

# HIGHWOODS PROPERTIES INC

## FORM 10-K (Annual Report)

Filed 3/31/1999 For Period Ending 12/31/1998

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

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# FORM 10-K

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange  
Act of 1934

For the fiscal year ended December 31, 1998

OR

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934

For the transition period from to

*Commission file number 1-13100*

## HIGHWOODS PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Maryland	56-1871668
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3100 Smoketree Court, Suite 600  
Raleigh, N.C. 27604

(Address of principal executive offices) (Zip Code)

919-872-4924

(Registrant's telephone number, including area code)

### Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, \$.01 par value.....	New York Stock Exchange
8% Series B Cumulative Redeemable Preferred Shares .....	New York Stock Exchange
Depository Shares Each Representing a 1/10 Fractional Interest in an 8% Series D Cumulative Redeemable Preferred Share .....	New York Stock Exchange

### Securities registered pursuant to Section 12(g) of the Act:

NONE

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K. ☐

The aggregate market value of the shares of common stock held by non-affiliates (based upon the closing sale price on the New York Stock Exchange) on March 19, 1999 was \$1,428,822,630. As of March 19, 1999, there were 61,620,383 shares of common stock, \$.01 par value, outstanding.

## **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Proxy Statement in connection with its Annual Meeting of Shareholders to be held June 2, 1999 are incorporated by reference in Part III Items 10, 11, 12 and 13.

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# HIGHWOODS PROPERTIES, INC.

## TABLE OF CONTENTS

Item No.		Page No.
-----		-----
	PART I	
1.	Business .....	3
2.	Properties .....	10
3.	Legal Proceedings .....	15
4.	Submission of Matters to a Vote of Security Holders .....	15
X.	Executive Officers of the Registrant .....	16
	PART II	
5.	Market for Registrant's Common Stock and Related Stockholder Matters .....	17
6.	Selected Financial Data .....	18
7.	Management's Discussion and Analysis of Financial Condition and Results of Operations .....	20
7A.	Quantitative and Qualitative Disclosures About Market Risk .....	30
8.	Financial Statements and Supplementary Data .....	31
9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure .....	31
	PART III	
10.	Directors and Executive Officers of the Registrant .....	32
11.	Executive Compensation .....	32
12.	Security Ownership of Certain Beneficial Owners and Management .....	32
13.	Certain Relationships and Related Transactions .....	32
	PART IV	
14.	Exhibits, Financial Statement Schedules and Reports on Form 8-K .....	33

## PART I

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

### ITEM 1. BUSINESS

#### General

The Company is a self-administered and self-managed equity REIT that began operations through a predecessor in 1978. Originally founded to oversee the development, leasing and management of the 201-acre Highwoods Office Center in Raleigh, North Carolina, we have since evolved into one of the largest owners and operators of suburban office, industrial and retail properties in the southeastern and midwestern United States. At December 31, 1998, we

- o owned or had a majority interest in 658 in-service office, industrial and retail properties, encompassing approximately 44.6 million rentable square feet and 2,325 apartment units;

- o owned an interest (50% or less) in 18 in-service office and industrial properties, encompassing approximately 1.6 million rentable square feet;

- o owned 1,417 acres (and had agreed to purchase an additional 626 acres) of undeveloped land suitable for future development; and

- o were developing an additional 59 properties, which will encompass approximately 6.9 million rentable square feet.

The Company conducts substantially all of its activities through, and substantially all of its interests in the properties are held directly or indirectly by, the Operating Partnership. The Company is the sole general partner of the Operating Partnership. At December 31, 1998, the Company owned 86% of the Common Units in the Operating Partnership. Limited partners (including certain officers and directors of the Company) own the remaining Common Units. Holders of Common Units may redeem them for the cash value of one share of the Company's Common Stock or, at the Company's option, one share (subject to certain adjustments) of Common Stock.

We also provide leasing, property management, real estate development, construction and miscellaneous services for our properties as well as for third parties. We conduct our third-party, fee-based services through Highwoods Services, Inc., a subsidiary of the Operating Partnership, and through Highwoods/Tennessee Properties, Inc., a wholly owned subsidiary of the Company.

The Company was incorporated in Maryland in 1994. The Operating Partnership was formed in North Carolina in 1994. Our executive offices are located at 3100 Smoketree Court, Suite 600, Raleigh, North Carolina 27604, and our telephone number is (919) 872-4924. We maintain offices in each of our primary markets.

#### Operating Strategy

**Diversification.** Since the Company's initial public offering in 1994, we have significantly reduced our dependence on any particular market, property type or tenant. For example, our in-service portfolio has expanded from 41 North Carolina office properties (40 of which were in the Research Triangle area of North Carolina) to 676 office, industrial and retail properties and 2,325 apartment units in 20 markets in the Southeast and Midwest.

**Development and Acquisition Opportunities.** We generally seek to engage in the development of office and industrial projects in our existing geographic markets, primarily in suburban business parks. We intend to focus our development efforts on build-to-suit projects and projects where we have identified sufficient demand. In build-to-suit development, the building is significantly pre-leased to one

or more tenants prior to construction. Build-to-suit projects often foster strong long-term relationships with tenants, creating future development opportunities as the facility needs of tenants increase. We believe our commercially zoned and unencumbered development land in existing business parks is an advantage we have over many of our competitors in pursuing development opportunities.

We also seek to acquire selective suburban office and industrial properties in our existing geographic markets at prices below replacement cost that offer attractive returns. These would include acquisitions of underperforming, high-quality properties in our existing markets that offer us opportunities to improve such properties' operating performance.

**Managed Growth Strategy.** Our strategy has been to focus our real estate activities in markets where we believe our extensive local knowledge gives us a competitive advantage over other real estate developers and operators. As we expanded into new markets, we continued to maintain this localized approach by combining with local real estate operators with many years of development and management experience in their respective markets. Approximately three-quarters of our properties were either developed by us or are managed on a day-to-day basis by personnel who previously managed, leased and/or developed those properties before their acquisition by us.

Our development and acquisition activities also benefit from our local market presence and knowledge. Our property-level officers have on average more than 20 years of real estate experience in their respective markets. Because of this experience, we are in a better position to evaluate acquisition and development opportunities. In addition, our relationships with our tenants and those tenants at properties for which we conduct third-party, fee-based services may lead to development projects when these tenants seek new space.

**Efficient, Customer Service-Oriented Organization.** We provide a complete line of real estate services to our tenants and third parties. We believe that our in-house development, acquisition, construction management, leasing and management services allow us to respond to the many demands of our existing and potential tenant base. We provide our tenants cost-effective services such as build-to-suit construction and space modification, including tenant improvements and expansions. In addition, the breadth of our capabilities and resources provides us with market information not generally available. We believe that the operating efficiencies achieved through our fully integrated organization also provide a competitive advantage in setting our lease rates and pricing other services.

**Flexible and Conservative Capital Structure.** We are committed to maintaining a flexible and conservative capital structure that: (1) allows growth through development and acquisition opportunities; (2) promotes future earnings growth; and (3) provides access to the private and public equity and debt markets on favorable terms. Accordingly, we expect to meet our long-term liquidity requirements, including funding our existing and future development activity, through a combination of:

- o borrowings under our unsecured revolving credit facility;
- o the issuance of unsecured debt securities;
- o borrowings of secured debt;
- o the issuance of equity securities by both the Company and the Operating Partnership;
- o the selective disposition of non-core assets; and
- o the sale or contribution of certain of our wholly owned properties to strategic joint ventures to be formed with selected institutional investors.

## Recent Developments

Merger and Acquisition Activity. The following table summarizes the mergers and acquisitions completed during 1998:

Property	Location	Building Type (1)	Acquisition Closing Date	Rentable Square Feet	Initial Cost
(dollars in thousands)					
Stony Point	Richmond	O	01/21/98	117,000	\$ 12,750
Anchor Glass	Tampa	O	01/29/98	101,000	12,150
Garcia Portfolio	Tampa	O	02/04/98	1,233,000	108,000
Alston & Bird	Charlotte	O	02/13/98	45,000	7,650
215 South Monroe	Tallahassee	O	02/19/98	158,000	19,500
Sunset Station	Miami	O	03/02/98	64,000	8,250
Landmark I & II	Orlando	O	03/18/98	456,000	70,000
Triad Crow Portfolio	Atlanta	O	03/26/98	471,000	63,930
University Research Center	Charlotte	O	03/27/98	148,000	16,050
BTI Corporate Center	Research Triangle	O	03/27/98	163,000	19,950
4601 Park Square	Charlotte	O	04/09/98	120,000	10,376
Merrill Lynch Building	Baltimore	O	04/14/98	137,000	14,196
Clark Building	Baltimore	O	04/16/98	110,000	9,897
Harrison Park	Ft. Lauderdale	O/I	04/17/98	643,000	34,000
770 Pelham Road	Greenville	O	04/24/98	39,000	3,482
4000 Old Court Road	Baltimore	O	04/28/98	42,000	6,024
Mallard Creek	Charlotte	O	05/13/98	143,000	12,500
Bayshore	Tampa	O	05/21/98	84,000	12,500
Shelton Portfolio	Piedmont Triad/Charlotte	O/I	05/22/98	4,583,000	162,000
Idlewild	Tampa	O	07/01/98	77,000	4,473
J.C. Nichols Portfolio	Kansas City/Des Moines	O/I/R/M	07/13/98	5,700,000	544,000
Sandlake	Orlando	O	07/21/98	42,000	5,050
Horizon One	Hollywood	O	07/27/98	100,000	7,000
Countryside Place	Clearwater	O	07/30/98	54,000	4,500
Brandywine	Tampa	O/I	08/24/98	76,000	3,900
				-----	-----
				14,906,000	\$1,172,128
				=====	=====

(1) O = Office I = Industrial R = Retail M = Multifamily

J.C. Nichols Transaction. On July 13, 1998, we completed our previously reported merger with J.C. Nichols Company, a Missouri real estate operating company, pursuant to a merger agreement dated December 22, 1997, and amended on April 29, 1998. Prior to consummation of the transaction, J.C. Nichols had been subject to the information requirements of the Securities Exchange Act of 1934 and, in accordance therewith, filed reports and other information with the SEC. As a result of the transaction, we own or have an ownership interest in 57 office, industrial and retail properties and 17 multifamily communities in the Kansas City metropolitan area. Also as a result of the transaction, we have an ownership interest in 22 office and industrial properties and one multifamily community in the Des Moines, Iowa, area.

Under the terms of the merger agreement, the Company acquired all of the outstanding common stock, \$.01 par value, of J.C. Nichols. Under the merger agreement, J.C. Nichols shareholders were entitled to receive either 2.03 shares of the Company's Common Stock or \$65 in cash for each share of J.C. Nichols common stock. However, the merger agreement limited the aggregate cash payment to J.C.

Nichols shareholders to 40% of the total consideration. The exchange ratio reflects the average closing price of the Company's Common Stock over the 20 trading days preceding the closing date of the transaction. The transaction was valued at approximately \$544 million and consisted of the issuance of approximately 5.63 million shares of the Company's Common Stock, the assumption of approximately \$229 million of debt, the incurrence of approximately \$15 million in transaction costs and a cash payment of approximately \$120 million, net of cash acquired of approximately \$59 million.

## Joint Venture and Disposition Activity

For a discussion of our joint venture and disposition activity, see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Recent Developments."

## Development Activity

The following table summarizes the 19 development projects placed in service during 1998:

### Placed In Service

Name	Location	Building Type	Month Placed in Service	Number of Properties	Rentable Square Feet	Initial Cost (1)
(dollars in thousands)						
Newpoint Place .....	Atlanta	I	Jan-98	1	119,000	\$ 4,605
Rexwoods Center V .....	Research Triangle	O	Jan-98	1	60,000	7,251
Airport Center II .....	Richmond	I	Mar-98	1	72,000	3,274
Colonnade .....	Memphis	O	Apr-98	1	89,000	9,296
Harpeth On The Green V .....	Nashville	O	Apr-98	1	65,000	6,228
Lakeview Ridge II .....	Nashville	O	Apr-98	1	61,000	5,854
Highwoods Five .....	Richmond	O	Apr-98	1	71,000	6,585
Air Park South Warehouse I .....	Piedmont Triad	I	May-98	1	100,000	3,077
ClinTrials Research .....	Research Triangle	O	Jun-98	1	178,000	17,943
Markel-American .....	Richmond	O	Jun-98	1	106,000	10,386
RMIC .....	Piedmont Triad	O	Jun-98	1	90,000	7,225
Southpointe .....	Nashville	O	Jun-98	1	104,000	9,616
Network Construction .....	Piedmont Triad	O	Jul-98	1	13,000	733
BB&T .....	Greenville	O	Sep-98	1	71,000	5,338
2400 Century Center .....	Atlanta	O	Sep-98	1	135,000	14,921
Automatic Data Processing .....	Baltimore	O	Oct-98	1	110,000	12,200
Sabal Pavilion Phase I .....	Tampa	O	Oct-98	1	121,000	8,609
Southwind Building C .....	Memphis	O	Dec-98	1	74,000	5,764
Hard Rock Cafe .....	Orlando	O	Dec-98	1	63,000	5,217
				-	-	-
Total .....				19	1,702,000	\$144,122
				==	=====	=====

(1) Initial Cost includes estimated amounts required to complete the project, including tenant improvement costs.



We had 47 suburban office properties, 10 industrial properties and two retail properties under development totaling 6.9 million rentable square feet of office and industrial space at December 31, 1998. The following table summarizes these development projects as of December 31, 1998:

### In-process

Name	Location	Rentable Square Feet	Estimated Costs	Cost at 12/31/98	Pre-Leasing Percentage (1)	Estimated Completion	Estimated Stabilization (2)
(dollars in thousands)							
Office:							
Highwoods Center I @ Tradeport	Atlanta	45,000	\$ 3,717	\$ 1,610	100%	1Q99	1Q99
Highwoods Center II @ Tradeport	Atlanta	53,000	4,825	650	56	4Q99	2Q00
Peachtree Corner	Atlanta	109,000	9,238	2,114	0	4Q99	3Q00
Highwoods I	Baltimore	125,000	15,300	2,973	0	2Q99	4Q99
Mallard Creek V	Charlotte	118,000	12,262	3,289	0	4Q99	4Q00
Parkway Plaza 11	Charlotte	32,000	2,600	1,946	58	1Q99	3Q99
Parkway Plaza 12	Charlotte	22,000	1,800	1,282	0	1Q99	4Q99
Parkway Plaza 14	Charlotte	90,000	7,690	1,834	53	2Q99	1Q00
Lakefront Plaza I	Hampton Roads	76,000	7,477	2,977	20	2Q99	1Q00
Belfort Park C1	Jacksonville	54,000	4,830	1,028	0	3Q99	2Q00
Belfort Park C2	Jacksonville	31,000	2,730	907	0	3Q99	2Q00
Velencia Place	Kansas City	241,000	34,020	6,814	41	1Q00	1Q00
Southwind Building D	Memphis	64,000	6,800	1,918	20	2Q99	4Q99
Caterpillar Financial Center	Nashville	313,000	54,000	12,255	77	1Q00	2Q00
Lakeview Ridge III	Nashville	131,000	13,100	6,813	88	2Q99	2Q99
Westwood South	Nashville	125,000	13,530	5,345	53	3Q99	1Q00
C N A Maitland III	Orlando	78,000	9,885	2,703	100	2Q99	2Q99
Capital Plaza	Orlando	341,000	53,000	9,223	30	1Q00	4Q01
Concourse Center One	Piedmont Triad	86,000	8,400	3,781	25	2Q99	1Q00
3737 Glenwood Avenue	Research Triangle	107,000	16,700	5,287	56	3Q99	1Q00
4101 Research Commons	Research Triangle	73,000	9,311	1,691	35	3Q99	2Q00
Capital One Bldg 1	Richmond	124,000	13,728	395	100	2Q99	2Q99
Capital One Bldg 2	Richmond	46,000	4,752	--	100	3Q99	3Q99
Capital One Bldg 3	Richmond	124,000	13,728	--	100	4Q99	4Q99
Eastshore II	Richmond	76,000	7,842	6,976	100	1Q99	2Q99
Highwoods Common	Richmond	49,000	4,840	2,912	100	2Q99	2Q99
Stony Point II	Richmond	133,000	13,881	8,700	35	2Q99	4Q99
Highwoods Square	South Florida	93,000	12,500	7,266	42	1Q99	4Q99
Sportsline USA	South Florida	80,000	10,000	2,576	100	3Q99	3Q99
Intermedia Building 1	Tampa	200,000	27,040	204	100	1Q00	1Q00
Intermedia Building 2	Tampa	30,000	4,056	39	100	1Q00	1Q00
Intermedia Building 3	Tampa	170,000	22,984	44	100	1Q00	1Q00
Intermedia Building 4	Tampa	200,000	29,219	--	100	2Q00	2Q00
Intermedia Building 5	Tampa	200,000	29,219	--	100	3Q01	3Q01
Interstate Corporate Center(3)	Tampa	325,000	15,600	14,862	90	1Q99	2Q99
Lakepoint II	Tampa	225,000	34,106	3,060	52	4Q99	4Q00
-----							
In-Process Office Total or Weighted Average		4,389,000	\$534,710	\$123,474	63%		
		=====	=====	=====	===		

(1) Includes the effect of letters of intent.

(2) We generally consider a development project to be stabilized upon the earlier of the first date such project is at least 95% occupied or one year from the date of completion.

(3) Redevelopment project.

In-process continued Name	Location
-----	
Industrial:	
Bluegrass Lakes I	Atlanta
Chastain III	Atlanta
Newpoint II	Atlanta
Air Park South	
Warehouse VI	Piedmont Triad
HIW Distribution Center	Richmond
In-Process Industrial Total or Weighted Average	
Retail:	
Seville Square	Kansas City
Valencia Place	Kansas City
In-Process Retail Total or Weighted Average	
Total or Weighted Average of all In-Process Development Projects	
-----	

(1) Includes the effect of letters of intent.

(2) We generally consider a development project to be stabilized upon the earlier of the first date such project is at least 95% occupied or one year from the date of completion.

Name	Rentable Square Feet	Estimated Costs	Cost at 12/31/98
-----			
(dollars in thousands)			
Industrial:			
Bluegrass Lakes I	112,000	\$ 4,700	\$ 2,999
Chastain III	54,000	2,098	1,753
Newpoint II	131,000	5,167	1,767
Air Park South			
Warehouse VI	189,000	8,000	5,537
HIW Distribution Center	166,000	5,764	6,495
	-----	-----	-----
In-Process Industrial Total or Weighted Average	652,000	\$ 25,729	\$ 18,551
	=====	=====	=====
Retail:			
Seville Square	119,000	\$ 32,100	\$ 20,393
Valencia Place	81,000	14,362	--
	-----	-----	-----
In-Process Retail Total or Weighted Average	200,000	\$ 46,462	\$ 20,393
	=====	=====	=====
Total or Weighted Average of all In-Process Development Projects	5,241,000	\$606,901	\$162,418
	=====	=====	=====

(1) Includes the effect of letters of intent.

(2) We generally consider a development project to be stabilized upon the earlier of the first date such project is at least 95% occupied or one year from the date of completion.

Name	Pre-Leasing Percentage (1)	Estimated Completion
-----		
(dollars in thousands)		
Industrial:		
Bluegrass Lakes I	100%	1Q99
Chastain III	100	4Q98
Newpoint II	27	3Q99
Air Park South		
Warehouse VI	100	1Q99
HIW Distribution Center	23	1Q99
	---	
In-Process Industrial Total or Weighted Average	66%	
	===	
Retail:		
Seville Square	75%	2Q99
Valencia Place	50	1Q00
	---	
In-Process Retail Total or Weighted Average	65%	
	===	
Total or Weighted Average of all In-Process Development Projects	64%	
	===	

(1) Includes the effect of letters of intent.

(2) We generally consider a development project to be stabilized upon the earlier of the first date such project is at least 95% occupied or one year from the date of completion.

Name	Estimated Stablization (2)
	(dollars in thousands)
Industrial:	
Bluegrass Lakes I	1Q99
Chastain III	1Q99
Newpoint II	2Q00
Air Park South	
Warehouse VI	1Q99
HIW Distribution Center	4Q99
In-Process Industrial Total or Weighted Average	
Retail:	
Seville Square	3Q99
Valencia Place	1Q00
In-Process Retail Total or Weighted Average	
Total or Weighted Average of all In-Process Development Projects	

(1) Includes the effect of letters of intent.

(2) We generally consider a development project to be stabilized upon the earlier of the first date such project is at least 95% occupied or one year from the date of completion.

### Completed-Not Stabilized

Name	Location
Office:	
Ridgefield III	Asheville
10 Glenlakes	Atlanta
Patewood VI	Greenville
Cool Springs I	Nashville
C N A Maitland I	Orlando
C N A Maitland II	Orlando
Highwoods Centre	Research Triangle
Overlook	Research Triangle
Red Oak	Research Triangle
Situs II	Research Triangle
Highwoods Centre	Research Triangle
Completed-Not Stabilized Office	Hampton Roads
Total or Weighted Average	
Industrial:	
Chastain II	Atlanta
Newpoint III	Atlanta
Tradeport 1	Atlanta
Tradeport 2	Atlanta
Air Park South	
Warehouse II	Piedmont Triad
Completed-Not Stabilized Industrial	
Total or Weighted Average	
Total or Weighted Average of all Completed-Not Stabilized Development Projects	
Total or Weighted Average of all Development Projects	

(1) Includes the effect of letters of intent.

(2) We generally consider a development project to be stabilized upon the earlier of the first date such project is at least 95% occupied or one year from the date of completion.

Name	Rentable Square Feet	Estimated Costs	Cost at 12/31/98
	(dollars in thousands)		
Office:			
Ridgefield III	57,000	\$ 5,500	\$ 4,870
10 Glenlakes	254,000	35,100	23,560
Patewood VI	107,000	11,400	10,203
Cool Springs I	153,000	16,800	13,778
C N A Maitland I	180,000	24,400	19,450
C N A Maitland II	50,000	4,950	4,670
Highwoods Centre	76,000	8,300	7,673
Overlook	97,000	10,500	8,070
Red Oak	65,000	6,000	4,125
Situs II	59,000	6,300	5,504
Highwoods Centre	98,000	9,925	7,473
	-----	-----	-----
Completed-Not Stabilized Office			
Total or Weighted Average	1,196,000	\$139,175	\$109,376
	=====	=====	=====
Industrial:			
Chastain II	67,000	2,602	2,502
Newpoint III	84,000	3,000	3,463

Tradeport 1	87,000	3,100	2,529
Tradeport 2	87,000	3,100	2,529
Air Park South			
Warehouse II	136,000	4,200	3,012
Completed-Not Stabilized Industrial			
Total or Weighted Average	461,000	\$ 16,002	\$ 14,035
	=====	=====	=====
Total or Weighted Average of			
all Completed-Not Stabilized			
Development Projects	1,657,000	\$155,177	\$123,411
	=====	=====	=====
Total or Weighted Average of			
all Development Projects	6,898,000	\$762,078	\$285,829
	=====	=====	=====

-----  
(1) Includes the effect of letters of intent.

(2) We generally consider a development project to be stabilized upon the earlier of the first date such project is at least 95% occupied or one year from the date of completion.

Name	Percent leased/ Pre-leased (1)	Completion
	(dollars in thousands)	
Office:		
Ridgefield III	37%	3Q98
10 Glenlakes	75	4Q98
Patewood VI	92	3Q98
Cool Springs I	50	3Q98
C N A Maitland I	100	4Q98
C N A Maitland II	100	3Q98
Highwoods Centre	93	4Q98
Overlook	88	4Q98
Red Oak	75	4Q98
Situs II	77	3Q98
Highwoods Centre	50	4Q98
	---	
Completed-Not Stabilized Office		
Total or Weighted Average	77%	
	===	
Industrial:		
Chastain II	100%	3Q98
Newpoint III	100	4Q98
Tradeport 1	71	3Q98
Tradeport 2	72	3Q98
Air Park South		
Warehouse II	100	4Q98
	---	
Completed-Not Stabilized Industrial		
Total or Weighted Average	89%	
	===	
Total or Weighted Average of		
all Completed-Not Stabilized		
Development Projects	80%	
	===	
Total or Weighted Average of		
all Development Projects	67%	
	===	

-----  
(1) Includes the effect of letters of intent.

(2) We generally consider a development project to be stabilized upon the earlier of the first date such project is at least 95% occupied or one year from the date of completion.

Name	Estimated Stabilization (2)
	(dollars in thousands)
Office:	
Ridgefield III	4Q99
10 Glenlakes	4Q99
Patewood VI	1Q99
Cool Springs I	2Q99
C N A Maitland I	1Q99
C N A Maitland II	1Q99
Highwoods Centre	1Q99
Overlook	2Q99
Red Oak	2Q99
Situs II	2Q99
Highwoods Centre	4Q99
Completed-Not Stabilized Office	
Total or Weighted Average	
Industrial:	
Chastain II	1Q99
Newpoint III	1Q99
Tradeport 1	1Q99
Tradeport 2	2Q99
Air Park South	
Warehouse II	3Q99

Completed-Not Stabilized Industrial  
Total or Weighted Average  
Total or Weighted Average of  
all Completed-Not Stabilized  
Development Projects  
Total or Weighted Average of  
all Development Projects  
-----

(1) Includes the effect of letters of intent.

(2) We generally consider a development project to be stabilized upon the earlier of the first date such project is at least 95% occupied or one year from the date of completion.

## Development Analysis

	Rentable Square Feet	Estimated Costs	Pre-Leasing Percentage (1)
	(dollars in thousands)		
Summary By Estimated Stabilization Date:			
First Quarter 1999	1,051,000	\$ 76,267	96%
Second Quarter 1999	1,244,000	107,695	85
Third Quarter 1999	413,000	53,652	90
Fourth Quarter 1999	1,136,000	120,298	46
First Quarter 2000	1,206,000	156,259	62
Second Quarter 2000	855,000	110,082	62
Third Quarter 2000	109,000	9,238	--
Fourth Quarter 2000	343,000	46,368	34
Third Quarter 2001	200,000	29,219	100
Fourth Quarter 2001	341,000	53,000	30
	-----	-----	---
Total or Weighted Average	6,898,000	\$762,078	67%
	=====	=====	===
Summary by Market:			
Asheville	57,000	\$ 5,500	37%
Atlanta	1,083,000	76,647	68
Baltimore	125,000	15,300	--
Charlotte	262,000	24,352	25
Greenville	107,000	11,400	92
Hampton Roads	174,000	17,402	37
Jacksonville	85,000	7,560	--
Kansas City	441,000	80,482	52
Memphis	64,000	6,800	20
Nashville	722,000	97,430	69
Orlando	649,000	92,235	63
Piedmont Triad	411,000	20,600	84
Research Triangle	477,000	57,111	70
Richmond	718,000	64,535	70
South Florida	173,000	22,500	69
Tampa	1,350,000	162,224	90%
	-----	-----	---
Total or Weighted Average	6,898,000	\$762,078	67%
	=====	=====	===
Build-to-suit	1,432,000	\$189,011	100%
Multi-tenant	5,466,000	573,067	59
	-----	-----	---
Total or Weighted Average	6,898,000	\$762,078	67%
	=====	=====	===
	Average Rentable Square Feet	Average Estimated Costs	Average Pre- Leasing(1)
	-----	-----	-----
Average Per Property Type:			
Office	118,830	\$ 14,338	66%
Industrial	111,300	4,173	75
Retail	100,000	23,231	65
	-----	-----	-----
Weighted Average	116,915	\$ 12,917	67%
	=====	=====	=====

(1) Includes the effect of letters of intent.

### Competition

Our properties compete for tenants with similar properties located in our markets primarily on the basis of location, rent charged, services provided and the design and condition of the facilities. We also compete with other REITs, financial institutions, pension funds, partnerships, individual investors and others when attempting to acquire and develop properties.

### Employees

As of December 31, 1998, the Company employed 691 persons, as compared to 476 at December 31, 1997. As of December 31, 1998, the Operating Partnership employed 609 persons, as compared to 468 persons at December 31, 1997. These increases are primarily a result of our expansion within our existing markets and into the Kansas City metropolitan area and Des Moines, Iowa.

## ITEM 2. PROPERTIES

### General

As of December 31, 1998, we owned or had a majority interest in 658 in-service office, industrial and retail properties, encompassing approximately 44.6 million rentable square feet and 2,325 apartment units. The following table sets forth certain information about our majority-owned in-service properties at December 31, 1998 in each of our 20 markets:

	Rentable Square Feet (1)	Occupancy (2)	Percentage of December 1998 Rental Revenue				Total
			Office	Industrial	Retail	Multi-Family	
Research Triangle .....	5,095,000	92%	12.6%	0.3%	--	--	12.9%
Tampa .....	4,651,000	92	11.2	0.4	--	--	11.6
Kansas City .....	3,052,000 (3)	93	3.0	0.3	4.8%	3.1%	11.2
Atlanta .....	5,495,000	94	8.2	2.0	--	--	10.2
Piedmont Triad .....	9,069,000	97	5.7	4.3	--	--	10.0
South Florida .....	3,182,000	92	8.1	0.6	--	--	8.7
Orlando .....	2,546,000	94	6.3	--	--	--	6.3
Nashville .....	2,052,000	93	5.0	0.6	--	--	5.6
Richmond .....	1,633,000	93	3.8	0.2	--	--	4.0
Charlotte .....	2,043,000	95	3.4	0.5	--	--	3.9
Jacksonville .....	1,482,000	93	3.2	--	--	--	3.2
Greenville .....	1,113,000	95	2.4	0.2	--	--	2.6
Memphis .....	779,000	98	2.6	--	--	--	2.6
Baltimore .....	763,000	95	2.1	--	--	--	2.1
Des Moines .....	410,000	97	1.2	--	--	0.6	1.8
Tallahassee .....	410,000	97	1.2	--	--	--	1.2
Columbia .....	425,000	96	1.2	--	--	--	1.2
Hampton Roads .....	266,000	98	0.4	0.1	--	--	0.5
Asheville .....	124,000	100	0.2	0.1	--	--	0.3
Ft. Myers .....	52,000	64	0.1	--	--	--	0.1
	-----	---	----	----	----	----	-----
	44,642,000 (3)	94%	81.9%	9.6%	4.8%	3.7%	100.0%
	=====	===	====	====	====	====	=====

(1) Excludes 1,907 apartment units in Kansas City and 418 apartment units in Des Moines.

(2) Excludes Kansas City's apartment units occupancy of 96% and Des Moines' apartment units occupancy of 99%.

(3) Excludes 572,000 square feet of basement space.

The following table sets forth certain information about the portfolio of our majority-owned in-service and development properties as of December 31, 1998 and 1997:

	December 31, 1998		December 31, 1997	
	Rentable Square Feet	Percent Leased/ Pre-Leased	Rentable Square Feet	Percent Leased/ Pre-leased
In-Service				
Office .....	31,110,000	94%	23,842,000	94%
Industrial .....	11,871,000	93	6,879,000	93
Retail .....	1,661,000	92	--	--
	-----	--	-----	--
Total .....	44,642,000	94%	30,721,000	94%
	=====	==	=====	==
Under Development				
Completed -- Not Stabilized				
Office .....	1,196,000	77%	--	--
Industrial .....	461,000	89	--	--
Retail .....	--	--	--	--
	-----	--	-----	--
Total .....	1,657,000	80%	--	--
	=====	==	=====	==
In Process				
Office .....	4,389,000	63%	2,688,000	43%
Industrial .....	652,000	66	585,000	26
Retail .....	200,000	65	--	--
	-----	--	-----	--
Total .....	5,241,000	64%	3,273,000	40%
	=====	==	=====	==
Total				
Office .....	36,695,000		26,530,000	
Industrial .....	12,984,000		7,464,000	
Retail .....	1,861,000		--	
	-----		-----	
Total .....	51,540,000		33,994,000	
	=====		=====	

#### Tenants

The following table sets forth information concerning the 20 largest tenants of our majority-owned in-service properties as of December 31, 1998:

Tenant	Number of Leases	Annualized Rental Revenue (1)	Percent of Total Annualized Rental Revenue
-----			
		(dollars in thousands)	
1. IBM .....	15	\$ 14,422	2.6%
2. Federal Government .....	64	13,991	2.5
3. Bell South .....	56	9,693	1.8
4. The Racal Corporation .....	12	6,878	1.2
5. US Airways .....	9	6,513	1.2
6. AT&T .....	7	6,462	1.2
7. State of Florida .....	27	6,341	1.1
8. Northern Telecom Inc. ....	3	5,193	0.9
9. Sara Lee .....	10	4,953	0.9
10. Sprint .....	18	4,722	0.9
11. NationsBank .....	27	4,606	0.8
12. Intermedia Communications .....	17	4,361	0.8
13. PricewaterhouseCoopers .....	6	3,793	0.7
14. MCI Worldcom .....	28	3,693	0.7
15. GTE .....	8	3,688	0.7
16. Prudential .....	20	3,632	0.7
17. Blue Cross & Blue Shield of NC .....	8	3,343	0.6
18. Travelers .....	5	3,122	0.6
19. Lockheed Martin Corporation .....	2	2,949	0.5
20. ClinTrials Research .....	1	2,790	0.5
	--	-----	----
Total .....	343	\$115,145	20.9%
	===	=====	=====

(1) Annualized Rental Revenue is December 1998 rental revenue (base rent plus operating expense pass-throughs) multiplied by 12.



The following tables set forth certain information about leasing activities at our majority-owned in-service properties (excluding apartment units) for the years ended December 31, 1998, 1997 and 1996.

	1998			
	Office	Industrial	Retail	
Net Effective Rents Related to Re-Leased Space:				
Number of lease transactions (signed leases) .....	1,042	207	26	
Rentable square footage leased .....	5,004,005	1,400,108	66,964	
Average per rentable square foot over the lease term:				
Base rent .....	\$ 16.00	\$ 5.81	\$ 14.81	
Tenant improvements .....	( 0.81)	(0.26)	( 0.82)	
Leasing commissions .....	( 0.35)	(0.12)	( 0.58)	
Rent concessions .....	( 0.03)	(0.00)	( 0.26)	
Effective rent .....	\$ 14.81	\$ 5.43	\$ 13.15	
Expense stop (1) .....	( 4.25)	(0.37)	( 0.84)	
Equivalent effective net rent .....	\$ 10.56	\$ 5.06	\$ 12.31	
Average term in years .....	5	3	6	
Rental Rate Trends:				
Average final rate with expense pass-throughs .....	\$ 14.12	\$ 5.39	\$ 10.35	
Average first year cash rental rate .....	\$ 15.12	\$ 5.58	\$ 12.41	
Percentage increase .....	7.08%	3.53%	19.9 %	
Capital Expenditures Related to Re-leased Space:				
Tenant Improvements:				
Total dollars committed under signed leases .....	\$19,144,349	\$1,226,526	\$340,620	
Rentable square feet .....	5,004,005	1,400,108	66,964	
Per rentable square foot .....	\$ 3.83	\$ 0.88	\$ 5.09	
Leasing Commissions:				
Total dollars committed under signed leases .....	\$ 8,348,495	\$ 558,840	\$222,315	
Rentable square feet .....	5,004,005	1,400,108	66,964	
Per rentable square foot .....	\$ 1.67	\$ 0.40	\$ 3.32	
Total:				
Total dollars committed under signed leases .....	\$27,492,844	\$1,785,367	\$562,935	
Rentable square feet .....	5,004,005	1,400,108	66,964	
Per rentable square foot .....	\$ 5.49	\$ 1.28	\$ 8.41	
	1997	1996		
	Office	Industrial	Office	Industrial
Net Effective Rents Related to Re-Leased Space:				
Number of lease transactions (signed leases) .....	520	241	306	240
Rentable square footage leased .....	2,531,393	1,958,539	1,158,563	2,302,151
Average per rentable square foot over the lease term:				
Base rent .....	\$ 16.04	\$ 5.37	\$ 15.00	\$ 4.68
Tenant improvements .....	( 1.06)	(0.22)	( 0.93)	(0.15)
Leasing commissions .....	( 0.39)	(0.13)	( 0.31)	(0.10)
Rent concessions .....	( 0.01)	(0.01)	--	--
Effective rent .....	\$ 14.58	\$ 5.01	\$ 13.76	\$ 4.43
Expense stop (1) .....	( 3.53)	(0.23)	( 3.36)	(0.39)
Equivalent effective net rent .....	\$ 11.05	\$ 4.78	\$ 10.40	\$ 4.04
Average term in years .....	4	3	4	2

Rental Rate Trends:	=====	=====	=====	=====
Average final rate with expense pass-throughs .....	\$ 13.78	\$ 5.08	\$ 13.64	\$ 4.41
Average first year cash rental rate .....	\$ 14.76	\$ 5.37	\$ 14.46	\$ 4.68
	-----	-----	-----	-----
Percentage increase .....	7.11%	5.71%	6.01%	6.12%
	=====	=====	=====	=====
Capital Expenditures Related to Re-leased Space:				
Tenant Improvements:				
Total dollars committed under signed leases .....	\$11,443,099	\$1,421,203	\$4,496,523	\$ 685,880
Rentable square feet .....	2,531,393	1,958,539	1,158,563	2,302,151
	-----	-----	-----	-----
Per rentable square foot .....	\$ 4.52	\$ 0.73	\$ 3.88	\$ 0.30
	=====	=====	=====	=====
Leasing Commissions:				
Total dollars committed under signed leases .....	\$ 4,247,280	\$ 890,280	\$1,495,498	\$ 470,090
Rentable square feet .....	2,531,393	1,958,539	1,158,563	2,302,151
	-----	-----	-----	-----
Per rentable square foot .....	\$ 1.68	\$ 0.45	\$ 1.29	\$ 0.20
	=====	=====	=====	=====
Total:				
Total dollars committed under signed leases .....	\$15,690,379	\$2,311,483	\$5,992,021	\$1,155,970
Rentable square feet .....	2,531,393	1,958,539	1,158,563	2,302,151
	-----	-----	-----	-----
Per rentable square foot .....	\$ 6.20	\$ 1.18	\$ 5.17	\$ 0.50
	=====	=====	=====	=====

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

The following tables set forth scheduled lease expirations for executed leases at our majority-owned in-service properties (excluding apartment units) as of December 31, 1998, assuming no tenant exercises renewal options.

### Office Properties:

Lease Expiring	Number of Leases Expiring	Rentable Square Feet Subject to Expiring Leases	Percentage of Leased Square Footage Represented by Expiring Leases	Annual Rents Under Expiring Leases (1)	Average Annual Rental Rate Per Square Foot for Expirations (1)	Percentage of Leased Rents Represented by Expiring Leases
(dollars in thousands, except per square foot amounts)						
1999	1,157	4,591,018	15.7%	\$ 67,351	\$ 14.67	14.9%
2000	888	4,301,260	14.7	68,599	15.95	15.1
2001	822	4,423,839	15.2	70,487	15.93	15.6
2002	606	4,075,947	14.0	65,138	15.98	14.4
2003	547	3,777,446	12.9	59,652	15.79	13.2
2004	123	1,593,580	5.5	25,073	15.73	5.5
2005	79	1,231,194	4.2	18,365	14.92	4.1
2006	49	1,266,155	4.3	19,601	15.48	4.3
2007	30	852,442	2.9	13,792	16.18	3.0
2008	50	1,858,769	6.4	24,513	13.19	5.4
Thereafter	38	1,217,215	4.2	20,538	16.87	4.5
	-----	-----	-----	-----	-----	-----
	4,389	29,188,865	100.0%	\$453,109	\$ 15.52	100.0%
	=====	=====	=====	=====	=====	=====

### Industrial Properties:

Lease Expiring	Number of Leases Expiring	Rentable Square Feet Subject to Expiring Leases	Percentage of Leased Square Footage Represented by Expiring Leases	Annual Rents Under Expiring Leases (1)	Average Annual Rental Rate Per Square Foot for Expirations (1)	Percentage of Leased Rents Represented by Expiring Leases
(dollars in thousands, except per square foot amounts)						
1999	277	3,200,856	28.9%	\$16,432	\$ 5.13	30.7%
2000	169	2,101,731	18.9	10,035	4.77	18.8
2001	150	1,747,306	15.7	8,198	4.69	15.4
2002	63	1,194,952	10.8	5,436	4.55	10.2
2003	47	677,846	6.1	3,471	5.12	6.5
2004	14	1,084,333	9.8	4,259	3.93	8.0
2005	10	125,380	1.1	906	7.23	1.7
2006	2	196,600	1.8	892	4.54	1.7
2007	4	489,125	4.4	1,726	3.53	3.2
2008	6	247,737	2.2	1,879	7.58	3.5
Thereafter	1	29,876	0.3	166	5.56	0.3
	---	---	---	---	---	---
	743	11,095,742	100.0%	\$53,400	\$ 4.81	100.0%
	===	=====	=====	=====	=====	=====

(1) Annual Rents Under Expiring Leases are December 1998 rental revenue (base rent plus operating expense pass-throughs) multiplied by 12.

**Retail Properties:**

Lease Expiring	Number of Leases Expiring	Rentable Square Feet Subject to Expiring Leases	Percentage of Leased Square Footage Represented by Expiring Leases	Annual Rents Under Expiring Leases (1)	Average Annual Rental Rate Per Square Foot for Expirations (1)	Percentage of Leased Rents Represented by Expiring Leases
(dollars in thousands, except per square foot amounts)						
1999	105	448,476	20.7%	\$ 4,079	\$ 9.10	15.5%
2000	72	266,311	12.3	3,086	11.59	11.7
2001	62	232,185	10.7	3,241	13.96	12.3
2002	39	155,927	7.2	2,099	13.46	8.0
2003	41	201,509	9.3	3,100	15.38	11.8
2004	14	157,114	7.3	1,138	7.24	4.3
2005	13	64,999	3.0	1,376	21.17	5.2
2006	9	103,967	4.8	1,151	11.07	4.4
2007	8	63,125	2.9	987	15.64	3.7
2008	14	105,765	4.9	2,333	22.06	8.8
Thereafter	21	363,400	16.9	3,784	10.41	14.3
---	---	-----	-----	-----	-----	-----
	398	2,162,778	100.0%	\$26,374	\$ 12.19	100.0%
===	---	=====	=====	=====	=====	=====

**Total:**

Lease Expiring	Number of Leases Expiring	Rentable Square Feet Subject to Expiring Leases	Percentage of Leased Square Footage Represented by Expiring Leases	Annual Rents Under Expiring Leases (1)	Percentage of Leased Rents Represented by Expiring Leases
(dollars in thousands, except per square foot amounts)					
1999	1,539	8,240,350	19.4%	\$ 87,862	16.5%
2000	1,129	6,669,302	15.7	81,720	15.3
2001	1,034	6,403,330	15.1	81,926	15.4
2002	708	5,426,826	12.8	72,673	13.6
2003	635	4,656,801	11.0	66,223	12.4
2004	151	2,835,027	6.7	30,470	5.7
2005	102	1,421,573	3.3	20,647	3.9
2006	60	1,566,722	3.7	21,644	4.1
2007	42	1,404,692	3.3	16,505	3.1
2008	70	2,212,271	5.2	28,725	5.4
Thereafter	60	1,610,491	3.8	24,488	4.6
---	---	-----	-----	-----	-----
	5,530	42,447,385	100.0%	\$532,883	100.0%
=====	---	=====	=====	=====	=====

(1) Annual Rents Under Expiring Leases are December 1998 rental revenue (base rent plus operating expense pass-throughs) multiplied by 12.

