state and local tax laws on an investment in the Common Stock of the Company.

## PLAN OF DISTRIBUTION

The Company and the Operating Partnership may sell the Securities to one or more underwriters for public offering and sale by them or may sell the Securities to investors directly or through agents. Any such underwriter or agent involved in the offer and sale of the Securities will be named in the applicable Prospectus Supplement.

Underwriters may offer and sell the Securities at a fixed price or prices, which may be changed, at prices related to the prevailing market prices at the time of sale or at negotiated prices. The Company and the Operating Partnership also may, from time to time, authorize underwriters acting as their agents to offer and sell the Securities upon the terms and conditions as are set forth in the applicable Prospectus Supplement. In connection with the sale of Securities, underwriters may be deemed to have received compensation from the Company or the Operating Partnership in the form of underwriting discounts or commissions and may also receive commissions from purchasers of Securities for whom they may act as agent. Underwriters may sell Securities to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agent.

Any underwriting compensation paid by the Company or the Operating Partnership to underwriters or agents in connection with the offering of Securities, and any discounts, concessions or commissions allowed by underwriters to participating dealers, are set forth in the applicable Prospectus Supplement. Underwriters, dealers and agents participating in the distribution of the Securities may be deemed to be underwriters, and any discounts and commissions received by them and any profit realized by them on resale of the Securities may be deemed to be underwriting discounts and commissions, under the Securities Act of 1933 (the "Securities Act"). Underwriters, dealers and agents may be entitled, under agreements entered into with the Company and the Operating Partnership, to indemnification against and contribution toward certain civil liabilities, including liabilities under the Securities Act.

If so indicated in the applicable Prospectus Supplement, the Company and the Operating Partnership will authorize dealers acting as their agents to solicit offers by certain institutions to purchase Securities from them at the public offering price set forth in such Prospectus Supplement pursuant to Delayed Delivery Contracts ("Contracts") providing for payment and delivery on the date or dates stated in such Prospectus Supplement. Each Contract will be for an amount not less than, and the aggregate principal amount of Securities sold pursuant to Contracts shall be not less nor more than, the respective amounts stated in the applicable Prospectus Supplement. Institutions with whom Contracts, when authorized, may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions, and other institutions but will in all cases be subject to the approval of the Company and the Operating Partnership. Contracts will not be subject to any conditions except (i) the purchase by an institution of the Securities covered by its Contracts shall not at the time of delivery be prohibited under the laws of any jurisdiction in the United States to which such institution is subject, and (ii) if the Securities are being sold to underwriters, the Company and the Operating Partnership shall have sold to such underwriters the total principal amount of the Securities less the principal amount thereof covered by Contracts.

Certain of the underwriters and their affiliates may be customers of, engage in transactions with and perform services for the Company and the Operating Partnership in the ordinary course of business.

## EXPERTS

The consolidated financial statements and schedule of Highwoods Properties, Inc., incorporated herein by reference from the Company's Annual Report (Form 10-K) for the year ended December 31, 1995, the Combined Statement of Revenue and Certain Expenses of TBC Parkway Plaza, Inc. for the year ended December 31, 1994, incorporated herein by reference from the Company's Current Report on Form 8-K, dated December 18, 1995, the Combined Statement of Revenue and Certain Expenses of the Acquired Properties for the year ended December 31, 1994, incorporated herein by reference from the Company's Current Report on Form 8-K, dated July 12, 1995 (as amended on Form 8-K/A on September 6, 1995), the Combined Statement of Revenue and Certain Expenses of Research Commons for the year ended December 31, 1994, incorporated herein by reference from the Company's Current Report on Form 8-K, dated February 10, 1995, the combined financial statements and schedule of Eakin & Smith for the year ended December 31, 1995, incorporated by reference from the Company's Current Report on Form 8-K/A dated April 1, 1996 as amended on June 3, 1996 and June 18, 1996 and the Historical Summary of Gross Income and Direct Operating Expenses for certain properties owned by Towermarc Corporation for the year ended December 31, 1995, incorporated herein by reference from the Company's Current Report on Form 8-K/A, dated April 29, 1996 as amended on June 3, 1996 and June 18, 1996 have been audited by Ernst & Young LLP, independent auditors, as set forth in their reports thereon included therein and incorporated herein by reference. Such financial statements are incorporated herein by reference in reliance upon such reports given upon the authority of such firm as experts in accounting and auditing.

The financial statements and schedule of Highwoods/Forsyth Limited Partnership at December 31, 1995 and for the period June 14, 1994 to December 31, 1994 and the year ended December 31, 1995 and the combined financial statements of the Highwoods Group at December 31, 1993 and for the period January 1, 1994 to June 13, 1994 and the year ended December 31, 1993 appearing in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their reports thereon appearing elsewhere herein and in the Registration Statement, and are included in reliance upon such reports given upon the authority of such firm as experts in accounting and auditing.