## **Development Land**

As of December 31, 1998, we owned 1,417 acres and had committed to purchase over the next four years an additional 626 acres of land for development. We estimate that we can develop approximately 22 million square feet of office, industrial and retail space on the development land.

All of the development land is zoned and available for office, industrial or retail development, substantially all of which has utility infrastructure already in place. We believe that our commercially zoned and unencumbered land in existing business parks gives us an advantage in our future development activities over other commercial real estate development companies in many of our markets. Any future development, however, is dependent on the demand for industrial or office space in the area, the availability of favorable financing and other factors, and no assurance can be given that any construction will take place on the development land. In addition, if construction is undertaken on the development land, we will be subject to the risks associated with construction activities, including the risk that occupancy rates and rents at a newly completed property may not be sufficient to make the property profitable, construction costs may exceed original estimates and construction and lease-up may not be completed on schedule, resulting in increased debt service expense and construction expense.

## **ITEM 3. LEGAL PROCEEDINGS**

On October 2, 1998, John Flake, a former stockholder of J.C. Nichols, filed a putative class action lawsuit on behalf of himself and the other former stockholders of J.C. Nichols in the United States District Court for the District of Kansas against J.C. Nichols, certain of its former officers and directors and the Company. The complaint alleges, among other things, that in connection with the merger of J.C. Nichols and the Company, (1) J.C. Nichols and the named directors and officers of J.C. Nichols breached their fiduciary duties to J.C. Nichols' stockholders, (2) J.C. Nichols and the named directors and officers of J.C. Nichols breached their fiduciary duties to members of the J.C. Nichols Company Employee Stock Ownership Trust, (3) all defendants participated in the dissemination of a proxy statement containing materially false and misleading statements and omissions of material facts in violation of Section 14(a) of the Exchange Act of 1934 and (4) the Company filed a registration statement with the SEC containing materially false and misleading statements and omissions of material facts in violation of Sections 11 and 12(2) of the Securities Act of 1933. The plaintiffs seek equitable relief and monetary damages. We believe that the defendants have meritorious defenses to the plaintiffs' allegations. We intend to vigorously defend this litigation and have filed a motion to dismiss all claims asserted against the defendants. Due to the inherent uncertainties of the litigation process and the judicial system, we are not able to predict the outcome of this litigation. If this litigation is not resolved in our favor, it could have a material adverse effect on our business, financial condition and results of operations.

In addition, we are a party to a variety of legal proceedings arising in the ordinary course of our business. We believe that we are adequately covered by insurance and indemnification agreements. Accordingly, none of such proceedings are expected to have a material adverse effect on our business, financial condition and results of operations.

## **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM X. EXECUTIVE OFFICERS OF THE REGISTRANT**

The following table sets forth certain information with respect to our executive officers:

Name	Age	Position and Background
Ronald P. Gibson	54	Director, President and Chief Executive Officer. Mr. Gibson is one of our founders and has served as President or managing partner of our predecessor since its formation in 1978.
John L. Turner	52	Director, Vice Chairman of the Board of Directors and Chief Investment Officer. Mr. Turner co-founded the predecessor of Forsyth Properties in 1975.
Edward J. Fritsch	40	Executive Vice President, Chief Operating Officer and Secretary. Mr. Fritsch joined us in 1982.
James R. Heistand	47	Director and Senior Vice President. Mr. Heistand is responsible for our operations in Florida. Mr. Heistand was the founder and president of Associated Capital Properties, Inc. prior to its merger with the Company.
Gene H. Anderson	53	Director and Senior Vice President. Mr. Anderson manages the operations of our Georgia properties. Mr. Anderson was the founder and president of Anderson Properties, Inc. prior to its merger with the Company.
Michael E. Harris	49	Senior Vice President. Mr. Harris is responsible for our operations in Tennessee, Missouri, Kansas and Maryland. Mr. Harris was executive vice president of Crocker Realty Trust prior to its merger with the Company. Before joining Crocker Realty Trust, Mr. Harris served as senior vice president, general counsel and chief financial officer of Towermarc Corporation, a privately owned real estate development firm.
Marcus H. Jackson	42	Senior Vice President. Mr. Jackson is responsible for our operations in Virginia, North Carolina and South Carolina. Prior to joining us in 1998, Mr. Jackson was senior vice president of Compass Development and Construction Services.
Carman J. Liuzzo	38	Vice President, Chief Financial Officer and Treasurer. Prior to joining us in 1994, Mr. Liuzzo was vice president and chief accounting officer for Boddie-Noell Enterprises, Inc. and Boddie-Noell Restaurant Properties, Inc. Mr. Liuzzo is a certified public accountant.
Mack D. Pridgen, III	49	Vice President and General Counsel. Prior to joining us in 1997, Mr. Pridgen was a partner with Smith Helms Mulliss & Moore, L.L.P.

As we have expanded into new markets, we have sought to enter into business combinations with local real estate operators with many years of management and development experience in their respective markets. Messrs. Turner, Anderson and Heistand each joined us as executive officers as a result of such business combinations. Mr. Turner entered into a three-year employment contract with us in 1995 and Messrs. Anderson and Heistand each entered into a three-year employment contract with us in 1997.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

#### Market Information and Dividends

The Common Stock has been traded on the New York Stock Exchange ("NYSE") under the symbol "HIW" since the Company's initial public offering. The following table sets forth the quarterly high and low sales prices per share reported on the NYSE for the quarters indicated and the distributions paid per share during such quarter.

Quarter Ended:	1998			1997		
	High	Low	Distribution	High	Low	Distribution
March 31 .....	\$ 37.44	\$ 32.25	\$ 0.51	\$ 35.50	\$ 33.00	\$ 0.48
June 30 .....	35.31	30.69	0.51	33.50	30.00	0.48
September 30 .....	32.93	23.00	0.54	35.81	31.06	0.51
December 31 .....	28.81	24.06	0.54	37.38	35.81	0.51

On March 19, 1999, the last reported sale price of the Common Stock on the NYSE was \$23.19 per share. On March 19, 1999, the Company had 1,429 stockholders of record.

The Company intends to continue to pay regular quarterly distributions to holders of shares of Common Stock and holders of Common Units. Although the Company intends to maintain its current distribution rate, future distributions by the Company will be at the discretion of the Board of Directors and will depend on the actual funds from operations of the Company, its financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code of 1986 and such other factors as the Board of Directors deems relevant.

During 1998, the Company's distributions totaled \$115,624,000, of which \$13,875,000 represented return of capital for financial statement purposes. The minimum distribution per share of Common Stock required to maintain REIT status was approximately \$1.62 per share in 1998, \$1.56 per share in 1997, \$1.44 per share in 1996 and \$1.55 per share in 1995.

The Company has instituted a Dividend Reinvestment and Stock Purchase Plan under which holders of Common Stock may elect to automatically reinvest their distributions in additional shares of Common Stock and may make optional cash payments for additional shares of Common Stock. The Company may issue additional shares of Common Stock or repurchase Common Stock in the open market for purposes of financing its obligations under the Dividend Reinvestment and Stock Purchase Plan.

In August 1997, the Company instituted an Employee Stock Purchase Plan for all active employees. At the end of each three-month offering period, each participant's account balance is applied to acquire shares of Common Stock at 90% of the market value of the Common Stock, calculated as the lower of the average closing price on the NYSE on the five consecutive days preceding the first day of the quarter or the five days preceding the last day of the quarter. A participant may not invest more than \$7,500 per quarter. During 1998, employees purchased 24,046 shares of Common Stock under the Employee Stock Purchase Plan.

#### Sales of Unregistered Securities

On April 1, 1998, the Company issued 13,513 shares of Common Stock in connection with the merger of Eakin & Smith, Inc. into the Company on April 1, 1996. The shares were issued to three principals of Eakin & Smith, Inc., including John W. Eakin, who was an officer and director of the Company. The shares were issued pursuant to an exemption from the registration requirements of the Securities Act of 1933 under Rule 506. Each of the three principals of Eakin & Smith, Inc. is an accredited investor under Rule 501 of the Securities Act. We exercised reasonable care to assure that the principals were not purchasing the shares with a view to their distribution.

During 1998, the Company issued an aggregate of 740,561 shares of Common Stock to holders of Common Units upon the redemption of such Common Units in private offerings exempt from the registration requirements pursuant to Section 4(2) of the Securities Act. Each of the holders of Common Units is an accredited investor under Rule 501 of the Securities Act. The Company has registered the resale of such shares under the Securities Act.

## **ITEM 6. SELECTED FINANCIAL DATA**

The following table sets forth selected financial and operating information for the Company as of December 31, 1998, 1997, 1996, 1995 and 1994, for the years ended December 31, 1998, 1997, 1996, 1995, and for the period from June 14, 1994 (commencement of operations) to December 31, 1994. The following table also sets forth selected financial and operating information on a historical basis for the Highwoods Group (the predecessor to the Company) for the period from January 1, 1994, to June 13, 1994. The pro forma operating data for the year ended December 31, 1994 assumes completion of the initial public offering and the Formation Transaction (defined below) as of January 1, 1994.

Due to the impact of the initial formation of the Company and the initial public offering in 1994, the second and third offerings in 1995 and the transactions more fully described in "Management's Discussion and Analysis -- Overview and Background," the historical results of operations for the year ended December 31, 1995 and the period from June 14, 1994 to December 31, 1994 may not be comparable to the current period results of operations.



# The Company and the Highwoods Group

	Company				June 14, 1994 to December 31, 1994
	Year Ended December 31, 1998	Year Ended December 31, 1997	Year Ended December 31, 1996	Year Ended December 31, 1995	
(Dollars in thousands, except per share amounts)					
Operating Data:					
Total revenue .....	\$ 514,187	\$ 274,470	\$ 137,926	\$ 73,522	\$ 19,442
Rental property operating expenses .....	154,323(1)	76,743(1)	35,313(1)	17,049(1)	5,110(1)
General and administrative .....	20,776	10,216	5,666	2,737	810
Interest expense .....	97,011	47,394	26,610	13,720	3,220
Depreciation and amortization .....	91,705	47,533	22,095	11,082	2,607
Income (loss) before minority interest .....	150,372	92,584	48,242	28,934	7,695
Minority interest .....	(24,335)	(15,106)	(6,782)	(4,937)	(808)
Income before extraordinary item .....	126,037	77,478	41,460	23,997	6,887
Extraordinary item-loss on early extinguishment of debt .....	(387)	(5,799)	(2,140)	(875)	(1,273)
Net income (loss) .....	125,650	71,679	39,320	23,122	5,614
Dividends on Preferred Shares .....	(30,092)	(13,117)	--	--	--
Net income available for common stockholders .....	\$ 95,558	\$ 58,562	\$ 39,320	\$ 23,122	\$ 5,614
Net income per common share -- basic .....	\$ 1.74	\$ 1.51	\$ 1.51	\$ 1.49	\$ .63
Net income per common share -- diluted .....	\$ 1.74	\$ 1.50	\$ 1.50	\$ 1.48	\$ .63
Balance Sheet Data (at end of period):					
Real estate, net of accumulated depreciation.....	\$3,924,192	\$2,614,654	\$1,377,874	\$ 593,066	\$ 207,976
Total assets .....	4,314,333	2,722,306	1,443,440	621,134	224,777
Total mortgages and notes payable .....	2,008,716	978,558	555,876	182,736	66,864
Other Data:					
Number of in-service properties .....	658	481	292	191	44
Total rentable square feet .....	44,642,000	30,721,000	17,455,000	9,215,000	2,746,000

## The Company and the Highwoods Group

	Company Pro Forma Year Ended December 31, 1994	Highwoods Group January 1, 1994 to June 13, 1994
Operating Data:		
Total revenue .....	\$ 34,282	\$ 6,648
Rental property operating expenses .....	9,677(1)	2,596(2)
General and administrative .....	1,134	280
Interest expense .....	5,604	2,473
Depreciation and amortization .....	4,638	835
Income (loss) before minority interest .....	13,229	464
Minority interest .....	(1,388)	--
Income before extraordinary item .....	11,841	464

Extraordinary item-loss on early extinguishment of debt .....	--	--
	-----	-----
Net income (loss) .....	11,841	464
Dividends on Preferred Shares .....	--	--
	-----	-----
Net income available for common stockholders .....	\$ 11,841	\$ 464
	=====	=====
Net income per common share -- basic .....	\$ 1.32	
	=====	
Net income per common share -- diluted .....	\$ 1.32	
	=====	
Balance Sheet Data (at end of period):		
Real estate, net of accumulated depreciation.....	\$ --	--
Total assets .....	--	--
Total mortgages and notes payable .....	--	--
Other Data:		
Number of in-service properties .....	--	14
Total rentable square feet .....	--	817,000

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

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

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview and Background

The Highwoods Group (the predecessor to the Company) was comprised of 13 office properties and one warehouse facility (the "Highwoods-Owned Properties"), 94 acres of development land and the management, development and leasing business of Highwoods Properties Company ("HPC"). On June 14, 1994, following completion of the Company's initial public offering, the Company, through a business combination involving entities under varying common ownership, succeeded to the Highwoods-Owned Properties, HPC's real estate business and 27 additional office properties owned by unaffiliated parties (such combination being referred to as the "Formation Transaction"). Minority interest in the Company represents the common partnership interests owned by various individuals and entities and not the Company in the Operating Partnership, the entity that owns substantially all of the Company's interests in the properties and through which the Company, as the sole general partner, conducts substantially all of its operations. We acquired three additional properties in 1994 after the Formation Transaction.

In February 1995, we expanded into other North Carolina markets and diversified our portfolio to include industrial and service center properties with our \$170 million, 57-property business combination with Forsyth Partners. During 1995, we acquired an aggregate of 144 properties, encompassing 6,357,000 rentable square feet, at an initial cost of \$369.9 million.

In September 1996, we acquired 5.7 million rentable square feet of office and service center space through our \$566 million merger with Crocker Realty Trust, Inc. During 1996, we acquired an aggregate of 91 properties, encompassing 7,325,500 square feet, at an initial cost of \$704.0 million.

In October 1997, we acquired 6.4 million rentable square feet of office space through our \$617 million merger with Associated Capital Properties, Inc. During 1997, we acquired an aggregate of 176 properties, encompassing 12.8 million rentable square feet, at an initial cost of \$1.1 billion.

During 1998, we acquired an aggregate of 186 properties, encompassing 14.9 million rentable square feet and 2,325 apartment units, at an initial cost of \$1.2 billion. See "Business -- Recent Developments" for a table summarizing all mergers and acquisitions completed during 1998.

This information should be read in conjunction with the accompanying consolidated financial statements and the related notes thereto.

### Results of Operations

Comparison of 1998 to 1997. Revenue from rental operations increased \$231.1 million, or 87%, from \$266.9 million for the year ended December 31, 1997 to \$498.0 million for the year ended December 31, 1998. The increase is a result of our acquisition and development activity in 1997 and 1998. In total, we acquired 186 office, industrial and retail properties, encompassing 14.9 million square feet and 2,325 apartment units during 1998. Same property revenues, which are the revenues of the 282 in-service properties (encompassing 16.7 million square feet) owned on January 1, 1997 and December 31, 1998, increased 4.7% for the year ended December 31, 1998, compared to the year ended December 31, 1997.

During 1998, 1,312 leases, representing 6.4 million square feet of office, industrial and retail space, were executed at an average rate per square foot which was 6.8% higher than the average rate per square foot on the expired leases.

Interest and other income increased \$6.5 million from \$7.5 million in 1997 to \$14.0 million in 1998. The increase is primarily related to an increase in interest income as we maintained a higher cash position. We also generated additional management fees, development fees and leasing commissions in 1998. The Company generated \$650,000 in auxiliary income (vending and parking) as a result of acquiring multifamily communities in the merger with J.C. Nichols.

Rental operating expenses increased \$77.6 million, or 101.2%, from \$76.7 million in 1997 to \$154.3 million in 1998. Rental expenses as a percentage of related rental revenues increased from 28.7% in 1997 to 31.0% in 1998. The increase is a result of an increase in the percentage of office properties in the portfolio, which have fewer triple net lease pass-throughs.

Depreciation and amortization for the years ended December 31, 1998 and 1997 were \$91.7 million and \$47.5 million, respectively. The increase of \$44.2 million, or 93.1%, is due to an average increase in depreciable assets and deferred leasing costs. Interest expense increased \$49.6 million, or 104.6%, from \$47.4 million in 1997 to \$97.0 million in 1998. The increase is attributable to an average increase in outstanding debt related to our acquisition and development activities. Interest expense for the years ended December 31, 1998 and 1997 included \$2.6 million and \$2.3 million, respectively, of amortization of non-cash deferred financing costs and of the costs related to our interest rate hedge contracts. General and administrative expenses increased from 3.8% of total rental revenue in 1997 to 4.2% in 1998.

Net income before minority interest and extraordinary item equaled \$150.4 million and \$92.6 million for the years ended December 31, 1998 and 1997, respectively. The Company's net income allocated to the minority interest totaled \$24.3 million and \$15.1 million for 1998 and 1997, respectively. The Company incurred an extraordinary loss in the first quarter of 1997 of \$3.3 million related to the early extinguishing of debt assumed in the acquisition of the Anderson Properties and Century Center portfolios. The Company also recorded \$30.1 million and \$13.1 million in preferred stock dividends for the years ended December 31, 1998 and 1997, respectively.

Comparison of 1997 to 1996. Revenue from rental operations increased \$136.1 million, or 104.1%, from \$130.8 million in 1996 to \$266.9 million in 1997. The increase is primarily a result of revenue from newly acquired and developed properties as well as acquisitions completed in 1996 which only contributed partially in 1996. Interest and other income increased 5.6% from \$7.1 million in 1996 to \$7.5 million in 1997. Lease termination fees and third-party income accounted for a majority of such income in 1997 while excess cash invested in 1996 from two offerings of Common Stock during the summer of 1996, raising total net proceeds of approximately \$293 million, accounted for a majority of such income in 1996.

Rental operating expenses increased \$41.4 million, or 117.3%, from \$35.3 million in 1996 to \$76.7 million in 1997. The increase is due to the net addition of 13.3 million square feet to the in-service portfolio in 1997 as well as acquisitions completed in 1996 which only contributed partially in 1996. Rental expenses as a percentage of related rental revenues increased from 27.0% for the year ended December 31, 1996, to 28.7% for the year ended December 31, 1997. The increase is a result of an increase in the percentage of office properties in the portfolio, which have fewer triple net lease pass-throughs.

Depreciation and amortization for the years ended December 31, 1997 and 1996 was \$47.5 million and \$22.1 million, respectively. The increase of \$25.4 million, or 114.9%, is due to an average increase in depreciable assets of 103.5%. Interest expense increased 78.2%, or \$20.8 million, from \$26.6 million in 1996 to \$47.4 million in 1997. The increase is attributable to the increase in outstanding debt related to our acquisition and development activity. Interest expense for the years ended December 31, 1997 and 1996 included \$2.3 million and \$1.9 million, respectively, of non-cash deferred financing costs and amortization of the costs related to our interest rate hedge contracts.

General and administrative expenses decreased from 4.3% of rental revenue in 1996 to 3.8% in 1997. The decrease is attributable to the realization of synergies from our growth in 1997. Duplication of personnel costs in the third quarter of 1996 related to the acquisition of Crocker Realty Trust also contributed to the higher general and administrative expenses in the prior year.

Net income before minority interest and extraordinary item equaled \$92.6 million and \$48.2 million, respectively, for the years ended December 31, 1997, and 1996. The extraordinary items consisted

of prepayment penalties incurred and deferred loan cost expensed in connection with the extinguishment of secured debt assumed in various acquisitions completed in 1997 and 1996. The Company also recorded \$13.1 million in preferred stock dividends for the year ended December 31, 1997.

## **Liquidity and Capital Resources**

**Statement of Cash Flows.** The Company generated \$263.4 million in cash flows from operating activities and \$797.9 million in cash flows from financing activities for the year ended December 31, 1998. These combined cash flows of \$1.1 billion were used to fund investing activities during 1998. Such investing activities consisted primarily of development and acquisition activity during 1998. See "Business -- Recent Developments."

**Capitalization.** The Company's total indebtedness at December 31, 1998 totaled \$2.0 billion and was comprised of \$628.1 million of secured indebtedness with a weighted average interest rate of 7.7% and \$1.4 billion of unsecured indebtedness with a weighted average interest rate of 7.0%. Except as stated below, all of the mortgage and notes payable outstanding at December 31, 1998 were either fixed rate obligations or variable rate obligations covered by interest rate hedge contracts. A portion of our \$600 million unsecured revolving loan and approximately \$72.8 million of floating rate notes payable assumed upon consummation of the merger with J.C. Nichols were not covered by interest rate hedge contracts on December 31, 1998.

Based on the Company's total market capitalization of \$4.2 billion at December 31, 1998 (at the December 31, 1998 stock price of \$25.75 and assuming the redemption for shares of Common Stock of the 10,012,000 Common Units of minority interest in the Operating Partnership), the Company's debt represented approximately 48% of its total market capitalization.

We completed the following financing activities during 1998:

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

- o February 1998 Debt Offering. On February 2, 1998, the Operating Partnership sold \$125 million of 6.835% MandatOry Par Put Remarketed Securities ("MOPPRS") due February 1, 2013, and \$100 million of 7 1/8% notes due February 1, 2008, in an underwritten public offering for net proceeds of approximately \$226.3 million.

- o February 1998 Common Stock Offerings. On February 12, 1998, the Company sold an aggregate of 1,553,604 shares of Common Stock in two underwritten public offerings for net proceeds of approximately \$51.2 million.

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

- o April 1998 Debt Offering. On April 20, 1998, the Operating Partnership sold \$200 million of 7 1/2% notes due April 15, 2018, in an underwritten public offering for net proceeds of approximately \$197.4 million.

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

- o Series D Preferred Offering. On April 23, 1998, the Company sold 4,000,000 depositary shares, each representing 1/10 of a share of the Company's 8% Series D Cumulative Redeemable Preferred Shares, in an underwritten public offering for net proceeds of approximately \$96.7 million.

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

- o \$600 Million Credit Facility. On July 3, 1998, we obtained a \$600 million unsecured revolving loan (the "Revolving Loan"). The Revolving Loan matures in July 2001 and replaced our two previously

existing revolving loans aggregating \$430 million. The Revolving Loan carries an interest rate based upon the Operating Partnership's senior unsecured credit rating. The Revolving Loan also includes a \$300 million competitive bid sub-facility. The Revolving Loan was amended as of December 31, 1998, primarily to ease the restrictions imposed by certain financial covenants.

o November 1998 Debt Offering. On November 25, 1998, the Operating Partnership sold \$150 million of 8% notes due December 1, 2003, in an underwritten public offering for net proceeds of approximately \$148.1 million.

o December 1998 Debt Offering. On December 9, 1998, the Operating Partnership sold \$50 million of 8 1/8% notes due January 15, 2009, in an underwritten public offering for net proceeds of approximately \$49.3 million.

o Issuance of Common Units and Common Stock. In connection with 1998 acquisitions, the Operating Partnership issued approximately 750,000 Common Units and the Company issued approximately 5.6 million shares of Common Stock for an aggregate value of approximately \$386.1 million (based on the market price of a share of Common Stock at the time of the acquisition).

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

The following table sets forth information regarding our interest rate hedge contracts as of December 31, 1998:

Type of Hedge	Notional Amount	Maturity Date	Reference Rate	Fixed Rate
		(dollars in thousands)		
Treasury Lock	\$100,000	10/1/99	10-Year Treasury	5.725%
Treasury Lock	50,000	3/10/99	10-Year Treasury	5.631
Treasury Lock	100,000	7/1/99	10-Year Treasury	5.674
Swap	100,000	10/1/99	3-Month LIBOR	4.970
Swap	21,112	6/10/02	1-Month LIBOR + 0.75%	7.700
Collar	80,000	10/15/01	1-Month LIBOR	5.40 - 6.25

We enter into swaps, collars and caps to limit our exposure to an increase in variable interest rates, particularly with respect to amounts outstanding under our Revolving Loan. The interest rate on all of our variable rate debt is adjusted at one- and three-month intervals, subject to settlements under these contracts. We also enter into treasury lock agreements from time to time in order to limit our exposure to an increase in interest rates with respect to future debt offerings. Our net payments made to counterparties under interest rate hedge contracts were \$48,000 during 1998. See also our financial statements and notes thereto.

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

Current and Future Cash Needs. Historically, rental revenue has been the principal source of funds to pay operating expenses, debt service, stockholder distributions and capital expenditures, excluding nonrecurring capital expenditures. In addition, construction management, maintenance, leasing

and management fees have provided sources of cash flow. We presently have no plans for major capital improvements to the existing properties, other than normal recurring building improvements, tenant improvements and lease commissions. We expect to meet our short-term liquidity requirements generally through working capital and net cash provided by operating activities along with the Revolving Loan.

Our short-term (within the next 12 months) liquidity needs also include, among other things, the funding of approximately \$350 million of our existing development activity. See "Business -- Development Activity." We expect to fund our short-term liquidity needs through a combination of:

- o additional borrowings under our Revolving Loan (approximately \$144 million was available as of March 31, 1999);

- o the issuance of secured debt;

- o the selective disposition of non-core assets; and

- o the sale or contribution of some of our wholly owned properties to strategic joint ventures to be formed with selected partners interested in investing with us, which will have the net effect of generating additional capital through such sale or contributions.

Because of certain financial covenants set forth in the Revolving Loan, we intend to finance a significant portion of our short-term development expenses through asset sales and joint ventures. Although we believe that we will be able to fund our short-term development commitments, an inability to sell a sufficient number of non-core assets or to enter into significant joint venture arrangements of the type described above could adversely affect our liquidity.

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

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

**Distributions to Stockholders.** In order to qualify as a REIT for Federal income tax purposes, the Company is required to make distributions to its stockholders of at least 95% of REIT taxable income. The Company expects to use its cash flow from operating activities for distributions to stockholders and for payment of recurring, non-incremental revenue-generating expenditures. The following factors will affect cash flows from operating activities and, accordingly, influence the decisions of the Board of Directors regarding distributions: (1) debt service requirements after taking into account the repayment and restructuring of certain indebtedness; (2) scheduled increases in base rents of existing leases; (3) changes in rents attributable to the renewal of existing leases or replacement leases; (4) changes in occupancy rates at existing properties and procurement of leases for newly acquired or developed properties; and (5) operating expenses and capital replacement needs.

## Recent Developments

**Joint Venture Activity.** On March 15, 1999, we closed a transaction with Schweiz-Deutschland-USA Dreilander Beteiligung Objekt-DLF 98/29-Walker Fink-KG ("DLF"), pursuant to which we sold or contributed certain office properties valued at approximately \$142 million to a newly created limited partnership (the "Joint Venture"). DLF contributed approximately \$55 million for a 77.19% interest in the Joint Venture, and the Joint Venture borrowed approximately \$71 million from third-party lenders. We retained the remaining 22.81% interest in the Joint Venture, received cash proceeds of approximately \$126 million and are the sole and exclusive manager and leasing agent of the Joint Venture's properties, for which we receive customary management fees and leasing commissions. We used the cash proceeds received in the transaction to fund existing development activity either through direct payments or repayment of borrowings under the Revolving Loan.

**Pending Disposition Activity.** We have recently entered into agreements to sell approximately 3.9 million rentable square feet of non-core office and industrial properties for gross proceeds of approximately \$385 million. Non-core properties generally include single buildings or business parks that do not fit our long-term strategy. The transactions are subject to customary closing conditions such as expiration of the buyers' due diligence periods. Although we believe that the transactions will close by May 31, 1999, we can provide no assurance that all or part of the transactions will be consummated.

## Year 2000

**Background.** The Year 2000 compliance issue refers to the inability of computer systems and computer software to correctly process any date after 1999. The date change to the new millennium may be a problem because some computer hardware and software was designed to use only two digits to represent a year. As a result, some systems may interpret 1/1/00 to be the year 1900. In addition, some systems may not recognize that the Year 2000 is a leap year. Both problems could result in system failure or miscalculations, which may cause disruptions of operations.

The Year 2000 issue, if not corrected, could result in the failure of the information technology ("IT") systems that we use in our business operations, such as computer programs related to property management, leasing, financial reporting, employee benefits, asset management and energy management. In addition, computerized systems and microprocessors are embedded in a variety of products used in our operations and properties, such as HVAC controls, lights, power generators, elevators, life safety systems, phones and security systems.

**Approach and Status.** Our Year 2000 compliance efforts are divided into two areas -- "operations level" and "property level." Operations level includes those information technology systems used in our corporate and division offices to perform real estate, accounting and human resources functions. Property level includes the information technology and non-information technology systems at our individual properties.

Our Information Technology Department is overseeing our operations level compliance program. With respect to our operations level IT software, we have completed all three phases (assessment, renovation and validation) of our Year 2000 remediation plan. As part of a standardization of our technology infrastructure in 1998, computer software that was not Year 2000 compliant was upgraded or replaced. These software upgrades were off-the-shelf Year 2000 compliant packages. Additionally, we successfully upgraded and tested a Year 2000 compliant version of our corporate accounting and property management software in December 1998. With respect to our operations level IT hardware, we have completed the assessment phase of our remediation plan and are 90% complete (in terms of labor) with all needed renovation. We expect to complete the renovation and testing phases of our operations level hardware by the third quarter of 1999.

Our Chief Operating Officer is overseeing our property level compliance program. We are near completing our inventory of all of our properties' known information technology and non-information technology systems. This assessment process is 90% complete and will be completed before the end of the second quarter of 1999. As part of the inventory process, we are also requesting the appropriate



vendors and manufacturers to certify that their products are Year 2000 compliant. Most have indicated that their products are Year 2000 compliant. We are approximately 75% complete (in terms of labor) with our identified renovation needs. This phase is not expected to be completed until the third quarter. As the final phase of the property level compliance program, we have been conducting equipment trial runs, where feasible. This validation process is projected to be completed by the third quarter of 1999.

With respect to Year 2000 issues relating to our customer base, we have not sought representations from our tenants with respect to their Year 2000 readiness because no one tenant represents more than 3% of our annualized rental revenue. In addition, since almost all of our suppliers and vendors have numerous competitors, we believe that there will be no material effect on our operations due to the failure or interruption of service by a vendor or service provider on account of Year 2000 issues. As a result, we have not developed a contingency plan for dealing with third-party Year 2000 failures.

**Costs.** To date, the costs directly associated with our Year 2000 efforts have not been material, and we estimate our future costs to be immaterial as well.

**Risks Associated with the Year 2000 Issue.** We do not expect Year 2000 failures to have a material adverse effect on our results of operations or liquidity because:

- o we do not rely on a small number of tenants for a significant portion of our rental revenue; and
- o our remediation plan is expected to be complete prior to the Year 2000.

Nevertheless, this forward-looking statement depends on numerous factors, such as the continued provision of utility services, and we remain exposed to the risk of Year 2000 failures. See "Disclosure Regarding Forward-looking Statements" below.

Our disclosures and announcements concerning our Year 2000 programs are intended to constitute "Year 2000 Readiness Disclosures" as defined in the recently-enacted Year 2000 Information and Readiness Disclosure Act. The Act provides added protection from liability for certain public and private statements concerning an entity's Year 2000 readiness and the Year 2000 readiness of its products and services. The Act also potentially provides added protection from liability for certain types of Year 2000 disclosures made after January 1, 1996, and before the date of enactment of the Act.

### **Possible Environmental Liabilities**

In connection with owning or operating our properties, we may be liable for certain costs due to possible environmental liabilities. Under various laws, ordinances and regulations, such as the Comprehensive Environmental Response Compensation and Liability Act, and common law, an owner or operator of real estate is liable for the costs to remove or remediate certain hazardous or toxic chemicals or substances on or in the property. Owners or operators are also liable for certain other costs, including governmental fines and injuries to persons and property. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of the hazardous or toxic chemicals or 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, treatment or transportation of hazardous or toxic chemicals or substances may also be liable for the same types of costs at a disposal, treatment or storage facility, whether or not that person owns or operates that facility.

Certain environmental laws also impose liability for releasing asbestos-containing materials. Third parties may seek recovery from owners or operators of real property for personal injuries associated with asbestos-containing materials. A number of our properties have asbestos-containing materials or material that we presume to be asbestos-containing materials. In connection with owning and operating our properties, we may be liable for such costs.

In addition, it is not unusual for property owners to encounter on-site contamination caused by off-site sources. The presence of hazardous or toxic chemicals or substances at a site close to a property could require the property owner to participate in remediation activities or could adversely affect the value of the property. Contamination from adjacent properties has migrated onto at least three of our properties; however, based on current information, we do not believe that any significant remedial action is necessary at these affected sites.

As of the date hereof, we have obtained Phase I environmental assessments (and, in certain instances, Phase II environmental assessments) on substantially all of our in-service properties. These assessments have not revealed, nor are we aware of, any environmental liability at our properties that we believe would materially adversely affect our financial position, operations or liquidity taken as a whole. This projection, however, could be incorrect depending on certain factors. For example, material environmental liabilities may have arisen after the assessments were performed or our assessments may not have revealed all environmental liabilities or may have underestimated the scope and severity of environmental conditions observed. There may also be unknown environmental liabilities at properties for which we have not obtained a Phase I environmental assessment or have not yet obtained a Phase II environmental assessment. In addition, we base our assumptions regarding environmental conditions, including groundwater flow and the existence and source of contamination, on readily available sampling data. We cannot guarantee that such data is reliable in all cases. Moreover, we cannot provide any assurances (1) that future laws, ordinances or regulations will not impose a material environmental liability or (2) that tenants, the condition of land or operations in the vicinity of our properties or unrelated third parties will not affect the current environmental condition of our properties.

Some tenants use or generate hazardous substances in the ordinary course of their respective businesses. In their leases, we require these tenants to comply with all applicable laws and to be responsible to us for any damages resulting from their use of the property. We are not aware of any material environmental problems resulting from tenants' use or generation of hazardous or toxic chemicals or substances. We cannot provide any assurances, however, that all tenants will comply with the terms of their leases or remain solvent. If tenants do not comply or do not remain solvent, we may at some point be responsible for contamination caused by such tenants.

### **Impact of Recently Issued Accounting Standards**

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which is required to be adopted in fiscal years beginning after June 15, 1999. The Statement will require us to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The fair market value of our derivatives at December 31, 1998 is discussed in Note 3.

### **Compliance with the Americans with Disabilities Act**

Under the Americans with Disabilities Act (the "ADA"), all public accommodations and commercial facilities are required to meet certain federal requirements related to access and use by disabled persons. These requirements became effective in 1992. Compliance with the ADA requirements could require removal of access barriers, and noncompliance could result in imposition of fines by the U.S. government or an award of damages to private litigants. Although we believe that our properties are substantially in compliance with these requirements, we may incur additional costs to comply with the ADA. Although we believe that such costs will not have a material adverse effect on us, if required changes involve a greater expenditure than we currently anticipate, our results of operations, liquidity and capital resources could be materially adversely affected.

## **Funds From Operations and Cash Available for Distributions**

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

FFO means net income (computed in accordance with generally accepted accounting principles) excluding gains (or losses) from debt restructuring and sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. In March 1995, the National Association of Real Estate Investment Trusts ("NAREIT") issued a clarification of the definition of FFO. The clarification provides that amortization of deferred financing costs and depreciation of non-real estate assets are no longer to be added back to net income in arriving at FFO. Cash available for distribution is defined as funds from operations reduced by non-revenue enhancing capital expenditures for building improvements and tenant improvements and lease commissions related to second generation space.

FFO and cash available for distribution for the years ended December 31, 1998, 1997 and 1996 are summarized in the following table:

	Year Ended December 31,		
	1998	1997	1996
	(in thousands)		
FFO:			
Income before minority interest and extraordinary item .....	\$ 150,372	\$ 92,584	\$ 48,242
Add (deduct):			
Dividends to preferred shareholders .....	(30,092)	(13,117)	--
Cost of unsuccessful transactions .....	146	--	--
Gain on disposition of assets .....	(1,716)	--	--
Depreciation and amortization .....	91,705	47,533	22,095
Depreciation on unconsolidated subsidiaries .....	974	--	--
Minority interest in Crocker depreciation and amortization .....	--	--	(117)
Third-party service company cash flow .....	--	--	400
FFO before minority interest .....	211,389	127,000	70,620
Cash Available for Distribution:			
Add (deduct):			
Rental income from straight-line rents .....	(13,385)	(7,035)	(2,603)
Amortization of deferred financing costs .....	2,598	2,256	1,911
Non-incremental revenue generating capital expenditures:			
Building improvements paid .....	(9,029)	(4,401)	(3,554)
Second generation tenant improvements paid .....	(20,115)	(9,889)	(3,471)
Second generation lease commissions paid .....	(13,055)	(5,535)	(1,426)
Cash available for distribution .....	\$ 158,403	\$ 102,396	\$ 61,477
Weighted average shares/units outstanding (1) -- diluted .....	65,621	46,813	30,442
Dividend payout ratio:			
FFO .....	65.2%	73.0%	80.2%
Cash available from distribution .....	87.0%	90.5%	92.1%

(1) Assumes redemption of Common Units for shares of Common Stock. Minority interest Common Unit holders and the stockholders of the Company share equally on a per Common Unit and per share basis; therefore, the per share information is unaffected by conversion.

## Inflation

In the last five years, inflation has not had a significant impact on us because of the relatively low inflation rate in our geographic areas of operation. Most of the leases require the tenants to pay their pro rata share of operating expenses, including common area maintenance, real estate taxes and insurance, thereby reducing our exposure to increases in operating expenses resulting from inflation. In addition, 83% of the leases are for remaining terms of less than seven years, which may enable us to replace existing leases with new leases at a higher base if rents on the existing leases are below the then-existing market rate.

## Disclosure Regarding Forward-looking Statements

Some of the information in this Annual Report on Form 10-K may contain forward-looking statements. Such statements include, in particular, statements about our plans, strategies and prospects under the headings "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." You can identify forward-looking statements by our use of forward-looking terminology

such as "may," "will," "expect," "anticipate," "estimate," "continue" or other similar words. Although we believe that our plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, we cannot assure you that our plans, intentions or expectations will be achieved. When considering such forward-looking statements, you should keep in mind the following important factors that could cause our actual results to differ materially from those contained in any forward-looking statement:

- o our markets could suffer unexpected increases in development of office, industrial and retail properties;
- o the financial condition of our tenants could deteriorate;
- o the costs of our development projects could exceed our original estimates;
- o we may not be able to complete development, acquisition or joint venture projects as quickly or on as favorable terms as anticipated;
- o we may not be able to lease or release space quickly or on as favorable terms as old leases;
- o we may have incorrectly assessed the environmental condition of our properties;
- o an unexpected increase in interest rates would increase our debt service costs;
- o we may not be able to continue to meet our long-term liquidity requirements on favorable terms;
- o we could lose key executive officers; and
- o our southeastern markets may suffer an unexpected decline in economic growth or increase in unemployment rates.

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

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

### **Interest Rate Risk**

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

Certain Variable Rate Debt. As of December 31, 1998, the Company had approximately \$317.3 million of variable rate debt outstanding that was not protected by interest rate hedge contracts. If the

weighted average interest rate on this variable rate debt is 100 basis points higher or lower in 1999, our interest expense would be increased or decreased approximately \$3.2 million for the year ended December 31, 1999. In addition, as of December 31, 1998, we had \$80 million of additional variable rate debt outstanding that was protected by an interest rate collar that effectively keeps the interest rate within a range of 85 basis points. We do not believe that a 100 basis point increase or decrease in interest rates would materially affect our interest expense during 1999 with respect to this \$80 million of debt.

**Interest Rate Hedge Contracts.** For a discussion of our interest rate hedge contracts in effect at December 31, 1998, see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources -- Capitalization." If interest rates increase by 100 basis points, the aggregate fair market value of these interest rate hedge contracts as of December 31, 1998 would increase by approximately \$22.6 million. If interest rates decrease by 100 basis points, the aggregate fair market value of these interest rate hedge contracts as of December 31, 1998 would decrease by approximately \$25.0 million.

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

### **Equity Price Risk**

On August 28, 1997, we entered into a purchase agreement with UBS AG, London Branch ("UB-LB") involving the sale of 1.8 million shares of Common Stock and a related forward contract providing for certain purchase price adjustments. The forward contract (as amended) generally provides that if the market price (defined as the weighted average closing price of the Common Stock for the period beginning March 31, 1999 and ending when UB-LB has sold all of the shares issued under the forward contract) is less than a certain amount, which we refer to as the "Forward Price," we must pay UB-LB the difference times 1.8 million. (Similarly, if the Market Price of a share of Common Stock is above the Forward Price, UB-LB must pay us the difference in shares of Common Stock.)

On February 28, 1999, the Company and UB-LB amended the forward contract. Pursuant to the amendment:

- o UB-LB applied \$12.8 million in Company collateral to "buy down" the Forward Price by approximately \$7.10 (at March 31, 1999, the forward price was approximately \$25.12);
- o We issued 161,924 shares of Common Stock to UB-LB as an interim settlement payment; and
- o UB-LB agreed not to sell any of the shares that we had issued to it until not later than March 31, 1999.

If the weighted average closing price of one share of Common Stock during the 60-trading-day period during which UB-LB may sell the shares is 10% lower or higher than on December 31, 1998, our cost of settling the forward contract would increase or decrease by approximately \$5 million, payable in cash or shares of Common Stock. The Company has retained the option of repurchasing any of the shares or cash prior to their distribution by UB-LB.

### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

See page F-1 of the financial report included herein.

### **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **PART III**

### **ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The section under the heading "Election of Directors" of the Proxy Statement for the Annual Meeting of Stockholders to be held June 2, 1999 is incorporated herein by reference for information on directors of the Company. See ITEM X in Part I hereof for information regarding executive officers of the Company.

### **ITEM 11. EXECUTIVE COMPENSATION**

The section under the heading "Election of Directors" entitled "Compensation of Directors" of the Proxy Statement and the section titled "Executive Compensation" of the Proxy Statement are incorporated herein by reference.

### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The section under the heading "Security Ownership of Certain Beneficial Owners and Management" of the Proxy Statement is incorporated herein by reference.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The section under the heading "Certain Relationships and Related Transactions" of the Proxy Statement is incorporated herein by reference.

## PART IV

### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

#### (a) List of Documents Filed as a Part of this Report

1. Consolidated Financial Statements and Report of Independent Auditors See Index on Page F-1

2. Financial Statement Schedules See Index on Page F-1

3. Exhibits

Ex.	FN	Description
2.1	(1)	Master Agreement of Merger and Acquisition by and among the Company, the Operating Partnership, Associated Capital Properties, Inc. and its shareholders dated August 27, 1997
2.2	(2)	Agreement and Plan of Merger by and among the Company, Jackson Acquisition Corp. and J.C. Nichols Company dated December 22, 1997
2.3	(3)	Amendment No. 1 to Agreement and Plan of Merger by and among the Company, Jackson Acquisition Corp. and J.C. Nichols Company dated December 22, 1997
3.1	(4)	Amended and Restated Articles of Incorporation of the Company
3.2	(5)	Amended and Restated Bylaws of the Company
4.1	(5)	Specimen of certificate representing shares of Common Stock
4.2	(6)	Indenture among AP Southeast Portfolio Partners, L.P., Bankers Trust Company of California, N.A. and Bankers Trust Company dated as of March 1, 1994
4.3	(7)	Indenture among the Operating Partnership, the Company and First Union National Bank of North Carolina dated as of December 1, 1996
4.4	(8)	Specimen of certificate representing 8 5/8% Series A Cumulative Redeemable Preferred Shares
4.5	(9)	Specimen of certificate representing 8% Series B Cumulative Redeemable Preferred Shares
4.6	(10)	Specimen of certificate representing 8% Series D Cumulative Redeemable Preferred Shares
4.7	(10)	Specimen of Depositary Receipt evidencing the Depositary Shares each representing 1/10 of an 8% Series D Cumulative Redeemable Preferred Share
4.8	(10)	Deposit Agreement, dated April 23, 1998, between the Company and First Union National Bank, as preferred share depository
4.9	(2)	Purchase Agreement between the Company, UBS Limited and Union Bank of Switzerland, London Branch dated as of August 28, 1997
4.10	(2)	Forward Stock Purchase Agreement between the Company and Union Bank of Switzerland, London Branch dated as of August 28, 1997
4.11	(11)	Rights Agreement, dated as of October 6, 1997, between the Company and First Union National Bank, as rights agent
4.12	(12)	Credit Agreement among the Operating Partnership, the Company, the Subsidiaries named therein and the Lenders named therein dated as of July 3, 1998
4.13		First Amendment to Credit Agreement among the Operating Partnership, the Company, the Subsidiaries named therein and the Lenders named therein dated as of July 3, 1998
4.14		Second Amendment to Credit Agreement among the Operating Partnership, the Company, the Subsidiaries named therein and the Lenders named therein dated as of July 3, 1998



Ex.	FN	Description
4.15	(2)	Agreement to furnish certain instruments defining the rights of long-term debt holders
10.1	(5)	Amended and Restated Agreement of Limited Partnership of the Operating Partnership
10.2	(8)	Amendment to Amended and Restated Agreement of Limited Partnership of the Operating Partnership with respect to Series A Preferred Units
10.3	(9)	Amendment to Amended and Restated Agreement of Limited Partnership of the Operating Partnership with respect to Series B Preferred Units
10.4	(10)	Amendment to Amended and Restated Agreement of Limited Partnership of the Operating Partnership with respect to Series D Preferred Units
10.5	(13)	Amendment to Amended and Restated Agreement of Limited Partnership of the Operating Partnership with respect to certain rights of limited partners upon a change of control
10.6	(14)	Form of Registration Rights and Lockup Agreement among the Company and the Holders named therein, which agreement is signed by all Common Unit holders
10.7	(15)	Amended and Restated 1994 Stock Option Plan
10.8	(2)	1997 Performance Award Plan
10.9	(16)	Employment Agreement among the Company, the Operating Partnership and John W. Eakin
10.10	(17)	Employment Agreement among the Company, the Operating Partnership and Gene H. Anderson
10.11	(1)	Employment Agreement among the Company, the Operating Partnership and James R. Heistand
10.12		Form of Executive Supplemental Employment Agreement between the Company and Named Executive Officers.
10.13	(18)	Form of warrants to purchase Common Stock of the Company issued to John L. Turner, William T. Wilson III and John E. Reece II
10.14	(16)	Form of warrants to purchase Common Stock of the Company issued to W. Brian Reames, John W. Eakin and Thomas S. Smith
10.15	(2)	Form of warrants to purchase Common Stock of the Company issued to James R. Heistand and certain other shareholders of Associated Capital Properties, Inc.
21		Schedule of subsidiaries of the Company
23		Consent of Ernst & Young LLP
27		Financial Data Schedule

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(1) Filed as part of the Company's Current Report on Form 8-K dated August 27, 1997 and incorporated herein by reference.

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

(3) Filed as part of the Company's Current Report on Form 8-K April 29, 1998 and incorporated herein by reference.

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

(5) Filed as part of Registration Statement 33-76952 with the SEC and incorporated herein by reference.

- (6) Filed by Crocker Realty Trust, Inc. as part of Registration Statement No. 33-88482 filed with the SEC and incorporated herein by reference.
- (7) Filed as part of the Operating Partnership's Current Report on Form 8-K dated December 2, 1996 and incorporated herein by reference.
- (8) Filed as part of the Company's Current Report on Form 8-K dated February 12, 1997 and incorporated herein by reference.
- (9) Filed as part of the Company's Current Report on Form 8-K dated September 25, 1997 and incorporated herein by reference.
- (10) Filed as part of the Company's Current Report on Form 8-K dated April 20, 1998 and incorporated herein by reference.
- (11) Filed as part of the Company's Current Report on Form 8-K dated October 4, 1997 and incorporated herein by reference.
- (12) Filed as part of the Company's Current Report on Form 8-K dated July 3, 1998 and incorporated herein by reference.
- (13) Filed as part of the Operating Partnership's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997 and incorporated herein by reference.
- (14) Filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 1995 and incorporated herein by reference.
- (15) Filed as part of the Company's proxy statement on Schedule 14A relating to the 1997 Annual Meeting of Stockholders.
- (16) Filed as part of the Company's Current Report on Form 8-K dated April 1, 1996 and incorporated herein by reference.
- (17) Filed as part of the Company's Current Report on Form 8-K dated January 9, 1997 and incorporated herein by reference.
- (18) Filed as part of Registration Statement 33-88364 with the SEC and incorporated herein by reference.

The Company will provide copies of any exhibit, upon written request, at a cost of \$.05 per page.

(b) Reports on Form 8-K

On November 20, 1998, the Company filed a current report on Form 8-K, dated November 20, 1998, reporting under items 5 and 7 of the Form the incorporation of a consent of independent auditors into certain of the Company's effective registration statements and related prospectuses.

On December 4, 1998, the Company filed a current report on Form 8-K, dated November 30, 1998, reporting under item 5 of the Form that it had canceled a letter of intent to sell certain non-core office properties in Florida.

On December 23, 1998, the Company filed a current report on Form 8-K, dated June 18, 1998, setting forth under item 7 audited financial statements of Landmark Center and Shelton Properties.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Raleigh, State of North Carolina, on March 31, 1999.

### HIGHWOODS PROPERTIES, INC.

By: /s/ RONALD P. GIBSON  
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*Ronald P. Gibson, President and  
Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
----- /s/ O. TEMPLE SLOAN, JR. ----- O. Temple Sloan, Jr.	Chairman of the Board of Directors	March 31, 1999
----- /s/ RONALD P. GIBSON ----- Ronald P. Gibson	President, Chief Executive Officer and Director	March 31, 1999
----- /s/ JOHN L. TURNER ----- John L. Turner	Vice Chairman of the Board and Chief Investment Officer	March 31, 1999
----- /s/ GENE H. ANDERSON ----- Gene H. Anderson	Senior Vice President and Director	March 31, 1999
----- /s/ JAMES R. HEISTAND ----- James R. Heistand	Senior Vice President and Director	March 31, 1999
----- /s/ THOMAS W. ADLER ----- Thomas W. Adler	Director	March 31, 1999
----- /s/ KAY NICHOLS CALLISON ----- Kay Nichols Callison	Director	March 31, 1999
----- /s/ WILLIAM E. GRAHAM, JR. ----- William E. Graham, Jr.	Director	March 31, 1999
----- /s/ GLENN ORR, JR. ----- Glenn Orr, Jr.	Director	March 31, 1999
----- /s/ WILLARD H. SMITH JR. ----- Willard H. Smith Jr.	Director	March 31, 1999
----- /s/ STEPHEN TIMKO ----- Stephen Timko	Director	March 31, 1999
----- /s/ CARMAN J. LIUZZO ----- Carman J. Liuzzo	Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) and Treasurer	March 31, 1999

## INDEX TO FINANCIAL STATEMENTS

	Page
Highwoods Properties, Inc.	-----
Report of Independent Auditors .....	F-2
Consolidated Balance Sheets as of December 31, 1998 and 1997 .....	F-3
Consolidated Statements of Income for the Years Ended December 31, 1998, 1997 and 1996..	F-4
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 1998, 1997 and 1996 .....	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 1998, 1997 and 1996 .....	F-6
Notes to Consolidated Financial Statements .....	F-8
Schedule III -- Real Estate and Accumulated Depreciation .....	F-29

All other schedules are omitted because they are not applicable, or because the required information is included in the financial statements or notes thereto.

## **REPORT OF INDEPENDENT AUDITORS**

### **THE BOARD OF DIRECTORS AND STOCKHOLDERS HIGHWOODS PROPERTIES, INC.**

We have audited the accompanying consolidated balance sheets of Highwoods Properties, Inc. as of December 31, 1998 and 1997, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Highwoods Properties, Inc. at December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

### **ERNST & YOUNG LLP**

Raleigh, North Carolina  
February 16, 1999, except for Note 15 as to which the date is March 15, 1999

# HIGHWOODS PROPERTIES, INC.

## Consolidated Balance Sheets

(Dollars in thousands, except per share amounts)

	December 31,	
	1998	1997
<b>Assets</b>		
Real estate assets, at cost:		
Land and improvements .....	\$ 559,100	\$ 344,315
Buildings and tenant improvements .....	3,186,584	2,194,641
Development in process .....	189,465	95,387
Land held for development .....	150,622	64,454
Furniture, fixtures and equipment .....	7,693	3,362
	4,093,464	2,702,159
Less -- accumulated depreciation .....	(169,272)	(87,505)
Net real estate assets .....	3,924,192	2,614,654
Property held for sale .....	131,262	--
Cash and cash equivalents .....	31,445	10,146
Restricted cash .....	24,263	9,341
Accounts receivable net of allowance of \$1,688 and \$555 at December 31, 1998 and 1997, respectively .....	27,948	17,701
Advances to related parties .....	10,420	9,072
Notes receivable .....	40,225	--
Accrued straight-line rents receivable .....	27,194	13,033
Investment in unconsolidated subsidiaries .....	21,088	--
Other assets:		
Deferred leasing costs .....	45,785	21,688
Deferred financing costs .....	38,750	22,294
Prepaid expenses and other .....	15,237	17,607
	99,772	61,589
Less -- accumulated amortization .....	(23,476)	(13,230)
	76,296	48,359
	\$4,314,333	\$2,722,306
	=====	=====
<b>Liabilities and stockholders' equity</b>		
Mortgages and notes payable .....	\$2,008,716	\$ 978,558
Accounts payable, accrued expenses and other liabilities .....	130,575	55,121
Total liabilities .....	2,139,291	1,033,679
Minority interest .....	279,043	287,186
<b>Stockholders' equity:</b>		
Preferred stock, \$.01 par value, authorized 10,000,000 shares:		
8 5/8% Series A Cumulative Redeemable Preferred Shares (liquidation preference \$1,000 per share), 125,000 shares issued and outstanding at December 31, 1998 and 1997 .....	125,000	125,000
8% Series B Cumulative Redeemable Preferred Shares (liquidation preference \$25 per share), 6,900,000 shares issued and outstanding at December 31, 1998 and 1997 .....	172,500	172,500
8% Series D Cumulative Redeemable Preferred Shares (liquidation preference \$250 per share), 400,000 shares and 0 shares issued and outstanding at December 31, 1998 and 1997, respectively .....	100,000	--
Common stock, \$.01 par value, authorized 100,000,000 shares; issued and outstanding 59,865,259 and 46,838,600 at December 31, 1998 and 1997, respectively .....	599	468
Additional paid-in capital .....	1,546,592	1,132,100
Distributions in excess of net earnings .....	(48,692)	(28,627)
Total stockholders' equity .....	1,895,999	1,401,441
	\$4,314,333	\$2,722,306
	=====	=====

See accompanying notes to consolidated financial statements.

# HIGHWOODS PROPERTIES, INC.

## Consolidated Statements of Income

(in thousands, except per share amounts)

### For the Years Ended December 31, 1998, 1997 and 1996

	1998	1997	1996
Revenue:			
Rental income .....	\$498,001	\$266,933	\$130,848
Equity in earnings of unconsolidated affiliates .....	430	--	--
Gain on disposition of assets .....	1,716	--	--
Interest and other income .....	14,040	7,537	7,078
Total revenue .....	514,187	274,470	137,926
Operating expenses:			
Rental property .....	154,323	76,743	35,313
Depreciation and amortization .....	91,705	47,533	22,095
Interest expense:			
Contractual .....	94,413	45,138	24,699
Amortization of deferred financing costs .....	2,598	2,256	1,911
General and administrative .....	97,011	47,394	26,610
	20,776	10,216	5,666
Income before minority interest and extraordinary item .....	150,372	92,584	48,242
Minority interest .....	(24,335)	(15,106)	(6,782)
Income before extraordinary item .....	126,037	77,478	41,460
Extraordinary item -- loss on early extinguishment of debt .....	(387)	(5,799)	(2,140)
Net income .....	125,650	71,679	39,320
Dividends on preferred stock .....	(30,092)	(13,117)	--
Net income available for common stockholders .....	\$95,558	\$58,562	\$39,320
Net income per common share -- basic:			
Income before extraordinary item .....	\$ 1.75	\$ 1.66	\$ 1.59
Extraordinary item -- loss on early extinguishment of debt .....	( .01)	( .15)	( .08)
Net income .....	\$ 1.74	\$ 1.51	\$ 1.51
Weighted average shares outstanding -- basic .....	54,791	38,770	26,111
Net income per common share -- diluted:			
Income before extraordinary item .....	\$ 1.74	\$ 1.65	\$ 1.58
Extraordinary item loss on early extinguishment of debt .....	--	( .15)	( .08)
Net income .....	\$ 1.74	\$ 1.50	\$ 1.50
Weighted average shares outstanding -- diluted .....	55,076	39,161	30,442

See accompanying notes to consolidated financial statements.

# HIGHWOODS PROPERTIES, INC.

## Consolidated Statements of Stockholders' Equity

(Dollars in thousands, except for number of shares)

### For the Years Ended December 31, 1998, 1997 and 1996

	Number of Common Shares	Common Stock	Series A Preferred	Series B Preferred	Series D Preferred	Additional Paid-In Capital	Retained Earnings (Distributions in Excess of Net Earnings)	Total
Balance at December 31, 1995 .....	19,404,411	\$194	\$ --	\$ --	\$ --	\$ 355,248	\$ (1,632)	\$ 353,810
Issuance of Common Stock .....	15,976,161	160	--	--	--	419,892	--	420,052
Common Stock dividends .....	--	--	--	--	--	--	(48,259)	(48,259)
Net income .....	--	--	--	--	--	--	39,320	39,320
Shares issued upon redemption of Common Units .....	255,583	2	--	--	--	5,422	--	5,424
Balance at December 31, 1996 .....	35,636,155	356	--	--	--	780,562	(10,571)	770,347
Issuance of Common Stock .....	10,702,215	107	--	--	--	349,147	--	349,254
Series A Preferred Shares offering .....	--	--	125,000	--	--	(3,191)	--	121,809
Series B Preferred Shares offering .....	--	--	--	172,500	--	(6,154)	--	166,346
Common Stock dividends .....	--	--	--	--	--	--	(76,618)	(76,618)
Preferred stock dividends .....	--	--	--	--	--	--	(13,117)	(13,117)
Net Income .....	--	--	--	--	--	--	71,679	71,679
Shares issued upon redemption of Common Units .....	500,230	5	--	--	--	11,736	--	11,741
Balance at December 31, 1997 .....	46,838,600	468	125,000	172,500	--	1,132,100	(28,627)	1,401,441
Issuance of Common Stock .....	12,036,711	120	--	--	--	385,951	--	386,071
Series D Preferred Shares offering .....	--	--	--	--	100,000	(3,192)	--	96,808
Common Stock dividends .....	--	--	--	--	--	--	(115,623)	(115,623)
Preferred Stock dividends .....	--	--	--	--	--	--	(30,092)	(30,092)
Net income .....	--	--	--	--	--	--	125,650	125,650
Shares issued upon redemption of Common Units .....	989,948	11	--	--	--	31,733	--	31,744
Balance at December 31, 1998 .....	59,865,259	\$599	\$125,000	\$172,500	\$100,000	\$1,546,592	\$ (48,692)	\$1,895,999
	=====	=====	=====	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.



# HIGHWOODS PROPERTIES, INC.

## Consolidated Statements of Cash Flows

(Dollars in thousands)

**For the Years Ended December 31, 1998, 1997 and 1996**

	1998	1997	1996
	-----	-----	-----
Operating activities:			
Net income .....	\$ 125,650	\$ 71,679	\$ 39,320
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation .....	85,046	44,393	20,752
Amortization .....	9,257	5,396	3,254
Loss on early extinguishment of debt .....	387	5,799	2,140
Minority interest .....	24,335	15,106	6,782
Gain on sale of properties .....	(1,716)	--	--
Changes in operating assets and liabilities:			
Accounts receivable .....	(7,168)	(8,662)	(1,734)
Prepaid expenses and other assets .....	393	(3,270)	(776)
Accrued straight-line rents receivable .....	(14,161)	(6,848)	(2,778)
Accounts payable, accrued expenses and other liabilities .....	41,410	6,599	4,357
	-----	-----	-----
Net cash provided by operating activities .....	263,433	130,192	71,317
Investing activities:			
Proceeds from disposition of real estate assets .....	26,347	1,419	900
Additions to real estate assets .....	(943,446)	(465,066)	(181,444)
Advances to related parties .....	(1,348)	(6,666)	(1,132)
Other assets and notes receivable .....	(47,889)	(18,580)	(3,626)
Cash from contributed net assets .....	55,064	--	20,711
Cash paid in exchange for net assets .....	(128,807)	(35,390)	(322,276)
	-----	-----	-----
Net cash used in investing activities .....	(1,040,079)	(524,283)	(486,867)
	-----	-----	-----
Financing activities:			
Distributions paid on Common Stock and Common Units .....	(136,891)	(88,397)	(55,515)
Dividends paid on preferred stock .....	(30,092)	(11,720)	--
Net proceeds from sale of preferred stock .....	96,808	288,155	--
Net proceeds from the sale of Common Stock .....	198,439	345,325	406,595
Payment of prepayment penalties .....	(387)	(6,945)	(1,184)
Borrowings on revolving loans .....	956,500	563,500	307,500
Repayment of revolving loans .....	(846,500)	(264,000)	(299,000)
Proceeds from mortgages and notes payable .....	745,356	100,000	213,500
Repayment of mortgages and notes payable .....	(170,304)	(532,481)	(141,216)
Payment of deferred financing costs .....	(14,984)	(270)	(10,898)
	-----	-----	-----
Net cash provided by financing activities .....	797,945	393,167	419,782
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents .....	21,299	(924)	4,232
Cash and cash equivalents at beginning of the period .....	10,146	11,070	6,838
	-----	-----	-----
Cash and cash equivalents at end of the period .....	\$ 31,445	\$ 10,146	\$ 11,070
	=====	=====	=====
Supplemental disclosure of cash flow information:			
Cash paid for interest .....	\$ 95,468	\$ 51,283	\$ 26,039
	=====	=====	=====

See accompanying notes to consolidated financial statements.

# HIGHWOODS PROPERTIES, INC.

## Consolidated Statements of Cash Flows -- Continued

(Dollars in thousands)

### For the Years Ended December 31, 1998, 1997 and 1996

Supplemental disclosure of non-cash investing and financing activities:

The following summarizes the net assets contributed by holders of common partnership interests ("Common Units") in Highwoods Realty Limited Partnership (the "Operating Partnership") other than Highwoods Properties, Inc. (the "Company") or acquired subject to mortgage notes payable:

	1998	1997	1996
	-----	-----	-----
Assets:			
Real estate assets, net .....	\$478,224	\$782,136	\$625,137
Cash and cash equivalents .....	55,064	--	20,711
Restricted cash .....	--	2,727	11,476
Tenant leasing costs, net .....	--	131	--
Deferred financing costs, net .....	--	227	3,871
Accounts receivable and other .....	6,634	913	1,635
Investment in unconsolidated affiliates .....	18,218	--	--
Notes receivable .....	29,176	--	--
	-----	-----	-----
Total assets .....	\$587,316	786,134	662,830
	-----	-----	-----
Liabilities:			
Mortgages and notes payable .....	345,106	555,663	244,129
Accounts payable, accrued expenses and other liabilities .....	34,044	19,527	19,142
	-----	-----	-----
Total liabilities .....	379,150	575,190	263,271
	-----	-----	-----
Net assets .....	\$208,166	\$210,944	\$399,559
	=====	=====	=====

See accompanying notes to consolidated financial statements.

# HIGHWOODS PROPERTIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1998

### 1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

#### Description of the Company

Highwoods Properties, Inc. (the "Company") is a self-administered and self-managed real estate investment trust ("REIT") which operates in the southeastern and midwestern United States. The Company's assets include 658 in-service office, industrial and retail properties; 2,325 apartment units; 1,417 acres of undeveloped land suitable for future development; and an additional 59 properties under development.

The Company conducts substantially all of its activities through, and substantially all of its interests in the properties are held directly or indirectly by, Highwoods Realty Limited Partnership (formerly Highwoods/Forsyth Limited Partnership, the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership. At December 31, 1998, the Company owned 86% of the common partnership interests ("Common Units") in the Operating Partnership. Limited partners (including certain officers and directors of the Company) own the remaining Common Units. Holders of Common Units may redeem them for the cash value of one share of the Company's common stock, \$.01 par value (the "Common Stock"), or, at the Company's option, one share (subject to certain adjustments) of Common Stock.

The Company also provides leasing, property management, real estate development, construction and miscellaneous services for its properties as well as for third parties. The Company conducts its third-party fee-based services through Highwoods Services, Inc., a subsidiary of the Operating Partnership accounted for using the equity method of accounting, and through Highwoods/Tennessee Properties, Inc., a wholly owned subsidiary of the Company.

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

#### Basis of Presentation

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

The Company is a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended.

Minority interest represents the limited partnership interest in the Operating Partnership owned by Common Unit holders other than the Company. Per share information is calculated using the weighted average number of shares outstanding.

The extraordinary loss represents the write-off of loan origination fees and prepayment penalties paid on the early extinguishment of debt and is shown net of the minority interest's share in the loss.

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

**1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES -- Continued**

**Real Estate Assets**

Real estate assets are stated at the lower of cost or fair value. All capitalizable costs related to the improvement or replacement of commercial real estate properties are capitalized. Depreciation is computed by the straight-line method over the estimated useful life of 40 years for buildings and improvements and 5 to 7 years for furniture and equipment. Tenant improvements are amortized over the life of the respective leases, using the straight-line method.

**Cash Equivalents**

The Company considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Restricted Cash**

The Company is required by a certain mortgage note to maintain various depository accounts, a cash collateral account and a contingency reserve account. All rents with respect to the collateralized properties are made payable to, and deposited directly in, the depository accounts, which are then transferred to the cash collateral account. Subsequent to payment of debt service and other required escrows, the residual balance of the cash collateral account is funded to the Company for capital expenditures and operations. The Company is required to maintain a minimum contingency reserve account balance of \$7,000,000. At December 31, 1998, the account balances were \$9,072,421, including \$7,120,655 in the contingency reserve account. At December 31, 1997, the account balances were \$8,624,090, including \$7,069,186 in the contingency reserve account.

The Company is required by certain mortgage notes to escrow real estate taxes with the mortgagor. At December 31, 1998, and 1997, \$2,672,448 and \$717,350, respectively, were escrowed for real estate taxes.

**Investment in Unconsolidated Affiliates**

Investment in unconsolidated affiliates are accounted for on the equity method and reflect the Company's share of income or loss of the affiliate, reduced by distributions received and increased by contributions made.

**Revenue Recognition**

Minimum rental income is recognized on a straight-line basis over the term of the lease. Unpaid rents are included in accounts receivable. Certain lease agreements provide for the reimbursement of real estate taxes, insurance, advertising and certain common area maintenance costs. These additional rents are recorded on the accrual basis. All rent and other receivables from tenants are due from commercial building tenants located in the properties.

**Deferred Lease Fees and Loan Costs**

Lease fees, concessions and loan costs are capitalized at cost and amortized over the life of the related lease or loan term, respectively.

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

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES -- Continued

**Income Taxes**

The Company is a REIT for federal income tax purposes. A corporate REIT is a legal entity that holds real estate assets, and through distributions to stockholders, is permitted to reduce or avoid the payment of Federal income taxes at the corporate level. To maintain qualification as a REIT, the Company must distribute to stockholders at least 95% of REIT taxable income.

No provision has been made for income taxes because the Company qualified as a REIT, distributed the necessary amount of taxable income and, therefore, incurred no income tax expense during the period.

**Concentration of Credit Risk**

Management of the Company performs ongoing credit evaluations of its tenants. The majority-owned properties (excluding apartment units) are leased to approximately 4,400 tenants in 20 geographic locations. The Company's tenants engage in a wide variety of businesses. There is no dependence upon any single tenant.

**Interest Rate Risk Management**

The Company may enter into interest rate hedge contracts such as swaps, caps and collars in order to mitigate its interest rate risk on a related financial instrument. The Company has designated these derivative financial instruments as hedges and applies deferral accounting. Gains and losses related to the termination of such derivative financial instruments are deferred and amortized to interest expense over the term of the debt instrument. Payments to or from counterparties are recorded as adjustments to interest expense.

The Company also utilizes treasury lock agreements to hedge interest rate risk on anticipated debt offerings. These anticipatory hedges are designated as hedges of identified debt issuances which have a high probability of occurring. Gains and losses resulting from changes in the market value of these contracts are deferred and amortized into interest expense over the life of the related debt instrument.

The Company is exposed to certain losses in the event of non-performance by the counterparties under the interest rate hedge contracts. The counterparties are major financial institutions with credit ratings of Aa3 or better, and are expected to perform fully under the agreements. However, if they were to default on their obligations under the arrangements, the Company could be required to pay the full rate under its Revolving Loans and the variable rate mortgages, even if such rate were in excess of the rate in the interest rate hedge contracts. The Company would not realize a material loss as of December 31, 1998, in the event of non-performance by any one counterparty. Additionally, the Company limits the amount of credit exposure with any one institution.

**Stock Compensation**

The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant. As described in Note 9, the Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for its employee stock options.

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

**1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES -- Continued**

**Use of Estimates**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Comprehensive Income**

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income ("FAS 130"). FAS 130 requires that total comprehensive income and comprehensive income per share be disclosed with equal prominence as net income and earnings per share. Comprehensive income is defined as changes in stockholder's equity exclusive of transactions with owners such as capital contributions and dividends. The Company adopted this Standard in 1998. The Company did not report any comprehensive income items in any of the years presented.

**Segment Reporting**

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information ("FAS 131"), which superceded Statement of Financial Accounting Standards No. 14, Financial Reporting for Segments of a Business Enterprise. FAS 131 establishes standards for the public reporting of information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. The adoption of FAS 131 did not affect the Company's net income or financial position.

**Impact of Recently Issued Accounting Standards**

In June 1998, the FASB issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which is required to be adopted in fiscal years beginning after June 15, 1999. The Statement will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The fair market value of the Company's derivatives at December 31, 1998 are discussed in Note 3.

**Reclassifications**

Certain amounts in the December 31, 1996 Financial Statements have been reclassified to conform to the December 31, 1997 presentation. These reclassifications had no material effect on net income or stockholders' equity as previously reported.

**2. INVESTMENT IN UNCONSOLIDATED AFFILIATES**

As a result of the Company's merger with J.C. Nichols Company, the Company had investments accounted for under the equity method of accounting which consisted of the following at December 31, 1998:

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

2. INVESTMENT IN UNCONSOLIDATED AFFILIATES -- Continued

	Percent owned
	-----
Center Court Partners .....	50.0%
Dallas County Partners .....	50.0
Dallas County Partners II .....	50.0
Dallas County Partners III L.C .....	50.0
Fountain Three .....	50.0
Terrace Place Partners .....	50.0
Meredith Drive Associates L.P .....	49.5
Board of Trade Investment Company .....	49.0
Kessinger/Hunter .....	30.0
4600 Madison Associates L.P .....	12.5
Raphael Hotel Group L.P .....	5.0

Selected aggregate financial data for unconsolidated affiliates for 1998 and 1997 is presented below:

	1998	1997
	-----	-----
	(in thousands)	
Total assets .....	\$143,662	\$131,341
Total liabilities .....	\$116,089	\$141,526
Net income .....	\$ 4,412	\$ 3,714

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

3. MORTGAGES AND NOTES PAYABLE Mortgages and notes payable consisted of the following at December 31, 1998, and 1997:

	1998	1997
	-----	-----
	(in thousands)	
Mortgage notes payable:		
7.9% mortgage note due 2001 .....	\$ 133,000	\$140,000
9.0% mortgage note due 2005 .....	39,043	39,630
8.1% mortgage note due 2005 .....	30,454	30,951
8.0% mortgage note due 2007 .....	42,842	43,465
8.0% mortgage note due 2013 .....	55,754	--
6.5% to 13.0% mortgage notes due between 1999 and 2022 .....	254,234	78,330
Variable rate Industrial Revenue Bonds due between 1999 and 2015 .....	70,800	--
Variable rate mortgage notes due 2021 .....	1,975	--
	-----	-----
	\$ 628,102	\$332,376
	-----	-----
Unsecured indebtedness:		
6.75% notes due 2003 .....	\$ 100,000	\$100,000
8.0% notes due 2003 .....	150,000	--
7.0% notes due 2006 .....	110,000	110,000
7.125% notes due 2008 .....	100,000	--
8.125% notes due 2009 .....	50,000	--
7.19% notes due 2011 .....	100,000	100,000
6.835% notes due 2013 .....	125,000	--
7.5% notes due 2018 .....	200,000	--
Variable rate note due 2002 .....	21,114	21,682
Revolving loan due 1998 .....	--	50,000
Revolving loan due 1999 .....	--	264,500
Revolving loan due 2001 .....	424,500	--
	-----	-----
	\$1,380,614	\$646,182
	-----	-----
Total .....	\$2,008,716	\$978,558
	=====	=====

**Secured Indebtedness**

Mortgage notes payable were secured by real estate with an aggregate carrying value of \$1.2 billion at December 31, 1998.

The 7.9% mortgage note due 2001 is secured by 45 of the properties (the "Mortgage Note Properties"), which are held by AP Southeast Portfolio Partners, L.P. (the "Financing Partnership"). The Company has a 99.99% economic interest in the Financing Partnership, which is managed indirectly by the Company. The 7.9% mortgage note is a conventional, monthly pay, first mortgage note in the principal amount of \$133 million issued by the Financing Partnership. The 7.9% 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 Mortgage Note Properties and other assets that have been pledged as security. The 7.9% mortgage note was issued to Kidder Peabody Acceptance Corporation pursuant to an indenture, dated March 1, 1994, among the Financing Partnership, Bankers Trust Company of California, N.A. and Bankers Trust Company.



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

**3. MORTGAGES AND NOTES PAYABLE -- Continued**

The Financing Partnership may make optional principal payments on the 7.9% 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.

**Unsecured Indebtedness**

On June 24, 1997, a trust formed by the Operating Partnership sold \$100 million of Exercisable Put Option Securities due June 15, 2004 ("X-POS"), which represent fractional undivided beneficial interest in the trust. The assets of the trust consist of, among other things, \$100 million of Exercisable Put Option Notes due June 15, 2011 (the "Put Option Notes"), issued by the Operating Partnership. The Put Option Notes bear an interest rate of 7.19%, representing an effective borrowing cost of 7.09% from the date of issuance through June 15, 2004, net of a related put option and certain interest rate hedge contract costs. Under certain circumstances, the Put Option Notes could become subject to early maturity on June 15, 2004.

On February 2, 1998, the Operating Partnership sold \$125 million of MandatOry Par Put Remarketed Securities ("MOPPRS") due February 1, 2013. The MOPPRS bear an interest rate of 6.835%, representing an effective borrowing cost of 6.31% from the date of issuance through January 31, 2003 (the "Remarketing Date"), net of a related remarketing option. Under certain circumstances, the MOPPRS could become subject to early maturity on the Remarketing Date.

During 1998, the Company obtained a \$600 million unsecured revolving loan (as amended, the "Revolving Loan"). The Revolving Loan matures in July 2001 and replaced the Company's two previously existing revolving loans aggregating \$430 million. The Revolving Loan carries an interest rate based upon the Operating Partnership's senior unsecured credit rating. The Revolving Loan also includes a \$300 million competitive bid sub-facility. At December 31, 1998, the effective interest rate for borrowing under the Revolving Loan was 6.18%. The Company had \$152.5 of borrowing availability under the Revolving Loan at December 31, 1998. The terms of the Revolving Loan require the Company to pay an annual facility fee equal to .15% of the aggregate amount of the Revolving Loan and include certain restrictive covenants which limit, among other things, dividend payments, and which require compliance with certain financial ratios and measurements. At December 31, 1998, the Company was in compliance with these covenants.

**Interest Rate Hedge Contracts**

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

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

**3. MORTGAGES AND NOTES PAYABLE -- Continued**

The following table sets forth information regarding the Company's interest rate hedge contracts as of December 31, 1998:

Type of Hedge	Notional Amount	Maturity Date	Reference Rate	Fixed Rate	Fair Market Value
-----	-----	-----	-----	-----	-----
			(dollars in thousands)		
Treasury Lock	\$50,000	3/10/99	10-Year Treasury	5.631%	\$ (3,708)
Treasury Lock	100,000	7/1/99	10-Year Treasury	5.674	(7,313)
Treasury Lock	100,000	10/1/99	10-Year Treasury	5.725	(7,394)
Swap	100,000	10/1/99	3-Month LIBOR	4.970	93
Swap	21,112	6/10/02	1-Month LIBOR + 0.75%	7.700	(733)
Collar	80,000	10/15/01	1-Month LIBOR	5.40-6.25	(1,376)

The interest rate on all of the Company's variable rate debt is adjusted at one- and three-month intervals, subject to settlements under these contracts. Net payments made to counterparties under the Company's swaps, collars and caps were \$48,000 in 1998 and \$47,000 in 1997 and were recorded as increases to interest expense. Payments received from counterparties were \$167,000 in 1996 and were recorded as a reduction of interest expense.

In addition, the Company is exposed to certain losses in the event of non-performance by the counterparties under the interest rate hedge contracts. The Company expects the counterparties, which are major financial institutions, to perform fully under these contracts. However, if the counterparties were to default on their obligations under the interest rate hedge contracts, the Company could be required to pay the full rates on its debt, even if such rates were in excess of the rates in the contracts.

**Other Information**

The aggregate maturities of the mortgage and notes payable at December 31, 1998 are as follows:

Year of Maturity	Principal Amount
-----	-----
	(in thousands)
1999 .....	\$ 44,387
2000 .....	29,736
2001 .....	576,956
2002 .....	66,013
2003 .....	265,576
Thereafter .....	1,026,048
	-----
	\$2,008,716
	=====

Total interest capitalized was \$17,968,000 in 1998, \$7,238,000 in 1997, and \$2,935,000 in 1996.

**4. EMPLOYEE BENEFIT PLANS**

**Management Compensation Program**

The Company has established an incentive compensation plan for employees of the Company. The plan provides for payment of a cash bonus to participating officers and employees if certain Company performance objectives are achieved. The amount of the bonus to participating officers and employees is based on a formula determined for each employee by the executive compensation committee, but

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

**4. EMPLOYEE BENEFIT PLANS -- Continued**

may not exceed 100% of base salary. All bonuses may be subject to adjustment to reflect individual performance as measured by specific qualitative criteria to be approved by the executive compensation committee. Bonuses are accrued in the year earned and are included in accrued expenses in the Consolidated Balance Sheets.

In addition, as an incentive to retain top management, the Company has established a deferred compensation plan which provides for phantom stock awards. Under the deferred compensation plan, phantom stock or stock appreciation rights equal in value to 25% of the yearly cash bonus may be set aside in an incentive pool, with payment after five years. If an employee leaves the Company for any reason (other than death, disability or normal retirement) prior to the end of the five-year period, all awards under the deferred compensation plan will be forfeited.

**401(k) Savings Plan**

The Company has a 401(k) savings plan covering substantially all employees who meet certain age and employment criteria. The Company matches the first 6% of compensation deferred at the rate of 50% of employee contributions. During 1998, 1997 and 1996, the Company contributed \$588,000, \$353,000, and \$160,000, respectively to the Plan. Administrative expenses of the plan are paid by the Company.

**Employee Stock Purchase Plan**

In August 1997, the Company instituted an Employee Stock Purchase Plan for all active employees. At the end of each three-month offering period, each participant's account balance is applied to acquire shares of Common Stock at 90% of the market value of the Common Stock, calculated as the lower of the average closing price on the New York Stock Exchange on the five consecutive days preceding the first day of the quarter or the five days preceding the last day of the quarter. A participant may not invest more than \$7,500 per quarter. Employees purchased 24,046 and 5,839 shares of Common Stock under the Employee Stock Purchase Plan during the years ended December 31, 1998 and 1997, respectively.

**5. RENTAL INCOME**

The Company's real estate assets are leased to tenants under operating leases, substantially all of which expire over the next 10 years. The minimum rental amounts under the leases are generally either subject to scheduled fixed increases or adjustments based on the Consumer Price Index. Generally, the leases also require that the tenants reimburse the Company for increases in certain costs above the base year costs.

Expected future minimum rents to be received over the next five years and thereafter from tenants for leases in effect at December 31, 1998, are as follows (in thousands):

1999 .....	\$ 493,190
2000 .....	455,254
2001 .....	388,659
2002 .....	321,121
2003 .....	252,459
Thereafter .....	936,741
	-----
	\$2,847,424
	=====

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

6. **RELATED PARTY TRANSACTIONS** The Company makes advances to Highwoods Services, Inc. for working capital purposes. These advances bear interest at a rate of 7% per annum, are due on demand and totaled \$10,420,000 at December 31, 1998, and \$7,022,000 at December 31, 1997. The Company recorded interest income from these advances of \$826,000, \$142,000 and \$91,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

On December 8, 1998, the Company purchased the Bluegrass Valley office development project from a limited liability company controlled by an executive officer and director of the Company for approximately \$2.5 million.

On October 1, 1997, the Company sold the Ivy Distribution Center in Winston-Salem, North Carolina, to a limited liability company controlled by an executive officer and director of the Company for \$2,050,000. The Company accepted a note receivable of \$2,050,000 as consideration for this transaction which approximated the carrying value of the property. The note bore interest at 8% per annum and was paid in full on October 8, 1998. The Company recorded interest income of \$123,000 and \$41,000 for the years ended December 31, 1998 and 1997, respectively.

On March 18, 1997, the Company purchased 5.68 acres of development land in Raleigh, North Carolina, for \$1,298,959 from a partnership in which an executive officer and director and an additional director of the Company each had an 8.5% limited partnership interest.

## 7. STOCKHOLDERS' EQUITY

### Common Stock Distributions

Distributions paid on Common Stock were \$2.10, \$1.98 and \$1.86 per share for the years ended December 31, 1998, 1997 and 1996, respectively.

For federal income tax purposes, the following table summarizes the estimated taxability of distributions paid:

	1998	1997	1996
	-----	-----	-----
Per share:			
Ordinary income .....	\$ 1.84	\$ 1.39	\$ 1.50
Capital gains .....	.01	--	.01
Return of capital .....	.25	.59	.35
	-----	-----	-----
Total .....	\$ 2.10	\$ 1.98	\$ 1.86
	=====	=====	=====

The Company's tax returns for the year ended December 31, 1998, have not been filed, and the taxability information for 1998 is based upon the best available data. The Company's tax returns have not been examined by the IRS, and therefore the taxability of distributions is subject to change.

The tax basis of the Company's assets is approximately \$3,335,636,000 and the tax basis of the Company's liabilities is \$2,108,076,000.

On January 25, 1999, the Board of Directors declared a Common Stock distribution of \$.54 per share payable on February 17, 1999, to stockholders of record on February 4, 1999.

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

**7. STOCKHOLDERS' EQUITY -- Continued**

**Preferred Stock**

On February 7, 1997, the Company issued 125,000 8 5/8% Series A Cumulative Redeemable Preferred Shares (the "Series A Preferred Shares"). The Series A Preferred Shares are non-voting and have a liquidation preference of \$1,000 per share for an aggregate liquidation preference of \$125.0 million plus accrued and unpaid dividends. The net proceeds (after underwriting commission and other offering costs) of the Series A Preferred Shares issued were \$121.8 million. Holders of the Series A Preferred Shares are entitled to receive, when, as and if declared by the Company's Board of Directors, out of funds legally available for payment of distributions, cumulative preferential cash distributions at a rate of 8 5/8% of the liquidation preference per annum (equivalent to \$86.25 per share). On or after February 12, 2027, the Series A Preferred Shares may be redeemed for cash at the option of the Company. The redemption price (other than the portion thereof consisting of accrued and unpaid distributions) is payable solely out of the sale proceeds of other capital shares of the Company, which may include shares of other series of preferred stock. The Company's 1998 distributions of \$86.25 per Series A Preferred Share will be taxed as ordinary income.

On September 22, 1997, the Company issued 6,900,000 8% Series B Cumulative Redeemable Preferred Shares (the "Series B Preferred Shares"). The Series B Preferred Shares are non-voting and have a liquidation preference of \$25 per share for an aggregate liquidation preference of \$172.5 million plus accrued and unpaid dividends. The net proceeds (after underwriting commission and other offering costs) of the Series B Preferred Shares issued were \$166.3 million. Holders of the Series B Preferred Shares are entitled to receive, when, as and if declared by the Company's Board of Directors, out of funds legally available for payment of distributions, cumulative preferential cash distributions at a rate of 8% of the liquidation preference per annum (equivalent to \$2.00 per share). On or after September 25, 2002, the Series B Preferred Shares may be redeemed for cash at the option of the Company. The redemption price (other than the portion thereof consisting of accrued and unpaid distributions) is payable solely out of the sale proceeds of other capital shares of the Company, which may include shares of other series of preferred stock. The Company's 1998 distributions of \$2.00 per Series B Preferred Share will be taxed as ordinary income.

On April 23, 1998, the Company issued 4,000,000 depositary shares (the "Series D Depositary Shares"), each representing a 1/10 fractional interest in an 8% Series D Cumulative Redeemable Preferred Share (the "Series D Preferred Shares"). The Series D Preferred Shares are non-voting and have a liquidation preference of \$250 per share for an aggregate liquidation preference of \$100 million plus accrued and unpaid dividends. The net proceeds (after underwriting commission and other offering costs) of the Series D Preferred Shares issued were \$96.8 million. Holders of Series D Preferred Shares are entitled to receive, when, as and if declared by the Company's Board of Directors out of funds legally available for payment of distributions, cumulative preferential cash distributions at a rate of 8% of the liquidation preference per annum (equivalent to \$20.00 per share). On or after April 23, 2003, the Series D Preferred Shares may be redeemed for cash at the option of the Company. The redemption price (other than the portion thereof consisting of accrued and unpaid distributions) is payable solely out of the sale proceeds of other capital shares of the Company, which may include shares of other series of preferred stock. The Company's 1998 distributions of \$1.04 per Series D Depositary Share will be taxed as ordinary income.

**Shareholder Rights Plan**

On October 4, 1997, the Board declared a dividend on one preferred share purchase right ("Right") for each outstanding share of Common Stock to be distributed to all holders of record of the Common Stock on October 16, 1997. The Rights attach to shares of Common Stock subsequently issued. Each

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

**7. STOCKHOLDERS' EQUITY -- Continued**

Right entitles the registered holder to purchase one-hundredth of a participating preferred share for an exercise price of \$140.00 per one-hundredth of a participating preferred share, subject to adjustment as provided in the rights agreement. The Rights will generally be exercisable only if a person or group acquires 15% or more of the Common Stock or announces a tender offer for 15% or more of the Common Stock. The Rights will expire on October 6, 2007, unless the expiration date of the Rights is extended, and the Rights are subject to redemption at a price of \$0.01 per Right under certain circumstances.