The combined financial statements and the schedule of real estate and accumulated depreciation of the Forsyth Group, incorporated herein by reference from the Company's Current Report on Form 8-K, dated February 10, 1995, have been audited by Deloitte & Touche LLP, independent auditors, as set forth in their report thereon included therein and incorporated herein by reference. Such financial statements are incorporated herein by reference in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

The financial statements of Crocker Realty Trust, Inc. as of December 31, 1995 and for the year then ended, the financial statements of Crocker & Sons, Inc. as of December 31, 1994 and for the year then ended, and the financial statements of Crocker Realty Investors, Inc. as of December 31, 1994 and 1993, and for the two years ended December 31, 1994, have been incorporated herein by reference from the Company's Current Report on Form 8-K/A dated April 29, 1996 as amended on June 3, 1996 and June 18, 1996, in reliance upon the reports of KPMG Peat Marwick LLP, independent certified public accountants, appearing elsewhere incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

The combined financial statements of Southeast Realty Corp., AP Southeast Portfolio Partners, L.P. and AP Fontaine III Partners, L.P. as of December 31, 1994 and for the year ended December 31, 1994, and the financial statements of AP Fontaine III Partners, L.P. for the period from October 28, 1993 (date of inception) through December 31, 1993 incorporated herein by reference from the Company's Current Report on Form 8-K/A dated April 29, 1996 as amended on June 3, 1996 and June 18, 1996, have been audited by Deloitte & Touche LLP, independent auditors, as set forth in their reports thereon included therein and incorporated herein by reference and are included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

The financial statements of AP Southeast Portfolio Partners, L.P. for the period from its date of inception (November 17, 1993) through December 31, 1993 incorporated herein by reference from the Company's Current Report on Form 8-K/A dated April 29, 1996 as amended on June 3, 1996 and June 18, 1996,

have been so included in reliance on the reports of Price Waterhouse LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

## **LEGAL MATTERS**

The validity of the Securities offered hereby is being passed upon for the Company and the Operating Partnership by Smith Helms Mulliss & Moore, L.L.P., Raleigh, North Carolina. Certain legal matters will be passed upon for any underwriters, dealers or agents by Andrews & Kurth L.L.P., Washington, D.C.

In addition, the description of Federal income tax consequences contained in this Prospectus entitled "Federal Income Tax Considerations" is based upon the opinion of Smith Helms Mulliss & Moore, L.L.P.

Smith Helms Mulliss & Moore, L.L.P. and Andrews & Kurth L.L.P. will rely as to matters of Maryland law on the opinion of Piper & Marbury L.L.P., Baltimore, Maryland.

NO DEALER, SALESPERSON OR OTHER INDIVIDUAL HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS NOT CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS IN CONNECTION WITH THE OFFER MADE BY THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS. IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR THE UNDERWRITERS. THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS DO NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, THE SHARES IN ANY JURISDICTION WHERE, OR TO ANY PERSON TO WHOM, IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE AN IMPLICATION THAT THERE HAS NOT BEEN ANY CHANGE IN THE FACTS SET FORTH IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS OR IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF.

## TABLE OF CONTENTS

	PAGE
PROSPECTUS SUPPLEMENT	
Prospectus Supplement Summary.....	S-3
Risk Factors.....	S-10
The Company.....	S-13
Recent Developments.....	S-15
Use of Proceeds.....	S-23
Price Range of Common Stock and Distribution History.....	S-23
Capitalization.....	S-24
Selected Financial Data.....	S-25
Business and Properties.....	S-26
Management.....	S-46
Underwriting.....	S-48
Legal Matters.....	S-49
Index to Pro Forma Financial Statements.....	F-1
PROSPECTUS	
Available Information.....	2
Incorporation of Certain Documents by Reference.....	2
The Company and the Operating Partnership.....	3
Risk Factors.....	4
Use of Proceeds.....	9
Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends.....	9
Description of Debt Securities.....	9
Description of Preferred Stock.....	23
Description of Depositary Shares.....	28
Description of Common Stock.....	31
Federal Income Tax Considerations.....	34
Plan of Distribution.....	45
Experts.....	46
Legal Matters.....	47

**10,000,000 SHARES**

**HIGHWOODS PROPERTIES, INC.**  
(HIGHWOODS LOGO)

**COMMON STOCK**

**PROSPECTUS SUPPLEMENT**

**MERRILL LYNCH & CO.**

**DEAN WITTER REYNOLDS INC.**

**MORGAN STANLEY & CO.**  
**INCORPORATED**

**PAINWEBBER INCORPORATED**

**PRUDENTIAL SECURITIES INCORPORATED**

**THE ROBINSON-HUMPHREY**

COMPANY, INC.

SCOTT & STRINGFELLOW, INC.

JUNE 20, 1996

---

**End of Filing**

Powered By **EDGAR**  
Online

© 2005 | EDGAR Online, Inc.