**Dividend Reinvestment Plan**

The Company has instituted a Dividend Reinvestment and Stock Purchase Plan under which holders of Common Stock may elect to automatically reinvest their distributions in additional shares of Common Stock and may make optional cash payments for additional shares of Common Stock. The Company may issue additional shares of Common Stock or repurchase Common Stock in the open market for purposes of financing its obligations under the Dividend Reinvestment and Stock Purchase Plan.

**Forward Share Purchase Agreement**

On August 28, 1997, the Company entered into a purchase agreement with UBS AG, London Branch ("UB-LB") involving the sale of 1.8 million shares of Common Stock and a related forward contract providing for certain purchase price adjustments. The forward contract (as amended) generally provides that if the market price (defined as the weighted average closing price of the Common Stock for the period beginning March 31, 1999 and ending when UB-LB has sold all of the shares issued under the forward contract) is less than a certain amount (the "Forward Price"), the Company must pay UB-LB the difference times 1.8 million. (Similarly, if the Market Price of a share of Common Stock is above the Forward Price, UB-LB must pay the Company the difference in shares of Common Stock.)

**8. EARNINGS PER SHARE**

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

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

The following table sets forth the computation of basic and diluted earnings per share:

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

**8. EARNINGS PER SHARE -- Continued**

	1998	1997	1996
	-----	-----	-----
	(in thousands, except per share amounts)		
Numerator:			
Income before minority interest and extraordinary item .....	\$150,372	\$ 92,584	\$ 48,242
Non-convertible preferred stock dividends (3) .....	(30,092)	(13,117)	--
Minority interest .....	(24,335)	(15,106)	(6,782)
General partner's portion of extraordinary item .....	(387)	(5,799)	(2,140)
	-----	-----	-----
Numerator for basic earnings per share -- income available to common stockholders .....	\$ 95,558	\$ 58,562	\$ 39,320
Effect of dilutive securities:			
Minority interest .....	--(1)	--(2)	6,782
Minority interest portion of extraordinary item .....	--(1)	--(2)	(292)
	-----	-----	-----
	--(1)	--(2)	6,490
Numerator for diluted earnings per share -- income available to common stockholders -- after assumed conversions .....	\$ 95,558	\$ 58,562	\$ 45,810
Denominator:			
Denominator for basic earnings per share -- weighted-average shares .....	54,791	38,770	26,111
Effect of dilutive securities:			
Employee stock options (3) .....	240	318	190
Warrants (3) .....	45	73	32
Common Units converted .....	--(1)	--(2)	4,109
	-----	-----	-----
Dilutive potential common shares .....	285	391	4,331
Denominator for diluted earnings per share -- adjusted weighted average shares and assumed conversions .....	55,076	39,161	30,442
Basic earnings per share .....	\$ 1.74	\$ 1.51	\$ 1.51
	=====	=====	=====
Diluted earnings per share .....	\$ 1.74	\$ 1.50	\$ 1.50
	=====	=====	=====

(1) 10,545,460 in Common Units and related \$24,335,000 in minority interest, net of \$62,000 of the minority interest's portion of the extraordinary item, were excluded from the dilutive earnings per share calculation due to the anti-dilutive effect.

(2) 7,651,935 in Common Units and the related \$13,960,000 in minority interest, net of \$1,146,000 of the minority interest's portion of the extraordinary item, were excluded from the dilutive earnings per share calculation due to the anti-dilutive effect.

(3) For additional disclosures regarding outstanding preferred stock, the employee stock options and the warrants, see Notes 3, 6 and 8.

**9. STOCK OPTIONS AND WARRANTS**

As of December 31, 1998, 5,838,627 shares of the Company's authorized Common Stock were reserved for issuance upon the exercise of options under the Amended and Restated 1994 Stock Option Plan. Options generally vest over a four- or five-year period beginning with the date of grant.

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

**9. STOCK OPTIONS AND WARRANTS -- Continued**

In 1995, the Financial Accounting Standards Board issued a Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123"). SFAS 123 recommends the use of a fair value based method of accounting for an employee stock option whereby compensation cost is measured at the grant date on the fair value of the award and is recognized over the service period (generally the vesting period of the award). However, SFAS 123 specifically allows an entity to continue to measure compensation cost under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") so long as pro forma disclosures of net income and earnings per share are made as if SFAS 123 had been adopted. The Company has elected to follow APB 25 and related interpretations in accounting for its employee stock options because the Company believes that the models available to estimate the fair value of employee stock options do not provide a reliable single measure of the fair value of employee stock options. Moreover, such models required the input of highly subjective assumptions, which can materially affect the fair value estimates. APB 25 requires the recognition of compensation expense at the date of grant equal to the difference between the option price and the value of the underlying stock. Because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, the Company records no compensation expense for the award of employee stock options.

Under SFAS 123, a public entity must estimate the fair value of a stock option by using an option-pricing model that takes into account as of the grant date the exercise price and expected life of the options, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate for the expected term of the option. SFAS provides examples of possible pricing models and includes the Black-Scholes pricing model, which the Company used to develop its pro forma disclosures. However, as previously noted, the Company does not believe that such models provide a reliable single measure of the fair value of employee stock options. Furthermore, the Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable, rather than for use in estimating the fair value of employee stock options subject to vesting and transferability restrictions.

Because SFAS 123 is applicable only to options granted subsequent to December 31, 1994, only options granted subsequent to that date were valued using this Black-Scholes model. The fair value of the options granted in 1998 was estimated at the date of grant using the following weighted average assumptions: risk-free rates ranging between 3.29% and 6.01%, dividend yield of 9.0% and a weighted average expected life of the options of five years. The fair value of the options granted in 1997 was estimated at the date of grant using the following weighted-average assumptions: risk-free interest rates ranging between 5.75% and 6.72%, dividend yield of 6.5% and a weighted average expected life of the options of five years. The fair value of the 1996 options were estimated at the date of grant using the following weighted average assumptions: risk-free interest rate of 6.47%, expected volatility of .182, dividend yield of 7.07% and a weighted-average expected life of the options of five years. Had the compensation cost for the Company's stock option plans been determined based on the fair value at the date of grant for awards in 1998, 1997 and 1996 consistent with the provisions of SFAS 123, the Company's net income and net income per share would have decreased to the pro forma amounts indicated below:



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

9. STOCK OPTIONS AND WARRANTS -- Continued

	Year ended December 31		
	1998	1997	1996
	(dollars in thousands, except per share amounts)		
Net income -- as reported .....	\$95,558	\$ 58,562	\$ 39,320
Net income -- pro forma .....	\$93,394	\$ 57,383	\$ 38,861
Net income per share -- basic (as reported) .....	\$ 1.74	\$ 1.51	\$ 1.51
Net income per share -- diluted (as reported) .....	\$ 1.74	\$ 1.50	\$ 1.50
Net income per share -- basic (pro forma) .....	\$ 1.70	\$ 1.48	\$ 1.49
Net income per share -- diluted (pro forma) .....	\$ 1.70	\$ 1.47	\$ 1.49

The following table summarizes information about employees' and Board of Directors' stock options outstanding at December 31, 1998, 1997 and 1996:

	Options Outstanding	
	Number of Shares	Weighted Average Exercise Price
Balances at December 31, 1995 .....	689,320	\$ 21.54
Options granted .....	586,925	28.27
Options canceled .....	--	--
Options exercised .....	(10,545)	20.75
Balances at December 31, 1996 .....	1,265,700	24.67
Options granted .....	2,250,765	32.90
Options canceled .....	(76,040)	22.20
Options exercised .....	(117,428)	21.84
Balances at December 31, 1997 .....	3,322,997	30.40
Options granted .....	737,754	27.21
Options canceled .....	(11,800)	31.11
Options exercised .....	(25,400)	21.98
Balances at December 31, 1998 .....	4,023,551	\$ 29.83

	Options Exercisable	
	Number of Shares	Weighted Average Exercise Price
December 31, 1996 .....	225,350	\$ 21.74
December 31, 1997 .....	686,870	\$ 30.94
December 31, 1998 .....	1,315,898	\$ 26.65

Exercise prices for options outstanding as of December 31, 1998, ranged from \$9.54 to \$35.50. The weighted average remaining contractual life of those options is 7.7 years. Using the Black-Scholes options valuation model, the weighted average fair value of options granted during 1998, 1997 and 1996 was \$2.98, \$3.23 and \$3.10, respectively.

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

9. STOCK OPTIONS AND WARRANTS -- Continued

**Warrants**

In connection with various acquisitions in 1997, 1996 and 1995 the Company issued warrants to certain officers and directors.

Date of Issuance	Number of Warrants	Exercise Price
-----	-----	-----
February 1995 .....	100,000	\$ 21.00
April 1996 .....	150,000	\$ 28.00
October 1997 .....	1,479,290	\$ 32.50
December 1997 .....	120,000	\$ 34.13
	-----	
Total .....	1,849,290	
	=====	

The warrants granted in February 1995, April 1996 and December 1997 expire 10 years from the date of issuance. All warrants are exercisable from the date of issuance. The warrants granted in October 1997 do not have an expiration date. There were no warrants issued during 1998.

10. COMMITMENTS AND CONTINGENCIES

**Lease**

Certain properties in the portfolio are subject to land leases expiring through 2082. Rental payments on these leases are adjusted annually based on either the consumer price index or on a predetermined schedule.

For three properties, the Company has the option to purchase the leased land during the lease term at the greater of 85% of appraised value or \$35,000 per acre.

For one property, the Company has the option to purchase the leased land at any time during the lease term. The purchase price ranges from \$1,800,000 to \$2,200,000 depending on the exercise date.

The obligation for future minimum lease payments is as follows (in thousands):

1999 .....	\$ 1,459
2000 .....	1,459
2001 .....	1,459
2002 .....	1,433
2003 .....	1,414
Thereafter .....	58,684
	-----
	\$65,908
	=====

**Litigation**

On October 2, 1998, John Flake, a former stockholder of J.C. Nichols Company, filed a putative class action lawsuit on behalf of himself and the other former stockholders of J.C. Nichols in the United States District Court for the District of Kansas against J.C. Nichols, certain of its former officers and directors and the Company. The complaint alleges, among other things, that in connection with the merger of J.C. Nichols and the Company (1) J.C. Nichols and the named directors and officers of J.C. Nichols breached their fiduciary duties to J.C. Nichols' stockholders, (2) J.C. Nichols and the named directors and officers of J.C. Nichols breached their fiduciary duties to members of the J.C. Nichols Company Employee Stock Ownership Trust, (3) all defendants participated in the dissemination of a

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

**10. COMMITMENTS AND CONTINGENCIES -- Continued**

proxy statement containing materially false and misleading statements and omissions of material facts in violation of Section 14(a) of the Securities Exchange Act of 1934 and (4) the Company filed a registration statement with the Securities and Exchange Commission containing materially false and misleading statements and omissions of material facts in violation of Sections 11 and 12(2) of the Securities Act of 1933. The plaintiffs seek equitable relief and monetary damages. The Company believes that the defendants have meritorious defenses to the plaintiffs' allegations. The Company intends to vigorously defend this litigation and has filed a motion to dismiss all claims asserted against the defendants. Due to the inherent uncertainties of the litigation process and the judicial system, the Company is not able to predict the outcome of this litigation. If this litigation is not resolved in our favor, it could have a material adverse effect on the Company's business, financial condition and results of operations.

In addition, the Company is a party to a variety of legal proceedings arising in the ordinary course of our business. The Company believes that it is adequately covered by insurance and indemnification agreements. Accordingly, none of such proceedings are expected to have a material adverse effect on the Company's business, financial condition and results of operations.

**Contracts**

The Company has entered into construction contracts totaling \$348 million at December 31, 1998. The amounts remaining on these contracts as of December 31, 1998 totaled \$130 million.

The Company has entered into various contracts under which it is committed to acquire 626 acres of land over a four-year period for an aggregate purchase price of approximately \$79 million.

**Capital Expenditures**

The Company presently has no plans for major capital improvements to the existing properties, other than normal recurring building improvements, tenant improvements and lease commissions.

**Environmental Matters**

Substantially all of the Company's in-service properties have been subjected to Phase I environmental assessments (and, in certain instances, Phase II environmental assessments). Such assessments and/or updates have not revealed, nor is management aware of, any environmental liability that management believes would have a material adverse effect on the accompanying consolidated financial statements.

**Employment Agreements**

As the Company has expanded into new markets, it has sought to enter into business combinations with local real estate operators with many years of management and development experience in their respective markets. Accordingly, in connection with joining the Company as executive officers as a result of such business combinations, these persons have entered into employment agreements with the Company.

**11. DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following disclosures of estimated fair values were determined by management using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize upon disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a

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

**11. DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS -- Continued**

material effect on the estimated fair values. The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 1998 were as follows:

	Carrying Amount	Fair Value
	-----	-----
	(in thousands)	
Cash and cash equivalents .....	\$ 31,445	\$ 31,445
Accounts and notes receivable .....	\$ 68,173	\$ 68,173
Mortgages and notes payable .....	\$2,008,716	\$2,042,950
Interest rate hedge contracts .....	\$ 2,046	\$ (20,431)

The fair values for the Company's fixed rate mortgages and notes payable were estimated using discounted cash flow analysis, based on the Company's estimated incremental borrowing rate at December 31, 1998, for similar types of borrowing arrangements. The carrying amounts of the Company's variable rate borrowings approximate fair value.

The fair values of the Company's interest rate hedge contracts represent the estimated amount the Company would receive or pay to terminate or replace the financial instruments at current market rates.

Disclosures about the fair value of financial instruments are based on relevant information available to the Company at December 31, 1998. Although management is not aware of any factors that would have a material effect on the fair value amounts reported herein, such amounts have not been revalued since that date and current estimates of fair value may significantly differ from the amounts presented herein.

**12. ACQUISITION**

On July 13, 1998, the Company completed its acquisition of the J.C. Nichols Company ("JCN"), a Missouri real estate operating company, pursuant to a merger agreement dated December 22, 1997 and amended on April 29, 1998. The aggregate consideration totaled \$544 million and consisted of the issuance of approximately 5.63 million shares of the Company's Common Stock, the assumption of approximately \$229 million of debt, approximately \$15 million in transaction costs and a cash payment of approximately \$120 million, net of cash acquired of approximately \$59 million. The merger was accounted for under the purchase method of accounting. The results of operations of JCN have been included in the Company's financial statements for the period from July 13, 1998 to December 31, 1998. Unaudited pro forma information is provided in Note 13 as if the acquisition of JCN had occurred at the beginning of the respective years presented.

**13. SUPPLEMENTAL PRO FORMA INFORMATION (UNAUDITED)**

The following unaudited pro forma information has been prepared assuming the following transactions all occurred as of January 1, 1997: (1) the acquisition of 176 properties during 1997 at an initial cost of \$1.1 billion; (2) the issuance of 125,000 Series A Preferred Shares; (3) the issuance of \$100 million of X-POS; (4) the issuance of 6,900,000 Series B Preferred Shares; (5) the issuance of 1,800,000 shares of Common Stock in August 1997; (6) the issuance of 8,500,000 shares of Common Stock in October 1997; (7) the acquisition of 186 properties during 1998 at an initial cost of \$1.2 billion; (8) the issuance of \$125 million of MOPPRS and \$100 million unsecured notes due 2008 in February 1998; (9) the issuance of an aggregate of 5,503,795 shares of Common Stock in underwritten public offerings during 1998; (10) the issuance of 400,000 Series D Preferred Shares; and (11) the issuance of \$200 million of unsecured notes due 2018 in April 1998.

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

**13. SUPPLEMENTAL PRO FORMA INFORMATION (UNAUDITED) -- Continued**

Pro forma interest expense was calculated based on the indebtedness outstanding after debt repayment and using the effective interest rate on such indebtedness. In connection with various transactions, the Company issued Common Stock and the Operating Partnership issued Common Units totaling approximately 6.5 million and 6.7 million in 1998 and 1997, respectively, which were recorded at fair market value upon the closing date of the transactions.

	Pro Forma Year Ended December 31, 1998	Pro Forma Year Ended December 31, 1997
	-----	-----
	(in thousands, except per share amounts)	
Revenues .....	\$ 560,799	\$ 455,612
Net income before extraordinary item .....	\$ 102,895	\$ 75,807
Net income .....	\$ 102,508	\$ 70,008
Net income per share -- basic .....	\$ 1.87	\$ 1.15
Net income per share -- diluted .....	\$ 1.86	\$ 1.14

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

**14. SEGMENT INFORMATION**

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

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

The accounting policies of the segments are the same as those described in note 1. Further, all operations are within the United States and no tenant comprises more than 10% of consolidated revenues. The following table summarizes the rental income, net operating income and assets for each reportable segment for the years ended December 31, 1998, 1997 and 1996:

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

**14. SEGMENT INFORMATION -- Continued**

	1998	1997	1996
	-----	-----	-----
	(in thousands)		
Rental income:			
Office segment .....	\$ 426,571	\$ 233,527	\$ 112,475
Industrial segment .....	48,134	33,406	18,373
Retail segment .....	13,922	--	--
Apartment segment .....	9,374	--	--
	-----	-----	-----
	\$ 498,001	\$ 266,933	\$ 130,848
	=====	=====	=====
Net operating income:			
Office segment net operating income .....	\$ 290,553	\$ 162,685	\$ 80,201
Industrial segment net operating income .....	39,392	27,505	15,334
Retail segment net operating income .....	8,869	--	--
Apartment segment net operating income .....	4,864	--	--
	-----	-----	-----
	\$ 343,678	\$ 190,190	\$ 95,535
Reconciliation to income before minority interest and extraordinary item:			
Equity in income of unconsolidated affiliates .....	430	--	--
Gain on disposition of assets .....	1,716	--	--
Interest and other income .....	14,040	7,537	7,078
Interest expense .....	(97,011)	(47,394)	(26,610)
General and administrative expenses .....	(20,776)	(10,216)	(5,666)
Depreciation and amortization .....	(91,705)	(47,533)	(22,095)
	-----	-----	-----
Income before minority interest and extraordinary item .....	\$ 150,372	\$ 92,584	\$ 48,242
	=====	=====	=====

	At December 31,		
	-----	-----	-----
	1998	1997	1996
	-----	-----	-----
Total Assets:			
Office segment .....	\$3,268,124	\$2,361,973	\$1,217,332
Industrial segment .....	495,675	288,511	176,307
Retail segment .....	239,555	--	--
Apartment segment .....	139,093	--	--
Corporate and other .....	171,886	71,822	49,801
	-----	-----	-----
Total Assets .....	\$4,314,333	\$2,722,306	\$1,443,440
	=====	=====	=====

**15. SUBSEQUENT EVENTS**

On March 15, 1999, the Company closed a transaction with Schweiz-Deutschland-USA Dreilander Beteiligung Objekt-DLF 98/29 -- Walter Fink-KG ("DLF"), pursuant to which the Company sold or contributed certain office properties valued at approximately \$142 million to a newly created limited partnership (the "Joint Venture"). DLF contributed approximately \$55 million for a 77.19% interest in the Joint Venture, and the Joint Venture borrowed approximately \$71 million from third-party lenders. The Company retained the remaining 22.81% interest in the Joint Venture, received cash proceeds of approximately \$126 million and is the sole and exclusive manager and leasing agent of the Joint Venture's properties, for which the Company receives customary management fees and leasing commissions. The net book value of these properties at December 31, 1998 was \$131.3 million. The Company used the cash

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

**15. SUBSEQUENT EVENTS -- Continued**

proceeds received in the transaction to fund existing development activity either through direct payments or repayment of borrowings under the Revolving Loan.

On February 28, 1999, the Company and UB-LB amended the forward contract described in Note 7. Pursuant to the amendment:

o UB-LB applied \$12.8 million, which is classified as restricted cash as of December 31, 1998, in Company collateral to "buy down" the Forward Price by approximately \$7.10 to (at March 31, 1999, the forward price was approximately \$25.12);

o The Company issued 161,924 shares of common stock to UB-LB as an interim settlement payment; and

o UB-LB agreed not to sell any of the shares that the Company had issued to it until not later than March 31, 1999.

The Company has recently entered into agreements to sell approximately 3.9 million rentable square feet of non-core office and industrial properties for gross proceeds of approximately \$385 million. Non-core properties generally include single buildings or business parks that do not fit the Company's long-term strategy. The transactions are subject to customary closing conditions such as expiration of the buyers' due diligence periods. Although the Company believes that the transactions will close by May 31, 1999, it can provide no assurance that all or part of the transactions will be consummated.

**16. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED):**

Selected quarterly financial data for the years ended December 31, 1998 and 1997 are as follows:

	For the year ended December 31, 1997*				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
		(in thousands	except per share	amounts)	
Revenues .....	\$58,321	\$61,238	\$63,655	\$91,256	\$274,470
Income before minority interest and extraordinary item .....	19,554	20,595	21,554	30,881	92,584
Minority interest .....	(3,129)	(3,295)	(3,448)	(5,234)	(15,106)
Extraordinary item .....	(3,337)	-0-	(1,328)	(1,134)	(5,799)
Net income .....	13,088	17,300	16,778	24,513	71,679
Preferred dividends .....	(1,407)	(2,695)	(2,870)	(6,145)	(13,117)
Net income available for common stockholders .....	\$11,681	\$14,605	\$13,908	\$18,368	\$58,562
Per share:					
Income before extraordinary item -- basic .....	\$ .43	\$ .41	\$ .42	\$ .42	\$ 1.66
Income before extraordinary item -- diluted .....	\$ .42	\$ .40	\$ .42	\$ .41	\$ 1.65

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

16. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED): -- Continued

	For the year ended December 31, 1998*				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(in thousands, except per share amounts)				
Revenues .....	\$102,488	\$115,641	\$142,940	\$153,118	\$514,187
Income before minority interest and extraordinary item .....	34,037	37,251	40,309	38,775	150,372
Minority interest .....	(5,608)	(6,266)	(6,031)	(6,430)	(24,335)
Extraordinary item .....	(46)	--	(324)	(17)	(387)
Net income .....	28,383	30,985	33,954	32,328	125,650
Preferred dividends .....	(6,145)	(7,656)	(8,145)	(8,146)	(30,092)
Net income available for common stockholders .....	\$ 22,238	\$ 23,329	\$ 25,809	\$ 24,182	\$95,558
Per share:					
Income before extraordinary item -- basic .....	\$ .45	\$ .45	\$ .45	\$ .41	\$ 1.75
Income before extraordinary item -- diluted .....	\$ .45	\$ .44	\$ .45	\$ .40	\$ 1.74

\* The total of the four quarterly amounts for net income per share does not equal the total for the year due to the use of a weighted average to compute the average number of shares outstanding.



# HIGHWOODS PROPERTIES, INC.

## SCHEDULE III -- REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 1998  
(In thousands)

Description	Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period		Total (16)
		Land	Building & Improvements	Land	Building & Improvements	Land	Improvements	
Asheville, NC								
Ridgefield III	--	743	3,183	--	861	743	4,044	4,787
Ridgefield I	1,662	636	3,607	--	234	636	3,841	4,477
Ridgefield II	1,812	910	5,157	--	173	910	5,330	6,240
Atlanta, GA								
1765 The Exchange	--	767	6,305	--	271	767	6,576	7,343
One Point Royal	--	1,754	16,621	--	44	1,754	16,665	18,419
Two Point Royal	--	1,793	14,951	--	56	1,793	15,007	16,800
400 North Business Park	--	979	6,112	--	144	979	6,256	7,235
50 Glenlake	--	2,500	20,000	--	242	2,500	20,242	22,742
6348 Northeast Expressway	1,400	277	1,629	--	26	277	1,655	1,932
6438 Northeast Expressway	1,587	181	2,225	--	46	181	2,271	2,452
Bluegrass Place 1	--	491	2,016	--	24	491	2,040	2,531
Bluegrass Place 2	--	412	2,529	--	28	412	2,557	2,969
1700 Century Circle	--	1,115	3,148	--	310	1,115	3,458	4,573
1800 Century Boulevard	--	1,441	28,939	--	378	1,441	29,317	30,758
1875 Century Boulevard	--	--	8,790	--	318	--	9,108	9,108
1900 Century Boulevard	--	--	4,721	--	314	--	5,035	5,035
2200 Century Parkway	--	--	14,274	--	754	--	15,028	15,028
2400 Century Center	--	--	12,435	--	2,486	--	14,921	14,921
2600 Century Parkway	--	--	10,254	--	312	--	10,566	10,566
2635 Century Parkway	--	--	21,083	--	726	--	21,809	21,809
2800 Century Parkway	--	--	19,963	--	208	--	20,171	20,171
Chattahoochee Avenue	--	248	1,817	--	216	248	2,033	2,281
Chastain Place I	--	472	3,011	--	901	472	3,912	4,384
Chastain Place II	--	607	1,338	--	507	607	1,845	2,452
Chastain Place III	--	--	--	--	35	--	35	35
Corporate Lakes Distribution Center	--	1,275	7,227	--	339	1,275	7,566	8,841
Cosmopolitan North	--	2,855	4,155	--	463	2,855	4,618	7,473
Deerfield land	--	879	--	--	--	879	--	879
EKA Chemical	--	609	9,883	--	3	609	9,886	10,495
1035 Fred Drive	--	270	1,239	--	13	270	1,252	1,522
1077 Fred Drive	--	384	1,191	--	29	384	1,220	1,604
5125 Fulton Industrial Blvd	--	578	3,116	--	81	578	3,197	3,775
Fulton Corporate Center	--	542	2,042	--	70	542	2,112	2,654
10 Glenlake	--	2,569	20,333	--	1	2,569	20,334	22,903
Glenlakes	--	2,908	--	--	--	2,908	--	2,908
Gwinnett Distribution Center	--	1,128	5,943	--	293	1,128	6,236	7,364
Kennestone Corporate Center	--	518	4,874	--	99	518	4,973	5,491
Lavista Business Park	--	821	5,244	--	443	821	5,687	6,508
Norcross, I, II	--	326	1,979	--	20	326	1,999	2,325
Nortel	--	3,341	32,109	--	2	3,341	32,111	35,452
Newpoint Place I	--	825	2,452	--	1,329	825	3,781	4,606
Newpoint Place III	--	661	1,866	--	831	661	2,697	3,358
Newpoint Place	--	187	--	--	--	187	--	187
Newpoint - Site E	--	984	--	--	--	984	--	984
Oakbrook I	1,985	873	4,948	--	73	873	5,021	5,894
Oakbrook II	3,416	1,579	8,950	--	573	1,579	9,523	11,102
Oakbrook III	3,877	1,480	8,388	--	172	1,480	8,560	10,040
Oakbrook IV	2,348	953	5,400	--	45	953	5,445	6,398
Oakbrook V	5,586	2,206	12,501	--	210	2,206	12,711	14,917
Oakbrook Summitt	4,565	950	6,572	--	146	950	6,718	7,668

Description	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Computed
Asheville, NC			
Ridgefield III	57	1998	5-40 yrs.
Ridgefield I	260	1987	5-40 yrs.
Ridgefield II	328	1989	5-40 yrs.
Atlanta, GA			
1765 The Exchange	239	1983	5-40 yrs.

One Point Royal	329	1996	5-40 yrs.
Two Point Royal	392	1997	5-40 yrs.
400 North Business Park	278	1985	5-40 yrs.
50 Glenlake	563	1997	5-40 yrs.
6348 Northeast Expressway	80	1978	5-40 yrs.
6438 Northeast Expressway	107	1981	5-40 yrs.
Bluegrass Place 1	71	1995	5-40 yrs.
Bluegrass Place 2	89	1996	5-40 yrs.
1700 Century Circle	217	1972	5-40 yrs.
1800 Century Boulevard	1,444	1975	5-40 yrs.
1875 Century Boulevard	458	1976	5-40 yrs.
1900 Century Boulevard	275	1971	5-40 yrs.
2200 Century Parkway	777	1971	5-40 yrs.
2400 Century Center	91	1998	5-40 yrs.
2600 Century Parkway	515	1973	5-40 yrs.
2635 Century Parkway	1,084	1980	5-40 yrs.
2800 Century Parkway	997	1983	5-40 yrs.
Chattahoochee Avenue	148	1970	5-40 yrs.
Chastain Place I	276	1997	5-40 yrs.
Chastain Place II	9	1998	5-40 yrs.
Chastain Place III	--	N/A	N/A
Corporate Lakes Distribution Center	426	1988	5-40 yrs.
Cosmopolitan North	247	1980	5-40 yrs.
Deerfield land	--	N/A	N/A
EKA Chemical	196	1998	5-40 yrs.
1035 Fred Drive	62	1973	5-40 yrs.
1077 Fred Drive	60	1973	5-40 yrs.
5125 Fulton Industrial Blvd	164	1973	5-40 yrs.
Fulton Corporate Center	106	1973	5-40 yrs.
10 Glenlake	21	1998	5-40 yrs.
Glenlakes	--	N/A	N/A
Gwinnett Distribution Center	323	1991	5-40 yrs.
Kennestone Corporate Center	215	1985	5-40 yrs.
Lavista Business Park	290	1973	5-40 yrs.
Norcross, I, II	94	1970	5-40 yrs.
Nortel	635	1998	5-40 yrs.
Newpoint Place I	108	1998	5-40 yrs.
Newpoint Place III	5	1998	5-40 yrs.
Newpoint Place	--	N/A	N/A
Newpoint - Site E	--	N/A	N/A
Oakbrook I	309	1981	5-40 yrs.
Oakbrook II	733	1983	5-40 yrs.
Oakbrook III	613	1984	5-40 yrs.
Oakbrook IV	329	1985	5-40 yrs.
Oakbrook V	799	1985	5-40 yrs.
Oakbrook Summitt	327	1981	5-40 yrs.

Description	Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	
		Land	Building & Improvements	Land	Building & Improvements
Oxford Lake Business Center	--	855	7,014	--	77
Peachtree Corners Land	--	--	--	744	--
Southside Distribution Center	--	810	4,482	--	78
Steel Drive	--	171	1,219	(171)	(1,219)
Highwoods Center I Tradeport	--	--	--	--	9
Atlanta Tradeport	--	--	--	7,124	--
Baltimore, MD					
4000 Old Court Medical Building	--	862	5,152	1	15
9690 Deereco Road	--	1,188	16,296	--	206
Automatic Data Processing	--	2,277	7,667	--	2,256
The Atrium	--	1,390	9,864	--	107
Business Center at Owings Mills, Lot 7	--	827	1,581	--	16
Business Center at Owings Mills, Lot 8	--	786	2,241	--	23
Business Center at Owings Mills, Lot 9	--	960	6,125	--	63
Clark Building	--	1,675	8,764	--	193
Merrill Lynch Building	--	2,960	11,316	--	16
Sportsman Club	--	--	--	9,851	--
Birmingham, AL					
Grandview I	--	1,895	10,739	(1,895)	(10,739)
Boca Raton, FL					
Highwoods Square	--	2,586	14,657	--	178
Highwoods Plaza	--	1,772	10,042	--	165
Highwoods Square	--	--	--	--	44
One Boca Place	--	5,736	32,505	--	517
Charlotte, NC					
4101 Stuart Andrew Boulevard	--	70	510	--	245
4105 Stuart Andrew Boulevard	--	26	189	--	22
4109 Stuart Andrew Boulevard	--	87	636	--	40
4201 Stuart Andrew Boulevard	--	110	809	--	53
4205 Stuart Andrew Boulevard	--	134	979	--	52
4209 Stuart Andrew Boulevard	--	91	665	--	42
4215 Stuart Andrew Boulevard	--	133	978	--	48
4301 Stuart Andrew Boulevard	--	232	1,702	--	144
4321 Stuart Andrew Boulevard	--	73	534	--	30
4601 Park Square	--	2,601	7,802	--	--
Alston & Bird	--	2,362	5,379	--	--
First Citizens Building	--	647	5,528	--	358
Twin Lakes Distribution Center	--	2,816	6,571	--	--
Mallard Creek I	--	1,248	4,142	--	41
Mallard Creek III	--	845	4,762	--	19
Mallard Creek IV	--	348	1,152	--	--
Mallard Creek VI	--	--	--	834	--
NationsFord Business Park	--	1,206	--	5	--
Oak Hill Business Park English	1,941	750	4,248	--	51
Oak Hill Business Park Laurel	1,428	471	2,671	--	278
Oak Hill Business Pk Live Oak	--	1,403	5,611	--	565

Gross Amount at  
Which Carried at Close of Period

Description	Land	Building & Improvements	Total (16)	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Computed
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Oxford Lake Business Center	855	7,091	7,946	308	1985	5-40 yrs.
Peachtree Corners Land	744	--	744	--	N/A	N/A
Southside Distribution Center	810	4,560	5,370	217	1988	5-40 yrs.
Steel Drive	--	--	--	--	1975	5-40 yrs.
Highwoods Center I Tradeport	--	9	9	--	N/A	N/A
Atlanta Tradeport Baltimore, MD	7,124	--	7,124	--	N/A	N/A
4000 Old Court Medical Building	863	5,167	6,030	93	1987	5-40 yrs.
9690 Deereco Road	1,188	16,502	17,690	433	1989	5-40 yrs.
Automatic Data Processing	2,277	9,923	12,200	39	1998	5-40 yrs.
The Atrium	1,390	9,971	11,361	262	1986	5-40 yrs.
Business Center at Owings Mills, Lot 7	827	1,597	2,424	42	1989	5-40 yrs.
Business Center at Owings Mills, Lot 8	786	2,264	3,050	60	1989	5-40 yrs.
Business Center at Owings Mills, Lot 9	960	6,188	7,148	163	1988	5-40 yrs.
Clark Building	1,675	8,957	10,632	165	1974	5-40 yrs.
Merrill Lynch Building	2,960	11,332	14,292	210	1982	5-40 yrs.
Sportsman Club Birmingham, AL	9,851	--	9,851	--	N/A	N/A
Grandview I Boca Raton, FL	--	--	--	--	1989	5-40 yrs.
Highwoods Square	2,586	14,835	17,421	900	1989	5-40 yrs.
Highwoods Plaza	1,772	10,207	11,979	617	1980	5-40 yrs.
Highwoods Square	--	44	44	--	N/A	N/A
One Boca Place Charlotte, NC	5,736	33,022	38,758	1,980	1987	5-40 yrs.
4101 Stuart Andrew Boulevard	70	755	825	124	1984	5-40 yrs.
4105 Stuart Andrew Boulevard	26	211	237	25	1984	5-40 yrs.
4109 Stuart Andrew Boulevard	87	676	763	64	1984	5-40 yrs.
4201 Stuart Andrew Boulevard	110	862	972	87	1982	5-40 yrs.
4205 Stuart Andrew Boulevard	134	1,031	1,165	97	1982	5-40 yrs.
4209 Stuart Andrew Boulevard	91	707	798	70	1982	5-40 yrs.
4215 Stuart Andrew Boulevard	133	1,026	1,159	105	1982	5-40 yrs.
4301 Stuart Andrew Boulevard	232	1,846	2,078	170	1982	5-40 yrs.
4321 Stuart Andrew Boulevard	73	564	637	49	1982	5-40 yrs.
4601 Park Square	2,601	7,802	10,403	139	1972	5-40 yrs.
Alston & Bird	2,362	5,379	7,741	120	1965	5-40 yrs.
First Citizens Building	647	5,886	6,533	708	1989	5-40 yrs.
Twin Lakes Distribution Center	2,816	6,571	9,387	90	1991	5-40 yrs.
Mallard Creek I	1,248	4,183	5,431	72	1986	5-40 yrs.
Mallard Creek III	845	4,781	5,626	76	1990	5-40 yrs.
Mallard Creek IV	348	1,152	1,500	18	1993	5-40 yrs.
Mallard Creek VI	834	--	834	--	N/A	N/A
NationsFord Business Park	1,211	--	1,211	--	N/A	N/A
Oak Hill Business Park English	750	4,299	5,049	261	1984	5-40 yrs.
Oak Hill Business Park Laurel	471	2,949	3,420	230	1984	5-40 yrs.
Oak Hill Business Pk Live Oak	1,403	6,176	7,579	440	1989	5-40 yrs.

Description	Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	
		Land	Building & Improvements	Land	Building & Improvements
Oak Hill Business Park Scarlett	2,147	1,073	6,078	--	145
Oak Hill Business Park Twin Oak	3,359	1,243	7,044	--	211
Oak Hill Business Park Willow	1,217	442	2,505	--	903
Oak Hill Business Park Water	5,027	1,623	9,196	--	784
Pinebrook	--	846	4,607	--	65
Parkway Plaza Building One	--	1,110	4,741	--	299
Parkway Plaza Building Two	--	1,694	6,777	--	1,221
Parkway Plaza Building Three	(4)	1,570	6,282	--	488
Parkway Plaza Building Six	--	--	2,438	--	531
Parkway Plaza Building Seven	--	--	4,648	--	176
Parkway Plaza Building Eight	--	--	4,698	--	129
Parkway Plaza Building Nine	--	--	6,008	--	28
Parkway Plaza Building Eleven	--	--	--	--	107
Steele Creek Park Building A	--	499	1,998	(499)	(1,998)
Steele Creek Park Building B	--	110	441	(110)	(441)
Steele Creek Park Building E	--	188	751	(188)	(751)
Steele Creek Park Building G - 1	--	196	783	(196)	(783)
Steele Creek Park Building H	--	169	677	(169)	(677)
Steele Creek Park Building K	--	148	592	(148)	(592)
University Research Center	--	3,694	13,330	--	--
Columbia, SC					
Center Point I	3,500	1,313	7,441	--	86
Center Point II	--	1,183	6,702	1	2,005
Center Point V	--	265	1,279	--	195
Center Point VI	--	--	--	265	--
Fontaine I	3,472	1,219	6,907	--	326
Fontaine II	1,782	941	5,335	--	718
Fontaine III	--	853	4,833	--	87
Fontaine V	1,176	395	2,237	--	--
Des Moines, IA					
Crestwood	(6)	--	--	676	1,674
Edgewater	(6)	--	--	525	7,652
Highland	(6)	--	--	1,976	4,428
Neptune	6,000	--	--	1,672	3,187
Sunset	(6)	--	--	23	800
Veridan	(6)	--	--	3,615	4,472
Winwood Apartments	23,000	--	--	3,320	12,999
Waterford	(6)	--	--	177	3,669
Piedmont Triad, NC					
Airport Center Drive	--	1,600	--	(563)(18)	--
6348 Burnt Poplar	--	721	2,883	--	8
6350 Burnt Poplar	--	339	1,365	--	17
Chimney Rock A/B	--	1,610	3,757	--	--
Chimney Rock C	--	604	1,408	--	--
Chimney Rock D	--	236	550	--	--
Chimney Rock E	--	1,692	3,948	--	--
Chimney Rock F	--	1,431	3,338	--	--
Chimney Rock G	--	1,044	2,435	--	--

Gross Amount at  
Which Carried at Close of Period

Description	Land	Building & Improvements	Total (16)	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Computed
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Oak Hill Business Park Scarlett	1,073	6,223	7,296	393	1982	5-40 yrs.
Oak Hill Business Park Twin Oak	1,243	7,255	8,498	421	1985	5-40 yrs.
Oak Hill Business Park Willow	442	3,408	3,850	230	1982	5-40 yrs.
Oak Hill Business Park Water	1,623	9,980	11,603	708	1985	5-40 yrs.
Pinebrook	846	4,672	5,518	169	1986	5-40 yrs.
Parkway Plaza Building One	1,110	5,040	6,150	407	1982	5-40 yrs.
Parkway Plaza Building Two	1,694	7,998	9,692	880	1983	5-40 yrs.
Parkway Plaza Building Three	1,570	6,770	8,340	639	1984	5-40 yrs.
Parkway Plaza Building Six	--	2,969	2,969	271	1996	5-40 yrs.
Parkway Plaza Building Seven	--	4,824	4,824	364	1985	5-40 yrs.
Parkway Plaza Building Eight	--	4,827	4,827	360	1986	5-40 yrs.
Parkway Plaza Building Nine	--	6,036	6,036	460	1984	5-40 yrs.
Parkway Plaza Building Eleven	--	107	107	--	N/A	N/A
Steele Creek Park Building A	--	--	--	--	1989	5-40 yrs.
Steele Creek Park Building B	--	--	--	--	1985	5-40 yrs.
Steele Creek Park Building E	--	--	--	--	1985	5-40 yrs.
Steele Creek Park Building G - 1	--	--	--	--	1989	5-40 yrs.
Steele Creek Park Building H	--	--	--	--	1987	5-40 yrs.
Steele Creek Park Building K	--	--	--	--	1985	5-40 yrs.
University Research Center	3,694	13,330	17,024	266	1980	5-40 yrs.
Columbia, SC						
Center Point I	1,313	7,527	8,840	436	1988	5-40 yrs.
Center Point II	1,184	8,707	9,891	513	1996	5-40 yrs.
Center Point V	265	1,474	1,739	87	1997	5-40 yrs.
Center Point VI	265	--	265	--	N/A	N/A
Fontaine I	1,219	7,233	8,452	405	1985	5-40 yrs.
Fontaine II	941	6,053	6,994	595	1987	5-40 yrs.
Fontaine III	853	4,920	5,773	306	1988	5-40 yrs.
Fontaine V	395	2,237	2,632	130	1990	5-40 yrs.
Des Moines, IA						
Crestwood	676	1,674	2,350	54	1987	5-40 yrs.
Edgewater	525	7,652	8,177	144	1989	5-40 yrs.
Highland	1,976	4,428	6,404	134	1987	5-40 yrs.
Neptune	1,672	3,187	4,859	120	1986	5-40 yrs.
Sunset	23	800	823	22	1989	5-40 yrs.
Veridan	3,615	4,472	8,087	141	1989	5-40 yrs.
Winwood Apartments	3,320	12,999	16,319	323	1986	5-40 yrs.
Waterford	177	3,669	3,846	72	1990	5-40 yrs.
Piedmont Triad, NC						
Airport Center Drive	1,037	--	1,037	--	N/A	N/A
6348 Burnt Poplar	721	2,891	3,612	280	1990	5-40 yrs.
6350 Burnt Poplar	339	1,382	1,721	133	1992	5-40 yrs.
Chimney Rock A/B	1,610	3,757	5,367	55	1981	5-40 yrs.
Chimney Rock C	604	1,408	2,012	20	1983	5-40 yrs.
Chimney Rock D	236	550	786	8	1983	5-40 yrs.
Chimney Rock E	1,692	3,948	5,640	58	1985	5-40 yrs.
Chimney Rock F	1,431	3,338	4,769	49	1987	5-40 yrs.
Chimney Rock G	1,044	2,435	3,479	35	1987	5-40 yrs.

Description	Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	
		Land	Building & Improvements	Land	Building & Improvements
Deep River Corporate Center	2,273	1,033	5,855	--	191
Airpark East-Copier Consultants	(3)	252	1,008	--	123
Airpark East-Building 01	(3)	377	1,510	--	46
Airpark East-Building 02	(3)	461	1,842	--	22
Airpark East-Building 03	(3)	321	1,283	--	71
Airpark East-HewlettPackard	--	149	727	313(17)	206
Airpark East-Inacom Building	--	106	478	222(17)	293
Airpark East-Simplex	--	103	526	196(17)	256
Airpark East-Building A	(3)	541	2,913	--	366
Airpark East-Building B	(3)	779	3,200	--	275
Airpark East-C Building	(3)	2,384	9,535	--	360
Airpark East-Building D	--	271	3,213	575(17)	709
Airpark East Expansion	--	--	--	598	--
Airpark East Land	--	1,317	--	(1,306)(17)	4
Airpark East-Service Center 1	(3)	275	1,099	--	89
Airpark East-Service Center 2	(3)	222	889	--	118
Airpark East-Service Center 3	(3)	304	1,214	--	64
Airpark East-Service Center 4	(3)	224	898	--	16
Airpark East-Service Court	(3)	194	774	--	44
Airpark East-Warehouse 1	(3)	384	1,535	--	80
Airpark East-Warehouse 2	(3)	372	1,488	--	68
Airpark East-Warehouse 3	(3)	370	1,480	--	27
Airpark East-Warehouse 4	(3)	657	2,628	--	178
Airpark East-Highland	(3)	175	699	--	8
206 South Westgate Drive	--	91	664	--	79
207 South Westgate Drive	--	138	1,012	--	8
300 South Westgate Drive	--	68	496	--	6
305 South Westgate Drive	--	30	220	--	73
307 South Westgate Drive	--	66	485	--	7
309 South Westgate Drive	--	68	496	--	21
311 South Westgate Drive	--	75	551	--	26
315 South Westgate Drive	--	54	396	--	9
317 South Westgate Drive	--	81	597	--	15
319 South Westgate Drive	--	54	396	--	7
4600 Dundas Circle	--	62	456	(62)	(456)
4602 Dundas Circle	--	68	498	(68)	(498)
7906 Industrial Village Road	--	62	455	--	16
7908 Industrial Village Road	--	62	455	--	11
7910 Industrial Village Road	--	62	455	--	14
Airpark North - DC1	(3)	723	2,891	--	63
Airpark North - DC2	(3)	1,094	4,375	--	91
Airpark North - DC3	(3)	378	1,511	--	240
Airpark North - DC4	(3)	377	1,508	--	137
Airpark North Land	--	804	--	--	--
2606 Phoenix Drive(100 Series)	--	63	466	--	--
2606 Phoenix Drive(200 Series)	--	63	466	--	3
2606 Phoenix Drive(300 Series)	--	31	229	--	70
2606 Phoenix Drive(400 Series)	--	52	382	--	11
2606 Phoenix Drive(500 Series)	--	64	471	--	9
2606 Phoenix Drive(600 Series)	--	78	575	--	16
Network Construction	--	--	533	--	200

Gross Amount at  
Which Carried at Close of Period

Building & Accumulated Date of Life on Which Depreciation

Description	Land	Improvements	Total (16)	Depreciation	Construction	is Computed
Deep River Corporate Center	1,033	6,046	7,079	406	1989	5-40 yrs.
Airpark East-Copier Consultants	252	1,131	1,383	99	1990	5-40 yrs.
Airpark East-Building 01	377	1,556	1,933	182	1990	5-40 yrs.
Airpark East-Building 02	461	1,864	2,325	182	1986	5-40 yrs.
Airpark East-Building 03	321	1,354	1,675	146	1986	5-40 yrs.
Airpark East-HewlettPackard Building	462	933	1,395	140	1996	5-40 yrs.
Airpark East-Inacom Building	328	771	1,099	109	1996	5-40 yrs.
Airpark East-Simplex	299	782	1,081	87	1997	5-40 yrs.
Airpark East-Building A	541	3,279	3,820	397	1986	5-40 yrs.
Airpark East-Building B	779	3,475	4,254	412	1988	5-40 yrs.
Airpark East-C Building	2,384	9,895	12,279	1,014	1990	5-40 yrs.
Airpark East-Building D	846	3,922	4,768	345	1997	5-40 yrs.
Airpark East Expansion	598	--	598	--	N/A	N/A
Airpark East Land	11	4	15	--	N/A	N/A
Airpark East-Service Center 1	275	1,188	1,463	139	1985	5-40 yrs.
Airpark East-Service Center 2	222	1,007	1,229	96	1985	5-40 yrs.
Airpark East-Service Center 3	304	1,278	1,582	149	1985	5-40 yrs.
Airpark East-Service Center 4	224	914	1,138	88	1985	5-40 yrs.
Airpark East-Service Court	194	818	1,012	88	1990	5-40 yrs.
Airpark East-Warehouse 1	384	1,615	1,999	165	1985	5-40 yrs.
Airpark East-Warehouse 2	372	1,556	1,928	157	1985	5-40 yrs.
Airpark East-Warehouse 3	370	1,507	1,877	148	1986	5-40 yrs.
Airpark East-Warehouse 4	657	2,806	3,463	259	1988	5-40 yrs.
Airpark East-Highland	175	707	882	69	1990	5-40 yrs.
206 South Westgate Drive	91	743	834	58	1986	5-40 yrs.
207 South Westgate Drive	138	1,020	1,158	88	1986	5-40 yrs.
300 South Westgate Drive	68	502	570	43	1986	5-40 yrs.
305 South Westgate Drive	30	293	323	27	1985	5-40 yrs.
307 South Westgate Drive	66	492	558	46	1985	5-40 yrs.
309 South Westgate Drive	68	517	585	46	1985	5-40 yrs.
311 South Westgate Drive	75	577	652	60	1985	5-40 yrs.
315 South Westgate Drive	54	405	459	37	1985	5-40 yrs.
317 South Westgate Drive	81	612	693	58	1985	5-40 yrs.
319 South Westgate Drive	54	403	457	35	1985	5-40 yrs.
4600 Dundas Circle	--	--	--	--	1985	5-40 yrs.
4602 Dundas Circle	--	--	--	--	1985	5-40 yrs.
7906 Industrial Village Road	62	471	533	40	1985	5-40 yrs.
7908 Industrial Village Road	62	466	528	43	1985	5-40 yrs.
7910 Industrial Village Road	62	469	531	46	1985	5-40 yrs.
Airpark North - DC1	723	2,954	3,677	288	1986	5-40 yrs.
Airpark North - DC2	1,094	4,466	5,560	440	1987	5-40 yrs.
Airpark North - DC3	378	1,751	2,129	223	1988	5-40 yrs.
Airpark North - DC4	377	1,645	2,022	170	1988	5-40 yrs.
Airpark North Land	804	--	804	--	N/A	N/A
2606 Phoenix Drive(100 Series)	63	466	529	40	1989	5-40 yrs.
2606 Phoenix Drive(200 Series)	63	469	532	43	1989	5-40 yrs.
2606 Phoenix Drive(300 Series)	31	299	330	28	1989	5-40 yrs.
2606 Phoenix Drive(400 Series)	52	393	445	38	1989	5-40 yrs.
2606 Phoenix Drive(500 Series)	64	480	544	47	1989	5-40 yrs.
2606 Phoenix Drive(600 Series)	78	591	669	57	1989	5-40 yrs.
Network Construction	--	733	733	16	1988	5-40 yrs.



Description	Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	
		Land	Building & Improvements	Land	Building & Improvements
5 Dundas Circle	--	72	531	--	10
7 Dundas Circle	--	75	552	--	14
8 Dundas Circle	--	84	617	--	19
302 Pomona Drive	--	84	617	--	72
304 Pomona Drive	--	22	163	--	--
306 Pomona Drive	--	50	368	--	8
308 Pomona Drive	--	72	531	--	2
9 Dundas Circle	--	51	373	--	3
2616 Phoenix Drive	--	135	990	--	81
500 Radar Road	--	202	1,484	--	104
502 Radar Road	--	39	285	--	62
504 Radar Road	--	39	285	--	3
506 Radar Road	--	39	285	--	7
Regency One-Piedmont Center	--	515	2,347	--	576
Regency Two-Piedmont Center	--	435	1,859	--	509
Sears Cenfact	--	861	3,446	--	22
4000 Spring Garden Street	--	127	933	--	67
4002 Spring Garden Street	--	39	290	--	2
4004 Spring Garden Street	--	139	1,019	--	57
Air Park South Warehouse I	--	491	1,895	--	691
Air Park South Warehouse VI	--	--	--	--	1,005
RF Micro Devices	--	512	7,674	--	132
Airpark West(1)	(4)	954	3,817	--	365
Airpark West(2)	(4)	887	3,536	(3)	487
Airpark West(4)	(4)	226	903	--	124
Airpark West(5)	(4)	242	966	--	72
Airpark West(6)	(4)	326	1,308	--	99
7327 West Friendly Avenue	--	60	441	--	6
7339 West Friendly Avenue	--	63	465	--	14
7341 West Friendly Avenue	--	113	831	--	93
7343 West Friendly Avenue	--	72	531	--	7
7345 West Friendly Avenue	--	66	485	--	12
7347 West Friendly Avenue	--	97	709	--	61
7349 West Friendly Avenue	--	53	388	--	13
7351 West Friendly Avenue	--	106	778	--	28
7353 West Friendly Avenue	--	123	901	--	12
7355 West Friendly Avenue	--	72	525	--	7
150 Stratford Chesapeake	--	2,777	11,459	--	238
Forsyth Corporate Center	(4)	1,236	4,944	--	8
The Knollwood(370)	1,936	326	1,850	--	624
The Knollwood(380)	(3)	1,819	7,451	--	468
RMIC	(3)	2,977	11,912	6,027	1,127
Robinhood	--	1,091	5,525	--	609
101 Stratford	--	290	1,159	--	111
Consolidated Center/ Building I	--	1,205	6,810	--	94
Consolidated Center/ Building II	--	625	2,126	--	52
Consolidated Center/ Building III	--	625	4,376	--	55
Consolidated Center/ Building IV	--	680	3,522	--	47
Champion Headquarters	--	376	1,624	--	112
	--	1,725	6,280	--	85

Gross Amount at  
Which Carried at Close of Period

Building & Accumulated Date of Life on Which Depreciation

Description	Land	Improvements	Total (16)	Depreciation	Construction	is Computed
5 Dundas Circle	72	541	613	54	1987	5-40 yrs.
7 Dundas Circle	75	566	641	54	1986	5-40 yrs.
8 Dundas Circle	84	636	720	64	1986	5-40 yrs.
302 Pomona Drive	84	689	773	68	1987	5-40 yrs.
304 Pomona Drive	22	163	185	14	1987	5-40 yrs.
306 Pomona Drive	50	376	426	39	1987	5-40 yrs.
308 Pomona Drive	72	533	605	47	1987	5-40 yrs.
9 Dundas Circle	51	376	427	35	1986	5-40 yrs.
2616 Phoenix Drive	135	1,071	1,206	95	1985	5-40 yrs.
500 Radar Road	202	1,588	1,790	152	1981	5-40 yrs.
502 Radar Road	39	347	386	35	1986	5-40 yrs.
504 Radar Road	39	288	327	26	1986	5-40 yrs.
506 Radar Road	39	292	331	26	1986	5-40 yrs.
Regency One-Piedmont Center	515	2,923	3,438	288	1996	5-40 yrs.
Regency Two-Piedmont Center	435	2,368	2,803	294	1996	5-40 yrs.
Sears Cenfact	861	3,468	4,329	337	1989	5-40 yrs.
4000 Spring Garden Street	127	1,000	1,127	98	1983	5-40 yrs.
4002 Spring Garden Street	39	292	331	27	1983	5-40 yrs.
4004 Spring Garden Street	139	1,076	1,215	107	1983	5-40 yrs.
Air Park South Warehouse I	491	2,586	3,077	51	1998	5-40 yrs.
Air Park South Warehouse VI	--	1,005	1,005	--	N/A	N/A
RF Micro Devices	512	7,806	8,318	237	1997	5-40 yrs.
Airpark West(1)	954	4,182	5,136	620	1984	5-40 yrs.
Airpark West(2)	884	4,023	4,907	387	1985	5-40 yrs.
Airpark West(4)	226	1,027	1,253	135	1985	5-40 yrs.
Airpark West(5)	242	1,038	1,280	118	1985	5-40 yrs.
Airpark West(6)	326	1,407	1,733	184	1985	5-40 yrs.
7327 West Friendly Avenue	60	447	507	39	1987	5-40 yrs.
7339 West Friendly Avenue	63	479	542	43	1989	5-40 yrs.
7341 West Friendly Avenue	113	924	1,037	84	1988	5-40 yrs.
7343 West Friendly Avenue	72	538	610	46	1988	5-40 yrs.
7345 West Friendly Avenue	66	497	563	47	1988	5-40 yrs.
7347 West Friendly Avenue	97	770	867	86	1988	5-40 yrs.
7349 West Friendly Avenue	53	401	454	40	1988	5-40 yrs.
7351 West Friendly Avenue	106	806	912	76	1988	5-40 yrs.
7353 West Friendly Avenue	123	913	1,036	79	1988	5-40 yrs.
7355 West Friendly Avenue	72	532	604	46	1988	5-40 yrs.
150 Stratford	2,777	11,697	14,474	1,151	1991	5-40 yrs.
Chesapeake	1,236	4,952	6,188	480	1993	5-40 yrs.
Forsyth Corporate Center	326	2,474	2,800	222	1985	5-40 yrs.
The Knollwood(370)	1,819	7,919	9,738	863	1994	5-40 yrs.
The Knollwood(380)	9,004	13,039	22,043	1,450	1990	5-40 yrs.
RMIC	1,091	6,134	7,225	58	1998	5-40 yrs.
Robinhood	290	1,270	1,560	152	1989	5-40 yrs.
101 Stratford	1,205	6,904	8,109	195	1986	5-40 yrs.
Consolidated Center/ Building I	625	2,178	2,803	61	1983	5-40 yrs.
Consolidated Center/ Building II	625	4,431	5,056	125	1983	5-40 yrs.
Consolidated Center/ Building III	680	3,569	4,249	100	1989	5-40 yrs.
Consolidated Center/ Building IV	376	1,736	2,112	46	1989	5-40 yrs.
Champion Headquarters	1,725	6,365	8,090	179	1993	5-40 yrs.

Description	Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	
		Land	Building & Improvements	Land	Building & Improvements
Grassy Creek - Building G	--	1,439	3,357	--	--
Grassy Creek - Building H	--	1,606	3,748	--	--
Grassy Creek - Building I	--	1,835	4,283	--	--
Hampton Park - Building 5	--	318	742	--	--
Hampton Park - Building 6	--	371	866	--	--
Hampton Park - Building 7	--	212	495	--	--
Hampton Park - Building 8	--	212	495	--	--
Hampton Park - Building 9	--	212	495	--	--
5100 Indiana Avenue	--	490	1,143	--	--
Members Warehouse	--	602	1,406	--	--
Madison Park - Building 5610	--	211	493	--	--
Madison Park - Building 5620	(16)	941	2,196	--	--
Madison Park - Building 5630	(16)	1,486	3,468	--	--
Madison Park - Building 5635	(16)	893	2,083	--	--
Madison Park - Building 5640	(16)	3,632	8,476	--	--
Madison Park - Building 5650	(16)	1,081	2,522	--	--
Madison Park - Building 5660	(16)	1,910	4,456	--	--
Madison Park - Building 5655	(16)	5,891	13,753	--	--
711 Almondridge	--	301	702	--	--
710 Almondridge	--	1,809	4,221	--	--
500 Northridge	--	1,789	4,174	--	--
520 Northridge	--	1,645	3,876	--	--
531 Northridge Warehouse	--	4,992	11,648	--	--
531 Northridge Office	--	766	1,788	--	--
540 Northridge	--	2,038	4,755	--	--
550 Northridge	--	472	1,102	--	--
US Airways	--	2,625	14,824	--	180
University Commercial Center-Landmark 03	--	429	1,771	--	136
University Commercial Center-Archer 04	--	514	2,058	--	165
University Commercial Center-Service Center 1	--	276	1,155	--	66
University Commercial Center-Service Center 2	--	215	859	--	120
University Commercial Center-Service Center 3	--	167	668	--	27
University Commercial Center-Warehouse 1	--	203	812	--	7
University Commercial Center-Warehouse 2	--	196	786	--	12
Westpoint Business Park-BMF	(1)	795	3,181	--	--
Westpoint Business Park-Luwabahnson	--	346	1,384	--	1
Westpoint Business Park(3 & 4)	(1)	120	480	--	24
West Point Business Park	--	1,759	--	(518)(19)	--
Westpoint Business Park-Wp 11	(1)	393	1,570	--	65
Westpoint Business Park-Wp 12	(1)	382	1,531	--	48
Westpoint Business Park-Wp 13	(1)	297	1,192	--	45
Westpoint Business Park-Fairchild	--	640	2,577	--	--
Westpoint Business Park-Warehouse5	--	178	590	--	265

Gross Amount at  
Which Carried at Close of Period

Description	Land	Building & Improvements	Total (16)	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Computed
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Grassy Creek - Building G	1,439	3,357	4,796	47	1984	5-40 yrs.
Grassy Creek - Building H	1,606	3,748	5,354	52	1985	5-40 yrs.
Grassy Creek - Building I	1,835	4,283	6,118	60	1986	5-40 yrs.
Hampton Park - Building 5	318	742	1,060	14	1981	5-40 yrs.
Hampton Park - Building 6	371	866	1,237	12	1980	5-40 yrs.
Hampton Park - Building 7	212	495	707	7	1983	5-40 yrs.
Hampton Park - Building 8	212	495	707	7	1984	5-40 yrs.
Hampton Park - Building 9	212	495	707	7	1985	5-40 yrs.
5100 Indiana Avenue	490	1,143	1,633	16	1982	5-40 yrs.
Members Warehouse	602	1,406	2,008	20	1986	5-40 yrs.
Madison Park - Building 5610	211	493	704	7	1988	5-40 yrs.
Madison Park - Building 5620	941	2,196	3,137	30	1983	5-40 yrs.
Madison Park - Building 5630	1,486	3,468	4,954	47	1983	5-40 yrs.
Madison Park - Building 5635	893	2,083	2,976	28	1986	5-40 yrs.
Madison Park - Building 5640	3,632	8,476	12,108	116	1985	5-40 yrs.
Madison Park - Building 5650	1,081	2,522	3,603	34	1984	5-40 yrs.
Madison Park - Building 5660	1,910	4,456	6,366	61	1984	5-40 yrs.
Madison Park - Building 5655	5,891	13,753	19,644	188	1987	5-40 yrs.
711 Almondridge	301	702	1,003	10	1988	5-40 yrs.
710 Almondridge	1,809	4,221	6,030	59	1989	5-40 yrs.
500 Northridge	1,789	4,174	5,963	58	1988	5-40 yrs.
520 Northridge	1,645	3,876	5,521	55	1988	5-40 yrs.
531 Northridge Warehouse	4,992	11,648	16,640	161	1989	5-40 yrs.
531 Northridge Office	766	1,788	2,554	25	1989	5-40 yrs.
540 Northridge	2,038	4,755	6,793	66	1987	5-40 yrs.
550 Northridge	472	1,102	1,574	15	1989	5-40 yrs.
US Airways	2,625	15,004	17,629	424	1970-1987	5-40 yrs.
University Commercial Center-Landmark 03	429	1,907	2,336	191	1985	5-40 yrs.
University Commercial Center-Archer 04	514	2,223	2,737	241	1986	5-40 yrs.
University Commercial Center-Service Center 1	276	1,221	1,497	134	1983	5-40 yrs.
University Commercial Center-Service Center 2	215	979	1,194	122	1983	5-40 yrs.
University Commercial Center-Service Center 3	167	695	862	67	1984	5-40 yrs.
University Commercial Center-Warehouse 1	203	819	1,022	79	1983	5-40 yrs.
University Commercial Center-Warehouse 2	196	798	994	77	1983	5-40 yrs.
Westpoint Business Park-BMF	795	3,181	3,976	308	1986	5-40 yrs.
Westpoint Business Park-Luwabahnson	346	1,385	1,731	135	1990	5-40 yrs.
Westpoint Business Park(3 & 4)	120	504	624	49	1988	5-40 yrs.
West Point Business Park	1,241	--	1,241	--	N/A	N/A
Westpoint Business Park-Wp 11	393	1,635	2,028	166	1988	5-40 yrs.
Westpoint Business Park-Wp 12	382	1,579	1,961	151	1988	5-40 yrs.
Westpoint Business Park-Wp 13	297	1,237	1,534	118	1988	5-40 yrs.
Westpoint Business Park-Fairchild	640	2,577	3,217	250	1990	5-40 yrs.
Westpoint Business Park-Warehouse5	178	855	1,033	180	1995	5-40 yrs.

Description	Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period		
		Land	Building & Improvements	Land	Building & Improvements	Land	Building & Improvements	Total (16)
Greenville, SC								
385 Building 1	--	1,413	1,401	--	2,524	1,413	3,925	5,338
385 Land	--	--	--	1,800	--	1,800	--	1,800
Nationsbank Plaza	--	642	9,349	--	1,315	642	10,664	11,306
Brookfield Plaza	4,703	1,489	8,437	--	297	1,489	8,734	10,223
Brookfield-CRS Sirrine	11,884	3,022	17,125	--	--	3,022	17,125	20,147
Brookfield-YMCA	423	33	189	--	16	33	205	238
Patewood I	--	942	5,016	--	51	942	5,067	6,009
Patewood II	--	942	5,018	--	100	942	5,118	6,060
Patewood III	5,343	835	4,733	--	141	835	4,874	5,709
Patewood IV	(27)	1,210	6,856	--	--	1,210	6,856	8,066
Patewood V	4,714	1,677	9,503	--	--	1,677	9,503	11,180
Patewood VI	--	2,375	7,141	--	326	2,375	7,467	9,842
769 Pelham Rd.	--	705	2,778	--	--	705	2,778	3,483
Patewood Business Center	2,541	1,312	7,436	--	111	1,312	7,547	8,859
Jacksonville, FL								
Belfort Park I	--	1,322	4,285	83	194	1,405	4,479	5,884
Belfort Park II	--	831	5,066	52	400	883	5,466	6,349
Belfort Parkway III	--	647	4,027	41	537	688	4,564	5,252
Belfort Park VI	--	--	--	447	--	447	--	447
Belfort Park VII	--	--	--	926	--	926	--	926
CIGNA Building	--	381	1,592	24	155	405	1,747	2,152
Harry James Building	--	272	1,358	17	150	289	1,508	1,797
Independent Square	--	3,985	44,633	250	9,597	4,235	54,230	58,465
Three Oaks Plaza	--	1,630	14,036	102	744	1,732	14,780	16,512
Reflections	6,639	958	9,877	60	343	1,018	10,220	11,238
Southpoint Building	--	594	3,987	37	188	631	4,175	4,806
SWD Land Annex	--	--	--	--	5	--	5	5
Highwoods Center	--	1,143	6,476	--	73	1,143	6,549	7,692
Life of the South Building	--	184	4,750	12	519	196	5,269	5,465
Tallahassee, FL								
Blair Stone Building	--	1,550	32,988	--	413	1,550	33,401	34,951
215 South Monroe St. Building	--	1,950	17,853	4	140	1,954	17,993	19,947
Shawnee Mission, KS								
Corinth Square North Shops	(7)	2,693	10,772	--	322	2,693	11,094	13,787
Corinth Shops South	(7)	1,043	4,172	--	33	1,043	4,205	5,248
Fairway Shops	2,792	673	2,694	--	80	673	2,774	3,447
Georgetown Marketplace	5,500	1,399	5,598	--	--	1,399	5,598	6,997
Prairie Village Shops	11,308	3,289	13,157	--	407	3,289	13,564	16,853
Shannon Valley Shopping Center	6,583	1,669	6,678	--	4	1,669	6,682	8,351
Trailwood III Shops	820	223	893	--	4	223	897	1,120
Trailwood Shops	--	458	1,831	--	65	458	1,896	2,354
Valencia Place	--	--	--	--	48	--	48	48
Westwood Shops	--	113	453	--	2	113	455	568
Brymar Building	--	329	1,317	--	21	329	1,338	1,667
Corinth Executive Square	--	514	2,054	--	281	514	2,335	2,849
Corinth Office Building	911	529	2,116	--	47	529	2,163	2,692
Fairway North Building	8,000	753	3,013	--	140	753	3,153	3,906
Fairway West Building	4,775	851	3,402	--	69	851	3,471	4,322
Hartford Office Building	--	568	2,271	--	62	568	2,333	2,901
Land - Kansas	--	28,275	121	--	--	28,275	121	28,396
Nichols Building	966	490	1,959	--	25	490	1,984	2,474
Oak Park Building	--	368	1,470	--	144	368	1,614	1,982
Prairie Village Office Center	--	749	2,997	--	108	749	3,105	3,854
Quivira Business Park A	--	191	447	--	13	191	460	651
Quivira Business Park B	--	179	417	--	6	179	423	602
Quivira Business Park C	--	189	440	--	--	189	440	629
Quivira Business Park D	--	154	360	--	--	154	360	514
Quivira Business Park E	--	251	586	--	--	251	586	837
Quivira Business Park F	--	171	400	--	20	171	420	591
Quivira Business Park G	--	205	477	--	--	205	477	682
Quivira Business Park H	--	175	407	--	--	175	407	582

Description	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Computed
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Greenville, SC			
385 Building 1	62	1998	5-40 yrs.
385 Land	--	N/A	N/A
Nationsbank Plaza	387	1973	5-40 yrs.
Brookfield Plaza	568	1987	5-40 yrs.
Brookfield-CRS Sirrine	993	1990	5-40 yrs.
Brookfield-YMCA	19	1990	5-40 yrs.
Patewood I	240	1985	5-40 yrs.
Patewood II	245	1987	5-40 yrs.
Patewood III	351	1989	5-40 yrs.
Patewood IV	397	1989	5-40 yrs.
Patewood V	551	1990	5-40 yrs.
Patewood VI	92	N/A	5-40 yrs.
769 Pelham Rd.	61	1989	5-40 yrs.
Patewood Business Center	443	1983	5-40 yrs.
Jacksonville, FL			
Belfort Park I	141	1988	5-40 yrs.
Belfort Park II	164	1988	5-40 yrs.
Belfort Parkway III	189	1988	5-40 yrs.
Belfort Park VI	--	N/A	N/A
Belfort Park VII	--	N/A	N/A
CIGNA Building	59	1972	5-40 yrs.
Harry James Building	53	1982	5-40 yrs.
Independent Square	1,802	1975	5-40 yrs.
Three Oaks Plaza	458	1972	5-40 yrs.
Reflections	335	1985	5-40 yrs.
Southpoint Building	131	1980	5-40 yrs.
SWD Land Annex	--	N/A	N/A
Highwoods Center	376	1991	5-40 yrs.
Life of the South Building	157	1964	5-40 yrs.
Tallahassee, FL			
Blair Stone Building	1,015	1994	5-40 yrs.
215 South Monroe St. Building	367	1976	5-40 yrs.
Shawnee Mission, KS			
Corinth Square North Shops	129	1962	5-40 yrs.
Corinth Shops South	50	1953	5-40 yrs.
Fairway Shops	36	1940	5-40 yrs.
Georgetown Marketplace	74	1974	5-40 yrs.
Prairie Village Shops	165	1948	5-40 yrs.
Shannon Valley Shopping Center	86	1988	5-40 yrs.
Trailwood III Shops	10	1986	5-40 yrs.
Trailwood Shops	23	1968	5-40 yrs.
Valencia Place	--	N/A	5-40 yrs.
Westwood Shops	5	1926	5-40 yrs.
Brymar Building	17	1968	5-40 yrs.
Corinth Executive Square	26	1973	5-40 yrs.
Corinth Office Building	25	1960	5-40 yrs.
Fairway North Building	37	1985	5-40 yrs.
Fairway West Building	39	1983	5-40 yrs.
Hartford Office Building	26	1978	5-40 yrs.
Land - Kansas	1	N/A	N/A
Nichols Building	23	1978	5-40 yrs.
Oak Park Building	18	1976	5-40 yrs.
Prairie Village Office Center	37	1960	5-40 yrs.
Quivira Business Park A	6	1975	5-40 yrs.
Quivira Business Park B	5	1973	5-40 yrs.
Quivira Business Park C	5	1973	5-40 yrs.
Quivira Business Park D	4	1973	5-40 yrs.
Quivira Business Park E	7	1973	5-40 yrs.
Quivira Business Park F	5	1973	5-40 yrs.
Quivira Business Park G	6	1973	5-40 yrs.
Quivira Business Park H	8	1973	5-40 yrs.

Description	Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period		Total (16)
		Land	Building & Improvements	Land	Building & Improvements	Land	Building & Improvements	
Quivira Business Park J	--	360	839	--	5	360	844	1,204
Quivira Business Park L	--	98	228	--	--	98	228	326
Quivira Business Park K	--	95	222	--	--	95	222	317
Quivira Business Park SWB	--	257	600	--	125	257	725	982
Kansas City, MO								
48th & Penn	(15)	418	3,765	--	472	418	4,237	4,655
Balcony Retail	(15)	889	8,002	--	--	889	8,002	8,891
Brookside Shopping Center	4,078	2,002	8,602	154	642	2,156	9,244	11,400
Court of the Penguins	(15)	566	5,091	--	101	566	5,192	5,758
Colonial Shops	--	138	550	--	24	138	574	712
Crestwood Shops	--	253	1,013	--	47	253	1,060	1,313
Esplanade	(15)	748	6,734	--	6	748	6,740	7,488
Land Under Ground Leases Retail	--	9,789	115	--	--	9,789	115	9,904
Halls Block	(15)	275	2,478	--	1	275	2,479	2,754
Kenilworth	--	113	452	--	--	113	452	565
Macy's Block	(15)	504	4,536	--	--	504	4,536	5,040
Millcreek Retail	(15)	602	5,422	--	500	602	5,922	6,524
Nichols Block Retail	(15)	600	5,402	--	--	600	5,402	6,002
96th & Nall Shops	--	99	397	--	7	99	404	503
Plaza Central	(15)	405	3,649	--	1	405	3,650	4,055
Plaza Savings South	(15)	357	3,211	--	1,049	357	4,260	4,617
Romanelli Annex Shops	--	24	97	--	--	24	97	121
Red Bridge Shops	--	1,091	4,364	--	54	1,091	4,418	5,509
Romanelli Shops	--	219	875	--	108	219	983	1,202
Seville Shops West	--	300	2,696	--	--	300	2,696	2,996
Seville Square	--	--	--	--	368	--	368	368
Swanson Block	(15)	949	8,537	--	37	949	8,574	9,523
Theater Block	(15)	1,197	10,769	--	41	1,197	10,810	12,007
Time Block Retail	(15)	1,292	11,627	--	805	1,292	12,432	13,724
Triangle	(15)	308	2,771	--	--	308	2,771	3,079
Cole Garden Apartments	--	22	122	--	--	22	122	144
Corinth Gardens	--	283	1,603	--	39	283	1,642	1,925
Coach House North	20,000	1,604	9,092	--	127	1,604	9,219	10,823
Coach House South	4,500	3,707	21,008	--	51	3,707	21,059	24,766
Coach Lamp	--	870	4,929	--	59	870	4,988	5,858
Corinth Paddock	--	1,050	5,949	--	92	1,050	6,041	7,091
Corinth Place	4,500	639	3,623	--	6	639	3,629	4,268
Rental Houses	--	--	939	--	--	--	939	939
Kenilworth	7,379	2,160	12,240	--	177	2,160	12,417	14,577
Kirkwood Circle	--	3,000	--	--	1	3,000	1	3,001
Mission Valley	1,107	576	3,266	--	29	576	3,295	3,871
Neptune	3,498	1,073	6,079	--	44	1,073	6,123	7,196
Parklane	--	273	1,548	--	4	273	1,552	1,825
Penn Wick Apartments	--	31	175	--	--	31	175	206
Regency House	4,294	1,853	10,500	--	361	1,853	10,861	12,714
St. Charles Apartments	--	29	164	--	--	29	164	193
Sulgrave	7,974	2,621	14,855	--	(30)	2,621	14,825	17,446
Tama Apartments	--	16	93	--	--	16	93	109
Wornall Road Apartments	--	30	171	--	--	30	171	201
4900 Main Building	--	3,202	12,809	--	46	3,202	12,855	16,057
63rd & Brookside Building	--	71	283	--	7	71	290	361
Balcony Office	(15)	65	585	--	82	65	667	732
Bannister Business Center	1,157	306	713	--	76	306	789	1,095
Challenger Inc.	13,500	13,475	--	--	--	13,475	--	13,475
Esplanade Block Office	(15)	375	3,374	--	2	375	3,376	3,751
Marley Continental Homes of KS	--	180	1,620	--	--	180	1,620	1,800
Millcreek Office	(15)	79	710	--	129	79	839	918
Land - Missouri	--	4,665	188	--	--	4,665	188	4,853
Nichols Block Office	(15)	74	668	--	--	74	668	742
One Ward Parkway	--	666	2,663	--	54	666	2,717	3,383
Plaza Land Company	--	50	--	--	--	50	--	50
Park Plaza Building	(15)	1,352	5,409	--	33	1,352	5,442	6,794

Description	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Computed
Quivira Business Park J	10	1973	5-40 yrs.
Quivira Business Park L	3	1985	5-40 yrs.
Quivira Business Park K	8	1985	5-40 yrs.
Quivira Business Park SWB	8	1973	5-40 yrs.
Kansas City, MO			
48th & Penn	56	1948	5-40 yrs.
Balcony Retail	119	1925	5-40 yrs.

Brookside Shopping Center	101	1919	5-40 yrs.
Court of the Penguins	79	1945	5-40 yrs.
Colonial Shops	7	1907	5-40 yrs.
Crestwood Shops	13	1932	5-40 yrs.
Esplanade	100	1928	5-40 yrs.
Land Under Ground	1	N/A	N/A
Leases Retail			
Halls Block	37	1964	5-40 yrs.
Kenilworth	5	1965	5-40 yrs.
Macy's Block	67	1926	5-40 yrs.
Millcreek Retail	81	1920	5-40 yrs.
Nichols Block Retail	80	1930	5-40 yrs.
96th & Nall Shops	5	1976	5-40 yrs.
Plaza Central	54	1958	5-40 yrs.
Plaza Savings South	48	1948	5-40 yrs.
Romanelli Annex Shops	1	1963	5-40 yrs.
Red Bridge Shops	52	1959	5-40 yrs.
Romanelli Shops	11	1925	5-40 yrs.
Seville Shops West	40	1980	5-40 yrs.
Seville Square	10	N/A	N/A
Swanson Block	127	1967	5-40 yrs.
Theater Block	160	1928	5-40 yrs.
Time Block Retail	172	1929	5-40 yrs.
Triangle	41	1925	5-40 yrs.
Cole Garden Apartments	1	1960	5-40 yrs.
Corinth Gardens	19	1961	5-40 yrs.
Coach House North	106	1986	5-40 yrs.
Coach House South	244	1984	5-40 yrs.
Coach Lamp	58	1961	5-40 yrs.
Corinth Paddock	70	1973	5-40 yrs.
Corinth Place	42	1987	5-40 yrs.
Rental Houses	11	1971-1989	5-40 yrs.
Kenilworth	143	1965	5-40 yrs.
Kirkwood Circle	--	N/A	N/A
Mission Valley	38	1964	5-40 yrs.
Neptune	71	1988	5-40 yrs.
Parklane	18	1924	5-40 yrs.
Penn Wick Apartments	2	1965	5-40 yrs.
Regency House	145	1960	5-40 yrs.
St. Charles Apartments	2	1922	5-40 yrs.
Sulgrave	190	1967	5-40 yrs.
Tama Apartments	1	1965	5-40 yrs.
Wornall Road Apartments	2	1918	5-40 yrs.
4900 Main Building	159	1986	5-40 yrs.
63rd & Brookside Building	3	1919	5-40 yrs.
Balcony Office	7	1928	5-40 yrs.
Bannister Business Center	9	1985	5-40 yrs.
Challenger Inc.	--	N/A	N/A
Esplanade Block Office	39	1945	5-40 yrs.
Marley Continental Homes of KS	19	N/A	5-40 yrs.
Millcreek Office	8	1925	5-40 yrs.
Land - Missouri	2	N/A	5-40 yrs.
Nichols Block Office	8	1938	5-40 yrs.
One Ward Parkway	44	1980	5-40 yrs.
Plaza Land Company	--	N/A	N/A
Park Plaza Building	72	1983	5-40 yrs.



Description	Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	
		Land	Building & Improvements	Land	Building & Improvements
Parkway Building	--	395	1,578	--	130
Romanelli Annex Office Building	--	73	294	--	6
Red Bridge Professional Building	--	405	1,621	--	78
Two Brush Creek Plaza	--	961	3,845	--	44
Theatre Block Office	(15)	242	2,179	--	--
Time Block Office	(15)	199	1,792	--	4
Memphis, TN					
Atrium I & II	--	1,530	6,121	40	133
Centrum	--	1,013	5,488	--	91
Colonnade	--	--	--	1,300	7,996
Hickory Hill Medical Plaza	--	398	2,256	--	4
3400 Players Club Parkway	--	1,005	3,816	--	1,695
International Place Phase II	--	4,847	27,469	--	858
Kirby Centre	--	525	2,973	--	77
International Place Phase III	--	--	--	1,566	--
Southwind Office Center A	--	996	5,643	--	26
Southwind Office Center B	--	1,356	7,684	--	259
Southwind Office Center C	--	1,070	3,834	--	839
Norfolk, VA					
Battlefield Business Center II	2,680	774	4,387	--	--
Greenbriar Business Center	2,730	936	5,305	--	55
Hampton Center Two	--	--	--	2	--
Hampton Center Three	--	--	--	2	--
Highwoods Centre	--	2	7,257	--	98
Riverside II	--	--	--	483	--
Riverside Building	--	1,495	5,963	--	319
Nashville, TN					
3401 Westend	--	6,103	23,343	--	1,153
5310 Maryland Way	--	1,923	7,360	--	50
Ayers Land	--	--	--	1,164	--
Southpointe	--	--	--	1,655	7,961
BNA Corporate Center	11,465	--	22,588	--	710
Century City Plaza I	--	903	3,612	--	310
Cool Springs - Building II	--	--	--	6,796	--
Cool Springs I	--	--	--	1,983	11,477
Eastpark 1, 2, 3	3,956	3,137	11,842	--	842
Grassmere	--	1,779	--	(348) (24)	--
Grassmere I	2,817	1,251	7,091	--	594
Grassmere II	4,341	2,260	12,804	--	234
Grassmere III	4,984	1,340	7,592	--	5
Highwoods Plaza I	--	1,772	6,380	--	2,611
Highwoods Plaza II	--	1,448	6,948	--	1,214
Harpeth On The Green II	--	1,419	5,677	1	305
Harpeth on the Green III	--	1,658	6,633	2	289
Harpeth on the Green IV	--	1,709	6,835	5	371
Harpeth on the Green V	--	--	--	662	5,566
Lakeview Ridge	--	2,179	7,545	--	166
Lakeview Ridge II	--	--	--	557	5,297
Ridge Development	--	1,960	--	(1,870) (25)	--
The Sparrow Building	--	1,262	5,047	--	73
Grassmere/Thousdale Land	--	760	--	--	--
Winners Circle	--	1,495	7,072	2	181
Orlando, FL					
Sunport Center	--	1,505	9,777	--	102
Oakridge Center	--	4,700	18,761	--	226

Gross Amount at  
Which Carried at Close of Period

Description	Land	Building & Improvements	Total (16)	Accumulated Depreciation	Date of Construction	Life on Which
						Depreciation is Computed

Parkway Building	395	1,708	2,103	23	1906-1910	5-40 yrs.
Romanelli Annex Office Building	73	300	373	3	1963	5-40 yrs.
Red Bridge Professional Building	405	1,699	2,104	19	1972	5-40 yrs.
Two Brush Creek Plaza	961	3,889	4,850	49	1983	5-40 yrs.
Theatre Block Office	242	2,179	2,421	25	1928	5-40 yrs.
Time Block Office	199	1,796	1,995	21	1945	5-40 yrs.
Memphis, TN						
Atrium I & II	1,570	6,254	7,824	321	1984	5-40 yrs.
Centrum	1,013	5,579	6,592	204	1979	5-40 yrs.
Colonnade	1,300	7,996	9,296	209	1998	5-40 yrs.
Hickory Hill Medical Plaza	398	2,260	2,658	131	1988	5-40 yrs.
3400 Players Club Parkway	1,005	5,511	6,516	341	1997	5-40 yrs.
International Place Phase II	4,847	28,327	33,174	1,769	1988	5-40 yrs.
Kirby Centre	525	3,050	3,575	176	1984	5-40 yrs.
International Place Phase III	1,566	--	1,566	--	N/A	N/A
Southwind Office Center A	996	5,669	6,665	333	1991	5-40 yrs.
Southwind Office Center B	1,356	7,943	9,299	449	1990	5-40 yrs.
Southwind Office Center C	1,070	4,673	5,743	4	1998	5-40 yrs.
Norfolk, VA						
Battlefield Business Center II	774	4,387	5,161	254	1987	5-40 yrs.
Greenbriar Business Center	936	5,360	6,296	312	1984	5-40 yrs.
Hampton Center Two	2	--	2	--	N/A	N/A
Hampton Center Three	2	--	2	--	N/A	N/A
Highwoods Centre	2	7,355	7,357	22	N/A	5-40 yrs.
Riverside II	483	--	483	--	N/A	N/A
Riverside Building	1,495	6,282	7,777	193	1988	5-40 yrs.
Nashville, TN						
3401 Westend	6,103	24,496	30,599	1,799	1982	5-40 yrs.
5310 Maryland Way	1,923	7,410	9,333	499	1994	5-40 yrs.
Ayers Land	1,164	--	1,164	--	N/A	N/A
Southpointe	1,655	7,961	9,616	71	1998	5-40 yrs.
BNA Corporate Center	--	23,298	23,298	1,625	1985	5-40 yrs.
Century City Plaza I	903	3,922	4,825	299	1987	5-40 yrs.
Cool Springs - Building II	6,796	--	6,796	--	N/A	5-40 yrs.
Cool Springs I	1,983	11,477	13,460	66	N/A	5-40 yrs.
Eastpark 1, 2, 3	3,137	12,684	15,821	995	1978	5-40 yrs.
Grassmere	1,431	--	1,431	--	N/A	N/A
Grassmere I	1,251	7,685	8,936	468	1984	5-40 yrs.
Grassmere II	2,260	13,038	15,298	798	1985	5-40 yrs.
Grassmere III	1,340	7,597	8,937	441	1990	5-40 yrs.
Highwoods Plaza I	1,772	8,991	10,763	843	1996	5-40 yrs.
Highwoods Plaza II	1,448	8,162	9,610	525	1997	5-40 yrs.
Harpeth On The Green II	1,420	5,982	7,402	360	1984	5-40 yrs.
Harpeth on the Green III	1,660	6,922	8,582	396	1987	5-40 yrs.
Harpeth on the Green IV	1,714	7,206	8,920	429	1989	5-40 yrs.
Harpeth on the Green V	662	5,566	6,228	164	1998	5-40 yrs.
Lakeview Ridge	2,179	7,711	9,890	439	1986	5-40 yrs.
Lakeview Ridge II	557	5,297	5,854	148	1998	5-40 yrs.
Ridge Development	90	--	90	--	N/A	N/A
The Sparrow Building	1,262	5,120	6,382	292	1982	5-40 yrs.
Grassmere/Thousdale Land	760	--	760	--	N/A	N/A
Winners Circle	1,497	7,253	8,750	223	1987	5-40 yrs.
Orlando, FL						
Sunport Center	1,505	9,879	11,384	301	1990	5-40 yrs.
Oakridge Center	4,700	18,987	23,687	576	1966-1992	5-40 yrs.

Description	Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	
		Land	Building & Improvements	Land	Building & Improvements
Corporate Square	--	900	1,717	--	340
Executive Point Towers	--	2,200	7,230	--	265
Sandlake Southwest	3,528	1,025	4,049	--	3
Lakeview Office Park	--	5,400	13,994	--	353
2699 Lee Road Building	--	1,500	6,003	--	293
MetroWest Center	3,482	1,344	7,618	--	108
Landmark I	--	6,785	28,243	--	42
Landmark II	--	6,785	28,206	--	105
C N A Maitland I	--	1,858	16,129	--	--
C N A Maitland II	--	743	2,639	--	905
Hard Rock Caf[00e9]	--	1,305	3,570	--	--
Metro West Land	--	--	--	5,505	--
One Winter Park	2,294	1,000	3,652	--	139
The Palladium	--	1,400	5,500	--	59
201 Pine Street Building	--	4,400	29,836	--	700
Capital Plaza	--	--	--	2,970	--
Premier Point North	--	800	3,037	--	80
Premier Point South	--	600	3,404	--	103
Interlachen Village	2,081	1,100	2,689	--	46
Signature Plaza	--	4,300	30,294	--	1,501
Skyline Center	--	700	2,748	--	58
Southwest Corporate Center	3,666	991	5,613	--	--
Research Triangle, NC					
Blue Ridge II	--	434	(2)	29	1,429
Blue Ridge I	--	722	4,538	--	959
3404 North Duke Street	--	879	3,522	--	1
Fairfield II	--	910	3,647	--	519
3600 Glenwood Avenue	--	--	--	--	10,994
3645 Trust Drive - One North Commerce Center	1,754	520	2,949	--	48
3737 Glenwood Ave.	--	--	--	--	70
4020 North Roxboro Road	--	675	2,708	--	1,222
4101 North Roxboro Road	--	1,059	4,243	--	283
Fairfield I	--	805	3,227	--	587
4201 Research Commons	--	1,204	7,715	--	2,414
4301 Research Commons	--	900	7,425	--	693
4401 Research Commons	--	1,249	8,929	--	4,871
4501 Research Commons	--	785	4,448	--	1,092
4800 North Park	--	2,678	17,673	--	242
4900 North Park	1,440	770	1,989	--	273
5000 North Park	--	1,010	4,697	--	1,006
5200 Green's Dairy - One North Commerce Center	585	169	959	--	17
5220 Green's Dairy - One North Commerce Center	1,057	382	2,165	--	94
5301 Departure Drive	2,432	882	5,000	--	6
4000 Aerial Center	--	541	2,163	--	128
Amica	--	289	1,517	--	80
Arrowwood	--	955	3,383	--	258
Aspen	--	560	2,088	--	270
Birchwood	--	201	907	--	38
BTI	--	--	15,504	--	10
BTI Houses	--	250	250	--	--
Capital Center	--	851	--	(629) (20)	--
Cedar East	--	563	2,491	--	247
Cedar West	--	563	2,475	--	454
ClinTrials Research	--	2,497	12,798	--	2,648
Colony Corporate Center	--	613	3,296	--	598
Concourse	--	986	12,069	--	679
Cape Fear	--	131	--	--	2,612
Creekstone Crossing	--	728	3,841	--	100
Cotton	--	460	1,844	--	117
Catawba	--	125	(15)	--	1,928

Gross Amount at  
Which Carried at Close of Period

Description	Land	Building & Improvements	Total (16)	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Computed
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Corporate Square	900	2,057	2,957	84	1971	5-40 yrs.
Executive Point Towers	2,200	7,495	9,695	253	1978	5-40 yrs.
Sandlake Southwest	1,025	4,052	5,077	48	1986	5-40 yrs.
Lakeview Office Park	5,400	14,347	19,747	461	1975	5-40 yrs.
2699 Lee Road Building	1,500	6,296	7,796	185	1974	5-40 yrs.
MetroWest Center	1,344	7,726	9,070	465	1988	5-40 yrs.
Landmark I	6,785	28,285	35,070	624	1983	5-40 yrs.
Landmark II	6,785	28,311	35,096	631	1985	5-40 yrs.
C N A Maitland I	1,858	16,129	17,987	17	1998	5-40 yrs.
C N A Maitland II	743	3,544	4,287	18	1998	5-40 yrs.
Hard Rock Caf[00e9]	1,305	3,570	4,875	4	1998	5-40 yrs.
Metro West Land	5,505	--	5,505	--	N/A	N/A
One Winter Park	1,000	3,791	4,791	121	1982	5-40 yrs.
The Palladium	1,400	5,559	6,959	170	1988	5-40 yrs.
201 Pine Street Building	4,400	30,536	34,936	1,056	1980	5-40 yrs.
Capital Plaza	2,970	--	2,970	--	N/A	5-40 yrs.
Premier Point North	800	3,117	3,917	100	1983	5-40 yrs.
Premier Point South	600	3,507	4,107	115	1983	5-40 yrs.
Interlachen Village	1,100	2,735	3,835	88	1987	5-40 yrs.
Signature Plaza	4,300	31,795	36,095	1,009	1986	5-40 yrs.
Skyline Center	700	2,806	3,506	86	1985	5-40 yrs.
Southwest Corporate Center	991	5,613	6,604	325	1984	5-40 yrs.
Research Triangle, NC						
Blue Ridge II	463	1,427	1,890	445	1988	5-40 yrs.
Blue Ridge I	722	5,497	6,219	668	1982	5-40 yrs.
3404 North Duke Street	879	3,523	4,402	305	1985	5-40 yrs.
Fairfield II	910	4,166	5,076	401	1989	5-40 yrs.
3600 Glenwood Avenue	--	10,994	10,994	492	1986	5-40 yrs.
3645 Trust Drive - One North Commerce Center	520	2,997	3,517	180	1984	5-40 yrs.
3737 Glenwood Ave.	--	70	70	--	N/A	N/A
4020 North Roxboro Road	675	3,930	4,605	236	1989	5-40 yrs.
4101 North Roxboro Road	1,059	4,526	5,585	382	1984	5-40 yrs.
Fairfield I	805	3,814	4,619	291	1987	5-40 yrs.
4201 Research Commons	1,204	10,129	11,333	2,056	1991	5-40 yrs.
4301 Research Commons	900	8,118	9,018	756	1989	5-40 yrs.
4401 Research Commons	1,249	13,800	15,049	2,984	1987	5-40 yrs.
4501 Research Commons	785	5,540	6,325	803	1985	5-40 yrs.
4800 North Park	2,678	17,915	20,593	2,086	1985	5-40 yrs.
4900 North Park	770	2,262	3,032	299	1984	5-40 yrs.
5000 North Park	1,010	5,703	6,713	911	1980	5-40 yrs.
5200 Green's Dairy - One North Commerce Center	169	976	1,145	64	1984	5-40 yrs.
5220 Green's Dairy - One North Commerce Center	382	2,259	2,641	135	1984	5-40 yrs.
5301 Departure Drive	882	5,006	5,888	291	1984	5-40 yrs.
4000 Aerial Center	541	2,291	2,832	124	1992	5-40 yrs.
Amica	289	1,597	1,886	236	1983	5-40 yrs.
Arrowwood	955	3,641	4,596	517	1979	5-40 yrs.
Aspen	560	2,358	2,918	333	1980	5-40 yrs.
Birchwood	201	945	1,146	129	1983	5-40 yrs.
BTI	--	15,514	15,514	310	1995	5-40 yrs.
BTI Houses	250	250	500	2	1970	5-40 yrs.
Capital Center	222	--	222	--	N/A	N/A
Cedar East	563	2,738	3,301	392	1981	5-40 yrs.
Cedar West	563	2,929	3,492	472	1981	5-40 yrs.
ClinTrials Research	2,497	15,446	17,943	146	1998	5-40 yrs.
Colony Corporate Center	613	3,894	4,507	507	1985	5-40 yrs.
Concourse	986	12,748	13,734	1,560	1986	5-40 yrs.
Cape Fear	131	2,612	2,743	1,453	1979	5-40 yrs.
Creekstone Crossing	728	3,941	4,669	368	1990	5-40 yrs.
Cotton	460	1,961	2,421	152	1972	5-40 yrs.
Catawba	125	1,913	2,038	1,088	1980	5-40 yrs.

Description	Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	
		Land	Building & Improvements	Land	Building & Improvements
Cottonwood	--	609	3,253	--	22
Cypress	--	567	1,729	--	141
Dogwood	--	766	2,777	--	16
EPA Annex	--	2,601	10,920	--	109
Expressway Warehouse	--	242	--	4	1,894
Global Software	--	465	5,358	--	2,102
Hawthorn	--	904	3,782	--	73
Highwoods Health Club	--	142	524	--	1,308
Holiday Inn Reservations Center	--	867	2,735	--	136
Holly	--	300	1,144	--	44
Healthsource	--	1,294	10,593	10	1,620
Highwoods Tower One	--	203	16,914	--	544
Highwoods Centre	--	532	5,960	--	877
Ironwood	--	319	1,276	--	353
Kaiser	--	133	3,625	--	606
Laurel	--	884	2,524	--	53
Lake Plaza East	--	856	4,893	--	696
Highwoods Office Center North	--	1,103	49	(387) (21)	--
Highwoods Office Center South	--	2,518	--	--	--
Leatherwood	--	213	851	--	413
Martin Land	--	--	--	3,409	--
A4 Health Systems	--	717	3,418	--	1,297
Creekstone Park	--	796	--	(647) (22)	--
Northpark I	--	405	--	93	3,542
North Park - Land	--	962	--	39	--
Phase I - One North Commerce Center	1,961	768	4,353	--	265
\`W' Building - One North Commerce Center	3,737	1,163	6,592	--	1,329
Overlook	--	--	--	--	42
Pamlico/Roanoke	--	269	--	20	11,087
Phoenix	--	394	2,019	--	40
Raleigh Corp Center Lot D	--	--	--	2,039	--
4101 Research Commons	--	1,349	--	(1,349) (23)	3
Rexwoods Center I	(4)	775	--	103	3,691
Rexwoods II	--	355	(12)	7	1,863
Rexwoods III	--	886	--	34	2,902
Rexwoods IV	--	586	--	--	3,629
Rexwoods V	--	1,301	4,977	--	973
Riverbirch	--	448	--	21	4,434
Situs I	--	693	2,917	(1)	1,476
Situs II	--	--	--	718	4,736
Six Forks Center I	--	666	2,663	--	477
Six Forks Center II	--	1,086	4,345	--	427
Six Forks Center III	--	862	4,411	--	202
Smoketree Tower	--	2,353	11,802	--	2,724
South Square I	(4)	606	3,785	--	553
South Square II	--	525	4,710	--	270
Sycamore	--	255	--	--	5,809
Building 2A - Triangle Business Center	(4)	377	4,004	--	702
Building 2B - Triangle Business Center	(4)	118	1,225	--	212
Building 3 - Triangle Business Center	(4)	409	5,349	--	656
Building 7 - Triangle Business Center	(4)	414	6,301	--	544
Willow Oak	--	458	4,685	--	1,791
Richmond, VA	--	--	--	2,763	--
Highwoods Distribution Center	--	--	--	--	--
Airport Center One	--	708	4,374	--	1,071
Airport Center 2	--	362	2,896	--	16
1309 Cary Street	--	171	685	--	71

Gross Amount at  
Which Carried at Close of Period

Description	Land	Building & Improvements	Total (16)	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Computed
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Cottonwood	609	3,275	3,884	380	1983	5-40 yrs.
Cypress	567	1,870	2,437	276	1980	5-40 yrs.
Dogwood	766	2,793	3,559	319	1983	5-40 yrs.
EPA Annex	2,601	11,029	13,630	1,076	1966	5-40 yrs.
Expressway Warehouse	246	1,894	2,140	398	1990	5-40 yrs.
Global Software	465	7,460	7,925	948	1996	5-40 yrs.
Hawthorn	904	3,855	4,759	1,808	1987	5-40 yrs.
Highwoods Health Club	142	1,832	1,974	28	1998	5-40 yrs.
Holiday Inn Reservations Center	867	2,871	3,738	337	1984	5-40 yrs.
Holly	300	1,188	1,488	162	1984	5-40 yrs.
Healthsource	1,304	12,213	13,517	887	1996	5-40 yrs.
Highwoods Tower One	203	17,458	17,661	3,497	1991	5-40 yrs.
Highwoods Centre	532	6,837	7,369	30	1998	5-40 yrs.
Ironwood	319	1,629	1,948	262	1978	5-40 yrs.
Kaiser	133	4,231	4,364	1,313	1988	5-40 yrs.
Laurel	884	2,577	3,461	292	1982	5-40 yrs.
Lake Plaza East	856	5,589	6,445	851	1984	5-40 yrs.
Highwoods Office Center North	716	49	765	14	N/A	N/A
Highwoods Office Center South	2,518	--	2,518	--	N/A	N/A
Leatherwood	213	1,264	1,477	192	1979	5-40 yrs.
Martin Land	3,409	--	3,409	--	N/A	N/A
A4 Health Systems	717	4,715	5,432	422	1996	5-40 yrs.
Creekstone Park	149	--	149	--	N/A	N/A
Northpark I	498	3,542	4,040	194	1997	5-40 yrs.
North Park - Land	1,001	--	1,001	--	N/A	N/A
Phase I - One North Commerce Center	768	4,618	5,386	279	1981	5-40 yrs.
\`W' Building - One North Commerce Center	1,163	7,921	9,084	523	1983	5-40 yrs.
Overlook	--	42	42	--	N/A	N/A
Pamlico/Roanoke	289	11,087	11,376	2,515	1980	5-40 yrs.
Phoenix	394	2,059	2,453	248	1990	5-40 yrs.
Raleigh Corp Center Lot D	2,039	--	2,039	--	N/A	N/A
4101 Research Commons	--	3	3	--	N/A	N/A
Rexwoods Center I	878	3,691	4,569	933	1990	5-40 yrs.
Rexwoods II	362	1,851	2,213	242	1993	5-40 yrs.
Rexwoods III	920	2,902	3,822	550	1992	5-40 yrs.
Rexwoods IV	586	3,629	4,215	609	1995	5-40 yrs.
Rexwoods V	1,301	5,950	7,251	174	1998	5-40 yrs.
Riverbirch	469	4,434	4,903	1,185	1987	5-40 yrs.
Situs I	692	4,393	5,085	583	1996	5-40 yrs.
Situs II	718	4,736	5,454	28	1998	5-40 yrs.
Six Forks Center I	666	3,140	3,806	266	1982	5-40 yrs.
Six Forks Center II	1,086	4,772	5,858	423	1983	5-40 yrs.
Six Forks Center III	862	4,613	5,475	516	1987	5-40 yrs.
Smoketree Tower	2,353	14,526	16,879	2,095	1984	5-40 yrs.
South Square I	606	4,338	4,944	561	1988	5-40 yrs.
South Square II	525	4,980	5,505	579	1989	5-40 yrs.
Sycamore	255	5,809	6,064	333	1997	5-40 yrs.
Building 2A - Triangle Business Center	377	4,706	5,083	859	1984	5-40 yrs.
Building 2B - Triangle Business Center	118	1,437	1,555	214	1984	5-40 yrs.
Building 3 - Triangle Business Center	409	6,005	6,414	1,071	1988	5-40 yrs.
Building 7 - Triangle Business Center	414	6,845	7,259	862	1986	5-40 yrs.
Willow Oak	458	6,476	6,934	1,207	1995	5-40 yrs.
Richmond, VA						
Highwoods Distribution Center	2,763	--	2,763	--	N/A	N/A
Airport Center One	708	5,445	6,153	260	1997	5-40 yrs.
Airport Center 2	362	2,912	3,274	57	1998	5-40 yrs.
1309 Cary Street	171	756	927	44	1987	5-40 yrs.

Description	Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	
		Land	Building & Improvements	Land	Building & Improvements
4900 Cox	--	1,324	5,305	--	155
Technology Park 1	--	541	2,166	--	140
East Shore One	--	--	--	114	--
Eastshore II	--	--	--	--	29
Grove Park II	--	--	--	570	--
Grove Park	--	349	2,685	470	3,075
Highwoods One	--	1,846	8,613	--	1,977
Richfood Holdings Building	--	785	5,170	--	1,322
End of Cox Road Land	--	966	--	(296) (26)	--
Highwoods Five	--	806	4,948	--	831
Sadler & Cox Land	--	--	--	1,657	--
Development Opportunity Strip	--	26	--	--	--
Liberty Mutual Building	3,351	1,205	4,819	--	488
Waterfront Plaza	(5)	585	2,347	--	257
Markel-American	--	1,372	8,667	--	347
North Park Building	--	2,163	8,659	--	299
Hamilton Beach Building	(5)	1,086	4,344	--	148
One Shockoe Plaza	--	--	--	--	19,277
Westshore I	--	358	1,431	--	24
Westshore II	--	545	2,181	--	30
West Shore III	--	961	3,601	--	1,131
Stony Point I	--	1,384	11,445	--	864
Stony Point II	--	--	--	2,983	--
Technology Park 2	--	264	1,058	--	41
Virginia Center Technology Park	--	1,438	5,858	--	319
Virginia Mutual	--	--	--	907	--
Vantage Place-A	--	203	811	--	86
Vantage Place-B	--	233	931	--	126
Vantage Place-C	--	235	940	--	70
Vantage Place-D	--	218	873	--	186
Vantage Point	--	1,089	4,354	--	505
South Florida	--	--	--	--	--
2828 Coral Way Building	--	1,100	4,303	--	86
The Atrium at Coral Gables	--	3,000	16,398	--	267
Atrium West	4,166	1,300	5,564	--	96
Avion	--	800	4,307	--	87
Centrum Plaza	2,791	1,000	3,545	--	53
Comeau Building	--	460	3,683	--	61
Corporate Square	--	1,750	3,385	--	92
Highwoods Cypress Creek	--	--	--	4,525	--
Dadeland Towers North	6,376	3,700	18,571	--	477
Debartolo Land	--	--	--	1,722	--
Highwoods Court at Doral	--	3,423	13,692	--	1,301
The 1800 Eller Drive Building	--	--	9,724	--	336
Emerald Hills Plaza I	--	1,450	5,830	--	89
Emerald Hills Plaza II	--	1,450	7,030	--	112
Gulf Atlantic Center	--	--	11,237	3	247
Horizon One	--	998	6,070	--	461
Highwoods Park H1	--	215	542	--	15
Highwoods Park H2	--	532	1,838	--	16
Highwoods Park A	--	462	1,680	--	25
Highwoods Park B	--	388	1,362	--	43
Highwoods Park C	--	1,121	3,962	--	26
Highwoods Park D	--	1,123	3,865	--	21
Highwoods Park E	--	1,142	3,981	--	25
Highwoods Park F	--	382	1,284	--	65
Highwoods Park G	--	346	2,155	--	74
Highwoods Park J	--	326	2,380	--	20
Highwoods Park L	--	6,375	--	--	3
Highwoods Park M	--	714	4,133	--	26
Highwoods Park N	--	--	114	--	14

Gross Amount at  
Which Carried at Close of Period

Description	Land	Building & Improvements	Total (16)	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Computed
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4900 Cox	1,324	5,460	6,784	438	1991	5-40 yrs.
Technology Park 1	541	2,306	2,847	194	1991	5-40 yrs.
East Shore One	114	--	114	--	N/A	N/A
Eastshore II	--	29	29	--	N/A	N/A
Grove Park II	570	--	570	--	N/A	N/A
Grove Park	819	5,760	6,579	208	1997	5-40 yrs.
Highwoods One	1,846	10,590	12,436	1,006	1996	5-40 yrs.
Richfood Holdings Building	785	6,492	7,277	288	1997	5-40 yrs.
End of Cox Road Land	670	--	670	--	N/A	N/A
Highwoods Five	806	5,779	6,585	76	1998	5-40 yrs.
Sadler & Cox Land	1,657	--	1,657	--	N/A	N/A
Development Opportunity Strip	26	--	26	--	N/A	N/A
Liberty Mutual Building	1,205	5,307	6,512	277	1990	5-40 yrs.
Waterfront Plaza	585	2,604	3,189	268	1988	5-40 yrs.
Markel-American	1,372	9,014	10,386	136	1998	5-40 yrs.
North Park Building	2,163	8,958	11,121	583	1989	5-40 yrs.
Hamilton Beach Building	1,086	4,492	5,578	386	1986	5-40 yrs.
One Shockoe Plaza	--	19,277	19,277	1,008	1996	5-40 yrs.
Westshore I	358	1,455	1,813	103	1995	5-40 yrs.
Westshore II	545	2,211	2,756	148	1995	5-40 yrs.
West Shore III	961	4,732	5,693	296	1997	5-40 yrs.
Stony Point I	1,384	12,309	13,693	289	1990	5-40 yrs.
Stony Point II	2,983	--	2,983	--	N/A	N/A
Technology Park 2	264	1,099	1,363	95	1991	5-40 yrs.
Virginia Center	1,438	6,177	7,615	705	1985	5-40 yrs.
Technology Park						
Virginia Mutual	907	--	907	--	N/A	N/A
Vantage Place-A	203	897	1,100	105	1987	5-40 yrs.
Vantage Place-B	233	1,057	1,290	92	1988	5-40 yrs.
Vantage Place-C	235	1,010	1,245	93	1987	5-40 yrs.
Vantage Place-D	218	1,059	1,277	115	1988	5-40 yrs.
Vantage Point	1,089	4,859	5,948	437	1990	5-40 yrs.
South Florida						
2828 Coral Way Building	1,100	4,389	5,489	132	1985	5-40 yrs.
The Atrium at Coral Gables	3,000	16,665	19,665	512	1984	5-40 yrs.
Atrium West	1,300	5,660	6,960	175	1983	5-40 yrs.
Avion	800	4,394	5,194	126	1985	5-40 yrs.
Centrum Plaza	1,000	3,598	4,598	110	1988	5-40 yrs.
Comeau Building	460	3,744	4,204	115	1926	5-40 yrs.
Corporate Square	1,750	3,477	5,227	111	1981	5-40 yrs.
Highwoods Cypress Creek	4,525	--	4,525	--	N/A	N/A
Dadeland Towers North	3,700	19,048	22,748	592	1972	5-40 yrs.
Debartolo Land	1,722	--	1,722	--	N/A	N/A
Highwoods Court at Doral	3,423	14,993	18,416	361	1987	5-40 yrs.
The 1800 Eller Drive Building	--	10,060	10,060	314	1983	5-40 yrs.
Emerald Hills Plaza I	1,450	5,919	7,369	181	1979	5-40 yrs.
Emerald Hills Plaza II	1,450	7,142	8,592	219	1979	5-40 yrs.
Gulf Atlantic Center	3	11,484	11,487	302	1986	5-40 yrs.
Horizon One	998	6,531	7,529	116	1985	5-40 yrs.
Highwoods Park H1	215	557	772	10	1984	5-40 yrs.
Highwoods Park H2	532	1,854	2,386	33	1984	5-40 yrs.
Highwoods Park A	462	1,705	2,167	30	1984	5-40 yrs.
Highwoods Park B	388	1,405	1,793	24	1984	5-40 yrs.
Highwoods Park C	1,121	3,988	5,109	70	1984	5-40 yrs.
Highwoods Park D	1,123	3,886	5,009	68	1984	5-40 yrs.
Highwoods Park E	1,142	4,006	5,148	70	1984	5-40 yrs.
Highwoods Park F	382	1,349	1,731	--	1984	5-40 yrs.
Highwoods Park G	346	2,229	2,575	38	1984	5-40 yrs.
Highwoods Park J	326	2,400	2,726	42	1984	5-40 yrs.
Highwoods Park L	6,375	3	6,378	--	N/A	N/A
Highwoods Park M	714	4,159	4,873	73	1984	5-40 yrs.
Highwoods Park N	--	128	128	2	1984	5-40 yrs.



Description	Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	
		Land	Building & Improvements	Land	Building & Improvements
Highwoods Park P	--	--	96	--	14
Palm Beach Gardens Office Park	--	1,000	4,510	--	98
Pine Island Commons	3,037	1,750	4,175	--	84
Sheraton Design Center	--	1,000	4,040	--	524
Sunset Station Plaza	--	660	7,721	--	67
Venture Corporate Center I	--	1,867	7,458	--	419
Venture Corporate Center II	--	1,867	8,837	--	135
Venture Corporate Center III	--	1,867	8,838	--	128
Tampa, FL					
5400 Gray Street	--	350	293	--	7
Anchor Glass	--	--	(109)	1,281	11,054
Atrium	--	1,639	9,286	--	70
7201 - 7243B Bryan Dairy	(11)	352	2,398	--	1
7245 - 7279 Bryan Dairy	(11)	352	2,396	--	74
Benjamin Center #7	--	296	1,678	--	41
Benjamin Center #9	--	300	1,699	--	60
Brandywine I	--	667	1,904	--	65
Brandywine II	--	483	965	--	14
Bayshore Place	6,499	2,248	10,323	--	9
Bay View	--	1,304	5,964	--	48
Bay Vista Garden Center	(14)	447	4,777	--	--
Bay Vista Garden Center II	(14)	1,328	6,981	--	366
Bay Vista Office Center	(14)	935	4,480	--	138
Bay Vista Retail Center	(14)	283	1,135	--	--
Countryside Place	--	843	3,731	--	--
Clearwater Point	--	317	1,531	--	--
Cross Bayou	--	468	2,997	--	9
Crossroads Office Center	--	561	3,342	--	77
Clearwater Tower	--	1,601	5,955	--	17
Cypress Center Land	--	1,410	--	--	--
Cypress West	2,113	615	4,988	--	129
Brookwood Day Care Center	--	61	347	--	24
Expo Building	--	171	969	--	21
Interstate Corporate Center	--	1,412	5,647	--	7,941
Feathersound II	2,291	800	7,282	--	224
Fireman's Fund Building	--	500	4,107	--	80
Fireman's Fund Land	--	--	--	1,000	--
Grand Plaza (Office)	--	1,100	7,676	--	187
Grand Plaza (Retail)	--	840	10,647	--	187
Federated	--	--	--	6,017	--
Horizon Office Building	(2)	--	6,114	--	120
IBP 8302 Laurel Fair Circle	(12)	63	595	--	16
IBP 8306 Laurel Fair Circle	(12)	102	968	--	16
IBP 8308 Laurel Fair Circle	(12)	118	1,087	--	37
IBP 4510 Oakfair Blvd	(12)	118	1,110	--	41
IBP 4514 Oakfair Blvd	(12)	71	366	--	304
IBP 4520 Oakfair Blvd	(12)	173	1,621	--	16
IBP 4524 Oakfair Blvd	(12)	141	1,329	--	37
IBP Land	--	3,781	--	--	--
Idlewild	--	623	3,859	--	2
Lakeside	(2)	--	7,200	--	148
Lakepointe I	(2)	2,100	31,078	--	559
Lakeside Technology Center	--	1,325	8,084	--	81
Mariner Square	2,474	650	2,821	--	60
Marathon I	(13)	215	1,059	--	1
Marathon II	(13)	215	1,049	--	--
Northside Square Office Building	(9)	601	3,601	--	--

Gross Amount at  
Which Carried at Close of Period

Description	Land	Building & Improvements	Total (16)	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Computed
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Highwoods Park P	--	110	110	2	1984	5-40 yrs.
Palm Beach Gardens Office Park	1,000	4,608	5,608	145	1984	5-40 yrs.
Pine Island Commons	1,750	4,259	6,009	131	1985	5-40 yrs.
Sheraton Design Center	1,000	4,564	5,564	134	1982	5-40 yrs.
Sunset Station Plaza	660	7,788	8,448	181	1984	5-40 yrs.
Venture Corporate Center I	1,867	7,877	9,744	265	1982	5-40 yrs.
Venture Corporate Center II	1,867	8,972	10,839	277	1982	5-40 yrs.
Venture Corporate Center III	1,867	8,966	10,833	270	1982	5-40 yrs.
Tampa, FL						
5400 Gray Street	350	300	650	9	1973	5-40 yrs.
Anchor Glass	1,281	10,945	12,226	263	1988	5-40 yrs.
Atrium	1,639	9,356	10,995	544	1989	5-40 yrs.
7201 - 7243B Bryan Dairy	352	2,399	2,751	53	1988	5-40 yrs.
7245 - 7279 Bryan Dairy	352	2,470	2,822	63	1987	5-40 yrs.
Benjamin Center #7	296	1,719	2,015	124	1991	5-40 yrs.
Benjamin Center #9	300	1,759	2,059	106	1989	5-40 yrs.
Brandywine I	667	1,969	2,636	22	1984	5-40 yrs.
Brandywine II	483	979	1,462	9	1984	5-40 yrs.
Bayshore Place	2,248	10,332	12,580	163	1990	5-40 yrs.
Bay View	1,304	6,012	7,316	141	1982	5-40 yrs.
Bay Vista Garden Center	447	4,777	5,224	106	1982	5-40 yrs.
Bay Vista Garden Center II	1,328	7,347	8,675	216	1997	5-40 yrs.
Bay Vista Office Center	935	4,618	5,553	131	1982	5-40 yrs.
Bay Vista Retail Center	283	1,135	1,418	26	1987	5-40 yrs.
Countryside Place	843	3,731	4,574	61	1988	5-40 yrs.
Clearwater Point	317	1,531	1,848	35	1981	5-40 yrs.
Cross Bayou	468	3,006	3,474	68	1982	5-40 yrs.
Crossroads Office Center	561	3,419	3,980	103	1981	5-40 yrs.
Clearwater Tower	1,601	5,972	7,573	136	1990	5-40 yrs.
Cypress Center Land	1,410	--	1,410	--	N/A	N/A
Cypress West	615	5,117	5,732	169	1985	5-40 yrs.
Brookwood Day Care Center	61	371	432	22	1986	5-40 yrs.
Expo Building	171	990	1,161	58	1981	5-40 yrs.
Interstate Corporate Center	1,412	13,588	15,000	302	N/A	5-40 yrs.
Feathersound II	800	7,506	8,306	225	1986	5-40 yrs.
Fireman's Fund Building	500	4,187	4,687	135	1982	5-40 yrs.
Fireman's Fund Land	1,000	--	1,000	--	N/A	N/A
Grand Plaza (Office)	1,100	7,863	8,963	250	1985	5-40 yrs.
Grand Plaza (Retail)	840	10,834	11,674	335	1985	5-40 yrs.
Federated	6,017	--	6,017	--	N/A	N/A
Horizon Office Building	--	6,234	6,234	194	1980	5-40 yrs.
IBP 8302 Laurel Fair Circle	63	611	674	13	1987	5-40 yrs.
IBP 8306 Laurel Fair Circle	102	984	1,086	22	1987	5-40 yrs.
IBP 8308 Laurel Fair Circle	118	1,124	1,242	28	1987	5-40 yrs.
IBP 4510 Oakfair Blvd	118	1,151	1,269	29	1987	5-40 yrs.
IBP 4514 Oakfair Blvd	71	670	741	15	1987	5-40 yrs.
IBP 4520 Oakfair Blvd	173	1,637	1,810	36	1987	5-40 yrs.
IBP 4524 Oakfair Blvd	141	1,366	1,507	30	1987	5-40 yrs.
IBP Land	3,781	--	3,781	--	N/A	N/A
Idlewild	623	3,861	4,484	73	1981	5-40 yrs.
Lakeside	--	7,348	7,348	222	1978	5-40 yrs.
Lakepointe I	2,100	31,637	33,737	958	1986	5-40 yrs.
Lakeside Technology Center	1,325	8,165	9,490	249	1984	5-40 yrs.
Mariner Square	650	2,881	3,531	87	1973	5-40 yrs.
Marathon I	215	1,060	1,275	24	1997	5-40 yrs.
Marathon II	215	1,049	1,264	23	1987	5-40 yrs.
Northside Square Office Building	601	3,601	4,202	80	1986	5-40 yrs.

Description	Encumbrance	Land	Initial Cost Building & Improvements	Cost Capitalized Subsequent to Acquisition	
				Land	Building & Improvements
Northside Square Retail Building	(9)	800	2,808	--	3
Parkside	(2)	--	9,193	--	199
Sabal Pavilion - Phase I	--	--	--	660	7,949
Sabal Pavilion - Phase II	--	--	--	661	--
Pavillion Office Building	(2)	--	16,022	--	181
Park Place	--	--	--	1,508	--
Pinebrook Business Center	2,219	--	(95)	1,234	9,613
USF&G	--	1,366	7,742	--	1,370
Registry I	--	744	4,216	--	120
Registry II	--	908	5,147	--	211
Registry Square	--	344	1,951	--	41
Rocky Point Land	--	--	--	3,484	--
Sabal Business Center I	--	375	2,127	--	26
Sabal Business Center II	1,218	342	1,935	--	99
Sabal Business Center III	840	290	1,642	--	16
Sabal Business Center IV	2,078	819	4,638	--	--
Sabal Business Center V	2,497	1,026	5,813	--	8
Sabal Business Center VI	5,838	1,609	9,116	--	48
Sabal Business Center VII	4,749	1,519	8,605	--	32
Sabal Lake Building	--	572	3,241	--	146
Sabal Industrial Park Land	--	--	--	301	--
Sabal Park Plaza	--	611	3,460	--	292
Sabal Tech Center	--	548	3,107	--	--
Summit Executive Centre	--	579	2,749	--	--
Spectrum	(2)	1,450	14,173	--	147
Starkey Road Center	--	383	2,163	--	16
Turtle Creek 4900 Creekside Dr	(10)	188	1,353	--	51
Turtle Creek 4902 Creekside Dr	(10)	72	514	--	15
Turtle Creek 4904 Creekside Dr	(10)	41	298	--	7
Turtle Creek 4906 Creekside Dr	(10)	75	541	--	7
Turtle Creek 4908 Creekside Dr	(8)	124	885	--	18
Turtle Creek 4910 Creekside Dr	(8)	171	1,223	--	--
Turtle Creek 4911 Creekside Dr	(8)	200	1,434	--	--
Turtle Creek 4912 Creekside Dr	(8)	29	211	--	--
Turtle Creek 4914 Creekside Dr	(8)	65	464	--	--
Telecom Technology Center	--	1,250	11,224	--	837
Tower Place	--	3,194	18,098	--	533
Westshore Square	2,970	1,130	5,155	--	18
REO Building	--	795	4,484	--	91
FT Myers, FL	--	--	--	--	--
Sunrise Office Center	--	422	3,478	--	61
	-----	-----	-----	-----	-----
		634,986	2,961,471	94,407	334,608
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Gross Amount at  
Which Carried at Close of Period

Description	Land	Building & Improvements	Total (16)	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Computed
Northside Square Retail Building	800	2,811	3,611	62	1986	5-40 yrs.
Parkside	--	9,392	9,392	285	1979	5-40 yrs.
Sabal Pavilion - Phase I	660	7,949	8,609	39	1998	5-40 yrs.
Sabal Pavilion - Phase II	661	--	661	--	N/A	N/A
Pavillion Office Building	--	16,203	16,203	494	1982	5-40 yrs.
Park Place	1,508	--	1,508	--	N/A	N/A
Pinebrook Business Center	1,234	9,518	10,752	210	1987	5-40 yrs.
USF&G	1,366	9,112	10,478	603	1988	5-40 yrs.

Registry I	744	4,336	5,080	274	1985	5-40 yrs.
Registry II	908	5,358	6,266	343	1987	5-40 yrs.
Registry Square	344	1,992	2,336	116	1988	5-40 yrs.
Rocky Point Land	3,484	--	3,484	--	N/A	N/A
Sabal Business Center I	375	2,153	2,528	124	1982	5-40 yrs.
Sabal Business Center II	342	2,034	2,376	124	1984	5-40 yrs.
Sabal Business Center III	290	1,658	1,948	97	1984	5-40 yrs.
Sabal Business Center IV	819	4,638	5,457	269	1984	5-40 yrs.
Sabal Business Center V	1,026	5,821	6,847	339	1988	5-40 yrs.
Sabal Business Center VI	1,609	9,164	10,773	531	1988	5-40 yrs.
Sabal Business Center VII	1,519	8,637	10,156	500	1990	5-40 yrs.
Sabal Lake Building	572	3,387	3,959	218	1986	5-40 yrs.
Sabal Industrial Park Land	301	--	301	--	N/A	N/A
Sabal Park Plaza	611	3,752	4,363	313	1987	5-40 yrs.
Sabal Tech Center	548	3,107	3,655	180	1989	5-40 yrs.
Summit Executive Centre	579	2,749	3,328	61	1988	5-40 yrs.
Spectrum	1,450	14,320	15,770	437	1984	5-40 yrs.
Starkey Road Center	383	2,179	2,562	48	1980	5-40 yrs.
Turtle Creek 4900	188	1,404	1,592	35	1985	5-40 yrs.
Creekside Dr						
Turtle Creek 4902	72	529	601	12	1985	5-40 yrs.
Creekside Dr						
Turtle Creek 4904	41	305	346	7	1985	5-40 yrs.
Creekside Dr						
Turtle Creek 4906	75	548	623	12	1985	5-40 yrs.
Creekside Dr						
Turtle Creek 4908	124	903	1,027	20	1985	5-40 yrs.
Creekside Dr						
Turtle Creek 4910	171	1,223	1,394	27	1985	5-40 yrs.
Creekside Dr						
Turtle Creek 4911	200	1,434	1,634	32	1985	5-40 yrs.
Creekside Dr						
Turtle Creek 4912	29	211	240	5	1985	5-40 yrs.
Creekside Dr						
Turtle Creek 4914	65	464	529	10	1985	5-40 yrs.
Creekside Dr						
Telecom Technology Center	1,250	12,061	13,311	346	1991	5-40 yrs.
Tower Place	3,194	18,631	21,825	1,092	1988	5-40 yrs.
Westshore Square	1,130	5,173	6,303	116	1976	5-40 yrs.
REO Building	795	4,575	5,370	141	1983	5-40 yrs.
FT Myers, FL						
Sunrise Office Center	422	3,539	3,961	107	1974	5-40 yrs.
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	729,393	3,296,079	4,025,472	167,989		
	=====	=====	=====	=====		

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- (1) These assets are pledged as collateral for a \$5,580,000 first mortgage loan.
  - (2) These assets are pledged as collateral for a \$42,842,000 first mortgage loan.
  - (3) These assets are pledged as collateral for an \$47,011,000 first mortgage loan.
  - (4) These assets are pledged as collateral for a \$30,454,000 first mortgage loan.
  - (5) These assets are pledged as collateral for a \$4,769,000 first mortgage loan.
  - (6) These assets are pledged as collateral for a \$29,735,000 first mortgage loan.

- (7) These assets are pledged as collateral for a \$8,605,000 first mortgage loan.
- (8) These assets are pledged as collateral for a \$1,157,000 first mortgage loan.
- (9) These assets are pledged as collateral for a \$1,721,000 first mortgage loan.
- (10) These assets are pledged as collateral for a \$2,488,000 first mortgage loan.
- (11) These assets are pledged as collateral for a \$3,371,000 first mortgage loan.
- (12) These assets are pledged as collateral for a \$3,760,000 first mortgage loan.
- (13) These assets are pledged as collateral for a \$1,187,000 first mortgage loan.
- (14) These assets are pledged as collateral for a \$3,244,000 first mortgage loan.
- (15) These assets are pledged as collateral for a \$61,268,000 first mortgage loan.
- (16) These assets are pledged as collateral for a \$17,931,000 first mortgage loan.
- (17) Reflects land transferred to Airpark East - Hewlett Packard, Airpark East - Inacom, Airpark East Building D and Airpark East-Simplex.
- (18) Reflects land transferred to Concourse Center 1 land in progress.
- (19) Reflects land sale.
- (20) Reflects land transferred to Situs 1 and Situs 2.
- (21) Reflects land transferred to Red Oak.
- (22) Reflect land transfers to Highwoods Centre and Sycamore.
- (23) Transfer to land held for development.
- (24) Reflects land transfer to Grassmere1.
- (25) Reflects transfer of land to Lakeview Ridge II, Lakeview Ridge III, and sale of 3.35 acres of land.
- (26) Reflects transfer of land to Highwoods Common.
- (27) Patewood III and IV are considered one property for encumbrance purposes.
- (28) The aggregate cost for Federal Income Tax purposes was approximately \$3,227,000,000.

# HIGHWOODS PROPERTIES, INC.

## NOTE TO SCHEDULE III (in thousands)

As of December 31, 1998, 1997 and 1996

A summary of activity for real estate and accumulated depreciation is as follows:

	December 31,		
	1998	1997	1996
Real Estate:			
Balance at beginning of year .....	\$2,603,410	\$1,390,079	\$ 598,536
Additions:			
Acquisitions, development and improvements .....	1,447,637	1,216,687	792,697
Cost of real estate sold .....	(25,575)	(3,356)	(1,154)
Balance at close of year (a) .....	\$4,025,472	\$2,603,410	\$1,390,079
Accumulated Depreciation:			
Balance at beginning of year .....	\$ 86,062	\$ 42,194	\$ 21,452
Depreciation expense .....	83,462	44,002	20,752
Real estate sold .....	(1,535)	(134)	(10)
Balance at close of year (b) .....	\$ 167,989	\$ 86,062	\$ 42,194

(a) Reconciliation of total cost to balance sheet caption at December 31, 1998, 1997 and 1996 (in thousands):

	1998	1997	1996
Total per schedule III .....	\$4,025,472	\$2,603,410	\$1,390,079
Construction in progress exclusive of land included in Schedule III .....	189,465	95,387	28,859
Furniture, fixtures and equipment .....	7,693	3,362	2,096
Property held for sale .....	(129,166)	--	--
Total real estate assets at cost .....	\$4,093,464	\$2,702,159	\$1,421,034

(b) Reconciliation of total accumulated depreciation to balance sheet caption at December 31, 1998, 1997 and 1996 (in thousands):

	1998	1997	1996
Total per schedule III .....	\$167,989	\$86,062	\$42,195
Accumulated depreciation -- furniture, fixtures and equipment.....	3,953	1,443	965
Property held for sale .....	(2,670)	--	--
Total accumulated depreciation .....	\$169,272	\$87,505	\$43,160

## **FIRST AMENDMENT TO CREDIT AGREEMENT**

THIS FIRST AMENDMENT TO CREDIT AGREEMENT (this "First Amendment") is made and entered into as of December 23, 1998, by and among HIGHWOODS PROPERTIES, INC., a Maryland corporation ("Highwoods Properties"), HIGHWOODS FINANCE, LLC, a Delaware limited liability company ("Highwoods Finance"), HIGHWOODS REALTY LIMITED PARTNERSHIP, a North Carolina limited partnership ("Highwoods Realty"), HIGHWOODS SERVICES, INC., a North Carolina corporation ("Highwoods Services"), each of the Guarantors set forth on the signature page hereto (collectively, the "Guarantors") and each of the lenders set forth on the signature page hereto (collectively, the "Lenders").

### **W I T N E S S E T H:**

WHEREAS, Highwoods Properties and the Lenders are parties to a certain Credit Agreement dated as of July 3, 1998 (the "Credit Agreement"; defined terms used herein without definition shall have the meaning ascribed to such terms in the Credit Agreement) by and among Highwoods Properties, Highwoods Realty, Highwoods Services (Highwoods Properties, Highwoods Realty and Highwoods Services are hereinafter referred to individually as a "Borrower" and collectively as the "Borrowers"), certain Subsidiaries of the Borrowers, the Lenders party thereto, NationsBank, N.A., as Administrative Agent for the Lenders (the "Administrative Agent"), First Union National Bank, as Syndication Agent for the Lenders, Wells Fargo Bank, National Association, as Documentation Agent for the Lenders and the institutions identified therein as Managing Agents;

WHEREAS, Highwoods Finance was formed September 28, 1998 as a wholly owned subsidiary of Highwoods Properties;

WHEREAS, Highwoods Finance executed that certain Joinder Agreement dated as of October 19, 1998, pursuant to which Highwoods Finance became a Credit Party under the Credit Agreement and a Guarantor for all purposes of the Credit Agreement;

WHEREAS, the Borrowers have requested, and the Lenders have agreed, to amend the provisions of the Credit Agreement in order to add Highwoods Finance as a Borrower thereunder and to amend the definition of "Asset Disposition", all as more particularly set forth below;

WHEREAS, two Subsidiaries executed Joinder Agreements on December 3, 1998, after the 30-day period required by Section 7.12 of the Credit Agreement, and the Borrowers have requested that the Lenders, and the Lenders have agreed to, acknowledge that the execution of such Joinder Agreements cured these Events of Default to the Lenders' satisfaction, all as more particularly set forth below;

WHEREAS, one subsidiary of a Guarantor executed a Joinder Agreement but was not required to do so as it was not a Subsidiary under the Credit Agreement and the Borrowers have

requested that the Lenders, and the Lenders have agreed to, release such subsidiary from the Credit Agreement, all as more particularly set forth below;

WHEREAS, the parties wish to enter into this First Amendment to reflect such amendment, waiver and release;

NOW, THEREFORE, for and in consideration of the mutual covenants contained herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows:

SECTION 1. Amendment to Credit Agreement. The Credit Agreement is hereby amended as follows:

(a) Heading to Credit Agreement. The Credit Agreement is hereby amended by deleting the introductory heading in its entirety and substituting in lieu thereof the following:

THIS CREDIT AGREEMENT dated as of July 3, 1998 (as amended, modified, restated or supplemented from time to time, the "Credit Agreement"), is by and among HIGHWOODS REALTY LIMITED PARTNERSHIP, a North Carolina limited partnership ("Highwoods Realty"), HIGHWOODS PROPERTIES, INC., a Maryland corporation ("Highwoods Properties"), HIGHWOODS FINANCE, LLC, a Delaware limited liability company ("Highwoods Finance") and HIGHWOODS SERVICES, INC., a North Carolina corporation ("Highwoods Services") (Highwoods Realty, Highwoods Properties, Highwoods Finance and Highwoods Services are hereinafter referred to individually as a "Borrower" and collectively as the "Borrowers"), certain Subsidiaries of the Borrowers (such Subsidiaries are hereinafter referred to individually as a "Guarantor" and collectively as the "Guarantors"), the Lenders (as defined herein), NATIONSBANK, N.A., as Administrative Agent for the Lenders (in such capacity, the "Administrative Agent"), FIRST UNION NATIONAL BANK, as Syndication Agent for the Lenders (in such capacity, the "Syndication Agent"), WELLS FARGO BANK, NATIONAL ASSOCIATION, as Documentation Agent for the Lenders (in such capacity, the "Documentation Agent") and the institutions identified herein as Managing Agents.

(b) Definition of Asset Disposition. The Credit Agreement is hereby amended by deleting the definition of "Asset Disposition" in its entirety and substituting in lieu thereof the following:

"Asset Disposition" means the disposition of any assets (including without limitation the Capital Stock of a Subsidiary) of any Consolidated Party whether by sale, lease (but excluding the lease of assets in the ordinary course of business), transfer or otherwise to a Person other than a Credit Party.



(c) Definition of Change of Control. The Credit Agreement is hereby amended by deleting clause (iii) of the definition of "Change of Control" in its entirety and substituting in lieu thereof the following:

(iii) Highwoods Properties shall fail to be the sole general partner of Highwoods Realty or own a majority of the Capital Stock of Highwoods Services or Highwoods Finance.

(d) Section 2.4(b). The Credit Agreement is hereby amended by deleting subsection (i) of Section 2.4(b) in its entirety and substituting in lieu thereof the following:

(i) Notices; Disbursement. Whenever one of more of the Borrowers desires a Swingline Loan advance hereunder it shall give written notice (or telephonic notice promptly confirmed in writing) to the Swingline Lender not later than 11:00 A.M. (Charlotte, North Carolina time) on the Business Day of the requested Swingline Loan advance. Each such notice shall be irrevocable and shall specify (A) that a Swingline Loan advance is requested, (B) the date of the requested Swingline Loan advance (which shall be a Business Day), (C) the principal amount of the Swingline Loan advance requested, (D) the purpose for which the requested Swingline Loan will be used by the applicable Borrower and (E) that the representations and warranties made by the Credit Parties in any Credit Document are true and correct in all material respects at and as if made on the date hereof except to the extent they expressly relate to an earlier date. Each Swingline Loan shall be made as a Base Rate Loan and shall have such maturity date (which maturity date shall not be a date more than three (3) Business Days from the date of advance thereof) as the Swingline Lender and the applicable Borrower shall agree upon receipt by the Swingline Lender of any such notice from the applicable Borrower. The Swingline Lender shall initiate the transfer of funds representing the Swingline Loan advance to the applicable Borrower by 3:00 P.M. (Charlotte, North Carolina time) on the Business Day of the requested borrowing.

SECTION 2. Events of Default Cured to Satisfaction of Lenders. First Geary Corp., a California corporation, and Highwoods/Interlachen Holdings, L.P., a Delaware limited partnership, both Subsidiaries, executed Joinder Agreements after 30 days of becoming a Subsidiary in violation of Section 7.12 of the Credit Agreement. The Lenders do hereby agree that the execution of such Joinder Agreements cured such Events of Default to their satisfaction.

SECTION 3. Release of Guarantor. Center Court Partners, a Florida general partnership ("Center Court"), erroneously executed that certain Joinder Agreement dated as of August 10, 1998, pursuant to which Center Court became a Credit Party under the Credit Agreement and a Guarantor for all purposes of the Credit Agreement. Center Court is only 50% owned by Plaza Land Company, a Florida corporation and a Guarantor, and is thus not a Subsidiary required to be

a Guarantor under the Credit Agreement. The Lenders do hereby release Center Court from its obligations under the Joinder Agreement the other Credit Documents.

SECTION 4. Conditions Precedent to Effectiveness. This First Amendment shall be effective on the date that the Administrative Agent has received each of the following, each to be in form and substance satisfactory to the Administrative Agent:

(a) this First Amendment duly executed by all of the parties hereto;

(b) a certificate from the Secretary of Highwoods Properties, as the sole member of Highwoods Finance, regarding: (i) the articles of organization of Highwoods Finance as certified as of a recent date by the Secretary of State of the State of Delaware, (ii) certificates of good standing or existence or its equivalent with respect to Highwoods Finance certified as of a recent date by the appropriate Governmental Authorities of Delaware and each other jurisdiction in which failure to so qualify and be in good standing could reasonably be expected to have a Material Adverse Effect, (iii) all corporate action taken by Highwoods Properties to authorize the execution, delivery and performance by Highwoods Finance of the documents to which it is a party, and (iv) the incumbency and specimen signatures of each of the officers of Highwoods Properties authorized to execute and deliver this Amendment and other documents on behalf of Highwoods Finance;

(c) replacement Notes, which will replace the existing Notes, duly executed and delivered by each of the Borrowers; and

(d) an opinion (which shall cover among other things, authority, legality, validity, binding effect and enforceability) reasonably satisfactory to the Administrative Agent addressed to the Administrative Agent and the Lenders, dated as of the date hereof, from legal counsel to the Borrowers;

SECTION 5. No Other Amendment or Waiver. Except for the amendments expressly set forth above, the Credit Agreement shall remain unchanged and in full force and effect.

SECTION 6. References to and Effect on the Credit Agreement. Each reference in the Credit Agreement to "this Agreement," "hereunder," "hereof," "herein," or words of like import, shall mean and be a reference to the Credit Agreement, including the Exhibits attached thereto, as amended by this First Amendment and each reference to the Credit Agreement in any other document, instrument or agreement executed or delivered in connection with the Credit Agreement shall mean and be a reference to the Credit Agreement, including the Exhibits attached thereto, as amended by this First Amendment. In addition, each reference in the Credit Agreement or in any other document, instrument or agreement executed or delivered in connection with the Credit Agreement to "Borrower" or "Borrowers" shall be deemed to include a reference to Highwoods Finance.

SECTION 7. Ratification of Agreement. Except as expressly amended herein, all terms, covenants and conditions of the Credit Agreement and all other Credit Documents shall remain

in full force and effect. The parties hereto do expressly ratify and confirm the Credit Agreement as amended herein.

SECTION 8. No Waiver, Etc. Except as set forth in Section 2 hereof, the parties hereto hereby agree that nothing herein shall constitute a waiver by the Lenders of any Default or Event of Default, whether known or unknown, which may exist under the Credit Agreement.

SECTION 9. Binding Nature. This First Amendment shall be binding upon and inure to the benefit of the parties hereto, their respective heirs, successors, successors-in-titles, and assigns.

SECTION 10. Governing Law. This First Amendment shall be governed by, and construed in accordance with, the laws of the State of North Carolina.

SECTION 11. Entire Understanding. This First Amendment sets forth the entire understanding of the parties with respect to the matters set forth herein, and shall supersede any prior negotiations or agreements, whether written or oral, with respect thereto.

SECTION 12. Counterparts. This First Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts and may be delivered by telecopier. Each counterpart so executed and delivered shall be deemed an original and all of which taken together shall constitute but one and the same instrument.

[Signatures Set Forth on Next Page]

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment through their authorized officers as of the date first above written.

**BORROWERS:**

**HIGHWOODS PROPERTIES, INC.,**  
a Maryland corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**HIGHWOODS FINANCE, LLC,**  
a Delaware limited liability company

By: Highwoods Properties, Inc.,  
its sole member

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**HIGHWOODS REALTY LIMITED PARTNERSHIP,**  
a North Carolina limited partnership

By: Highwoods Properties, Inc.,  
its sole general partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**HIGHWOODS SERVICES, INC.,**  
a North Carolina corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**GUARANTORS:**

**HIGHWOODS/FLORIDA HOLDINGS, L.P.,**  
a Delaware limited partnership

By: Highwoods/Florida GP Corp.,  
its sole general partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**HIGHWOODS/TENNESSEE HOLDINGS, L.P.,**  
a Tennessee limited partnership

By: Highwoods/Tennessee Properties, Inc.,  
its sole general partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**SHOCKOE PLAZA INVESTORS, L.C.,**  
a Virginia limited liability company

By: Highwoods Realty Limited Partnership,  
its sole manager

By: Highwoods Properties, Inc.,  
its sole general partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**RC ONE LLC,**  
a Maryland limited liability company

By: Highwoods Properties, Inc.,  
its sole manager

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**PINELLAS BAY VISTA PARTNERS, LTD.,**  
a Florida limited partnership

By: Highwoods/Florida Holdings, L.P.,  
its sole general partner

By: Highwoods/Florida GP Corp.,  
its sole general partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**PINELLAS NORTHSIDE PARTNERS, LTD.,**  
a Florida limited partnership

By: Highwoods/Florida Holdings, L.P.,  
its sole general partner

By: Highwoods/Florida GP Corp.,  
its sole general partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**PINELLAS PINEBROOK PARTNERS, LTD.,**  
a Florida limited partnership

By: Highwoods/Florida Holdings, L.P.,  
its sole general partner

By: Highwoods/Florida GP Corp.,  
its sole general partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**INTERSTATE BUSINESS PARK, LTD.,**  
a Florida limited partnership

By: Highwoods/Florida Holdings, L.P.,  
its sole general partner

By: Highwoods/Florida GP Corp.,  
its sole general partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**DOWNTOWN CLEARWATER TOWER, LTD.,**  
a Florida limited partnership

By: Highwoods/Florida Holdings, L.P.,  
its sole general partner

By: Highwoods/Florida GP Corp.,  
its sole general partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**BDBP, LTD.,**  
a Florida limited partnership

By: Highwoods/Florida Holdings, L.P.,  
its sole general partner

By: Highwoods/Florida GP Corp.,  
its sole general partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**CROSS BAYOU, LTD.,**  
a Florida limited partnership

By: Highwoods/Florida Holdings, L.P.,  
its sole general partner

By: Highwoods/Florida GP Corp.,  
its sole general partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**SISBROS, LTD.,**  
a Florida limited partnership

By: Highwoods/Florida Holdings, L.P.,  
its sole general partner

By: Highwoods/Florida GP Corp.,  
its sole general partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**SEVEN CRONDALL ASSOCIATES LLC,**  
a Maryland limited liability company

By: Highwoods Realty Limited Partnership,  
its sole manager

By: Highwoods Properties, Inc.,  
its sole general partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



**EIGHT CRONDALL ASSOCIATES LLC,**  
a Maryland limited liability company

By: Highwoods Realty Limited Partnership,  
its sole manager

By: Highwoods Properties, Inc.,  
its sole general partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**NINE CRONDALL ASSOCIATES LLC,**  
a Maryland limited liability company

By: Highwoods Realty Limited Partnership,  
its sole manager

By: Highwoods Properties, Inc.,  
its sole general partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**9690 DEERECO ROAD LLC,**  
a Maryland limited liability company

By: Highwoods Realty Limited Partnership,  
its sole manager

By: Highwoods Properties, Inc.,  
its sole general partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**HPI TITLE AGENCY, LLC,**  
a North Carolina limited liability company

By: Highwoods Services, Inc.,  
its sole manager

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**HIGHWOODS WELLNESS CENTER, LLC,**  
A North Carolina limited liability company

By: Highwoods Services, Inc.,  
its sole manager

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**MARLEY CONTINENTAL HOMES OF KANSAS,**  
a Kansas general partnership

By: Highwoods Properties, Inc.,  
its managing general partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**HIGHWOODS/INTERLACHEN HOLDINGS, L.P.,**  
a Delaware limited partnership

By: Highwoods/Florida Holdings, L.P.,  
its sole general partner

By: Highwoods/Florida GP Corp.,  
its sole general partner

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**HIGHWOODS/FLORIDA GP CORP.,**  
a Delaware corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**HIGHWOODS/TENNESSEE PROPERTIES, INC.,**  
a Tennessee corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**PIKESVILLE SPORTSMAN'S CLUB, INC.,**  
a Maryland corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**SOUTHEAST REALTY OPTIONS CORP.,**  
a Delaware corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**5565 STERRETT PLACE, INC.,**  
a Maryland corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**ATRIUM ACQUISITION CORP.,**  
a Maryland corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**ALAMEDA TOWERS DEVELOPMENT COMPANY,**  
a Missouri corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**THE BAY PLAZA COMPANIES, INC.,**  
a Florida company

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**BOARD OF TRADE REDEVELOPMENT CORPORATION,**  
a Missouri corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**CHALLENGER, INC.,**  
a Kansas corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**GUARDIAN MANAGEMENT, INC.,**  
a Kansas corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**NICHOLS PLAZA WEST, INC.,**  
a Missouri corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**OZARK MOUNTAIN VILLAGE, INC.,**  
a Missouri corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**PLAZA LAND COMPANY,**  
a Florida company

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**SOMEDAY, INC.,**  
a Kansas corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**KC CONDOR, INC.,**  
a Missouri corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**J.C. NICHOLS REALTY COMPANY,**  
a Missouri company

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**1st GEARY CORP.,**  
a California corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**LENDERS:**

**NATIONSBANK, N.A.,**  
Individually in its capacity as a Lender  
And in its capacity as Administrative Agent

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FIRST UNION NATIONAL BANK**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**WELLS FARGO BANK, NATIONAL  
ASSOCIATION**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**BANK OF AMERICA NATIONAL TRUST  
& SAVINGS ASSOCIATION**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**COMMERZBANK AG**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**WACHOVIA BANK, N.A.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**CENTURA BANK**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**PNC BANK, NATIONAL ASSOCIATION**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FLEET NATIONAL BANK**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**AMSOUTH BANK**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**DRESDNER BANK AG, NEW YORK BRANCH**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**DG BANK DEUTSCHE GENOSSENSCHAFTSBANK,  
CAYMAN ISLAND BRANCH**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**MELLON BANK, N.A.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**FIRSTTRUST SAVINGS BANK**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**CREDIT LYONNAIS, NEW YORK BRANCH**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**BAYERISCHE HYPO-UND VEREINSBANK, AG**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**ERSTE BANK DER OESTERREICHISCHEN  
SPARKASSEN AG**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



## **SECOND AMENDMENT**

THIS SECOND AMENDMENT TO CREDIT AGREEMENT (this "Amendment") effective as of December 31, 1998 (the "Effective Date") and executed as of February 26, 1999 (the "Execution Date") to the Credit Agreement referenced below is by and among HIGHWOODS PROPERTIES, INC., a Maryland corporation ("Highwoods Properties"), HIGHWOODS FINANCE, LLC, a Delaware limited liability company ("Highwoods Finance"), HIGHWOODS REALTY LIMITED PARTNERSHIP, a North Carolina limited partnership ("Highwoods Realty"), and HIGHWOODS SERVICES, INC., a North Carolina corporation ("Highwoods Services") (Highwoods Properties, Highwoods Finance, Highwoods Realty and Highwoods Services are hereinafter referred to individually as a "Borrower" and collectively as the "Borrowers"), the Subsidiaries of the Borrowers identified on the signature pages hereto (such Subsidiaries are hereinafter referred to individually as a "Guarantor" and collectively as the "Guarantors"), the lenders identified on the signature pages hereto (the "Lenders") and NATIONSBANK, N.A., as Administrative Agent for the Lenders (in such capacity, the "Administrative Agent").

### **W I T N E S S E T H**

WHEREAS, a \$600 million credit facility has been established in favor of the Borrowers pursuant to the terms of that Credit Agreement dated as of July 3, 1998 (as amended and modified, the "Credit Agreement") among the Borrower, the Guarantors, the Lenders, NationsBank, N.A., as Administrative Agent for the Lenders (in such capacity, the "Administrative Agent"), First Union National Bank, as Syndication Agent for the Lenders (in such capacity, the "Syndication Agent"), Wells Fargo Bank, National Association, as Documentation Agent for the Lenders (in such capacity, the "Documentation Agent"), and the institutions identified therein as Managing Agents.

WHEREAS, the Borrower has requested certain modifications to the Credit Agreement;

WHEREAS, such modifications require the consent of the Required Lenders;

WHEREAS, the Required Lenders hereby consent to the requested modifications on the terms and conditions set forth herein;

NOW, THEREFORE, IN CONSIDERATION of the premises and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. The Credit Agreement is amended in the following respects:

1.1 The following definitions in Section 1.1 of the Credit Agreement are amended and modified, or added, to read as follows:

"Applicable Percentage" means, for any day, the rate per annum set forth below opposite the applicable Unsecured Long Term Debt Rating then in effect, it being understood that the Applicable Percentage for

(i) Eurodollar Loans shall be the percentage set forth under column "Applicable Percentage for Eurodollar Loans", (ii) Base Rate Loans shall be the percentage set forth under the column "Applicable Percentage for Base Rate Loans" and (iii) Letter of Credit Fee shall be the percentage set forth under the column "Applicable Percentage for Letter of Credit Fee."

Pricing Level	S&P Rating	Moody's Rating	Third Debt Rating	Applicable Percentage for Eurodollar Loans	Applicable Percentage Base Rate Loans	Applicable Percentage for Letter of Credit Fee
I	A- or higher	A3 or higher	A- /A3 equivalent or higher	0.95%	0.30%	0.95%
II	BBB+	Baa1	BB+/Baa1 equivalent	1.00%	0.30%	1.00%
III	BBB	Baa2	BBB/Baa2 equivalent	1.10%	0.30%	1.10%
IV	BBB-	Baa3	BBB-/Baa3 equivalent	1.20%	0.40%	1.20%
V	BB+ or lower	Ba1 or lower	BB+/Ba1 equivalent	1.80%	0.55%	1.80%

The Applicable Percentage shall be adjusted effective on the next Business Day following any change in the Unsecured Long Term Debt Rating. The Borrowers shall notify the Administrative Agent in writing promptly after becoming aware of any change in the Unsecured Long Term Debt Rating of Highwoods Properties.

"Budgeted Project Costs" means, with respect to Properties Under Development, the budgeted cost of construction and final completion of such Properties Under Development; provided that the Budgeted Project Costs shall include projected operating deficits through completion and the projected date of occupancy of eighty-five percent (85%) of the gross leasable space; provided further that, with respect to Properties Under Development by Minority Interest Entities, the Budgeted Project Costs shall be the applicable Consolidated Party's share of the budgeted costs of construction and final completion (based on the greater of (x) the Minority Interest of such Consolidated Party or (y) such Consolidated Party's obligation to provide funds to the Minority Interest Entity, which could include, for example, completion guaranties).

"Build To Suit Properties" means those Properties Under Development which have been 100% leased to tenants and have projected net operating income (based on projections approved by the Administrative Agent in its discretion) during its first year after final completion in an amount which results in a 9.75% annual rate of return on all costs of construction of such Property Under Development, including, without limitation, financing costs and operating deficits.

"Derivative Exposure" means the maximum liability (including costs, fees and expenses), based upon a liquidation or termination as of the date of the applicable covenant compliance test, of any Person under any interest rate swap, collar, cap or other interest rate protection agreements, treasury locks, equity forward contracts, foreign currency exchange agreements, commodity purchase or option agreements or other interest or exchange rate or commodity price hedging agreements.

"Guaranty Obligations" means, with respect to any Person, without duplication, any obligations of such Person (other than endorsements in the ordinary course of business of negotiable instruments for deposit or collection) guaranteeing or intended to guarantee any Indebtedness of any other Person in any manner, whether direct or indirect, and including without limitation any obligation, whether or not contingent, (i) to purchase any such Indebtedness or any Property constituting security therefor, (ii) to advance or provide funds or other support for the payment or purchase of any such Indebtedness or to maintain working capital, solvency or other balance sheet condition of such other Person (including without limitation keep well agreements, maintenance agreements, comfort letters or similar agreements or arrangements) for the benefit of any holder of Indebtedness of such other Person, (iii) to lease or purchase Property, securities or services primarily for the purpose of assuring the holder of such Indebtedness, (iv) to guaranty the completion of any Properties Under Development, whether or not specifically including costs associated therewith or (v) to otherwise assure or hold harmless the holder of such Indebtedness against loss in respect thereof. The amount of any Guaranty Obligation hereunder shall (subject to any limitations set forth therein) be deemed to be an amount equal to the outstanding principal amount (or maximum principal amount, if larger) of the Indebtedness in respect of which such Guaranty Obligation is made. It is specifically understood and agreed that the Guaranty Obligations of each Guarantor include any and all Obligations that such Guarantor may have as a Borrower hereunder or under any of the other Credit Documents.

"Indebtedness" of any Person, without duplication, means (a) all obligations (whether direct or contingent and inclusive of all costs and fees associated with any Derivative Exposure) of such Person for borrowed money, (b) all obligations (whether direct or contingent and inclusive of all costs and fees associated with any Derivative Exposure) of such Person evidenced by bonds, debentures, notes or similar instruments, or upon which interest payments are customarily made, (c) all obligations (whether direct or contingent and inclusive of all costs and fees associated with any Derivative Exposure) of such Person under conditional sale or other title retention agreements relating to Property purchased by such Person (other than customary reservations or retentions of title under agreements with suppliers entered into in the ordinary course of business), (d) all obligations (whether direct or contingent and inclusive of all costs and fees associated with any Derivative Exposure) of such Person issued or assumed as the deferred purchase price of Property or services purchased by such Person (other than trade debt incurred in the ordinary course of business and due within six months of the incurrence thereof) which would appear as liabilities on a balance sheet of such Person, (e) all obligations (whether direct or contingent and inclusive of all costs and fees associated with any Derivative Exposure) of such Person under take-or-pay or similar arrangements or under commodities agreements, (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on, or payable out of the proceeds of production from, Property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (g) all Guaranty Obligations of such Person, (h) the principal portion of all obligations (whether direct or contingent and inclusive of all costs and fees associated with any Derivative Exposure) of such Person under Capital Leases, (i) all obligations (whether direct or contingent and inclusive of all costs and fees

associated with any Derivative Exposure) of such Person in respect of interest rate swap, collar, cap or other interest rate protection agreements, treasury locks, equity forward contracts, foreign currency exchange agreements, commodity purchase or option agreements or other interest or exchange rate or commodity price hedging agreements (including, but not limited to, the Hedging Agreements), (j) all obligations (whether direct or contingent and inclusive of all costs and fees associated with any Derivative Exposure) of such Person to repurchase any securities which repurchase obligation is related to the issuance thereof, (k) the maximum amount of all standby letters of credit issued or bankers' acceptances facilities created for the account of such Person and, without duplication, all drafts drawn thereunder (to the extent unreimbursed), (l) all preferred Capital Stock issued by such Person and required by the terms thereof to be redeemed, or for which mandatory sinking fund payments are due, by a fixed date, (m) all other obligations (whether direct or contingent and inclusive of all costs and fees associated with any Derivative Exposure) of such Person under any arrangement or financing structure classified as debt (for tax purposes) by any nationally recognized rating agency, (n) the principal portion of all obligations (whether direct or contingent and inclusive of all costs and fees associated with any Derivative Exposure) of such Person under Synthetic Leases and (o) the Indebtedness of any partnership or unincorporated joint venture in which such Person is a general partner or a joint venturer.

"Interest Expense" means, for any period, the sum of (a) interest expense (including the interest component under Capital Leases and Synthetic Leases) of the Consolidated Parties on a consolidated basis for such period, as determined in accordance with GAAP, plus (b) an amount equal to the aggregate of interest expense (including the interest component under Capital Leases and Synthetic Leases), as determined in accordance with GAAP, of each Minority Interest Entity multiplied by the respective Minority Interest of each such entity.

"Managing Agents" means Centura Bank, CommerzBank AG, PNC Bank, National Association and Wachovia Bank, N.A.

"Minority Interest" means the percentage of the Capital Stock or other equity interest owned by a Consolidated Party in a Minority Interest Entity.

"Minority Interest Entity" means any corporation, partnership, association, joint venture or other entity in each case which is not a Consolidated Party and in which a Consolidated Party owns, directly or indirectly, Capital Stock or any other equity interest.

"Net Income" means, for any period, the sum of (i) net income (excluding extraordinary gains and losses and related tax effects thereof) after taxes for such period of the Consolidated Parties on a consolidated basis, as determined in accordance with GAAP, plus (ii) an amount equal to that portion attributable to Highwoods Realty of the line item "minority interests" for such period, as shown on the consolidated income statements of the Consolidated Parties, plus (iii) without duplication, an amount equal to the aggregate of net income (excluding extraordinary gains and losses and related tax effects thereof) after taxes for such period, as determined in accordance with GAAP, of each Minority Interest Entity multiplied by the respective Minority Interest of each such entity.

"Notice of Borrowing" means a written notice of borrowing in substantially the form of Exhibit 2.1(b)(i), as required by Section 2.1(b)(i) or Section 2.4(b)(i) signed by a Responsible Officer.

"Permitted Investments" means Investments which are (i) cash and Cash Equivalents; (ii) Investments existing on the Closing Date and set forth on Schedule 1.1(a); (iii) Investments by any Credit Party in any Wholly Owned Subsidiary that is a Credit Party; (iv) Investments in any Wholly Owned Subsidiary which is to become a Credit Party pursuant to the terms of Section 7.12 so long as such Wholly Owned Subsidiary becomes a Credit Party within the 30 day period required by Section 7.12; (v) Investments by any Credit Party in any Preferred Stock Subsidiary or any wholly owned Subsidiary of a Preferred Stock Subsidiary; (vi) Investments by any Credit Party in any Property owned by such Credit Party and in any personal property incidental to such Property; (vii) Investments in vehicles, furniture, fixtures and other personal property including supplies and other similar inventory purchased by any Credit Party and used in such Consolidated Party's ordinary course of business; (viii) Investments permitted by Section 8.5; (ix) Investments by Highwoods Realty, Highwoods Properties or any Wholly Owned Subsidiary that is a Credit Party in any Non-Wholly Owned Subsidiary that is a Credit Party, provided that the Adjusted Investment Value of such Investments does not exceed, in the aggregate at any time outstanding, an amount equal to 15% of Adjusted Total Assets less an amount equal to the percentage of Adjusted Total Assets represented by the Adjusted Investment Value of Investments made pursuant to clause (x) below; and (x) Investments in any Person that is not a Consolidated Party provided that the Adjusted Investment Value of such Investments does not exceed 10% of Adjusted Total Assets in the aggregate at any one time outstanding.

"Properties Under Development" means Properties the primary purpose of which is to be leased in the ordinary course of business and on which a Credit Party has commenced construction of a building or other improvements; provided that any such Property will no longer be considered a Property Under Development when seventy-five percent (75%) of the gross leasable space contained therein are occupied by tenants under leases.

"Scheduled Funded Debt Payments" means, as of the end of each fiscal quarter of the Consolidated Parties, the sum of (a) all scheduled payments of principal on Funded Indebtedness for the Consolidated Parties on a consolidated basis for the applicable period ending on such date (including the principal component of payments due on Capital Leases during the applicable period ending on such date) plus (b) an amount equal to the aggregate of all scheduled payments of principal on Funded Indebtedness for each Minority Interest Entity for the applicable period ending on such date (including the principal component of payments due on Capital Leases during the applicable period ending on such date) multiplied by the respective Minority Interest of each such entity; it being understood that Scheduled Funded Debt Payments shall not include any balloon payments due on the maturity date of Funded Indebtedness.

"Total Assets" means the sum of (i) total assets of the Consolidated Parties on a consolidated basis, as determined in accordance with GAAP, plus (ii) an amount equal to the aggregate of total assets, as determined in accordance with GAAP, of each Minority Interest Entity multiplied by the respective Minority Interest of each such entities.

"Total Liabilities" means the sum of (i) total liabilities of the Consolidated Parties on a consolidated basis, as determined in accordance with GAAP, plus (ii) an amount equal to the aggregate of total liabilities, as determined in accordance with GAAP, of each Minority Interest Entity multiplied by the respective Minority Interest of each such entity plus (iii) without duplication, the Indebtedness of the Consolidated Parties on a consolidated basis plus (iv) without duplication, the aggregate of Indebtedness of each Minority Interest Entity multiplied by the respective Minority Interest of each such entity.

"Unencumbered Assets at Cost" means with respect to (a) all Properties of Highwoods Properties, Highwoods Realty and any Wholly Owned Subsidiary (i) that are operating and generate revenues from third parties, (ii) in which at least 75% of the available space therein is being leased and generating rent payments and (iii) that are not subject to any Liens and (b) all Properties of Highwoods Properties, Highwoods Realty and any Wholly Owned Subsidiary (i) that are in the process of being developed, (ii) in which at least 75% of the space to be available at such Property upon completion of construction has been pre-leased and (iii) that are not subject to any Liens the sum of (I) for all such Properties of the type referenced in clause (a) and (b) above owned by Highwoods Properties, Highwoods Realty and any Wholly Owned Subsidiary on the Closing Date, the undepreciated cost of such Properties plus (II) for such Properties of the type referenced in clause (a) and (b) above purchased after the Closing Date, the lesser of (x) the actual cost of such Properties and (y) the Adjusted NOI for such Properties for the twelve months prior to its acquisition divided by ten percent (10%) plus (III) all cash and Cash Equivalents of the Highwoods Properties, Highwoods Realty and any Wholly Owned Subsidiary.

1.2 The first sentence of Section 2.1(b)(i) is amended to read as follows:

(i) Notice of Borrowing. One or more of the Borrowers shall request a Revolving Loan borrowing by delivery of a Notice of Borrowing, together with the officer's certificate required by Section 5.2(e), to the Administrative Agent not later than 11:00 A.M. (Charlotte, North Carolina time) on the Business Day prior to the date of the requested borrowing in the case of Base Rate Loans, and on the third Business Day prior to the date of the requested borrowing in the case of Eurodollar Loans.

1.3 Section 2.2(a) is amended to read as follows:

(a) Competitive Loans. So long as Highwoods Realty maintains an unsecured long term debt rating of at least BBB- from S&P and Baa3 from Moody's, subject to the terms and conditions hereof and in reliance upon the representations and warranties set forth herein, one or more of the Borrowers may, from time to time from January 1, 2000 until the Maturity Date, request and each Lender may, in its sole discretion, agree to make, Competitive Loans in Dollars to one or more of the Borrowers; provided, however, that (i) the aggregate principal amount of outstanding Competitive Loans shall not at any time exceed the lesser of (a) THREE HUNDRED MILLION DOLLARS (\$300,000,000) and (b) fifty percent (50%) of the Revolving Committed Amount (the "Competitive Loan Maximum Amount"), and (ii) the sum of the aggregate principal amount of outstanding Revolving Loans plus the aggregate principal amount of outstanding Competitive Loans plus the aggregate principal amount of outstanding Swingline Loans plus LOC Obligations outstanding shall not at any time exceed the Revolving Committed Amount. Each Competitive Loan shall be not less than \$10,000,000 in the aggregate and integral multiples of \$1,000,000 in excess thereof (or the remaining portion of the Competitive Loan Maximum Amount, if less).

1.4 The first sentence of Section 2.2(b) is amended to read as follows:

(b) Competitive Bid Requests. One or more of the Borrowers may solicit Competitive Bids by delivery of a Competitive Bid Request substantially in the form of Exhibit 2.2(b), together with the officer's certificate required by Section 5.2(e), to the Administrative Agent by 12:00 Noon (Charlotte, North Carolina time) on a Business Day four (4) Business Days prior to the date of a requested Competitive Loan borrowing.

1.5 The first sentence of Section 2.3(b) is amended to read as follows:

(b) Notice and Reports. The request for the issuance of a Letter of Credit shall be submitted by a Borrower to the Issuing Lender at least five (5) Business Days prior to the requested date of issuance and shall be accompanied by the officer's certificate required by Section 5.2(e).

1.6 The first sentence of Section 2.4(b)(i) is amended to read as follows:

(i) Notices; Disbursement. Whenever one or more of the Borrowers desires a Swingline Loan advance hereunder it shall deliver a Notice of Borrowing, together with the officer's certificate required by Section 5.2(e), to the Swingline Lender not later than 11:00 A.M. (Charlotte, North Carolina time) on the Business Day of the requested Swingline Loan advance.

1.7 The second sentence of Section 3.2 is amended to read as follows:

Each such extension or conversion shall be effected by the Borrowers by delivery of a Notice of Extension/Conversion, together with the officer's certificate required by Section 5.2(e), to the office of the Administrative Agent specified in specified in Schedule 2.1(a), or at such other office as the Administrative Agent may designate in writing, prior to 11:00 A.M. (Charlotte, North Carolina time) on the Business Day of, in the case of the conversion of a Eurodollar Loan into a Base Rate Loan, and on the third Business Day prior to, in the case of the extension of a Eurodollar Loan as, or conversion of a Base Rate Loan into, a Eurodollar Loan, the date of the proposed extension or conversion, specifying the date of the proposed extension or conversion and the Loans to be so extended or converted, the types of Loans into which such Loans are to be converted.

1.8 Section 3.15(a) is amended by the addition of the following sentence immediately after the fifth sentence thereof:

If the Administrative Agent fails to distribute such payment to such Lenders on the day required by the foregoing sentence, the Administrative Agent shall pay to such Lenders interest on the undistributed amount from and including the day such amount was required to be distributed to but excluding the date such amount is distributed at a per annum rate equal to the Federal Funds Rate.

1.9 Subsections (e) and (f) of Section 5.2 of the Credit Agreement are renumbered as subsections (f) and (g), and a new subsection (e) is added to Section 5.2 of the Credit Agreement to read as follows:

(e) Officer's Certificates. Concurrent with the delivery of the appropriate notice required pursuant to Section 5.2(a) above, the Borrower shall have delivered a certificate of the chief financial officer of the Principal Borrower substantially in the form of Exhibit 7.1(c), (i) demonstrating compliance with the financial covenants contained in Section 7.11(a) and Section 7.11(b) by calculation thereof after giving effect to the making of the requested Loan (and the application of the proceeds thereof) or to the issuance of the requested Letter of Credit, as the case may be, and (ii) stating that no Default or Event of

Default exists, or if any Default or Event of Default does exist, specifying the nature and extent thereof and what action the Credit Parties propose to take with respect thereto.

1.10 Clauses (iv) and (v) of Section 7.1(b) of the Credit Agreement are renumbered as clausees (v) and (vi), and a new clause (iv) is added to Section 7.1(b) of the Credit Agreement to read as follows:

(iv) a projection of Asset Dispositions for the next fiscal quarter for each Consolidated Party,

1.11 Section 7.1(c) of the Credit Agreement is amended to read as follows:

(c) Officer's Certificate. At the time of delivery of the financial statements provided for in Sections 7.1(a) and 7.1(b) above, a certificate of the chief financial officer of the Principal Borrower substantially in the form of Exhibit 7.1(c), (i) demonstrating compliance, as of the end of each such fiscal period, with (A) the financial covenants contained in Section 7.11, (B) the limitation on Investments contained in Section 8.5 (and, correspondingly, the limitations set forth in the definition of Permitted Investments), and (C) the financial covenants contained in each of the indentures or other agreements relating to any publicly issued debt securities of any Consolidated Party, in each case by detailed calculation thereof (which calculation shall be in form satisfactory to the Agent and which shall include, among other things, an explanation of the methodology used in such calculation and a breakdown of the components of such calculation), (ii) stating that the Credit Parties were in compliance with each of the covenants set forth in Sections 7 and 8 of the Credit Agreement at all times during such fiscal period, and (iii) stating that, as of the end of each such fiscal period, no Default or Event of Default exists, or if any Default or Event of Default does exist, specifying the nature and extent thereof and what action the Credit Parties propose to take with respect thereto.

1.12 Subsections (d) through (j) of Section 7.1 of the Credit Agreement are renumbered as subsections (e) through (k), and a new subsection (d) is added to Section 7.1 to read as follows:

(d) Financial Projections. As soon as available, and in any event within 45 days after each fiscal quarter end (i) for each fiscal quarter of the Consolidated Parties ending on or before December 31, 1999, a pro forma balance sheet and income statement of the Consolidated Parties for each of the four succeeding fiscal quarters, together with related pro forma consolidated and consolidating statements of operations and retained earnings and of cash flows for each such succeeding fiscal quarter and (ii) for each of the second and fourth fiscal quarters of the Consolidated Parties ending subsequent to December 31, 1999, (A) a pro forma balance sheet and income statement of the Consolidated Parties for each of the eight succeeding fiscal quarters, together with related pro forma consolidated and consolidating statements of operations and retained earnings and of cash flows for each such succeeding fiscal quarter and (B) a certificate of the chief financial officer of the Principal Borrower demonstrating compliance on a pro forma basis for each of the eight succeeding fiscal quarters with (x) the financial covenants contained in Section 7.11, (y) the limitation on Investments contained in Section 8.5 (and, correspondingly, the limitations set forth in the definition of Permitted Investments), and (z) the financial covenants contained in each of the indentures or other



agreements relating to any publicly issued debt securities of any Consolidated Party, in each case by detailed calculation thereof (which calculations shall be in form satisfactory to the Agent and which shall include, among other things, an explanation of the methodology used in such calculations and a breakdown of the components of such calculations).

1.13 Section 7.11 of the Credit Agreement is amended to read as follows:

Section 7.11 Financial Covenants.

(a) Total Liabilities to Total Assets. At all times

during the periods set forth below, the ratio of (i) Total Liabilities to (ii) Total Assets shall be less than or equal to the ratio set forth opposite such period:

Effective Date through June 30, 2000 0.55 to 1.0 July 1, 2000 and thereafter 0.50 to 1.0

(b) Unencumbered Assets at Cost to Unsecured Debt. At all times during the periods set forth below, the ratio of (i) Unencumbered Assets at Cost to (ii) Unsecured Debt shall be greater than or equal to the ratio set forth opposite such period:

Effective Date through December 31, 1999 1.75 to 1.0 January 1, 2000 and thereafter 2.0 to 1.0

(c) Secured Debt to Total Assets. At all times, the ratio of (i) Secured Debt to (ii) Total Assets shall be less than or equal to 0.25 to 1.0.

(d) Interest Coverage Ratio. At all times, the Interest Coverage Ratio shall be greater than 2.25 to 1.0.

(e) Fixed Charge Coverage Ratio. At all times the Fixed Charge Coverage Ratio shall be greater than 1.75 to 1.0.

(f) Unsecured Debt Coverage Ratio. At all times, the ratio of (i) for the twelve month period ending on the date of determination, Adjusted NOI for the Properties that are not subject to any Liens to (ii) for the twelve month period ending on the date of determination, Interest Expense paid on Unsecured Debt shall be greater than 2.25 to 1.0.

(g) Tangible Net Worth. At all times the Tangible Net Worth shall be greater than or equal to the sum of \$1,779,000,000, increased on a cumulative basis as of the end of each fiscal quarter of the Consolidated Parties, commencing with the fiscal quarter ending June 30, 1998 by an amount equal to 85% of the Net Cash Proceeds of any Equity Issuance received by the Consolidated Parties subsequent to the Closing Date.

(h) Speculative Land to Total Assets. At all times, the ratio of (i) the value at cost of all Speculative Land to (ii) Total Assets shall be less than or equal to .10 to 1.0.

(i) Speculative Construction Ratio.

(i) At all times on or before December 31, 1999, the ratio of (A) the amount of potential square footage in all Speculative Construction to (B) the amount of square footage in all Properties of the Consolidated Parties that have been fully completed and are generating a positive cash flow on a stand alone basis shall be less than or equal to 0.20 to 1.0.

(ii) At all times on or after January 1, 2000, the ratio of (i) the Budgeted Project Costs of all Properties Under Development excluding Build To Suit Properties to (ii) Total Assets shall be less than or equal to 0.10 to 1.0.

(iii) At all times on or after January 1, 2000, the ratio of (i) the Budgeted Project Costs of all Properties Under Development (including Build to Suit Properties) to (ii) Total Assets shall be less than or equal to 0.15 to 1.0.

(j) Investment in Properties other than For Lease Office and Industrial Properties. The Credit Parties will not permit any Consolidated Party to, directly or indirectly, acquire, develop or otherwise make an Investment in any properties other than for lease office and industrial properties which in the aggregate shall exceed at any one time during the periods set forth below an amount greater than the amount set forth opposite such period:

Closing Date through December 31, 1999 15% of Total Assets January 1, 2000 and thereafter 10% of Total Assets

(k) Restricted Payments. The Credit Parties will not permit any Consolidated Party to, directly or indirectly, declare, order, make or set apart any sum for or pay any Restricted Payment, except the Credit Parties may make distributions, in the aggregate, in an amount not to exceed one hundred percent (100%) of Cash Available for Distribution.

1.14 Section 8.5 of the Credit Agreement is deleted in its entirety and replaced with the following:

8.5 Intentionally Omitted

1.15 Section 8.7 of the Credit Agreement is deleted in its entirety and replaced with the following:

## 8.7 Intentionally Omitted

1.16 All references in the Credit Agreement to Section 8.5 are amended to refer to Section 7.11(j).

1.17 Exhibit 7.1(c) to the Credit Agreement is amended and restated in its entirety as Exhibit 7.1(c) attached hereto.

2. Eakin & Smith, LLC, a Tennessee limited liability company, a Subsidiary, executed a Joinder Agreement more than 30 days after becoming a Subsidiary in violation of Section 7.12 of the Credit Agreement. The Lenders do hereby agree that the execution of such Joinder Agreement cured such Event of Default to their satisfaction. Further, the Lenders hereby waive all Events of Default occurring on or prior to the Execution Date as a result of any Additional Credit Party's failure to execute a Joinder Agreement within the period required by Section 7.12; provided, however, that this waiver (1) is a one time waiver and shall be effective only in the specific circumstances provided for above and only for the purposes for which given and (2) does not waive any Event of Default occurring after the Execution Date as a result of any Person's failure to execute a Joinder Agreement within the period required by Section 7.12.

3. This Amendment shall be effective on the Effective Date (except for the amendment to the definition of "Applicable Percentage", which shall be effective on the Execution Date) upon satisfaction of the following conditions:

(a) execution of this Amendment by the Credit Parties and the Required Lenders;

(b) execution by the Credit Parties and the Administrative Agent of a side letter agreement, in form and substance satisfactory to the Administrative Agent, relating to the settlement of any liability, cost or expense resulting from or associated in any way with the Purchase Agreement dated August 28, 1997 among Highwoods Properties, UBS Limited and Union Bank of Switzerland, London Branch, and the Forward Stock Purchase Agreement dated August 28, 1997 between Highwoods Properties and Union Bank of Switzerland, London Branch.

(c) receipt by the Administrative Agent of a certificate of the chief financial officer of the Principal Borrower substantially in the form of Exhibit 7.1(c) to the Credit Agreement (i) demonstrating compliance as of the Effective Date with (A) the financial covenants contained in Section 7.11, (B) the limitation on Investments contained in Section

8.5 (and, correspondingly, the limitations set forth in the definition of Permitted Investments), and (C) the financial covenants contained in each of the indentures or other agreements relating to any publicly issued debt securities of any Consolidated Party, in each case by detailed calculation thereof (which calculation shall be in form satisfactory to the Agent and which shall include, among other things, an explanation of the methodology used in such calculation and a breakdown of the components of such calculation) and (ii) stating that, as of the Execution Date (after giving effect to this Amendment), no Default or Event of Default exists, or if any Default or Event of Default does exist, specifying the nature and extent thereof and what action the Credit Parties propose to take with respect thereto.

(d) receipt by the Administrative Agent of legal opinions of counsel to the Credit Parties relating to this Amendment; and

(e) receipt by the Administrative Agent of the following:

(i) Copies of resolutions of the Board of Directors of each Credit Party approving and adopting the Credit Documents to which it is a party, the transactions contemplated therein and authorizing execution and delivery thereof, certified by a secretary or assistant secretary of such Credit Party to be true and correct and in force and effect as of the Execution Date.

(ii) Copies of certificates of good standing, existence or its equivalent with respect to each Credit Party certified as of a recent date by the appropriate Governmental Authorities of the state or other jurisdiction of incorporation and each other jurisdiction in which the failure to so qualify and be in good standing could reasonably be expected to have a Material Adverse Effect.

(iii) An incumbency certificate of each Credit Party certified by a secretary or assistant secretary to be true and correct as of the Execution Date.

(iv) With respect to each Credit Party which delivered its charter documents and bylaws (or their equivalent) to the Administrative Agent on the Closing Date pursuant to Section 5.1(b) of the Credit Agreement, an officer's certificate for each such Credit Party dated as of the Execution Date certifying that such charter documents and bylaws (or their equivalent) have not been amended or modified since the Closing Date and are true and correct copies of such charter documents and bylaws as in effect on the Execution Date.

(v) With respect to each Additional Credit Party, (A) the charter documents (or their equivalent) for each such Additional Credit Party, certified to be true and complete as of a recent date by the appropriate Governmental Authority of the state or other jurisdiction of its incorporation and certified by a secretary or assistant secretary of such Additional Credit Party to be true and correct as of the Execution Date, and (B) a copy of the bylaws (or their equivalent) of each such Additional Credit Party certified by a secretary or assistant secretary of such Additional Credit Party to be true and correct as of the Execution Date.

(d) receipt by each Lender of an amendment fee equal to 25 basis points (0.25%) on such Lender's Revolving Commitment.

4. The Borrower hereby represents and warrants in connection herewith that as of the date hereof (after giving effect hereto) that, as of the Execution Date, (i) the representations and warranties set forth in Section 6 of the Credit Agreement are true and correct in all material

respects (except those which expressly relate to an earlier date), and (ii) no Default or Event of Default exists under the Credit Agreement, as amended hereby.

5. Except as modified hereby, all of the terms and provisions of the Credit Agreement (including Schedules and Exhibits) shall remain in full force and effect.

6. The Borrower agrees to pay all reasonable costs and expenses of the Administrative Agent in connection with the preparation, execution and delivery of this Amendment, including without limitation the fees and expenses of Moore & Van Allen, PLLC.

7. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original and it shall not be necessary in making proof of this Amendment to produce or account for more than one such counterpart.

8. This Amendment shall be deemed to be a contract made under, and for all purposes shall be construed in accordance with, the laws of the State of North Carolina.

9. To the extent that there is a conflict or inconsistency between any provision of this Amendment, on the one hand, and any provision of any other Credit Document, on the other hand, this Amendment shall control.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Second Amendment to Credit Agreement to be duly executed and delivered as of the date first above written.

BORROWERS:

HIGHWOODS REALTY LIMITED PARTNERSHIP,  
a North Carolina limited partnership

By: Highwoods Properties, Inc.,  
general partner

By:  
Name: Ronald P. Gibson  
Title: President

HIGHWOODS PROPERTIES, INC.,  
a Maryland corporation

By:  
Name: Ronald P. Gibson  
Title: President

HIGHWOODS SERVICES, INC.,  
a North Carolina corporation

By:  
Name: Ronald P. Gibson  
Title: President

HIGHWOODS FINANCE, LLC,  
a Delaware limited liability company

By: Highwoods Properties, Inc.,  
its sole member-manager

By:  
Name: Ronald P. Gibson  
Title: President

GUARANTORS:

SOUTHEAST REALTY OPTIONS CORP.,  
a Delaware corporation

By:

Name: Ronald P. Gibson  
Title: President

HIGHWOODS/FLORIDA GP CORP.,  
a Delaware corporation

By:

Name: Ronald P. Gibson  
Title: President

HIGHWOODS/TENNESSEE PROPERTIES, INC.,  
a Tennessee corporation

By:

Name: Ronald P. Gibson  
Title: President

ATRIUM ACQUISITION CORP.,  
a Maryland corporation

By:

Name: Ronald P. Gibson  
Title: President

5565 STERRETT PLACE, INC.,  
a Maryland corporation

By:

Name: Ronald P. Gibson  
Title: President

PIKESVILLE SPORTSMAN'S CLUB, INC.,  
a Maryland corporation

By:

Name: Ronald P. Gibson  
Title: President

[Signatures continue]

**HIGHWOODS/FLORIDA HOLDINGS, L.P.,**  
a Delaware limited partnership

By: Highwoods/Florida GP Corp.,  
general partner

By:  
Name: Ronald P. Gibson  
Title: President

**HIGHWOODS/TENNESSEE HOLDINGS, L.P.,**

a Tennessee limited partnership

By: Highwoods/Tennessee Properties, Inc.,  
general partner

By:  
Name: Ronald P. Gibson  
Title: President

PINELLAS NORTHSIDE PARTNERS, LTD.,  
a Florida limited partnership

By: Highwoods/Florida Holdings, L.P.,  
its general partner

By: Highwoods/Florida GP Corp.,  
its general partner

By:  
Name: Ronald P. Gibson  
Title: President

[Signatures continue]



**INTERSTATE BUSINESS PARK, LTD.,**

a Florida limited partnership

By: Highwoods/Florida Holdings, L.P.,  
general partner

By: Highwoods/Florida GP Corp.,  
general partner

By:  
Name: Ronald P. Gibson  
Title: President

PINELLAS BAY VISTA PARTNERS, LTD.,  
a Florida limited partnership

By: Highwoods/Florida Holdings, L.P.,  
general partner

By: Highwoods/Florida GP Corp.,  
general partner

By:  
Name: Ronald P. Gibson  
Title: President

PINELLAS PINEBROOK PARTNERS, LTD.,  
a Florida limited partnership

By: Highwoods/Florida Holdings, L.P.,  
general partner

By: Highwoods/Florida GP Corp.,  
general partner

By:  
Name: Ronald P. Gibson  
Title: President

[Signatures continue]

**DOWNTOWN CLEARWATER TOWER, LTD.,**  
a Florida limited partnership

By: Highwoods/Florida Holdings, L.P.,  
general partner

By: Highwoods/Florida GP Corp.,  
general partner

By:  
Name: Ronald P. Gibson  
Title: President

**BDBP, LTD.,**

a Florida limited partnership

By: Highwoods/Florida Holdings, L.P.,  
general partner

By: Highwoods/Florida GP Corp.,  
general partner

By:  
Name: Ronald P. Gibson  
Title: President

CROSS BAYOU, LTD.,  
a Florida limited partnership

By: Highwoods/Florida Holdings, L.P.,  
general partner

By: Highwoods/Florida GP Corp.,  
general partner

By:  
Name: Ronald P. Gibson  
Title: President

[Signatures continue]

**SISBROS, LTD.,**

a Florida limited partnership

By: Highwoods/Florida Holdings, L.P.,  
general partner

By: Highwoods/Florida GP Corp.,  
general partner

By:  
Name: Ronald P. Gibson  
Title: President

SHOCKOE PLAZA INVESTORS, L.C.,  
a Virginia limited liability company

By: Highwoods Realty Limited Partnership,  
manager

By: Highwoods Properties, Inc.,  
general partner

By:  
Name: Ronald P. Gibson  
Title: President

RC ONE LLC,  
a Maryland limited liability company

By: Highwoods Services, Inc.,  
the sole member-manager

By:  
Name: Ronald P. Gibson  
Title: President

[Signatures continue]

**SEVEN CRONDALL ASSOCIATES LLC,**

a Maryland limited liability company

By: Highwoods Realty Limited Partnership,  
the sole member-manager

By: Highwoods Properties, Inc.,  
general partner

By:  
Name: Ronald P. Gibson  
Title: President

EIGHT CRONDALL ASSOCIATES LLC,  
a Maryland limited liability company

By: Highwoods Realty Limited Partnership,  
the sole member-manager

By: Highwoods Properties, Inc.,  
general partner

By:  
Name: Ronald P. Gibson  
Title: President

NINE CRONDALL ASSOCIATES LLC,  
a Maryland limited liability company

By: Highwoods Realty Limited Partnership,  
the sole member-manager

By: Highwoods Properties, Inc.,  
general partner

By:  
Name: Ronald P. Gibson  
Title: President

[Signatures continue]

**9690 DEERECO ROAD LLC**

a Maryland limited liability company

By: Highwoods Realty Limited Partnership,  
the sole member-manager

By: Highwoods Properties, Inc.,  
general partner

By:

Name: Ronald P. Gibson

Title: President

HPI TITLE AGENCY, LLC

a North Carolina limited liability company

By: Highwoods Realty Limited Partnership,  
the sole member-manager

By: Highwoods Properties, Inc.,  
general partner

By:

Name: Ronald P. Gibson

Title: President

**581 HIGHWOODS, L.P.,**  
a Delaware limited partnership

By: Highwoods/Florida Holdings, L.P.,  
its general partner

By: Highwoods/Florida GP Corp.,  
its general partner

By:

Name: Ronald P. Gibson

Title: President

[Signatures continue]

**HIGHWOODS DLF, LLC,**  
a Delaware limited liability company

By: Highwoods Realty Limited Partnership,  
manager

By: Highwoods Properties, Inc.,  
general partner

By:  
Name: Ronald P. Gibson  
Title: President

**NICHOLS PLAZA WEST, INC.,**

a Missouri corporation

By:  
Name: Ronald P. Gibson  
Title: President

OZARK MOUNTAIN VILLAGE, INC.,  
a Missouri corporation

By:  
Name: Ronald P. Gibson  
Title: President

PLAZA LAND COMPANY,  
a Florida company

By:  
Name: Ronald P. Gibson  
Title: President

BOARD OF TRADE REDEVELOPMENT CORPORATION,  
a Missouri corporation

By:  
Name: Ronald P. Gibson  
Title: President

[Signatures continue]

1st GEARY CORP.,  
a California corporation

By:  
Name: Ronald P. Gibson  
Title: President

SOMEDAY, INC.,  
a Kansas corporation

By:  
Name: Ronald P. Gibson  
Title: President

KC CONDOR, INC.,  
a Missouri corporation

By:  
Name: Ronald P. Gibson  
Title: President

J.C. NICHOLS REALTY COMPANY,  
a Missouri company

By:  
Name: Ronald P. Gibson  
Title: President

ALAMEDA TOWERS DEVELOPMENT COMPANY,  
a Missouri corporation

By:  
Name: Ronald P. Gibson  
Title: President

CHALLENGER, INC.,  
a Kansas corporation

By:  
Name: Ronald P. Gibson  
Title: President

[Signatures continue]

**GUARDIAN MANAGEMENT, INC.,**

a Kansas corporation

By:  
Name: Ronald P. Gibson  
Title: President

HIGHWOODS WELLNESS CENTER, LLC,  
a North Carolina limited liability company

By: Highwoods Services, Inc.,  
the sole member-manager

By:  
Name: Ronald P. Gibson  
Title: President

HIGHWOODS/INTERLACHEN HOLDINGS, L.P.,  
a Delaware limited partnership

By: Highwoods/Florida Holdings, L.P.,  
its sole general partner

By: Highwoods/Florida GP Corp.,  
its sole general partner

By:  
Name: Ronald P. Gibson  
Title: President

[Signatures continue]



**HIGHWOODS/TENNESSEE PROPERTIES, INC.,**

a Tennessee corporation

By:

Name: Ronald P. Gibson

Title: President

EAKIN & SMITH, LLC,

a Tennessee limited liability company

By:

Name: W. Brian Reames

Title: Governor

By:

Name: Mike Harris

Title: Governor

By:

Name: Terry W. Smith

Title: Governor

[Signatures continue]

**MARLEY CONTINENTAL HOMES OF KANSAS,**

a Kansas general partnership

By: Highwoods Realty Limited Partnership,  
general partner

By: Highwoods Properties, Inc.,  
general partner

By:  
Name: Ronald P. Gibson  
Title: President

[Signatures continue]

LENDERS:

NATIONSBANK, N.A.,  
Individually in its capacity as a Lender  
and in its capacity as Administrative Agent

By:  
Name:  
Title:

FIRST UNION NATIONAL BANK

By:  
Name:  
Title:

WELLS FARGO BANK, NATIONAL  
ASSOCIATION

By:  
Name:  
Title:

COMMERZBANK AG

By:  
Name:  
Title:

WACHOVIA BANK, N.A.

By:  
Name:  
Title:

**CENTURA BANK**

By:  
Name:  
Title:

**PNC BANK, NATIONAL ASSOCIATION**

By:  
Name:  
Title:

**FLEET NATIONAL BANK**

By:  
Name:  
Title:

**AMSOUTH BANK**

By:  
Name:  
Title:

**DRESDNER BANK AG, NEW YORK BRANCH**

By:  
Name:  
Title:

**DG BANK DEUTSCHE GENOSSENSCHAFTSBANK,  
CAYMAN ISLAND BRANCH**

By:  
Name:  
Title:

By:  
Name:  
Title:

**MELLON BANK, N.A.**

By:  
Name:  
Title:

**FIRSTTRUST SAVINGS BANK**

By:  
Name:  
Title:

**CREDIT LYONNAIS, NEW YORK BRANCH**

By:  
Name:  
Title:

**BAYERISCHE HYPO-UND VEREINSBANK, AG**

By:  
Name:  
Title:

**ERSTE BANK DER OESTERREICHISCHEN SPARKASSEN AG**

By:  
Name:  
Title:

**SOUTHTRUST BANK, N.A.**

By:  
Name:  
Title:

**FORM OF  
OFFICER'S COMPLIANCE CERTIFICATE**

For the fiscal quarter ended \_\_\_\_\_, 19\_\_\_\_/200\_\_\_\_.

I, \_\_\_\_\_, chief financial officer of Highwoods Properties, Inc., hereby certify that, with respect to that certain Credit Agreement dated as of July 3, 1998 (as it may be amended, modified, extended or restated from time to time, the "Credit Agreement"; all of the defined terms in the Credit Agreement are incorporated herein by reference) among Highwoods Realty Limited Partnership ("Highwoods Realty"), Highwoods Properties, Inc. ("Highwoods Properties"), Highwoods Finance LLC, a Delaware limited liability company ("Highwoods Finance") and Highwoods Services, Inc. ("Highwoods Services") (Highwoods Realty, Highwoods Properties, Highwoods Finance and Highwoods Services are hereinafter referred to individually as a "Borrower" and collectively as the "Borrowers") certain Subsidiaries of the Borrowers, the Lenders party thereto, NationsBank, N.A., as Administrative Agent, First Union National Bank, as Syndication Agent, Wells Fargo Bank, National Association, as Documentation Agent and the institutions identified therein as Managing Agents:

a. Attached hereto as Schedule 1 are detailed calculations (which calculations shall be in form satisfactory to the Administrative Agent and which shall include, among other things, an explanation of the methodology used in such calculation and a breakdown of the components of such calculation) demonstrating compliance, as of the end of the fiscal period referred to above, by the Consolidated Parties with (A) the financial covenants contained in Section 7.11 of the Credit Agreement, (B) the limitation on Investments contained in Section 8.5 (and, correspondingly, the limitations set forth in the definition of Permitted Investments), and (C) the financial covenants contained in each of the indentures or other agreements relating to any publicly issued debt securities of any Consolidated Party.

b. The Credit Parties were in compliance with each of the covenants set forth in Sections 7 and 8 of the Credit Agreement at all times during such fiscal period referred to above.

c. No Default or Event of Default has occurred under the Credit Agreement(1).

d. The quarterly financial statements which accompany this certificate fairly present in all material respects the financial condition of the Consolidated Parties and has been prepared in accordance with GAAP, subject to changes resulting from normal year-end audit adjustments.

**This \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_.**

**HIGHWOODS PROPERTIES, INC.**

By:  
Name:  
Title: Chief Financial Officer

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(1) If a Default or Event of Default shall have occurred an explanation of such Default or Event of Default shall be provided on a separate page together with an explanation of the action taken or proposed to be taken by the Borrower with respect thereto.

## **EXECUTIVE SUPPLEMENTAL EMPLOYMENT AGREEMENT**

AGREEMENT by and between HIGHWOODS PROPERTIES, INC., a Maryland corporation (the "Company"), and \_\_\_\_\_ (the "Executive"), dated as of the day of .

The Board of Directors of the Company (the "Board"), has determined that it is in the best interests of the Company and its shareholders to ensure that the Company will have the continued dedication of the Executive, notwithstanding the possibility, threat or occurrence of a Change of Control (as defined in

Section 1) of the Company. The Board believes it is imperative to diminish the inevitable distraction of the Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control and to encourage the Executive's full attention and dedication to the Company currently and in the event of any threatened or pending Change of Control, and to provide the Executive with compensation and benefits arrangements upon a Change of Control which ensure that the compensation and benefits expectations of the Executive will be satisfied and which are competitive with those of other corporations. Therefore, in order to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

### **NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:**

#### **1. CERTAIN DEFINITIONS.**

(a) The "Effective Date" shall mean the first date during the Change of Control Period (as defined in Section 1(c)) on which a Change of Control occurs. Anything in this Agreement to the contrary notwithstanding, if a Change of Control occurs and if the Executive's employment with the Company is terminated prior to the date on which the Change of Control occurs, and if it is reasonably demonstrated by the Executive that such termination of employment (i) was at the request of a third party who has taken steps reasonably calculated to effect the Change of Control or (ii) otherwise arose in connection with or anticipation of the Change of Control, then for all purposes of this Agreement the "Effective Date" shall mean the date immediately prior to the date of such termination of employment.

(b) The "Change of Control Period" shall mean the period commencing on the date hereof and ending on the third anniversary of such date; provided, however, that commencing on the date one year after the date hereof, and on each annual anniversary of such date (such date and each annual anniversary thereof shall be hereinafter referred to as the "Renewal Date"), the Change of Control Period shall be automatically extended so as to terminate three years from such Renewal Date, unless at least 60 days prior to the Renewal Date the Company shall give notice to the Executive that the Change of Control Period shall not be so extended.



(c) For purposes of this Agreement, a "Change of Control" shall mean:

(i) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (a) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (b) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that the following acquisitions shall not constitute a Change of Control: (I) any acquisition directly from the Company (excluding an acquisition by virtue of the exercise of a conversion privilege), (II) any acquisition by the Company, (III) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (IV) any acquisition by any corporation pursuant to a reorganization, merger or consolidation, if, following such reorganization, merger or consolidation, the conditions described in clauses (I), (II) and (III) of subsection (i) of this Section 1(c) are satisfied; or

(ii) Individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii) Approval by the shareholders of the Company of a reorganization, merger or consolidation, in each case, unless, following such reorganization, merger or consolidation, (a) more than 60% of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such reorganization, merger or consolidation in substantially the same proportions, as their ownership, immediately prior to such reorganization, merger or consolidation, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (b) no Person (excluding the Company, any employee benefit plan (or related trust) of the Company or such corporation

resulting from such reorganization, merger or consolidation and any Person beneficially owning, immediately prior to such reorganization, merger or consolidation, directly or indirectly, 20% or more of the Outstanding Company Common Stock or Outstanding Voting Securities, as the case may be) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation or the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and (c) at least a majority of the members of the board of directors of the corporation resulting from such reorganization, merger or consolidation were members of the Incumbent Board at the time of the execution of the initial agreement providing for such reorganization, merger or consolidation; or

(iv) Approval by the shareholders of the Company of (a) a complete liquidation or dissolution of the Company or (b) the sale or other disposition of all or substantially all of the assets of the Company, other than to a corporation, with respect to which following such sale or other disposition, (I) more than 60% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such sale or other disposition in substantially the same proportion as their ownership, immediately prior to such sale or other disposition, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (II) no Person (excluding the Company and any employee benefit plan (or related trust) of the Company or such corporation and any Person beneficially owning, immediately prior to such sale or other disposition, directly or indirectly, 20% or more of the Outstanding Company Common Stock or Outstanding Company Voting Securities, as the case may be) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and (III) at least a majority of the members of the board of directors of such corporation were members of the Incumbent Board at the time of the execution of the initial agreement or action of the Board providing for such sale or other disposition of assets of the Company.

2. **EMPLOYMENT PERIOD.** The Company hereby agrees to continue the Executive in its employ, and the Executive hereby agrees to remain in the employ of the Company, in accordance with the terms and provisions of this Agreement, for the period commencing on the Effective Date and ending on the third anniversary of such date (the "Employment Period").

### 3. TERMS OF EMPLOYMENT.

#### (a) Position and Duties.

(i) During the Employment Period, (A) the Executive's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 90-day period immediately preceding the Effective Date and (B) the Executive's services shall be performed at the location where the Executive was employed immediately preceding the Effective Date or any office which is the headquarters of the Company and is less than 35 miles from such location.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period, it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the Effective Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Effective Date shall not hereafter be deemed to interfere with the performance of the Executive's responsibilities to the Company.

#### (b) Compensation.

(i) **BASE SALARY.** During the Employment Period, the Executive shall receive an annual base salary ("Annual Base Salary"), which shall be paid in equal installments on a monthly basis, at least equal to twelve times the highest monthly base salary paid or payable to the Executive by the Company and its affiliated companies in respect of the twelve-month period immediately preceding the month in which the Effective Date occurs. During the Employment Period, the Annual Base Salary shall be reviewed at least annually and shall be increased at any time and from time to time as shall be substantially consistent with increases in base salary generally awarded in the ordinary course of business to other peer executives of the Company and its affiliated companies. Any increase in Annual Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement. Annual Base Salary shall not be reduced after any such

increase and the term Annual Base Salary as utilized in this Agreement shall refer to Annual Base Salary as so increased. As used in this Agreement, the term "affiliated companies" shall include any company controlled by, controlling or under common control with the Company.

(ii) **ANNUAL BONUS.** In addition to Annual Base Salary, the Executive shall be awarded, for each fiscal year ending during the Employment Period, an annual bonus (the "Annual Bonus") in cash at least equal to the average annualized (for any fiscal year consisting of less than twelve full months or with respect to which the Executive has been employed by the Company for less than twelve full months) bonus paid or payable, including by reason of any deferral, to the Executive by the Company and its affiliated companies in respect of the three fiscal years immediately preceding the fiscal year in which the Effective Date occurs (the "Recent Average Bonus"). Each such Annual Bonus shall be paid no later than the end of the third month of the fiscal year next following the fiscal year for which the Annual Bonus is awarded, unless the Executive shall elect to defer the receipt of such Annual Bonus.

(iii) **SPECIAL BONUS.** In addition to Annual Base Salary and Annual Bonus payable as hereinabove provided, if the Executive remains employed with the Company and its affiliated companies through the first anniversary of the Effective Date, the Company shall pay to the Executive a special bonus (the "Special Bonus") in recognition of the Executive's services during the crucial one-year transition period following the Change of Control in cash equal to the sum of (A) the Executive's Annual Base Salary and (B) the greater of (1) the Annual Bonus paid or payable, including by reason of any deferral, to the Executive (and annualized for any fiscal year consisting of less than twelve full months or for which the Executive has been employed for less than twelve full months) for the most recently completed fiscal year during the Employment Period, if any, and (2) the Recent Average Bonus (such greater amount shall be hereinafter referred to as the "Highest Annual Bonus"). The Special Bonus shall be paid no later than 30 days following the first anniversary of the Effective Date.

(iv) **INCENTIVE, SAVINGS AND RETIREMENT PLANS.** During the Employment Period, the Executive shall be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs applicable generally to other peer executives of the Company and its affiliated companies, but in no event shall such plans, practices, policies and programs provide the Executive with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities, in each case, less favorable, in the aggregate, than the most favorable of those provided by the Company and its affiliated companies for the Executive under such plans, practices, policies and programs as in effect at any time during the 90-day period immediately preceding the Effective Date or if more favorable to the Executive, those provided generally at any time after the Effective Date to other peer executives of the Company and its affiliated companies.

(v) WELFARE BENEFIT PLANS. During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its affiliated companies (including, without limitation, medical, prescription, dental, disability, salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Company and its affiliated companies, but in no event shall such plans, practices, policies and programs provide the Executive with benefits which are less favorable, in the aggregate, than the most favorable of such plans, practices, policies and programs in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, those provided generally at any time after the Effective Date to other peer executives of the Company and its affiliated companies.

(vi) EXPENSES. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable employment expenses incurred by the Executive in accordance with the most favorable policies, practices and procedures of the Company and its affiliated companies in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(vii) FRINGE BENEFITS. During the Employment Period, the Executive shall be entitled to fringe benefits in accordance with the most favorable plans, practices, programs and policies of the Company and its affiliated companies in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date, or if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(viii) OFFICE AND SUPPORT STAFF. During the Employment Period, the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to exclusive personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Company and its affiliated companies at any time during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as provided generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(ix) VACATION. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the most favorable plans, policies, programs and practices of the Company and its affiliated companies as in effect for the Executive at any time during the 90-day period immediately preceding the Effective Date or, if more favorable

to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

#### 4. TERMINATION OF EMPLOYMENT.

(a) Death or Disability. The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. If the Company determines in good faith that the Disability of the Executive has occurred during the Employment Period (pursuant to the definition of Disability set forth below), it may give to the Executive written notice in accordance with Section 10(b) of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from the Executive's duties with the Company on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative (such agreement as to acceptability not to be withheld unreasonably).

(b) Cause. The Company may terminate the Executive's employment during the Employment Period for Cause. For purposes of this Agreement, "Cause" shall mean (i) a material breach by the Executive of the Executive's obligations under Section 3(a) (other than as a result of incapacity due to physical or mental illness) which is demonstrably willful and deliberate on the Executive's part, which is committed in bad faith or without reasonable belief that such breach is in the best interests of the Company and which is not remedied in a reasonable period of time after receipt of written notice from the Company specifying such breach or (ii) the conviction of the Executive of a felony involving moral turpitude.

(c) Good Reason; Window Period. The Executive's employment may be terminated (i) during the Employment Period by the Executive for Good Reason or

(ii) during the Window Period by the Executive without any reason. For purposes of this Agreement, the "Window Period" shall mean the 90-day period immediately following the first anniversary of the Effective Date. For purposes of this Agreement, "Good Reason" shall mean:

(i) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirement), authority, duties or responsibilities as contemplated by Section 3(a) or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(ii) any failure by the Company to comply with any of the provisions of Section 3(b), other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(iii) the Company's requiring the Executive to be based at any office or location other than that described in Section 3(a) (i) (B);

(iv) any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement; or

(v) any failure by the Company to comply with and satisfy

Section 9(c), provided that such successor has received at least ten days' prior written notice from the Company or the Executive of the requirements of Section 9(c).

For purposes of this Section 4(c), any good faith determination of "Good Reason" made by the Executive shall be conclusive.

(d) Notice of Termination. Any termination by the Company for Cause, or by the Executive without any reason during the Window Period or for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 10(b). For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date of such notice. The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company hereunder or preclude the Executive or the Company from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

(e) Date of Termination. "Date of Termination" means (i) if the Executive's employment is terminated by the Company for Cause, or by the Executive during the Window Period or for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (ii) if the Executive's employment is terminated by the Company other than for Cause or Disability, the Date of Termination shall be the date on which the Company notifies the Executive of such termination and (iii) if the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Executive or the Disability Effective Date, as the case may be.

## 5. OBLIGATIONS OF THE COMPANY UPON TERMINATION.

(a) Good Reason or during the Window Period; Other than for Cause, Death or Disability. If, during the Employment Period, the Company shall terminate the Executive's employment other than for Cause or Disability or the Executive shall terminate employment either for Good Reason or without any reason during the Window Period:

(i) the Company shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

(A) the sum of (1) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (2) the product of (x) the Highest Annual Bonus and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365 and (3) the Special Bonus, if due to the Executive pursuant to Section 3(b)(iii), to the extent not theretofore paid and (4) any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon) and any accrued vacation pay, in each case to the extent not theretofore paid (the sum of the amounts described in clauses (1), (2), (3) and (4) shall be hereinafter referred to as the "Accrued Obligations"); and

(B) the amount (such amount shall be hereinafter referred to as the "Severance Amount") equal to the product of (1) 2.99 and (2) the sum of (x) the Executive's Annual Base Salary and (y) the Highest Annual Bonus; provided, however, that if the Special Bonus has not been paid to the Executive, such amount shall be increased by the amount of the Special Bonus; and, provided further, that such amount shall be reduced by the present value (determined as provided in Section 280G(d)(4) of the Internal Revenue Code of 1986, as amended (the "Code")) of any other amount of severance relating to salary or bonus continuation to be received by the Executive upon termination of employment of the Executive under any severance plan, policy or arrangement of the Company; and

(C) a separate lump-sum supplemental retirement benefit (the amount of such benefit shall be hereinafter referred to as the "Supplemental Retirement Amount") equal to the difference between (1) the actuarial equivalent (utilizing for this purpose the actuarial assumptions utilized with respect to the Company's Retirement Plan (or any successor plan thereto) (the "Retirement Plan") during the 90-day period immediately preceding the Effective Date) of the benefit payable under the Retirement Plan and any supplemental and/or excess retirement plan of the Company and its affiliated companies providing benefits for the Executive (the "SERP") which the Executive would receive if the Executive's employment continued at the



compensation level provided for in Sections 3(b)(i) and 3(b)(ii) for the remainder of the Employment Period, assuming for this purpose that all accrued benefits are fully vested and that benefit accrual formulas are no less advantageous to the Executive than those in effect during the 90-day period immediately preceding the Effective Date, and (2) the actuarial equivalent (utilizing for this purpose the actuarial assumptions utilized with respect to the Retirement Plan during the 90-day period immediately preceding the Effective Date) of the Executive's actual benefit (paid or payable), if any, under the Retirement Plan and the SERP; and

(ii) for the remainder of the Employment Period, or such longer period as any plan, program, practice or policy may provide, the Company shall continue benefits to the Executive and/or the Executive's family at least equal to those which would have been provided to them in accordance with the plans, programs, practices and policies described in

Section 3(b)(v) if the Executive's employment had not been terminated in accordance with the most favorable plans, practices, programs or policies of the Company and its affiliated companies as in effect and applicable generally to other peer executives and their families during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies and their families, provided, however, that if the Executive becomes re-employed with another employer and is eligible to receive medical or other welfare benefits under another employer provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility (such continuation of such benefits for the applicable period herein set forth shall be hereinafter referred to as "Welfare Benefit Continuation"). For purposes of determining eligibility of the Executive for retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed until the end of the Employment Period and to have retired on the last day of such period; and

(iii) to the extent not theretofore paid or provided, the Company shall timely pay or provide to the Executive and/or the Executive's family any other amounts or benefits required to be paid or provided or which the Executive and/or the Executive's family is eligible to receive pursuant to this Agreement and under any plan, program, policy or practice or contract or agreement of the Company and its affiliated companies as in effect and applicable generally to other peer executives of the Company and its affiliated companies and their families during the 90-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally thereafter with respect to other peer executives of the Company and its affiliated companies and their families (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits").

(iv) to the extent not otherwise provided for herein, all options, warrants or other rights to acquire capital stock of the Company held by or for the benefit of the Executive shall become fully vested and eligible for immediate exercise and all other rights of the Executive to receive cash compensation whether deferred or not (including benefits under any Stock Appreciation Rights Plan or other similar plan) shall become fully vested and the Executive shall become entitled to payment thereof by the Company in a lump sum in cash within 30 days after the Date of Termination.

(b) Death. If the Executive's employment is terminated by reason of the Executive's death during the Employment Period, this Agreement shall terminate without further obligations to the Executive's legal representatives under this Agreement, other than for (i) payment of Accrued Obligations (which shall be paid to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination) and the timely payment or provision of the Welfare Benefit Continuation and Other Benefits (excluding, in each case, Death Benefits (as defined below)) and (ii) payment to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination of an amount equal to the greater of (A) the sum of the Severance Amount and the Supplemental Retirement Amount and (B) the present value (determined as provided in Section 280G(d)(4) of the Code) of any cash amount to be received by the Executive or the Executive's family as a death benefit pursuant to the terms of any plan, policy or arrangement of the Company and its affiliated companies, but not including any proceeds of life insurance covering the Executive to the extent paid for directly or on a contributory basis by the Executive (which shall be paid in any event as an Other Benefit) (the benefits included in this clause (B) shall be hereinafter referred to as the "Death Benefits").

(c) Disability. If the Executive's employment is terminated by reason of the Executive's Disability during the Employment Period, this Agreement shall terminate without further obligations to the Executive, other than for (i) payment of Accrued Obligations (which shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination) and the timely payment or provision of the Welfare Benefit Continuation and Other Benefits (excluding, in each case, Disability Benefits, as defined below) and (ii) payment to the Executive in a lump sum in cash within 30 days of the Date of Termination of an amount equal to the greater of (A) the sum of the Severance Amount and the Supplemental Retirement Amount and (B) the present value (determined as provided in Section 280G(d)(4) of the Code) of any cash amount to be received by the Executive as a disability benefit pursuant to the terms of any plan, policy or arrangement of the Company and its affiliated companies, but not including any proceeds of disability insurance covering the Executive to the extent paid for directly or on a contributory basis by the Executive (which shall be paid in any event as an Other Benefit) (the benefits included in this clause (B) shall be hereinafter referred to as the "Disability Benefits").

(d) Cause; Other than for Good Reason. If the Executive's employment shall be terminated for Cause during the Employment Period, this Agreement shall terminate without further obligations to the Executive other than the obligation to pay to the Executive Annual Base Salary through the Date of Termination plus the amount of any compensation previously deferred by the Executive, in each case to the extent theretofore unpaid. If the Executive terminates employment

during the Employment Period, excluding a termination either for Good Reason or without any reason during the Window Period, this Agreement shall terminate without further obligations to the Executive, other than for Accrued Obligations and the timely payment or provision of Other Benefits. In such case, all Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.

(e) Non-exclusivity of Rights. Except as provided in Sections

5(a)(ii), 5(b) and 5(c), nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliated companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice of program or of any contract or agreement with the Company or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

## 6. FULL SETTLEMENT; RESOLUTION OF DISPUTES.

(a) The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and, except as provided in Section

5(a)(ii), such amounts shall not be reduced whether or not the Executive obtains other employment. The Company agrees to pay promptly as incurred, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement), plus in each case interest on any delayed payment at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Code.

(b) If there shall be any dispute between the Company and the Executive (i) in the event of any termination of the Executive's employment by the Company, whether such termination was for Cause, or (ii) in the event of any termination of employment by the Executive, whether Good Reason existed, then, unless and until there is a final, nonappealable judgment by a court of competent jurisdiction declaring that such termination was for Cause or that the determination by the Executive of the existence of Good Reason was not made in good faith, the Company shall pay all amounts, and provide all benefits, to the Executive and/or the Executive's family or other beneficiaries, as the case may be, that the Company would be required to pay or

provide pursuant to Section 5(a) as though such termination were by the Company without Cause, or by the Executive with Good Reason; provided, however, that the Company shall not be required to pay any disputed amount pursuant to this paragraph except upon receipt of an undertaking by or on behalf of the Executive to repay all such amounts to which the Executive is ultimately adjudged by such court not to be entitled.

## 7. CERTAIN ADDITIONAL PAYMENTS BY THE COMPANY.

(a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 7) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of Section 7(c), all determinations required to be made under this Section 7, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Ernst & Young, LLP (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, the Executive shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 7, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall furnish the Executive with a written opinion that failure to report the Excise Tax on the Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 7(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall

determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(c) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim,

(ii) take such action in connection with contesting such

claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(iii) cooperate with the Company in good faith in order effectively to contest such claim, and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 7(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such

advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 7(c), the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 7(c)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 7(c), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

8. CONFIDENTIAL INFORMATION. The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company or any of its affiliated companies and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Company, the Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted violation of the provisions of this Section 8 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

#### 9. SUCCESSORS.

(a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

#### 10. MISCELLANEOUS.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of North Carolina, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive: Highwoods Properties, Inc. 3100 Smoketree Court, Suite 600 Raleigh, North Carolina 27604-1051

Attention: \_\_\_\_\_

If to the Company: Highwoods Properties, Inc.  
3100 Smoketree Court, Suite 600  
Raleigh, North Carolina 27604-1051

Attention: Chairman of the Board of Directors

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Company may withhold from any amounts payable under this Agreement such Federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 4(c)(i)-(v), shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) The Executive and the Company acknowledge that, except as may otherwise be provided under any other written agreement between the Executive and the Company, the employment of the Executive by the Company is "at will" and, prior to the Effective Date, may be terminated by either the Executive or the Company at any time. Moreover, if prior to the Effective Date, the Executive's employment with the Company terminates, then the Executive shall have no further rights under this Agreement.



IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from its Board of Directors, the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

\_\_\_\_\_

**HIGHWOODS PROPERTIES, INC.**

By:

\_\_\_\_\_  
\_\_\_\_\_

[Title]

**FIRST AMENDMENT TO**  
**EXECUTIVE SUPPLEMENTAL EMPLOYMENT AGREEMENT**

FIRST AMENDMENT TO AGREEMENT by and between Highwoods Properties, Inc., a Maryland corporation (the "Company") and \_\_\_\_\_ (the "Executive") dated as of \_\_\_\_\_.

WHEREAS, the Company and Executive entered into that Executive Supplemental Employment Agreement dated as of \_\_\_\_\_ (the "Agreement"); and

WHEREAS, the Board of Directors of the Company has approved as of the date hereof this Amendment in furtherance of its obligations and undertakings in compensating the Executive as stated in the Agreement;

NOW, THEREFORE, in order to accomplish such objectives, and for other good and valuable consideration relating to the Executive's continued employment with the Company or its affiliates, the parties hereto do hereby agree to amend the Agreement as follows: Section 5 (a) (i) shall be amended by inserting the following additional provision:

"(D) as additional cash compensation, an amount equal to \_\_\_\_\_ times the difference in (x) the fair market value of the common shares of the Company and the common units of Highwoods/Forsyth Limited Partnership (the "Partnership") underlying stock options or unit options issued to the Executive and unexercised on the date immediately preceding the Effective Date and (y) the exercise price to the Executive of such stock options and unit options, which such exercise price shall reflect the reduction thereof attributable to Dividend Equivalent Rights issued to the Executive under the 1997 Performance Award Plan and vested as of the Effective Date (it being specifically agreed that this Section 5(a)(i)(D) shall be an additional cash compensation amount and not in cancellation of or in lieu of any rights or benefits the Executive might otherwise have under the terms of any grant of stock options or unit options to Executive by the Company or the Partnership, including, but not limited to, Executive's rights to exercise such stock options or unit options); and"

All capitalized terms used herein and not otherwise defined shall have the meanings assigned in the Plan. Except as modified herein, all covenants, terms, and conditions of the Plan shall remain in full force and effect, which

covenants, terms and conditions are hereby ratified and affirmed.

## **Schedule of Subsidiaries of Highwoods Properties, Inc.**

1. Highwoods Realty Limited Partnership, a North Carolina limited partnership
2. AP Southeast Portfolio Partners, L.P., a Delaware limited partnership
3. Highwoods/Florida Holdings, L.P., a Delaware limited partnership
4. Highwoods/Tennessee Holdings, L.P., a Tennessee limited partnership
5. Highwoods Services, Inc., a North Carolina corporation
  
6. Highwoods Finance LLC, a Delaware limited liability company

## CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-3 Nos. 333-39247, 333-51671-01, 333-51759 and 333-61913, and Form S-8 Nos. 333-12117, 333-29759, 333-29763 and 333-55901) and related Prospectuses of Highwoods Properties, Inc. and in the Registration Statement (Form S-3 No. 333-51671) and related Prospectus of Highwoods Realty Limited Partnership of our report dated February 16, 1999 (except for Note 15 as to which the date is March 15, 1999) with respect to the consolidated financial statements and schedule of Highwoods Properties, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 1998.

*/s/ ERNST & YOUNG LLP*

*Raleigh, North Carolina*

*March 26, 1999*

**ARTICLE 5**

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1998
PERIOD START	JAN 01 1998
PERIOD END	DEC 31 1998
CASH	55,708
SECURITIES	0
RECEIVABLES	80,281
ALLOWANCES	1,688
INVENTORY	0
CURRENT ASSETS	149,538
PP&E	4,093,464
DEPRECIATION	169,272
TOTAL ASSETS	4,314,333
CURRENT LIABILITIES	130,575
BONDS	2,008,716
PREFERRED MANDATORY	0
PREFERRED	397,500
COMMON	599
OTHER SE	1,776,943
TOTAL LIABILITY AND EQUITY	4,314,333
SALES	498,001
TOTAL REVENUES	514,187
CGS	154,323
TOTAL COSTS	246,028
OTHER EXPENSES	20,776
LOSS PROVISION	0
INTEREST EXPENSE	97,011
INCOME PRETAX	126,037
INCOME TAX	0
INCOME CONTINUING	126,037
DISCONTINUED	0
EXTRAORDINARY	387
CHANGES	0
NET INCOME	95,558
EPS PRIMARY	1.74
EPS DILUTED	1.74

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